FOREWORD

The Reserve Bank of India regularly brings out the Report on Currency and Finance, which was traditionally considered as a comprehensive source and record of economic developments. The structure of this Report has been re-oriented since 1998-99 from just documenting the economic developments to a 'theme-based report'. The theme-based Report offers the professional economists working in the Bank, an opportunity to work on relevant topic every year and make incisive analysis of the theme both in the global and the Indian context and come out with an analytical Report offering possible policy solutions to the issues examined. The dissemination of these Reports to a wider section of the user-community is an important exercise. The Report pertaining to the period between 1935-36 and 1998-99 are available only in printed form. The Reports from 1999-2000 have been placed on the Reserve Bank's website. In these days of widespread use of information technology, it is felt useful to bring out the Reports in a single DVD. I hope this will be an invaluable collector's item among the policy makers and academia.

The digitization process of the Reports was undertaken by Shri Ashok Kapoor, Chief Archivist, Reserve Bank of India Archives and supported by the services of Smt. Sandhya Dhavale, Assistant Librarian, under the guidance of Shri K.U.B. Rao, Adviser, Department of Economic Analysis and Policy and Shri Sandip Ghose, Principal and Chief General Manager, College of Agricultural Banking, Pune. I place on record my deep appreciation of their efforts.

Mumbai
April 1, 2009

(Rakesh Mohan)
Deputy Governor
Reserve Bank of India

REPORT ON CURRENCY AND FINANCE

CRDC Pune Reserve Bank of India

VOLUME I
ECONOMIC REVIEW
1986-87



309.50954
RBI
2271

PUBLISHED BY M.P. NAIR, DIRECTOR, DIVISION OF REPORTS, REVIEWS AND PUBLICATIONS, DEPARTMENT OF ECONOMIC ANALYSIS AND POLICY FOR THE RESERVE BANK OF INDIA, BOMBAY-400 023 AND PRINTED BY P.P. BHAGWAT AT MOUJ PRINTING BUREAU, KHATAU WADI, GIRGAUM, BOMBAY-400 004.

CONTENTS

	Page
CHAPTER I: REVIEW AND OUTLOOK	**1-6**
CHAPTER II: NATIONAL INCOME, SAVING AND INVESTMENT	**7-16**
Trends in National Income	**7**
Aggregate Saving and Investment	**8**
Trends in Domestic Saving	**9**
Saving of the Household Sector	9
Saving of the Public Sector	14
Saving of the Domestic Private Corporate Sector	14
Trends in Domestic Investment	**14**
CHAPTER III: AGRICULTURAL OUTPUT	**17-63**
Production and Distribution	**18**
Foodgrains	**18**
Procurement and Buffer Stocks	**23**
Commodity-wise Review	**25**
Rice	25
Wheat	27
Coarse grains	29
Pulses	29
Cotton	30
Raw Jute and Mesta	32
Oilseeds	35
Sugarcane	41
Tea	42
Coffee	43
Tobacco	43
Production Strategy and Related Developments	**45**
Special Rice Production Programme	46
National Pulses Development Project	46
High-Yielding Varieties Programme	48
Seeds	49
Irrigation	50
Command Area Development Programme	53
Fertilisers and Manures	53
Plant Protection Measures	55
Agricultural Implements and Machinery	56

CONTENTS

	Page
Agro-Industries Corporation	56
Agricultural Extension	56
Soil and Water Conservation Programme	57
Dryland Farming	58
Drought Prone Areas Programme	59
Desert Development Programme	60
National Rural Employment Programme	60
Rural Landless Employment Guarantee Programme	61
CHAPTER IV:INDUSTRIAL PRODUCTION	**64-110**
Trends in Industrial Production—1986-87	**64**
Overall Trends	64
New Series	65
Industry Group-wise Analysis	66
Small-scale Sector	69
District Industries Centres	71
Industrial Sickness	72
Industrial Licensing Policy	75
Selected Industries: A Review	**76**
Coal	76
Iron-ore	78
Cement	79
Iron and Steel	81
Electricity	84
Crude Oil and Petroleum Refinery Products	86
Engineering Industries	88
Metallurgical Industries (Other than Iron and Steel)	93
Jute Textiles	94
Rubber and Rubber Manufactures	96
Chemicals and Chemical Products	99
Sugar	100
Textiles—Cotton and Synthetic	104
Paper, Paper Boards and Newsprint	108
CHAPTER V: PRICE TRENDS AND PRICE POLICY	**111-124**
Price Trends: Main Features	**111**
Commodity/Group-wise Trends	111
i) Primary Articles	112
ii) Fuel, Power, Light and Lubricants	113
iii) Manufactured Products	117
Price Trends During April-June Quarters of 1987-88	120
Price Policies	**122**

CONTENTS

Page

CHAPTER VI: MONETARY DEVELOPMENTS 125-142

Overall Trends 125
Money Supply-Components 127
Sources of change in Money Supply 127
Seasonal Trends 129
Reserve Money 129
Some Monetary Relationships 131
Income Velocity of Money 133
Monetary Trends during April-June 1987 133

Currency and Coinage 135
Demonetisation of Notes 136
Issue of Notes and Coins 137
Lost, Destroyed and Mutilated Notes 137
Note Forgeries 137
Trends in Bullion Prices 137
Gold 137
Silver 140

CHAPTER VII: BANKING DEVELOPMENTS 143-264

Overall Review 143
Credit Policy 145
Banking Trends 151
Selective Credit Control 158

Qualitative Changes in Bank Credit Distribution 162
Sectoral Deployment of Credit 162
Industrial-wise Deployment of Credit 164

Advances to Priority Sector 168
Regional and Rural/Urban Pattern of Credit Deployment in Terms of Credit-Deposit Ratios 170
Credit-Deposit Ratio according to Sanction and Utilisation 173
Investment + Credit-Deposit Ratio 173
Frequency Distribution of Credit-Deposit Ratio 173
Deposit and Credit of Scheduled Commercial Banks: Area-wise and State-wise . 176
Distribution of Deposits by Population Groups/Types of Deposits 176
Credit Deployment 179
Distribution of Credit according to Interest Range 180

Geographical and Functional Coverage of Banks 181

CONTENTS

	Page
Branch Expansion	181
Indian Banks Offices Abroad	183
Primary Urban Co-operative Banks	183
Regional Rural Banks	188
Branch Expansion Programme	188
Operation of RRB's	189
Working of Various Schemes	**191**
Credit Authorisation Scheme	191
Differential Rate of Interests	193
Self-Employment Scheme for Educated Unemployed Youth	197
Self-Employment Programme for the Urban Poor	197
Advances to Minority Communities	197
Integrated Rural Development Programme	197
Lead Banks Scheme	199
Export Credit	199
Export Credit (Interest Subsidy) Scheme, 1968	200
Duty Drawback Credit Scheme, 1976	200
Other Banking Developments	**202**
Committees and Working Group Relating to Banking	**205**
Committee of Direction	205
Working Group to Review the Norms for Consortium Advances	206
Standing Committee on Co-ordination of Institutional Finance for Certain Industries	206
Standing Committee on Export Finance	207
All-India Export Advisory Committee	207
Working Group for Project Exports	207
Department of Financial Companies	**208**
Export Credit Guarantee Corporation of India Ltd.	**210**
Deposit Insurance and Credit Guarantee Corporation	**212**
Rural Credit	**215**
Institutional Finance for Agriculture	**215**
Direct Finance	215
Indirect Finance	218
NABARD and Rural Credit—Sources and Uses of Funds	**218**
Resources of NABARD	**218**

CONTENTS

Page

NABARD's Assistance for Agriculture 220

Credit Limits 220
Short-terms 220
Medium-terms 220
Long-terms 221
Important Policy Changes 221
Short-term Credit 221
Medium-term Credit 224
Long-term Credit 224
Lending Programme and Resources of SLDB's 225
Rehabilitation Programme of SLDB's 226
10 Point Action Programme for Strengthening LDB's Structure 226

NABARD's Long-term Refinance Assistance under Various Schemes 227

Refinance Facilities—Policy Changes 231

Strengthening and Future Development of Co-operative Structures 233

NABARD's Assistance for Non-Agricultural Sector 234

Industrial Co-operatives 234

Non-farm Activities 235

Other Developments 238

Commercial Banks and Rural Creidt 241

Central/State Governments and Co-operative Credit 242

Other Institutions in the Field of Rural Credit 244
Study Teams/Committees/Working Groups 249

Annexure I—Interest Rate Structure Effective from 1st April 1987 250

Annexure II— Selective Credit Control 254

CHAPTER VIII: FISCAL DEVELOPMENTS 265-317

Combined Budgetary Position of Central and State Governments: 1986-87 and 1987-88 265

Budgetary Operations of the Central Government 268

CONTENTS

	Page
Central Finances: 1986-87	268
Pattern of Expenditure and Receipts for 1987-88—Budget Estimates	271
Economic and Functional Classification of the Central Government Budget	**273**
Economic Classification 1986-87	273
Functional Classification 1986-87	275
Economic Classification 1987-88	277
Functional Classification 1987-88	277
Budget Proposals—1987-88	278
Direct Taxes	279
Indirect Taxes	280
Other Measures	281
Ninth Finance Commission	282
Budgetary Operations of State Governments	**282**
Revised Estimates: 1986-87	282
Capital Receipts	284
Transfer of Resources from the Centre	284
Disbursements	285
Budget Estimates: 1987-88	285
State-wise Position	285
Receipts	290
Disbursements	291
Additional Resource Mobilisation	292
State Plan Outlay	293
Railway Finances	**295**
Highlights	295
Revised Estimates 1986-87	295
Budget Estimates 1987-88	299
Finances of Department of Posts and Department of Telecommunications	**301**
Public Debt and Other Liabilities	**307**
A. Central Government	307
B. State Governments	315
CHAPTER IX: CAPITAL MARKET	**318-348**
Consents for Capital Issues	**318**
Capital Issues	319
Capital Raised	322
Developments in Policy	322
Industrial Security Market	323

CONTENTS

Page

Open Market Operations 326
Gilt-edged Market 326

Term Lending Institutions **328**

Industrial Development Bank of India 328
Industrial Finance Corporation of India 334
The Industrial Credit and Investment Corporation of India Ltd. 336
Unit Trust of India 337
General Insurance Corporation of India 341
Industrial Reconstruction Bank of India 342
Export-Import Bank of India 343
Housing and Urban Development Corporation Ltd. 345
Housing Development Finance Corporation Ltd. 348

CHAPTER X: DEVELOPMENTS IN INDIA'S FOREIGN TRADE **349-379**

India's Foreign Trade during 1986-87 (April-March) **349**

Overall Trends 349
Exports 349
Imports 354
Direction of Foreign Trade 358
Import Licences 361

Developments in Foreign Trade Policy **363**

Export Controls 364
Import Controls 364
Changes in Export Duties—1986-87 366
Changes in Import Duties—1986-87 366
Export Promotion Measures 368

Specialised Foreign Trade Agencies **370**

State Trading Corporation of India 370
Cashew Corporation of India 372
Handicrafts and Handlooms Exports Corporation 372
Tea Trading Corporation of India 372
Minerals and Metals Trading Corporation 373
Free Trade Zones 373
Kandla Free Trade Zone 373
Santacruz Electronics Export Processing Zone 373
Madras Export Processing Zone 374
NOIDA Export Processing Zone 374
FALTA Export Processing Zone 374
Cochin Export Processing Zone 374

CONTENTS

Page

100 Percent Export Oriented Units 375

Trade Agreements and Economic and Technical Co-operation Agreements **375**

International Trade Negotiations **376**

UNCTAD VII 376
GATT 378

CHAPTER XI: BALANCE OF PAYMENTS AND INTERNATIONAL MONETARY DEVELOPMENTS **380-431**

Balance of Payments Developments **380**

Foreign Investment: Policy and Developments **383**

External Assistance **386**

India's Financial Assistance to Other Countries **392**

Exchange Rate Developments **395**

International Monetary Developments **398**

Domestic Activity 400
i) Industrial Countries 400
ii) Developing Countries 403
International Trade and Payments 404
Resource Flows 407
World Bank Group 408
International Bank for Reconstruction and Development 409
Multilateral Guarantee Investment Agency 410
International Development Association 410
IDA Eighth Replenishment 411
International Finance Corporation 411
Uses of Fund Resources 412
Report of the Working Group of G-24 on the role of the IMF in Adjustment with Growth 414
Rates of charges of the Fund and system of Burden sharing 417
SDR Allocation and SDR Interest Rate 418
International Reserves 419
Developments in Exchange Rates of Major Currencies 420
External Debt of Developing Countries 422
Gold in International Markets 423

Developments in Exchange Control **423**

Annexure—RBI's Spot Rate for Purchase and Sale of Pound Sterling 428

CONTENTS

Page

GRAPHS

1. Net Domestic Saving and Investment 9
2. Production of Foodgrains 18
3. Index Numbers of Wholesale Prices 113
4. Consumer Price Index Numbers (All India) 120
5. M_3 and its Components 125
6. Scheduled Commercial Banks' Business in India 144
7. Scheduled Commercial Banks' Deposits as percent of Net National Income 152
8. Public Sector Banks' Advances to Priority Sector 168
9. Centre-wise Distribution of Commercial Banks' offices in India 181
10. Combined Aggregate Revenue and Capital Receipts—Central and State Governments 269
11. Combined Aggregate Revenue and Capital Disbursements—Central and State Governments 270
12. Index Numbers of Security Prices—All India 323
13. Trends in World Exports, India's Exports and Exports of Non-Oil Developing Countries 350
14. Exchange Rate of Indian Rupee 397

APPENDICES

Appendix I – Important Export Control/Promotion Announcements April 1986–March 1987 432

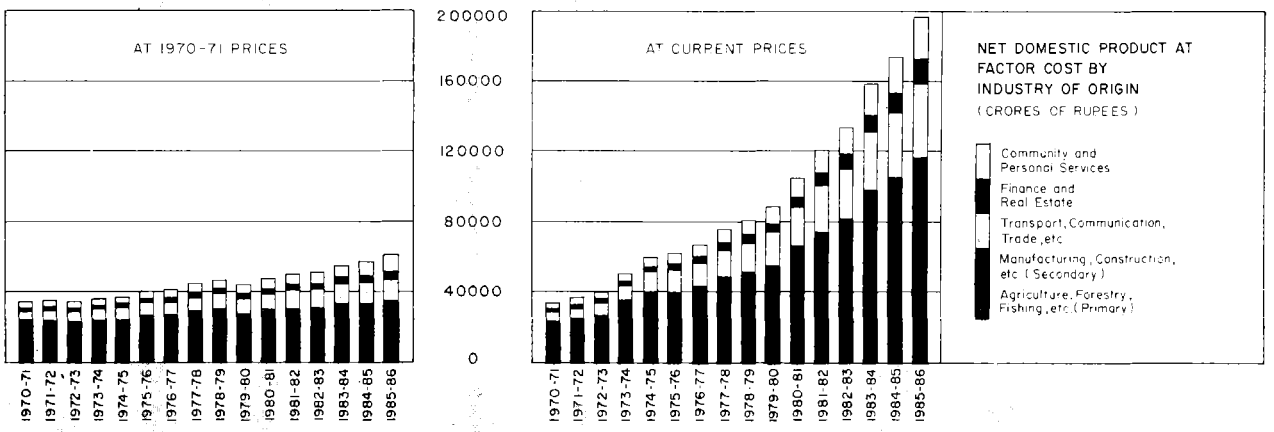
i) Changes in Export Control 432
ii) Changes in Export Duties 437

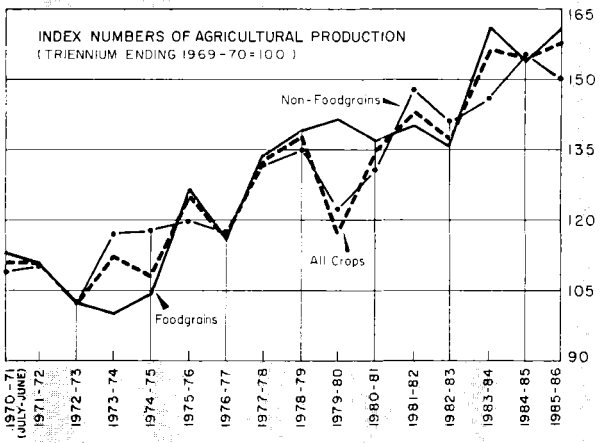
Appendix II – Important Announcements with regard to Import Control Policy April 1986-March 1987 438

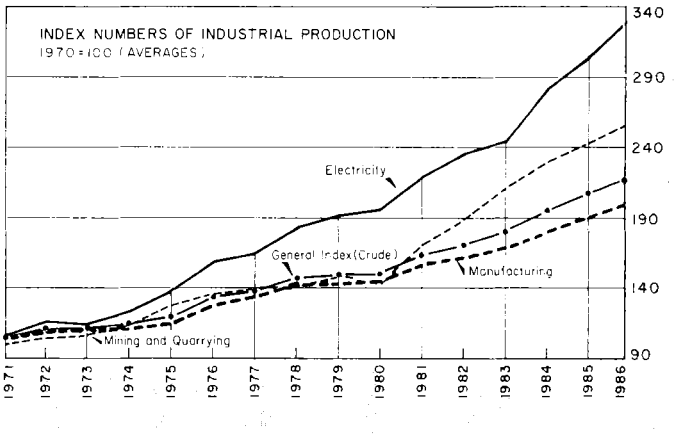
Changes in Import Duties 452

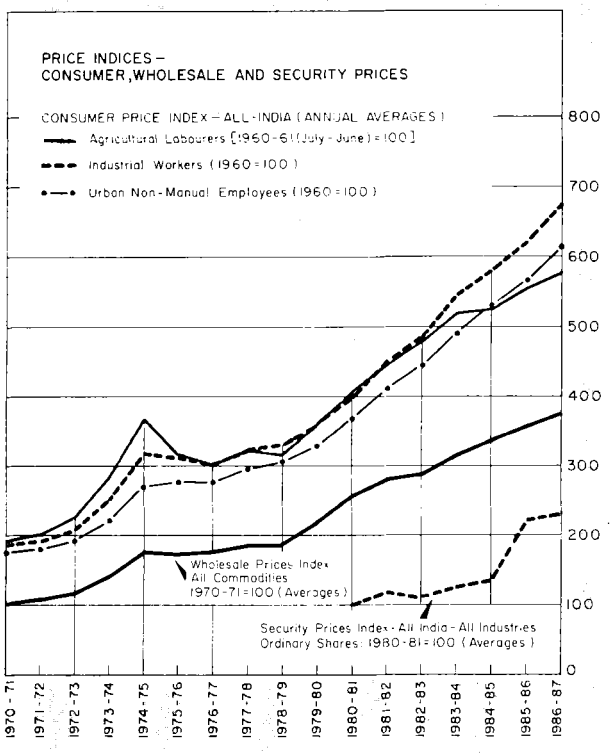
Subject Index **455**

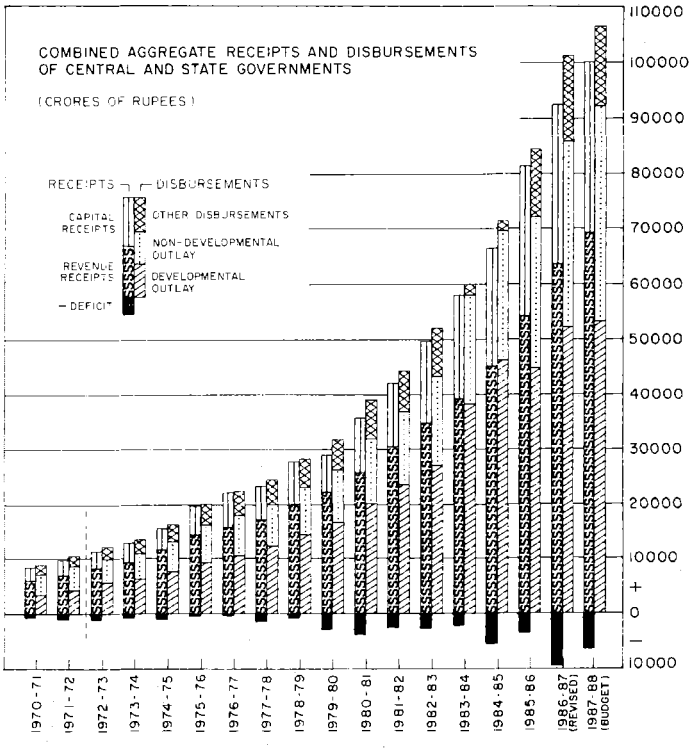
SELECTED ECONOMIC INDICATORS





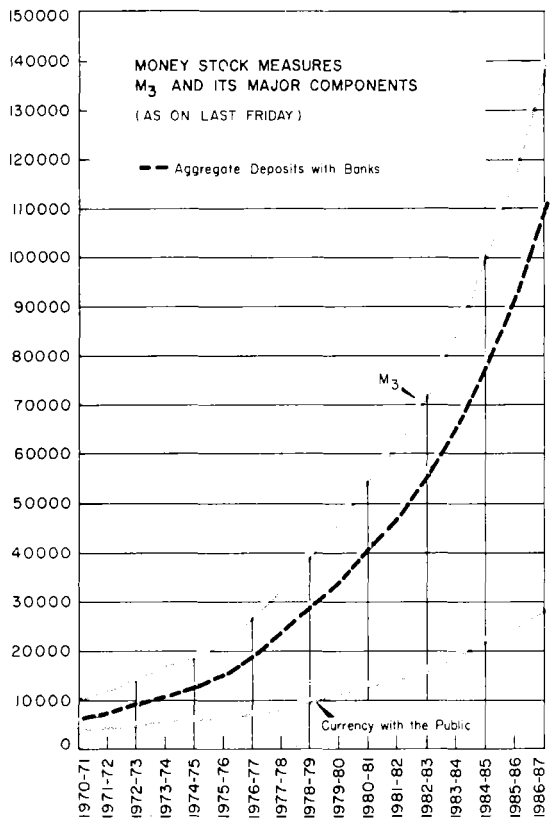


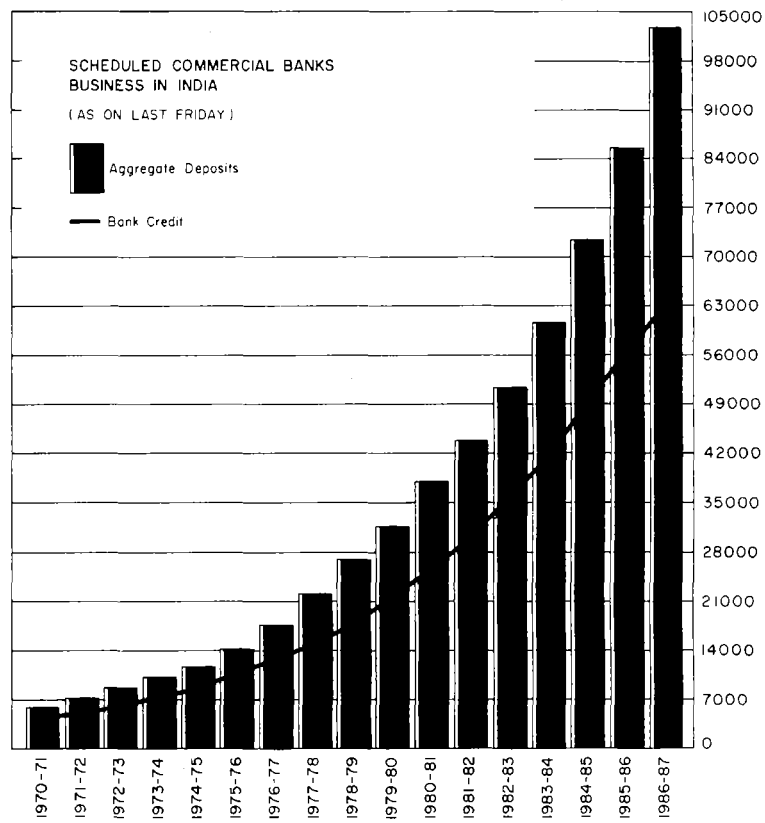


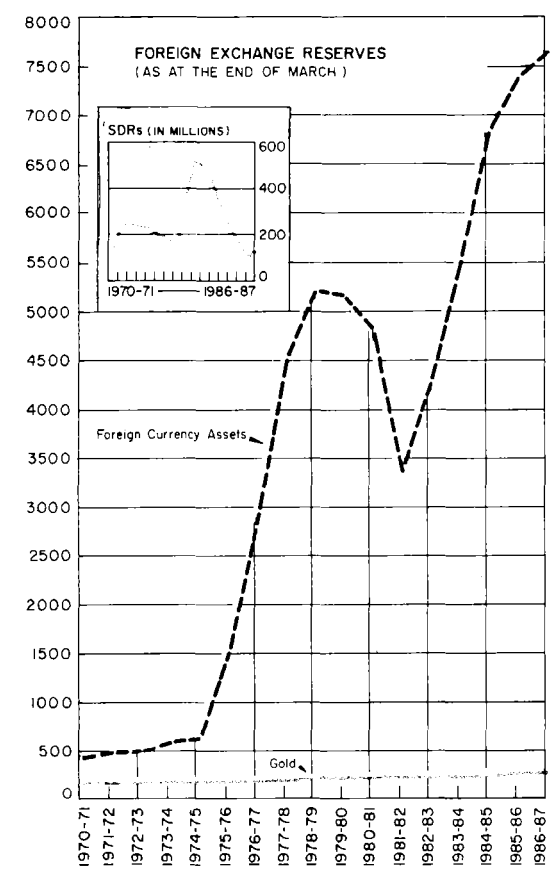


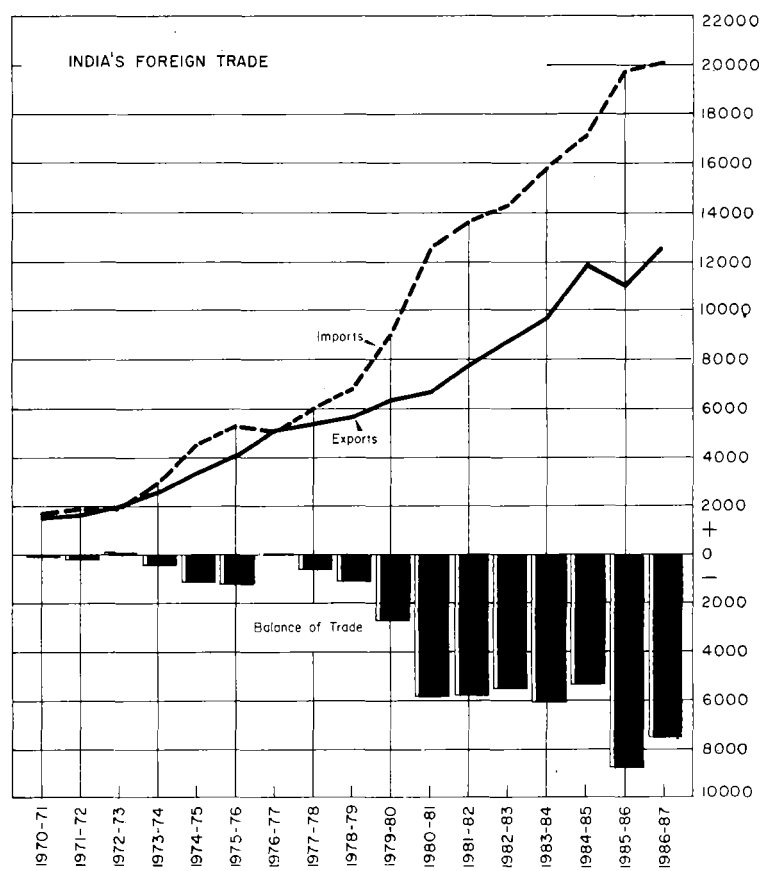
SELECTED ECONOMIC INDICATORS

(CRORES OF RUPEES)









Chapter I

Review and Outlook *

The growth in real national income in 1986-87, the second year of the Seventh Five Year Plan is estimated at 4.7 per cent as compared with 5.1 per cent in 1985-86. The relatively lower growth rate in 1986-87 is attributable to a decline in the growth rate in agricultural output, as against a moderate expansion of 1.9 per cent in 1985-86. Growth rate in industrial production on the other hand, showed a marginal improvement to 8.9 per cent (base 1980-81 = 100) as compared with 8.7 per cent in 1985-86.

Taking the first two years of the Seventh Plan together, the average rate of growth of real national income would work out to 4.9 per cent as against the targeted annual growth rate of 5.0 per cent for the Seventh Plan as a whole. The services sector, whose share has now reached a little over 40 per cent in the gross domestic product has been growing relatively faster; its growth averaged more than 7 per cent per annum. While the growth in industrial sector was marginally above the targeted annual growth rate of 8 per cent during the Seventh Plan period, that of agricultural sector was significantly lower than the target of 4 per cent.

The poor performance of agriculture during 1986-87 as reflected in the slight decline in the growth of agricultural output was due to the fall in production of foodgrains largely on account of climatic factors. Fibres like jute suffered partly on account of the switch over of acreage from jute to paddy.

For the third year in succession, rainfall during 1986-87 turned out to be unfavourable. Of the 35 meteorological sub-divisions, rainfall during the year was scanty or deficient in 14 subdivisions as against 9 in 1985-86 and 8 in 1984-85. As a result, foodgrains production during 1986-87 is placed in the range of 149-150 million tonnes as compared with 150.5 million tonnes in

---

* Chapter II to XI incorporate data/information released upto mid-October 1986. Chapter I, however, is based on more uptodate information. On the basis of data available now, net domestic savings in Chapter II are revised to 16.5 per cent in 1984-85, 16.6 per cent in 1985-86 and 17.3 per cent in 1986-87 of the net national product (NNP).

1985-86 and 10-11 million tonnes below the level of 160.0 million tonnes targeted for 1986-87. This decline in foodgrains production was due mainly to the fall in production of rice. Rice production declined from 64.0 million tonnes in 1985-86 to 60.0-60.5 million tonnes during 1986-87. *Kharif* foodgrains output at 83.0-84.0 million tonnes was 2.0-3.0 million tonnes lower than that during the preceding year. The fall in *kharif* output was offset in part by the increase in *rabi* output by 1.5 million tonnes to 66.0 million tonnes. The increase in *rabi* output was accounted for by wheat which reached a level of 48.0 million tonnes in 1986-87 as against 46.9 million tonnes achieved in 1985-86. Coarse grains production showed signs of revival in 1986-87 after the heavy loss in production sustained in 1985-86 on account of drought conditions in the main coarse grain growing areas. Production during 1986-87 is placed at 28.0-28.5 million tonnes as compared with 26.5 million tonnes in 1985-86 and a higher production of 31.2 million tonnes in 1984-85. Production of pulses at 13.0 million tonnes in 1986-87 was around the same level as in the preceding year.

Among commercial crops, production of both cotton and raw jute (including mesta) showed a decline in 1986-87. Cotton output in 1986-87 is placed substantially lower at 71.8 lakh bales as against 86.1 lakh bales in 1985-86 season. Output of raw jute and mesta also is placed lower at around 86.3 lakh bales as against 127.3 lakh bales in 1985-86, a record output so far. Sugarcane and oilseeds output, however, showed improvement during 1986-87. Sugarcane production was estimated at 175.5 million tonnes as compared with 171.7 million tonnes in 1985-86. Oilseeds output was estimated to be higher at 12.0-12.3 million tonnes than the 1985-86 output of 11.2 million tonnes.

A natural concomitant of lower foodgrains production was a marginal fall in procurement of foodgrains. Aggregate foodgrains procurement in 1986-87 stood at 19.9 million tonnes as compared with 20.1 million tonnes in the preceding year. During the 1986-87 *kharif* marketing season (October 1, 1986 to September 30, 1987) 9.2 million tonnes of rice were procured which was 6.1 per cent lower than that during the corresponding period of the preceding *kharif* season (9.8 million tonnes). During 1987-88 *kharif* marketing season so far (till December 11, 1987), rice procurement at 2.8 million tonnes was 30 per cent lower than that in the corresponding period of 1986-87 season. Wheat procured during the *rabi* marketing season of 1986-87 (April-March) was, however, higher at 10.5 million tonnes as compared with 10.3 million tonnes during the 1985-86 season, due to record production of 46.9 million tonnes in 1985-86. During 1987-88 so far (April 1, to December 11, 1987) wheat procurement at 7.9 million tonnes was lower by 24.8 per cent than that of 10.5 million tonnes in the corresponding period of the preceding year.

The monthly average offtake of foodgrains, including allocation for poverty alleviation programmes such as National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP) had risen from 1.37 million tonnes in 1985 to 1.64 million tonnes in 1986. With increasing offtake and falling procurement, the stocks of foodgrains with the Government showed a decline. As at end-June 1987 foodgrains stock with the Government declined to 23.4 million tonnes (comprising 14.9 million tonnes of wheat and 8.4 million tonnes of rice) from the record level of 28.3 million tonnes (comprising 18.9 million tonnes of wheat and 9.3 million tonnes of rice) as at end-June 1986. Even these stocks were considered to be high when judged in terms of the norms of the Technical Group on Buffer Stock Policy. Consequently, Government took a series of steps to bring down the stock level, such as increased allocation for the programmes under NREP, RLEGP and larger releases for open market sales.

On the basis of the revised series of index number of industrial production (1980-81 = 100) the rate of growth in industrial production showed an improvement from 8.7 per cent in 1985-86

(revised) to 8.9 per cent in 1986-87. Component-wise, the rate of growth in mining and quarrying and electricity sectors showed acceleration; however, the manufacturing sector which accounts for a weight of 77.11 per cent showed a marginal deceleration from 9.7 per cent to 9.1 per cent. Although electricity generation showed improvement, the gap between demand for electricity and supply widened. This necessitated imposition of power cuts by some states.

As regards use-based classification of industrial production, based on the old series of index (1970 = 100), higher growth rates were recorded during April-October 1986 by Basic Industries and Consumer Goods Industries. On the other hand, Capital Goods Industries and Intermediate Goods Industries showed deceleration.

The six infrastructure industries with a total weight of 28.77 per cent in the revised index (1980-81 = 100) of industrial production (24.55 per cent in the old series) recorded a lower growth of 7.5 per cent during the financial year 1986-87 as compared with 8.1 per cent during 1985-86. Among the six infrastructure industries growth rate was higher in electricity, coal and cement. Electricity generation was higher by 10.4 per cent in 1986-87 as compared with that of 8.5 per cent in 1985-86. Coal and cement production showed higher increases of 7.8 per cent and 10.5 per cent in 1986-87 as compared with 4.6 per cent and 9.7 per cent, respectively in 1985-86. The remaining three industries, viz. saleable steel, crude petroleum and petroleum refinery products showed declines in growth rate. Among the infrastructure industries which showed a deceleration, the rate of increase in production of saleable steel declined from 11.2 per cent in 1985-86 to 5.7 per cent in 1986-87; in absolute terms, there was an increase from 77.7 lakh tonnes to 82.1 lakh tonnes. Growth rate of crude petroleum production declined from 4.1 per cent in 1985-86 to 1.0 per cent in 1986-87; in absolute terms, production showed an increase during this period from 301.7 lakh tonnes to 304.6 lakh tonnes. Like-wise, petroleum products showed a deceleration in growth rate from 20.6 per cent to 6.5 per cent over the period; in absolute terms output registered an increase from 399.0 lakh tonnes to 424.9 lakh tonnes.

Taking the last two years together, it is seen that the industrial growth has not been uniform, with some industries growing at a rate exceeding 20 per cent and some even showing a decline. Among the basic industries, output of fertilisers, cement, electricity generation and saleable steel showed an annual average rise of above 8 per cent during the past two years. At the other end, aluminium production showed a decline of 7.6 per cent. Among the capital goods industries, production of boilers, jeeps, machine tools, railway wagons, road rollers, cement machinery, ball and roller bearings showed an annual average increase of above 9 per cent. On the other hand, tractors, power transformers and sugar machinery showed declines. Among the consumer goods industries, the production of scooters, motor cycles, mopeds, bulk drugs, sugar, rubber footwear, soap and synthetic detergent showed an annual average rise of above 8 per cent while the output of electric fans and vanaspati remained nearly stagnant.

Monetary expansion was larger during fiscal year 1986-87. Expansion in broad money (M_3) at 18.8 per cent in 1986-87 was higher by 2.7 percentage points than that in the preceding year. This expansion in broad money was due mainly to the increase in currency with the public which increased from 11.0 per cent in 1985-86 to 13.5 per cent in 1986-87. Aggregate deposits with banks expanded by 20.2 per cent in 1986-87 as compared with 18.1 per cent in 1985-86. Demand deposits with the banks increased by 22.3 per cent in 1986-87, that is, more than double the rise of 11.0 per cent in 1985-86. However, growth in time deposits with banks registered a marginal decline; it fell from 20.0 per cent in 1985-86 to 19.7 per cent in 1986-87.

The rise in monetary expansion during 1986-87 was due mainly to net bank credit to Government which went up by 21.8 per cent in 1986-87 as compared with that of 19.6 per cent in 1985-86.

This was due largely to a spurt in other banks' credit to Government by 30.1 per cent as against 2.3 per cent in 1985-86. However, net RBI credit to Government recorded a lower expansion of 17.7 per cent in 1986-87 in contrast with 30.7 per cent in 1985-86. Bank credit to commercial sector showed a smaller expansion of 13.8 per cent in 1986-87 as compared with that of 15.6 per cent in 1985-86. This was due mainly to smaller expansion in other banks' credit to commercial sector than that during 1985-86. There was an absolute reduction in food credit by Rs 431 crores in 1986-87 as against the decline of Rs 130 crores in 1985-86. Non-food credit by the commercial banks registered a growth rate of 15.2 per cent in 1986-87 as compared to 16.7 per cent in 1985-86, though in absolute terms non-food credit by commercial banks was higher in 1986-87 than in 1985-86. Accruals to net foreign exchange assets of the banking system showed a sharp rise of Rs 1,251 crores as against the increase of only Rs 195 crores in 1985-86.

On the price front, an acceleration was noticed during 1986-87. Wholesale prices, on a point-to-point basis, showed a rise of 5.3 per cent in 1986-87 as against 3.8 per cent in 1985-86. On a weekly average basis, however, the rise at 5.3 per cent was marginally lower than 5.7 per cent in 1985-86. The seasonal movements in wholesale prices continued to persist in 1986-87 as in the preceding years. During the period April-July 1986, wholesale prices rose by 5.6 per cent as compared with 5.4 per cent during the corresponding period of 1985. In the next three-month period ending October 1986, price rise slowed down to 1.4 per cent as against a fall of 1.1 per cent during the corresponding period of 1985. During the last five months of the financial year, viz. November 1986 to March 1987, the fall of 1.7 per cent was much larger than the decline of 0.4 per cent during the corresponding period of 1985-86.

Taking the year 1986-87 as a whole, the increase in wholesale prices was brought about largely by two major groups, viz. 'primary articles' and 'manufactured products'. The major group 'fuel, power, light and lubricants' recorded a smaller rise. In the major group 'primary articles', the sub-group 'fibres' increased sharply by 27.0 per cent as against a decline of 36.9 per cent in 1985-86. In this sub-group, the rise under raw cotton was 33.3 per cent, as against a decline of 25.2 per cent in 1985-86. Within the same major group, the sub-group 'oilseeds' increased substantially by 24.7 per cent as against a decline of 4.1 per cent in 1985-86. Yet another commodity which showed sharp increase was tea; the increase under this commodity was 19.2 per cent in contrast with a fall of 23.9 per cent noticed in 1985-86. In the major group 'manufactured products' index of 'edible oils' showed a sharp increase of 36.4 per cent as against a decline of 0.3 per cent in 1985-86. Likewise, the index of 'textiles' showed an increase of 8.3 per cent in contrast with a decline of 7.9 per cent in 1985-86. The commodities/commodity groups within the same major group which showed declines were sugar, khandsari, gur, paper and paper products. The major group 'fuel, power, light and lubricants' showed a lower order of increase during 1986-87 mainly due to relatively stable prices of mineral oils. The price index of 'electricity' rose by 11.1 per cent as compared with a sharp increase of 24.2 per cent in 1985-86, as a number of states had increased their electricity tariffs in 1985-86 followed by a few more states in 1986-87.

On a point-to-point basis, the Consumer Price Index (CPI) for industrial workers (base: 1960 = 100) rose by 7.5 per cent in 1986-87 as compared to 8.9 per cent in 1985-86. On an average basis, the CPI increased by 8.8 per cent in 1986-87 as against 6.4 per cent in 1985-86. The inflationary pressures were reflected more at the retail level than at the wholesale level as revealed by the relatively larger rise in CPI than in WPI.

On the external front, exports, according to DGCI&S, recorded a substantial rise of 14.0 per cent as against a decline of 7.1 per cent in 1985-86. Increase in imports, on the other hand, was smaller during the year at 1.6 per cent as against 15.1 per cent during the preceding year. The lower import bill during 1986-87 was mainly attributable to the substantial savings of

Rs 2,053 crores on oil imports (net of oil exports) because of the decline in prices. Non-oil imports, however, continued to expand rapidly by 17.9 per cent on top of a rise of 26.5 per cent in 1985-86. After a sharp widening of the trade deficit from Rs 5,318 crores in 1984-85 to Rs 8,754 crores in 1985-86, the acceleration in exports and the decline in oil import bill helped in the narrowing down of the trade deficit, though modestly, to Rs 7,532 crores in 1986-87. The current account deficit also narrowed down somewhat in 1986-87 after a sharp widening witnessed in 1985-86. Some improvement was noticed on the invisible account largely due to higher foreign exchange earnings from tourism. Foreign exchange reserves went up by Rs 331 crores in 1986-87 on top of the increase of Rs 577 crores in 1985-86. In SDR terms, these reserves showed a decline of SDR 615 million in 1986-87 as compared with a fall of SDR 276 million in 1985-86.

The net inflow of funds under Non-Resident Deposits Schemes amounted to Rs 1,654 crores in 1986-87 as compared to Rs 1,432 crores in 1985-86. The large inflow of funds under these accounts continued to provide a measure of support to balance of payments.

As regards prospects for 1987-88, agricultural production during 1987-88 will be substantially lower than in the preceding year. Monsoon arrived late in Kerala, and subsequently many parts of the country experienced deficient rains which led to the emergence of widespread drought. Upto the end of September 1987, rainfall was excess or normal in only 14 out of 35 meteorological sub-divisions as against 21 subdivisions in the corresponding period in the preceding year; the area of *kharif* rice production covered by sub-divisions receiving excess or normal rainfall is 50.6 per cent in 1987-88 as compared to 73.9 per cent in 1986-87. The important sub-divisions which were affected by deficient/scanty rainfall this monsoon (from 1st June to September 30, 1987) were coastal Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Kerala, coastal Karnataka, East Madhya Pradesh, parts of Maharashtra, Punjab, Rajasthan, Uttar Pradesh, Orissa and Tamil Nadu. Besides West Bengal, Bihar, Eastern Uttar Pradesh, Assam and other parts of North-Eastern India were ravaged by floods. The droughts of 1965-66 and 1979-80 which led to declines in foodgrains output by 17.0 million tonnes and 22.2 million tonnes, respectively, had affected the States of Punjab, Haryana, Uttar Pradesh, Jammu & Kashmir, Rajasthan and Gujarat, but the drought of 1987 has additionally enveloped the States of Andhra Pradesh, Tamil Nadu and a part of coastal Karnataka and Kerala. Thus, the present drought has turned out to be far more widespread.

Apart from *kharif* cereals, output of oilseeds and pulses is also likely to suffer serious shortfall. In order to compensate the loss in *kharif* foodgrains, Government initially set a target of 70 million tonnes of foodgrains in the ensuing *rabi* season-50 million tonnes of wheat, 5 million tonnes of *rabi* rice, 6 million tonnes of coarse grains, and 9 million tonnes of pulses. The target was subsequently revised to 76 million tonnes. Wheat target was raised by 4 million tonnes to 54 million tonnes and *rabi* rice and pulses targets were raised by one million tonne each to 6 million tonnes, and 10 million tonnes, respectively. Generally, the *rabi* production of foodgrains is around 65 million tonnes and to raise it to 70 million tonnes against the background of widespread drought, low precipitation and reduced groundwater levels is a formidable task. According to official assessment the live storage in 47 reservoirs in mid November 1987 was only 55 per cent of the total capacity as against 78 per cent in the previous year. Against the foodgrains production of 149-150 million tonnes in 1986-87, the drop in the output may not be as large as was recorded in the earlier droughts of 1965-66 and 1979-80; it will, however, be sizeable and is variously estimated to be between 10 and 15 million tonnes.

As regards non-foodgrain crops, the prospects are mixed. Lack of rains affected the cotton crop

initially; however the crop is reported to have benefited from the late rains. Hence cotton crop at best may be around the level of 95 lakh bales estimated by the Cotton Advisory Board for 1986-87. Jute crop is now estimated by the Jute Commissioner at around 65 lakh bales as against 80 lakh bales in 1986-87; this decline as in the case of other crops is not attributable to the deficiency in rains, but to a reduction in area under jute. With the extended dry spell over Gujarat the output of oilseeds is expected to be around 10 million tonnes or even lower as against the output of 12.0-12.3 million tonnes in 1986-87. Sugarcane crop is also expected to be somewhat lower than that in 1986-87 (175.5 million tonnes) due to insufficiency of water. Consumption of sugar is placed at around 87 lakh tonnes in 1986-87, about 4 lakh tonnes higher than that in 1985-86. In 1987-88 it may rise further.

Several measures have been taken to combat drought by increasing the allocation of foodgrains to be distributed under target oriented schemes of RLEGP, NREP and IRDP, conversion of short-term crop loans into medium-term loans, and stepping up of the volume of institutional finance both short and medium-term. Increases in the procurement prices both of *kharif* and *rabi* have been announced.

The average of growth rates of industrial production during the last three years has been around 8 per cent, close to the target of the Seventh Plan. The rate achieved in 1986-87 was 8.9 per cent (1980-81 = 100) as compared with 8.7 per cent in 1985-86. In view of the widespread drought it is difficult to predict what the rate will turn out to be in 1987-88. According to the information available for the first four months (April-July) of the financial year 1987-88 the index of industrial production recorded an average growth of 12.6 per cent which is nearly double that of 6.6 per cent in the corresponding period of 1986-87. While the growth rate of manufacturing sector rose sharply from 5.8 per cent during the first four months of 1986-87 to 14.4 per cent in the corresponding period of 1987-88, that of electricity generation advanced marginally to 9.8 per cent from 9.2 per cent in April-July 1986. The mining and quarrying showed a deceleration to 5.6 per cent from 7.0 per cent in April-July 1986.

Advance information in respect of the six infrastructure industries (weight 28.77) for the period April-October 1987 indicates that their overall rate of growth of 7.2 per cent was lower than the rate of 7.7 per cent in the corresponding period of 1986-87. Except electricity generation, petroleum crude and petroleum refinery products the other three industries registered higher growth rates in the first seven months of 1987-88; saleable steel 9.7 per cent in April-October 1987 (1.9 per cent in April-October 1986), coal 9.5 per cent (8.0 per cent) and, cement 9.5 per cent (7.2 per cent). The growth rate in electricity generation of 8.4 per cent was lower than that of 10.2 per cent in April-October 1986. The output of petroleum crude declined by 1.2 per cent as against a rise of 6.4 per cent in the corresponding period of 1986-87. The production of petroleum refinery products rose by 5.9 per cent as compared with 6.5 per cent in corresponding period of 1986-87. Industrial output depends considerably upon the availability of power. Though the power generation so far has been satisfactory, this growth was largely derived from thermal including nuclear sources. In fact, contribution of hydel power whose share in total power generation is somewhat more than one-fourth, declined by 8.7 per cent in the first seven months of 1987-88 as compared to the preceding year. Industry in several parts of the country has been experiencing power shortages. Now with the widespread drought and lower water level in most of the reservoirs, electricity generation derived from the hydel sources is expected to decline. Furthermore, some diversion of power from industrial uses to agriculture would adversely affect industrial production. The poor performance of agriculture is likely to result in the reduced availability of agricultural raw materials, affecting agro-based industries like sugar, jute textiles, etc. Further, the reduced rural demand for industrial products consumed in the rural sector will affect several industries. A major impact of such demand constraints reflected in the high stocks with the fertiliser industry. The growth of industrial production in

1987-88 could as a result, be somewhat lower than in the two previous years.

Central Government's gross tax revenues from major taxes (income-tax, corporation tax, customs and excise duties) were anticipated to rise by Rs 4,134 crores during 1987-88 – an increase of about 13 per cent over the revised estimates for 1986-87. According to the provisional data for the first six months of the current financial year, revenues from these taxes are expected to show an increase of Rs 1,957 crores over the corresponding period of the preceding year, constituting 47.3 per cent of the anticipated increase in 1987-88. While collection from income-tax, corporation tax and customs duties showed higher than anticipated growth rate, that from excise at 12.1 per cent was substantially lower than 17.3 per cent envisaged in the budget estimate. The impact of drought on excise collections would be more in evidence during the second half of the current fiscal year.

The expenditure of the Central Government for providing employment and relief work in drought affected areas is likely to be substantially higher than anticipated in the budget. The additional expenditure on this account is roughly estimated between Rs 1,300 crores and Rs 2,000 crores in 1987-88 as against the budgetary provision of Rs 502 crores. The Government is expected to mop-up additional resources to the extent of Rs 575 crores through direct and indirect levies announced recently while economies in Plan and non-Plan expenditure are expected to save another Rs 650 crores. To meet the likely gap in resources, a strict vigil will have to be kept on non-developmental expenditure while making vigorous efforts to raise additional resources.

The overall growth of liquidity (M_3) in the financial year 1987-88 (upto December 4, 1987) was Rs 14,239 crores as against Rs 14,746 crores in the comparable period of the previous year. The monetary aggregates in the current financial year are substantially understated because of portfolio management which has greatly depressed demand deposits without affecting the lendable resources of banks. The objective of monetary policy for 1987-88 is to contain the growth of M_3 to a level well below that in 1986-87 when the growth of M_3 had been 18.8 per cent in the full financial year. The growth of reserve money in the financial year 1987-88 (upto December 4, 1987) has been larger (Rs 5,502 crores as against an increase of Rs 4,528 crores in the comparable period of 1986-87) indicating the potential for a large expansion of liquidity in the second half of 1987-88.

The growth of aggregate deposits of scheduled commercial banks during the financial year 1987-88 so far (upto December 4, 1987) was Rs 10,470 crores as against an increase of Rs 11,716 crores in the comparable period of 1986-87. Demand deposits have shown an increase of Rs 488 crores in the same period of 1987-88 as against a rise of Rs 1,554 crores in the corresponding period of last year. The slow down in demand deposits is attributable, as indicated earlier, to the large portfolio management by banks. Time deposit growth has also been lower at Rs 9,982 crores as against an increase of Rs 10,162 crores in the comparable period of 1986-87. Again, the net demand and time liabilities of the banking system showed a growth of Rs 11,815 crores during the current financial year as against a growth of Rs 12,176 crores in the comparable period of 1986-87; the more rapid growth of liabilities other than deposits in the current financial year is, to some extent, attributable to a large increase in call and notice money placed by institutions with banks. There has been a large increase in net non-food credit of Rs 4,516 crores in the financial year 1987-88 (upto December 4, 1987) as against an increase of Rs 2,744 crores in the comparable period of the previous year. With the lower 1987 *rabi* procurement and the increased off-take of foodgrains, food credit declined by Rs 2,196 crores in the same period of 1987-88.

On the external front, the pressures on balance of payments experienced in the first two years of the Seventh Plan are expected to continue in 1987-88. The balance of payments will therefore require a continuous watch and careful planning of resources. Foreign exchange reserves during the first eight months of 1987-88 (April-

November) declined by Rs 936 crores as against a fall of Rs 493 crores during the corresponding period of 1986-87. The level of foreign exchange reserves as at the end of November 1987 was equivalent to about four months of imports and may be considered reasonably adequate. However, given the large debt service obligations, the prospects for various types of financing and prudent limits set on commercial borrowings, there is not much scope for drawing down the reserves further. The trade deficit, according to DGCI&S provisional data, narrowed by 12 per cent to Rs 2,988 crores during April-September 1987 from Rs 3,382 crores in the same period of 1986. In regard to imports, the advantage of the drop in the petroleum crude oil prices which substantially reduced the oil import bill in 1986-87 will not be available in 1987-88. With the firming up of oil prices, the import bill on account of oil would be higher than in 1986-87. Further, considering the shortage of edible oils in the wake of the drought situation, it has been necessary to increase imports of edible oils/oilseeds. Imports of other items, particularly capital goods, spares and components will continue to rise as these will be necessary for improving the productivity, efficiency and competitiveness of Indian industries. On the invisible account, tourist traffic increased by only 9.4 per cent during April-August 1987 as compared with an increase of 26.7 per cent in the corresponding period of 1986. Expatriate remittances will remain subdued in view of the budgetary constraints faced by oil exporting countries of West Asia. The net inflow of deposits under the FCNRA scheme during April-November 1987 amounted to Rs 773 crores as against Rs 839 crores in the corresponding period last year. The repayment obligations to the IMF during the year would be higher than in the previous year. Debt service obligations on external assistance and commercial borrowings would be somewhat higher than the preceding year's level.

Against the background of an expected decline in foodgrains production, the price situation would need careful watching. On point-to-point basis, the 'All Commodities' wholesale price index (WPI) rose by 8.3 per cent during the financial year so far (upto November 28, 1987) as compared to the rise of 5.0 per cent in the corresponding period of 1986-87. The bulk of the rise was accounted for by 'primary articles' the index of which advanced by 12.8 per cent this year as against 6.7 per cent last year. Under food articles, cereals, pulses, condiments and spices recorded sharper rises. The price of pulses rose by 32.8 per cent during the current year as against a fall of 9.5 per cent last year. Among 'non-food articles', fibres and oilseeds recorded sharp increases; fibres by 17.7 per cent as against the fall of 3.7 per cent last year. The index for oilseeds rose by 33.9 per cent in current year on top of a rise of 26.9 per cent last year. The other major group namely, 'Fuel, Power, Light & Lubricants' rose by 1.6 per cent in the current year as against 1.7 per cent last year. 'Manufactured Products' recorded a rise of 6.7 per cent in the current year which is larger than 4.6 per cent recorded in the same period of last year.

Based on averages of weekly indices the rise in WPI during 1987-88 so far (upto November 28, 1987) has been 6.4 per cent as against 5.2 per cent last year. On average basis as well, the bulk of the rise was accounted for by 'primary articles' which showed a rise of 8.4 per cent during the current year as against 5.3 per cent last year.

The Consumer Price Index for industrial workers on point-to-point basis recorded a larger rise of 9.3 per cent during April-October of 1987-88 as compared with a rise of 7.4 per cent in the corresponding period of last year. However, on the basis of averages of months, the rise in the index was 8.8 per cent during April-October of 1987-88 which increase was of the same magnitude in the corresponding period of last year. The behaviour of prices in the rest of the year will naturally be affected by the *kharif* output.

To sum up, the overall picture for 1987-88 is not encouraging. Foodgrains production is expected to be lower by 10 to 15 million tonnes than the level of output accounted in 1986-87. The industrial sector is critically dependent upon the

growth of agriculture both for the raw materials required for its production and the demand for industrial products like textiles, footwear and sugar and consumer durables like radios, and some capital goods items like pump sets and diesel engines. On the assumption that the foodgrains output will be in the range of 135-140 million tonnes, the decline in the agricultural production is expected to be 10.5 per cent to 8.4 per cent. Under these circumstances the real growth in gross domestic product may be around 1.5 per cent in 1987-88 as against the estimated growth rate of 4.7 per cent in 1986-87.

As for the balance of payments, the year 1987-88 may witness some deterioration in current account deficit in absolute rupee terms, though in relation to GDP, the deficit might be about the same as in the previous year. The average ratio of current account deficit to GDP during the first three years of the Seventh Plan at about 2.0 per cent will be higher than the average of 1.6 per cent for the Seventh Plan visualised in the Plan document. It is essential that effort is made to remain as closely as possible to a ratio of 1.6 per cent during the remaining period of the Plan.

Exports would have to play a major role in this effort. In view of the faster rise in imports and absence of export growth in the first year of the Plan, exports in the subsequent years would have to rise at a rate even higher than the annual rate of 6.8 per cent in volume terms stipulated in the Plan document. On the imports side, the requirements of capital goods imports and technology will continue to be high. Planning of large imports, however, may have to be conditioned by the emerging balance of payments situation. Efforts at efficient import substitution are also essential. Oil imports constitute an important segment of imports. In view of the 6 to 7 per cent rise in domestic oil consumption, and marginal increase in domestic oil production, efforts need to be redoubled to minimise growth in oil imports through greater emphasis on conservation of energy, particularly oil-based energy, and to raise domestic oil production. Tourism is a promising area to expand exchange earnings and needs to be developed vigorously.

On the financing side, the amount of aid in pipeline is substantial and fresh commitments are sizeable. Expeditious utilisation of aid would minimise further recourse to external finance on costlier terms and thus slow down the increase in debt-service ratio. Reliance on non-resident deposits which has provided sizeable support in recent years, will continue, subject of course to the need to restrict inflow of funds primarily induced by arbitrage activity. External commercial borrowings provide flexibility in access to foreign savings. They however demand great care in their use so as to ensure their proper servicing. The debt servicing ratio has increased in recent years reaching around 20 per cent in 1986-87. It is desirable that India's current account deficit and its financing is so managed as to keep the debt service ratio within prudent limits. In view of the deteriorating international environment and its adverse impact on efforts to promote exports, continued vigilance of the balance of payments is necessary.

In the context of the large increase in reserve money and the developments in the real sector, the stance of monetary policy must be one of caution. The main elements of credit policy announced on the eve of the busy season in October 1987 were : (i) The cash reserve ratio (CRR) was raised from 9.5 per cent to 10.0 per cent of the net demand and time liabilities, effective from the fortnight beginning October 24, 1987, (ii) In the context of the adverse monsoons certain selective credit control measures had been announced in July/August 1987. The minimum margins for oilseeds and vegetable oils were raised across the board by 15 percentage points and the level of credit ceilings was reduced from 100 per cent to 85 per cent. Furthermore, cottonseed and cottonseed oil, paddy/rice and raw cotton and kapas, which had earlier been exempted, were brought back under the purview of selective credit controls. Taking into account more recent developments, effective October 19, 1987, the minimum margins were raised by 15 percentage points across the board in respect of paddy/rice, pulses and 'other foodgrains' (excluding wheat) and (iii) The monthly average level of export credit in 1984 was maintained as the basis for providing 100 per cent refinance. Accordingly

the export refinance limits remain higher by Rs 430 crores than if the base had been brought forward to the monthly average of export credit during 1986. The credit policy for the busy season of 1987-88 has thus sought to moderate the pace of monetary expansion while meeting fully the credit requirements of the various productive sectors. The policy also seeks to ensure that bank credit was not utilised for speculative activities in sensitive commodities. Given the expected increase in deposits, the banks will have adequate resources to provide for expansion of non-food credit in 1987-88 which would be larger in both absolute and percentage terms than in 1986-87.

Chapter II

National Income, Saving and Investment

On the basis of important broad economic indicators, the real growth in national income (at 1970-71 prices) during 1986-87 is estimated at 4.7 per cent as against 5.1 per cent in 1985-86. The relatively low growth rate in 1986-87 is attributable to a negligible growth in agricultural production and only a modest estimated increase of about 6.4 per cent in industrial production. The aggregate saving-income ratio is estimated to have gone up from 16.8 per cent in 1985-86 to 18.2 per cent in 1986-87 owing to a sharp rise in household sector's net saving in financial assets from 8.7 per cent of Net National Product (NNP) to 10.1 per cent of NNP during the period. Even though there is a spurt in the saving-income ratio by 1.4 percentage points, the investment-income ratio has gone up by 0.9 per cent from 19.3 per cent in 1985-86 to 20.2 per cent in 1986-87 owing to a sharp decline in the net inflow of foreign resources.

A. Trends in National Income

1. Estimates for 1985-86

According to the Quick Estimates of the Central Statistical Organisation (CSO), the real NNP at factor cost (at 1970-71 prices) is estimated to have increased by 5.1 per cent to Rs. 60,143 crores in 1985-86 as against the increase of 3.5 per cent during 1984-85. The per capita income in real terms increased by

Note : The estimates presented in this Chapter are based on data available upto August 5, 1987.

Table II–1 : Trends in Net National Product and Per Capita Income

Description	1982-83	1983-84	1984-85	1985-86	1986-87
1	2	3	4	5	6
1. Net National Product (Rupees Crores)					
At 1970-71 Prices	51,154	55,300	57,243	60,143	63,000
	(2.4)	*(8.1)*	*(3.5)*	*(5.1)*	*(4.7)*
At Current Prices	1,33,807	1,58,265	1,74,018	1,95,707	2,15,881
	(10.6)	*(18.3)*	*(10.0)*	*(12.5)*	*(10.3)*
2. Per Capita Income (Rupees)					
At 1970-71 Prices	722	764	775	798	819
	(0.3)	*(5.8)*	*(1.4)*	*(3.0)*	*(2.6)*
At Current Prices	1,887	2,186	2,355	2,596	2,807
	(8.4)	*(15.8)*	*(7.7)*	*(10.2)*	*(8.1)*
3. Net National Product at Current Market Prices (Rupees Crores)	1,52,982	1,79,622	1,97,515	2,24,234	2,48,502
	(11.0)	*(17.4)*	*(10.0)*	*(13.5)*	*(10.8)*

Sources and Notes: 1. Estimates upto 1984-85 are provisional and for 1985-86 are Quick Estimates by the Central Statistical Organisation, Government of India. Figures for 1986-87 are tentative estimates.

2. Figures in brackets are percentage changes over the previous year.

3.0 per cent to Rs. 798 in 1985-86 as against the increase of 1.4 per cent in 1984-85 (Table II-1). In nominal terms, NNP at factor cost increased by 12.5 per cent to Rs. 1,95,707 crores in 1985-86 as compared with the increase of 10.0 per cent in 1984-85. Per capita income in nominal terms correspondingly went up by 10.2 per cent to Rs. 2,596 in 1985-86, as compared with the increase of 7.7 per cent in 1984-85.

The improvement in NNP growth rate in 1985-86 is due to better performance of the agricultural sector. Income generated in this sector, at 1970-71 prices, increased by 1.1 per cent in 1985-86 as against a decline of 1.1 per cent during 1984-85. The share of the 'primary sector' in aggregate Net Domestic Product (NDP) at 1970-71 prices, however, declined from 39.1 per cent in 1984-85 to 37.7 per cent in 1985-86. The NDP originating in the 'secondary sector' showed a higher rise of 6.6 per cent in 1985-86 as compared with the increase of 5.4 per cent in 1984-85. This resulted in a slight increase in its share in aggregate NDP from 21.0 per cent in 1984-85 to 21.3 per cent in 1985-86. Industry-wise, income generated in 'manufacturing', 'electricity, gas and water supply' and 'construction' recorded increases of 6.9 per cent, 8.6 per cent and 4.8 per cent, respectively, in 1985-86. The 'services sector' which accounts for about 40.0 per cent of the NDP registered a growth of 7.8 per cent in 1985-86; this was only a shade higher than that of 7.6 per cent in 1984-85. Income generated in all the three segments of this sector recorded increases during the year : 'transport, communication and trade' recorded an increase of 6.1 per cent, 'finance and real estate' of 8.0 per cent and 'community and personal services' of 10.1 per cent.

2. Performance during 1986-87

Official estimates of national income for 1986-87 are not yet available. The growth in real national income during the year is, however, tentatively estimated at 4.7 per cent on the basis of available indicators about agricultural and industrial production. Provisional estimates for 1986-87 indicate a marginal fall in agricultural production and a near stagnancy in the growth rate of industrial production in 1986-87.

B. Aggregate Saving and Investment

Provisional estimates indicated a step-up in the rate of aggregate saving and investment during 1986-87. Net domestic saving as a proportion of NNP* (at current market prices) which had declined marginally from 16.9 per cent in 1984-85 to 16.8 per cent in 1985-86 is estimated to be 18.2 per cent in 1986-87. Aggregate net investment which had gone up from 18.4 per cent of NNP in 1984-85 to 19.3 per cent of NNP in 1985-86 is expected to go up to 20.2 per cent of NNP in 1986-87 despite a sharp fall in the net inflow of foreign resources from 2.5 per cent of NNP in 1985-86 to 2.0 per cent in 1986-87 (Table II-2).

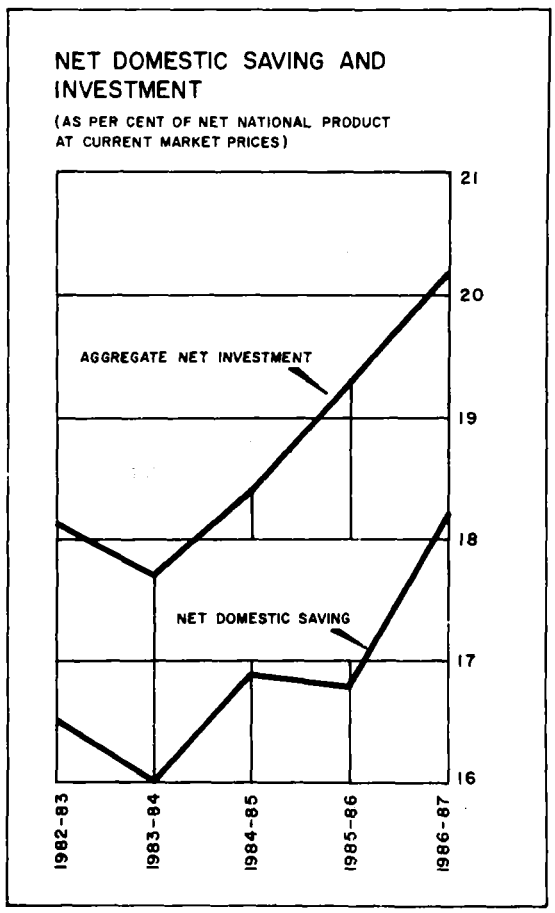
* Here and subsequently, unless otherwise indicated, saving and investment ratios have been worked out in relation to NNP at current market prices.

Table II-2 : Estimates of Net Domestic Saving and Investment As Percentage of Net National Product at Current Market Prices (Provisional)

Description	1984-85	1985-86	1986-87
1	2	3	4
1. Net Domestic Saving	16.9	16.8	18.2
2. Net Inflow of Foreign Resources	1.5	2.5	2.0
3. Aggregate Investment (1 + 2)	18.4	19.3	20.2

C. Trends in Domestic Saving

The aggregate net domestic saving is estimated to have increased significantly from Rs. 37,740 crores in 1985-86 to Rs. 45,161 crores in 1986-87, indicating a rise of Rs. 7,421 crores as against that of Rs. 4,307 crores in 1985-86. The saving-income ratio which had declined marginally from 16.9 per cent in 1984-85 to 16.8 per cent in 1985-86, is expected to increase to 18.2 per cent in 1986-87; the sharp rise in saving-income ratio is due to the increase in the saving of the households' sector.



Bulk of domestic saving continued to be generated, as in preceding years, by the household sector; its share in net domestic saving increased from 92.4 per cent in 1985-86 to 93.4 per cent in 1986-87. The net saving of the household sector increased substantially by Rs. 7,310 crores to Rs. 42,179 crores in 1986-87 as compared with the increase of Rs. 3,967 crores in 1985-86. In contrast, the net saving of public sector and domestic private corporate sector increased by Rs. 53 crores and Rs. 58 crores, respectively — almost insignificant. As a result, the share of public sector in net domestic saving declined from 4.5 per cent in 1985-86 to 3.8 per cent in 1986-87 and that of domestic private corporate sector from 3.1 per cent to 2.8 per cent, during the same period (Table II-3).

1. Saving of the Household Sector

The saving of the household sector (comprising individuals and non-government non-corporate enterprises) is in the form of (a) financial assets and (b) physical assets, the former being measured by addition to financial assets net of financial liabilities. The net saving of the household sector, as a proportion of NNP also went up to 17.0 per cent in 1986-87 as compared with 15.6 per cent in 1985-86 (Table II-4).

(a) Financial Assets

The households saving in financial assets (net of financial liabilities) recorded a substantial rise from Rs. 19,487 crores in 1985-86 to Rs. 25,132 crores in 1986-87 indicating an increase of 29.0 per cent over 1985-86. As a proportion of NNP, it showed an impressive rise from 8.7 per cent in 1985-86 to 10.1 per cent in 1986-87.

Financial assets (gross) of the household sector increased sharply by 22.8 per cent to Rs. 31,266 crores in 1986-87 as compared with

Table II-3 : Estimates of Net Domestic Saving : Sector-wise
(Provisional)

(Rupees crores at current prices)

Description	1984-85	1985-86	1986-87
1	2	3	4
1. Public Sector	1,657	1,687	1,740
	(5.0)	(4.5)	(3.8)
Per cent of Net National Product at Market Prices	*0.8*	*0.7*	*0.7*
2. Domestic Private Corporate Sector (including co-operatives)	874	1,184	1,242
	(2.6)	(3.1)	(2.8)
Per cent of Net National Product at Market Prices	*0.5*	*0.5*	*0.5*
3. Household Sector	30,902	34,869	42,179
	(92.4)	(92.4)	(93.4)
Per cent of Net National Product at Market Prices	*15.6*	*15.6*	*17.0*
4. Total Net Domestic Saving (1+2+3)	**33,433**	**37,740**	**45,161**
	(100.0)	**(100.0)**	**(100.0)**
Per cent of Net National Product at Market Prices	*16.9*	*16.8*	*18.2*

Note: According to the arrangement arrived at between CSO and RBI it has been decided that RBI will estimate the saving in the form of financial assets of the household sector and saving of the private corporate sector whereas CSO will provide public sector's saving estimates and saving in the form of physical assets of the household sector. In absence of data from the CSO for the year 1986-87, the saving in the form of physical assets of the household sector and saving of the public sector are estimated in the Bank.

Table: II-4 : Saving of the Household Sector
(Provisional)

(Rupees crores at current prices)

Description	1984-85	1985-86	1986-87
1	2	3	4
1. Financial Assets (gross)	23,975	25,471	31,266
Per cent of Net National Product at Market Prices	*12.1*	*11.4*	*12.6*
2. Physical Assets	12,401	15,382	17,047
Per cent of Net National Product at Market Prices	*6.3*	*6.9*	*6.9*
3. Financial Liabilities	5,474	5,984	6,134
Per cent of Net National Product at Market Prices	*2.8*	*2.7*	*2.5*
4. Total Net Saving (Net of Financial Liabilities) (1+2−3)	30,902	34,869	42,179
Per cent of Net National Product at Market Prices	*15.6*	*15.6*	*17.0*

the increase of 6.2 per cent in 1985-86. As a proportion of NNP, these assets showed an impressive rise from 11.4 per cent in 1985-86 to 12.6 per cent in 1986-87. The rise in financial assets was contributed mainly by increase in currency and bank deposits (Table II-5).

Table II—5 : Composition of Financial Saving of Household Sector (Gross) (Provisional)

(Rupees crores at current prices)

Assets	1984-85	1985-86	1986-87
1	2	3	4
Total Financial Assets	23,975	25,471	31,266
	(100.0)	*(100.0)*	*(100.0)*
Per cent of Net National Product at Market Prices	12.1	11.4	12.6
1. Currency	2,919	2,154	3,163
	(12.2)	*(8.5)*	*(10.1)*
Per cent of Net National Product at Market Prices	1.5	1.0	1.3
2. Deposits	11,001	11,663	14,598
	(45.9)	*(45.8)*	*(46.7)*
Per cent of Net National Product at Market Prices	5.6	5.2	5.9
3. Insurance	1,558	1,745	2,026
	(6.5)	*(6.8)*	*(6.5)*
Per cent of Net National Product at Market Prices	0.8	0.8	0.8
4. Provident/Pension Funds	3,698	4,213	4,703
	(15.4)	*(16.5)*	*(15.0)*
Per cent of Net National Product at Market Prices	1.9	1.9	1.9
5. Claims on Government	3,106	3,503	4,276
	(12.9)	*(13.8)*	*(13.7)*
Per cent of Net National Product at Market Prices	1.5	1.5	1.7
6. Investment in Shares/Debentures including Units of UTI	1,408	1,783	2,090
	(5.9)	*(7.0)*	*(6.7)*
Per cent of Net National Product at Market Prices	0.7	0.8	0.8
7. Trade Debt (Net)	285	410	410
	(1.2)	*(1.6)*	*(1.3)*
Per cent of Net National Product at Market Prices	0.1	0.2	0.2

Note : Figures in brackets are percentages to total.

(i) Currency

The addition to currency holding of the household sector which had declined from Rs. 2,919 crores in 1984-85 to Rs. 2,154 crores in 1985-86, however, increased to Rs. 3,163 crores in 1986-87. Its share in total financial assets which had declined from 12.2 per cent in 1984-85 to 8.5 per cent in 1985-86 increased to 10.1 per cent in 1986-87. As a proportion of NNP also, it went up to 1.3 per cent in 1986-87 as compared with 1.0 per cent in 1985-86; it was 1.5 per cent in 1984-85.

(ii) Deposits

This instrument includes household sector's deposits with commercial banks, co-operative banks and credit/non-credit societies and non-banking companies. The deposits accounted for 46.7 per cent of gross financial assets in 1986-87 and continued to be the single most important item of financial assets. The deposits showed an increase from Rs. 11,001 crores in 1984-85 to Rs. 11,663 crores in 1985-86 and increased further to Rs. 14,598 cores in 1986-87—an increase of Rs. 2,935 crores in 1986-87 compared with a rise of only Rs. 662 crores in 1985-86. As a proportion of NNP, it declined from 5.6 per cent in 1984-85 to 5.2 per cent in 1985-86 but rose to 5.9 per cent in 1986-87.

The sharp rise in deposits in 1986-87 was due mainly to the marked increase in the deposits held with the commercial banks. These deposits which had gone up modestly from Rs. 8,798 crores in 1984-85 to Rs. 9,334 crores in 1985-86, shot up to Rs. 12,321 crores in 1986-87. However, the accretion to deposits held with co-operative banks and credit/non-credit societies and non-banking companies did not show any improvement in 1986-87.

(iii) Social Security Funds

The financial saving through insurance and provident and pension funds which are contractual in nature, accounted for 21.5 per cent of total financial assets in 1986-87. The saving in these funds increased from Rs. 5,256 crores in 1984-85 to Rs. 5,958 crores in 1985-86 and further to Rs. 6,729 crores in 1986-87. However, as a proportion of NNP, it remained unchanged at 2.7 per cent in 1986-87 as in the past two years.

Accrual to saving in the form of insurance includes changes in life fund of the Life Insurance Corporation of India (LIC), postal insurance, state insurance fund and central government group insurance fund. Saving in this form is estimated at Rs. 2,026 crores during 1986-87 as against Rs. 1,745 crores in 1985-86 and Rs. 1,558 crores in 1984-85. The proportion of insurance to NNP also remained unchanged at 0.8 per cent during the past three years.

Accretions to provident and pension funds are estimated to have gone up from Rs. 3,698 crores in 1984-85 to Rs. 4,213 crores in 1985-86 and further to Rs. 4,703 crores in 1986-87. In terms of proportion to NNP, these accretions remained unchanged at 1.9 per cent in 1986-87 as in the past two years.

(iv) Claims on Government

Households' saving through investment in small saving instruments, government securities, Capital Investment Bonds, National Rural Development Bonds, deposits under National Deposit Scheme and Compulsory Deposit Scheme are included under this head. The saving in these instruments is estimated to have increased by Rs. 773 crores to Rs. 4,276 crores in 1986-87.

Bulk of the saving in these instruments continues to be in small saving instruments, which increased from Rs. 2,936 crores in 1984-85 to Rs. 3,318 crores in 1985-86 and further to

Rs. 4,575 crores in 1986-87. This is indicative of the increasing popularity of small saving instruments, especially the National Savings Certificate — VI and VII Issues and of late the Indira Vikas Patra. While the saving in Capital Investment Bonds declined from Rs. 11 crores in 1985-86 to Rs. 6 crores in 1986-87, the National Deposit Scheme fetched a smaller amount of Rs. 11 crores in 1986-87 as compared with Rs. 29 crores in 1985-86. The share of claims on government in total financial assets which had increased from 12.9 per cent in 1984-85 to 13.8 per cent in 1985-86 is estimated to have declined slightly to 13.7 per cent in 1986-87 due to substantial outgo on account of repayment of compulsory deposits. However, in relation to NNP, its proportion increased from 1.5 per cent in 1985-86 to 1.7 per cent in 1986-87.

(v) Investment in shares, debentures and units

This item includes household sector's investment in shares and debentures of joint stock companies (financial and non-financial), shares of co-operative banks and societies and bonds of public sector enterprises as well as units of Unit Trust of India (UTI). Saving through these instruments is estimated to have risen from Rs. 1,408 crores in 1984-85 to Rs. 1,783 crores in 1985-86 and further to Rs. 2,090 crores in 1986-87. However, its share in gross financial assets which increased from 5.9 per cent in 1984-85 to 7.0 per cent in 1985-86 is estimated to have declined to 6.7 per cent in 1986-87. In relation to NNP, its share remained unchanged at 0.8 per cent in 1986-87.

The decline in the share of these instruments in total financial assets is indicative of the sluggishness that prevailed in the stock market.

(vi) Trade Debt (net)

This represents credit extended by households to the private corporate sector. The net trade credit increased from Rs. 285 crores in 1984-85 to Rs. 410 crores in 1985-86 and is estimated at the same level in 1986-87. Its share in total financial assets declined from 1.6 per cent in 1985-86 to 1.3 per cent in 1986-87; it was 1.2 per cent in 1984-85.

(b) Saving in Physical Assets

Household sector's saving in the form of physical assets represents addition to construction, machinery and equipment and inventories. According to Quick Estimates of the CSO, saving in the form of these assets increased from Rs. 12,401 crores in 1984-85 to Rs. 15,382 crores in 1985-86. In relation to NNP, it went up from 6.3 per cent in 1984-85 to 6.9 per cent in 1985-86. The official estimates of saving in these assets for the year 1986-87 are not yet available. On the basis of certain indicators, the saving in these assets is estimated at Rs. 17,047 crores during 1986-87 which formed 6.9 per cent of NNP (Table II-4).

(c) Financial Liabilities

Financial liabilities of the household sector comprise borrowings from commercial banks, co-operative institutions, LIC, term lending institutions, central and state governments and others. Aggregate financial liabilities are estimated to have gone up nominally by Rs. 150 crores to Rs. 6,134 crores in 1986-87 as against an increase of Rs. 510 crores in 1985-86. In relation to NNP, it is estimated to have declined from 2.7 per cent in 1985-86 to 2.5 per cent in 1986-87; it was 2.8 per cent in 1984-85.

Borrowings from commercial banks as usual were predominant and their share in total financial liabilities increased to 70.2 per cent in 1986-87 from 69.6 per cent in 1985-86 and 68.1 per cent in 1984-85.

2. Saving of the Public Sector

According to the estimates of the CSO, net saving of the public sector is estimated to have gone up by only Rs. 30 crores to Rs. 1,687 crores in 1985-86. Even though saving of government non-departmental financial and non-financial undertakings is estimated to show a rise of Rs. 337 crores to Rs. 2,477 crores in 1985-86, the saving of the government administrative departments including departmental enterprises is estimated to have further deteriorated from Rs. (−)483 crores in 1984-85 to Rs. (−)790 crores in 1985-86. Similar estimates for 1986-87 are not available. However, on the basis of available indicators, the saving of the public sector is expected to be Rs. 1,740 crores in 1986-87 indicating a nominal rise over the previous year. While the saving of non-departmental enterprises is expected to show improvement, there are signs that the saving of administrative departments would deteriorate further in 1986-87. As a result, the share of public sector saving in aggregate net domestic saving is expected to decline from 4.5 per cent in 1985-86 to 3.8 per cent in 1986-87. However, as a proportion of NNP, it is estimated to remain at previous year's level of 0.7 per cent in 1986-87 (Table II−6).

Table II−6 : Saving of the Public Sector (Group-wise)

(Rupees crores at current prices)

Item	Financial Year		
	1984-85	1985-86	1986-87
1	2	3	4
1. Administrative Departments including Departmental Enterprises	− 483	−790	−1,130
2. Non-departmental Financial and Non-financial Undertakings	2,140	2,477	2,870
3. Total (1+2)	**1,657**	**1,687**	**1,740**
Per cent of Net National Product at Market Prices	*0.8*	*0.7*	*0.7*

Note : Details from C.S.O. for the year 1986-87 are not yet available and hence estimated.

3. Saving of the Domestic Private Corporate Sector

Net saving of the domestic private corporate sector (including co-operative institutions) which was estimated to have risen from Rs. 874 crores in 1984-85 to Rs. 1,184 crores in 1985-86 is estimated at Rs. 1,242 crores in 1986-87. This would indicate a modest rise of Rs. 58 crores in 1986-87 compared with the increase of Rs. 310 crores in 1985-86, mainly because of lower profitability of joint stock companies. As a result, its share in aggregate net domestic saving which had increased from 2.6 per cent in 1984-85 to 3.1 per cent in 1985-86 is estimated to have declined to 2.8 per cent in 1986-87. As a proportion of NNP, it has remained at 0.5 per cent during the past three years (Table II−3).

D. Trends in Domestic Investment

Aggregate net domestic investment — the sum total of aggregate net domestic saving and net inflow of foreign resources at current prices—increased by Rs. 6,861 crores to Rs. 50,256 crores in 1986-87; its proportion to NNP went up from 19.3 per cent in 1985-86 to 20.2 per cent in 1986-87. At 1970-71 prices, it increased from Rs. 10,353 crores in 1985-86 to Rs. 11,271 crores in 1986-87; its ratio to NNP at 1970-71 market prices rose from 15.4 per cent in 1985-86 to 15.9 per cent in 1986-87 (Table II−7).

Table II–7 : Net Investment as percentage of NNP (at 1970-71 prices)
(Tentative Estimates)

(Rupees crores)

Financial Year	Net Investment at Current Prices	Net Investment at 1970-71 Prices	NNP at 1970-71 Market Prices	Ratio of (3) to (4)
1	2	3	4	5
1984-85	36,402	9,508	63,398	15.0
1985-86	43,395	10,353	67,429	15.4
1986-87	50,256	11,271	70,863	15.9

The sector-wise details of investment are not yet available for the year under review. The accounts of the non-financial corporate sector are also not available on a firm basis from 1984-85 onwards. However, on the basis of available information, a brief account of the trend in investment activity in the public sector is presented below :

As per the CSO's estimate, the share of the public sector's investment in aggregate net investment declined from 55.3 per cent in 1984-85 to 51.9 per cent in 1985-86. As a proportion of NNP also, it declined from 10.8 per cent to 10.1 per cent during the same period. Due to non-availability of similar estimate for 1986-87, only trends in certain components for which

Table II–8 : Capital Formation through Central Government Budget
(at current prices)

(Rupees crores)

Description	1984-85+	1985-86+	1986-87*
1	2	3	4
1. Gross Direct Fixed Assets Formation	3,953	4,451	5,801
2. Increase in Inventories	171	106	104
3. Net Direct Fixed Assets Formation (i.e. gross direct fixed capital formation *minus* expenditure on renewals and replacements)	3,019	3,306	4,527
4. Financial Assistance for Capital Formation	13,428	16,919	18,533
a) To States, Union Territories	7,195	10,054	10,901
b) Non-departmental Commercial Undertakings	5,489	6,082	6,594
i) Financial Concerns	686	587	673
ii) Others	4,803	5,495	5,921
c) Other parties	744	783	1,038
5. Gross Capital Formation in Central Government's Non-departmental Industrial and Commercial Undertakings	10,255	10,551	N.A.
	(100.0)	*(100.0)*	
i) Gross Fixed Assets	7,952	8,413	N.A.
	(77.5)	*(79.7)*	
ii) Variation in Inventories	2,303	2,138	N.A.
	(22.5)	*(20.3)*	

\+ Accounts.
* Revised Estimates.

Sources: i) Economic and Functional classification of the Central Government Budget, 1987-88.
ii) Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government, 1985-86.

data are available are highlighted. The net direct fixed assets formation (i.e. gross direct fixed capital formation minus expenditure on renewals and replacements) of the central government, at current prices, is estimated to have increased markedly by 36.9 per cent in 1986-87 as compared with the increase of only 9.5 per cent in 1985-86 (Table II-8) due to a sharp increase in the outlay on 'building and other construction' as well as on 'machinery and equipment'; inventory accumulation showed a marginal decline during the year (Table II—9). The gross capital formation in central government administration and its departmental commercial undertakings as a proportion of GNP at current market prices, which had stagnated at 1.9 per cent in 1985-86 increased to 2.2 per cent in 1986-87.

Table II—9 : Capital Formation in Central Government Administration and Departmental Commercial Undertakings — Asset-wise (at current prices)

(Rupees crores)

Description	1984-85+	1985-86+	1986-87*
1	2	3	4
I. Gross Fixed Capital Formation	3,953	4,451	5,801
	(95.9)	*(97.7)*	*(98.2)*
1. Building and other construction	2,362	2,725	3,457
Proportion to 1 above	59.8	61.2	59.6
a) New outlay	1,892	2,034	2,677
b) Renewals and replacements	470	691	780
2. Machinery and Equipment	1,591	1,726	2,344
Proportion to 1 above	40.2	38.8	40.4
a) New outlay	1,127	1,272	1,850
b) Renewals and replacements	464	454	494
II. Increase in Inventories	171	106	104
	(4.1)	*(2.3)*	*(1.8)*
III. Gross Capital Formation (I + II)	4,124	4,557	5,905
IV. Gross Capital Formation as proportion of GNP at Market Prices.	1.9	1.9	2.2

\+ Accounts.

* Revised Estimates.

Note: Figures in brackets are percentages to Gross Capital Formation.

Source : Economic and Functional Classification of the Central Government Budget, 1987-88.

Estimates of capital formation of state governments, union territories, local authorities and their non-departmental commercial undertakings are not available. But, total financial assistance rendered by the central government to the rest of the economy showed an increase of only 9.5 per cent to Rs. 18,533 crores in 1986-87 as compared with the increase of 26.0 per cent in 1985-86. Assistance provided to state governments and union territories is expected to increase by only 8.4 per cent to Rs. 10,901 crores in 1986-87 as compared with the sharp increase of 39.7 per cent in 1985-86. Assistance to non-departmental commercial undertakings is expected to increase only by 8.4 per cent to Rs. 6,594 crores in 1986-87 as compared with an increase of 10.8 per cent in 1985-86.

Information regarding capital formation in central government's non-departmental industrial and commercial undertakings is available upto 1985-86 which shows that the gross fixed assets formation increased by 7.1 per cent to Rs. 8,413 crores in 1985-86. Inventory accumulation, however, declined by 7.2 per cent to Rs. 2,138 crores during the same period. This resulted in a modest rise of 2.9 per cent in gross capital formation in 1985-86.

Chapter III

Agricultural Output

The overall growth rate of agricultural production in 1986-87 is estimated to show a marginal decline as against a moderate rise of 1.9 per cent in 1985-86 and a fall of 0.9 per cent in 1984-85.

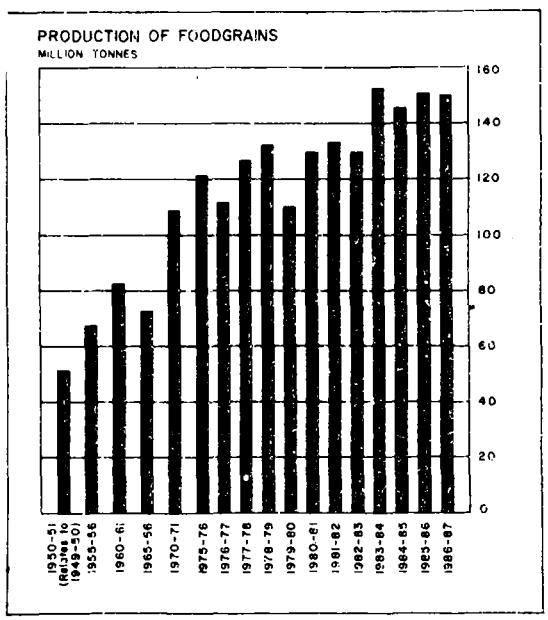
The monsoons continued to be erratic in 1986, the third year in succession. Of the 35 meteorological sub-divisions, rainfall during the year 1986 was deficient or scanty in as many as 14 sub-divisions as against 9 sub-divisions in the previous year and 8 sub-divisions in 1984.

The foodgrains production during 1986-87 is anticipated to be about 149.0-150.0 million tonnes as against 150.5 million tonnes in 1985-86, and lower than the target by 10.0 – 11.0 million tonnes. The target of foodgrains production for the year 1986-87 at 160.0 million tonnes comprised of 89.0 million tonnes for *kharif* and 71.0 million tonnes for *rabi*. *Kharif* production at 83.0 – 84.0 million tonnes in 1986-87 is expected to be lower than the target by 5.0-6.0 million tonnes and 2.0-3.0 million tonnes lower than the production in 1985-86. *Rabi* production in 1986-87 is expected to be 66.0 million tonnes which is higher than the production of 64.5 million tonnes in 1985-86 but may fall short of the target by 5.0 million tonnes. Rice production in 1986-87 is estimated to be lower at 60.0-60.5 million tonnes during 1986-87 as against the production of 64.1 million tonnes in 1985-86. On the other hand, wheat output at 48.0 million tonnes in 1986-87 is expected to be just close to the target of 49.0 million tonnes and higher than the production of 46.9 million tonnes achieved in 1985-86. Coarse grains production, which was severely affected by drought in 1985-86, is expected to improve from 26.5 million tonnes in 1985-86 to 28.0-28.5 million tonnes in 1986-87; even at this level, it would be short of the target of 32.0 million tonnes. The production target of pulses in 1986-87 was 14.0 million tonnes, but the actual production is anticipated to be 13.0 million tonnes, the same as in 1985-86.

Among non-foodgrain crops, production of cotton and raw jute (including mesta) is placed lower in 1986-87 than that in 1985-86. The production of cotton during 1986-87 is estimated by the Ministry of Agriculture at 71.8 lakh bales as against 86.1 lakh bales last season. Raw jute and mesta production is also placed lower at about 86.3 lakh bales as against the record production of 127.3 lakh bales in 1985-86. The lower raw jute and mesta production during 1986-87 was mainly due to the initiative taken by the West Bengal Government to bring down the area under raw jute cultivation. Despite lower production, total availability during the 1986-87 season of both, cotton and raw jute and mesta is anticipated to be comfortable due to large carry-over stocks from the previous season.

The oilseeds production in 1986-87 was estimated to be higher at 12.0-12.3 million tonnes than the production of 11.2 million tonnes in 1985-86, but still lower than the target of 14.8 million tonnes for 1986-87. Sugarcane production in 1986-87 is expected to be about at 175.5 million tonnes as compared with 171.7 million tonnes in 1985-86.

Despite continued indifferent monsoons the performance of agriculture can be characterised as modest partly due to the increase in consumption of inputs like fertilisers, HYV seeds, etc. The estimated consumption in 1986-87 was around 92 lakh tonnes as compared to 87 lakh tonnes in 1985-86. Quality seeds distributed also increased from 55.0 lakh quintals in 1985-86 to 55.8 lakh quintals in 1986-87. The production of breeder seeds and certified seeds is estimated to have gone up from 24 thousand quintals and 44.8 lakh quintals, in 1985-86 to 25 thousand quintals and 56.5 lakh quintals, respectively, in 1986-87.



Kharif foodgrains output in 1986-87 is estimated to be lower by 2.0-3.0 million tonnes at about 83.0-84.0 million tonnes than the 1985-86 *kharif* output; *rabi* output is expected to be higher by 1.5 million tonnes at 66.0 million tonnes.

PRODUCTION AND DISTRIBUTION

FOODGRAINS

The overall foodgrains production during 1986-87 is expected to be 149.0 - 150.0 million tonnes which is 10.0–11.0 million tonnes lower than the target of 160.0 million tonnes (Table III-1 & 2). Despite severe drought, worse than last year, the foodgrains production remained close to the last year's level of 150.5 million tonnes and lower than the peak level of 152.4 million tonnes reached in 1983-84. The strategy of enlarging the irrigation potential by two million hectares per year alongwith greater use of high yielding variety seeds and fertilisers have helped in maintaining the production and thus contributing to the resilience in the agricultural sector.

Availability of foodgrains

The net availability of foodgrains increased by 7.5 per cent from 124.4 million tonnes in 1985 to 133.7 million tonnes in 1986 due to an increase in gross output of foodgrains by 5.0 million tonnes to 150.5 million tonnes in 1986 and a decline in Government stocks by 2.0 million tonnes. As a result, per capita net availability of foodgrains also increased from 454.0 grammes per day in 1985 to 478.1 grammes per day in 1986 (Table III-3).

The Public Distribution System (PDS) plays an important role in ensuring the availability of essential commodities and is recognised to be an integral part of the Government's pricing strategy. It is also a vital component

Table III–1 : Agricultural Production

Commodities	Unit	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87		1987-88
								Target	Achieve-ment*	Target
1.	2	3	4	5	6	7	8	9	10	11
Rice	Million tonnes	53.6	53.2	47.1	60.1	58.3	64.1	65.0	60.0-60.5	64.0-65.0
Wheat	"	36.3	37.5	42.8	45.5	44.1	46.9	49.0	48.0	50.0-51.0
Coarse grains	"	29.1	31.1	27.8	33.9	31.2	26.5	32.0	28.0-28.5	32.0-32.5
Pulses	"	10.6	11.5	11.8	12.9	11.9	13.0	14.0	13.0	14.0-14.5
Total Foodgrains	"	**129.6**	**133.3**	**129.5**	**152.4**	**145.5**	**150.5**	**160.0**	**149.0-150.0**	**160.0-163.0**
Kharif Foodgrains	"	**77.7**	**79.4**	**69.9**	**89.2**	**84.5**	**86.0**	**89.0**	**83.0-84.0**	**89.4**
Rabi Foodgrains	"	**51.9**	**53.9**	**59.6**	**63.2**	**61.0**	**64.5**	**71.0**	**66.0**	**70.6-73.6**
Sugarcane (in terms of cane)	"	154.2	186.4	189.5	174.1	170.3	171.7	195.0	175.5	180.0-185.0
Cotton	Million bales of 170 kgs. each	7.0	7.9	7.5	6.4	8.5	8.6	8.8	7.2	8.8
Jute & Mesta	Million bales of 180 kgs each	8.2	8.4	7.2	7.7	7.8	12.7	8.5	8.6	8.6
Oilseeds	Million tonnes	9.4	12.1	10.0	12.7	12.9	11.2	14.8	12.0-12.3	14.15
Tea	Million kgs.	569.6	560.0	560.7	581.5	639.9	656.2	677.0	624.7	702.0
Coffee	"	118.6	150.0	130.0	105.0	195.8	122.0	154.0	185.0	162.0

* Anticipated

Source: (i) Ministry of Agriculture, Government of India.
(ii) Tea Board.
(iii) Coffee Board.

of the 20–point Programme. At present, seven key essential commodities viz., wheat, rice, sugar, imported edible oils, kerosene, soft coke and controlled cloth are distributed through Public Distribution System. The responsibility for supplying these seven key essential commodities is that of the Central Government. Several public sector agencies such as the Food Corporation of India, State Trading Corporation, Coal India, National Co-operative Consumers' Federation and the public sector oil companies assist in the supply of commodities at Central Zone price to the State Governments for distribution through the network of fair price shops. The State Governments in turn are empowered to include such other commodities as they consider important for public distribution. Some State Governments also supply other consumer items like pulses, matches, torch cells, salt, soaps, etc., to consumers through selected fair price shops. The number of fair price shops increased from 3.02 lakhs in March 1984 to 3.19 lakhs in March 1985 and further

Table III–2 : Targets and Actual Production of Foodgrains

(Million tonnes)

	Rice	Wheat	Coarse grains	Pulses	Total Foodgrains
1.	2	3	4	5	6
1981-82					
Target	58.0	38.0	30.0	12.5	138.5
Actual	53.2	37.5	31.1	11.5	133.3
1982-83					
Target	58.0	39.0	31.0	13.5	141.5
Actual	47.1	42.8	27.8	11.8	129.5
1983-84					
Target	57.0	41.0	31.0	13.0	142.0
Actual	60.1	45.5	33.9	12.9	152.4
1984-85					
Target	61.5	45.6	33.5	13.0	153.6
Actual	58.3	44.1	31.2	11.9	145.5
1985-86					
Target	63.5	49.2	33.0	13.5	159.2
Actual	64.1	46.9	26.5	13.0	150.5
1986-87					
Target	65.0	49.0	32.0	14.0	160.0
Achievement*	60.0–60.5	48.0	28.0–28.5	13.0	149.0–150.0
1987-88					
Target	64.0–65.0	50.0–51.0	32.0–32.5	14.0–14.5	160.0–163.0

* Anticipated

Source : Ministry of Agriculture, Government of India

to 3.31 lakhs as on September 30, 1986. The main thrust of the expansion continues to be in the rural areas. Special attention is given to the remote and inaccessible areas so that the Public Distribution System becomes complementary to the poverty alleviation programmes. Wherever it has not been feasible to establish fair price shops, special arrangements are made to supply essential commodities through mobile fair price shops. Special assistance is provided to North-Eastern States /Union Territories to enable them to supply additional levy sugar and iodised salt in small packs. Under the Seventh Five Year Plan, an outlay of Rs. 2.5 crores for Public Distribution System under the Central Sector Scheme has been approved by the Planning Commission and additional outlays of Rs. 41.21 crores and Rs. 2.80 crores have been provided for States and Union Territories, respectively, under their State Plans.

In calendar year 1986, a quantity of 14.7 million tonnes of foodgrains (8.4 million tonnes of rice, 6.0 million tonnes of wheat and 0.3 million tonnes of coarse grains) was distributed through the Public Distribution System (i.e., quantity distributed through fair price shops as also the issues under poverty alleviation programmes like NREP, RLEGP, etc.) as against 10.8 million tonnes (7.2 million tonnes of rice, 3.5 million tonnes of wheat and 0.1 million tonnes of coarse grains) in the calendar

Table III–3 : Availability of Foodgrains

(Million tonnes)

Year (January-December)	Gross Output	Net Output	Net imports	Change in Government Stocks	Net availability	Per capita net availability per day (in gms.)			Procurement	Public distribution+
						Cereals	Pulses	All Foodgrains		
1	2	3	4	5	6	7	8	9	10	11
1981	129.6	113.4	0.5	− 0.2	114.3	416.2	37.5	453.7	13.0	13.0
1982	133.3	116.6	1.6	+ 1.3	116.9	414.8	39.2	455.0	15.4	14.8
1983	129.5	113.3	4.1	+ 2.7	114.7	396.9	39.5	436.4	15.6	16.2
1984	152.4	133.3	2.4	+7.1	128.6	436.1	41.8	477.9	18.7	13.3
1985	145.5	127.3	−0.3	+2.6	124.4	415.9	38.1	454.0	20.1	16.4
1986	150.5	131.7	− 0.3	− 2.0	133.7	437.5	40.6	478.1	19.7	19.6
1987	149.0–151.0	—	—	—	—	—	—	—	—	—

Notes: 1) Output data relate to agricultural year (July-June).

2) Net output has been taken as 87.5 per cent of the gross output, 12.5 percent being provided for feed, seed requirements and wastages.

3) Net availability = Net production + Net imports − Change in Government stocks.

4) Figures in respect of change in stocks with traders and producers are not available. The estimates of net availability should not, therefore, be taken to be strictly equivalent to consumption.

\+ Includes quantities released under the FWP/NREP/RLEGP.

Source: Economic Survey, 1986-87.

Table III—4 : Total Distribution of Foodgrains (Central + State + NREP + RLEGP + EGS etc.)

(Lakh tonnes)

Year	Rice					Wheat							Coarse-grains PD	Total Food-grains
	PD	NREP	EGS	RLEGP	Total	PD	NREP	RLEGP	EGS	Mills	Open Sales*	Total		
1982	74.29	0.71	—	—	75.00	38.69	0.17	—	—	32.82	—	71.68	1.00	147.68
1983	77.75	0.76	0.02	—	78.53	49.58	1.15	—	0.53	29.95	—	81.21	2.32	162.06
1984	66.29	0.80	0.15	0.06	67.30	32.64	0.84	0.19	0.02	31.36	—	65.05	0.91	133.26
1985	71.24	0.91	—	0.16	72.31	32.36	1.92	0.53	—	49.96	6.40	91.17	0.91	164.39
1986@	81.66	1.71	—	0.56	83.93	43.72	12.69	3.33	0.17	24.37	24.93	109.21	3.00	196.14
January-June														
1986	36.02	0.56	—	0.14	36.72	21.29	9.57	1.87	—	18.73	9.72	61.18	1.78	99.68
1987	40.77	1.52	—	0.90	43.19	29.27	6.97	3.99	—	—	20.11	60.34	0.37	103.90

@ : Provisional

* : Food Corporation of India started open sale of wheat from Novemebr 15, 1985. These sales were, however, suspended during the period from April 1, to July 3, 1986.

PD : Public Distribution

NREP : National Rural Employment Programme

EGS : Employment Guarantee Scheme

RLEGP : Rural Landless Employment Guarantee Programme.

Mills : Roller Flour Mills.

Source : Ministry of Food and Civil Supplies, Government of India.

year 1985. These figures do not include supply of wheat to Roller Flour Mills and open sales of wheat made by the FCI (Total distribution of foodgrains including issues under NREP, RLEGP, Roller Flour Mills and open sale of wheat is given in Table III—4).

Procurement and buffer stocks

During the year, the Government continued to purchase foodgrains, conforming to the prescribed specifications, offered by the producers at the support price with a view to avoiding distress sales by the farmers and to ensure stability in farm prices. Accordingly, the public agencies were instructed to undertake extensive purchases of paddy and wheat all over the country at the support prices fixed by the Government. In addition to purchases from farmers, the public agencies mopped up a good part of the marketed surplus of rice by way of statutory levy on rice millers and traders at an appropriate percentage of production and stocks, taking into account the prevailing conditions in the States. The foodgrains procured by the Government agencies were utilised for (i) running the public distribution system, (ii) issue to the roller flour mills for conversion into wheat products, and (iii) building up of buffer stocks. The procurement of *kharif* coarse grains upto 1984-85 was left to the State Governments. From 1985-86 marketing season, National Agricultural Cooperative Marketing Federation (NAFED) has been designated as the nodal agency for procurement of coarse grains.

The policy of free movement of foodgrains throughout the country continued. There has been no restriction on the movement of levy-free rice and of wheat throughout the country on trade account. The ban on inter-state movement of paddy was removed except in the case of a few States which were allowed, at their request, to retain it under special circumstances. To ensure easy availability to consumers, all stocks limits on rice and wheat were removed. The State Governments/Union Territories were also advised to amend their Foodgrains Dealers' Licensing Orders to take wheat out of the list of commodities for which a trading licence was required.

The building up and maintenance of buffer stocks is an important feature of the national food policy primarily to ensure stability in supplies and prices over the year as also to meet contingencies arising from drought, floods, etc. As per decision taken by the Government in March 1984, the size of the buffer stock to be maintained with the public agencies in the country was fixed at 10 million tonnes, comprising 5 million tonnes each of wheat and rice. The buffer stock would be over and above the operational stock, which would range between the lowest level of 6.5 million tonnes on 1st April and the highest level of 11.4 million tonnes on the 1st July of the year. The norms for maintenance of operational stock on different dates are indicated below :

(Million tonnes)

Date	Buffer stock	Size of operational stocks			Total stocks
	Total	Wheat	Rice	Total	
April 1	10	2.1	4.4	6.5	16.5
July 1	10	8.4	3.0	11.4	21.4
October 1	10	6.3	1.5	7.8	17.8
January 1	10	4.2	5.9	10.1	20.1

The aggregate foodgrains stocks at end-June 1987 was 23.4 million tonnes, comprising of 14.9 million tonnes of wheat and 8.4 million tonnes of rice. The stocks of coarse grains were negligible. On the corresponding day of 1986 the stocks stood at 28.3 million tonnes, comprising of 9.3 million tonnes of rice, 18.9 million tonnes of wheat and 0.1 million tonnes of coarse grains. The decline in stocks this year was partly due to lower procurement and partly due to higher off-take of both wheat and rice.

Table III—5 : Basic Data Relating to Major Foodgrains

(Million tonnes)

Year	Production			Procurement			Imports			Public Distribution $			Year-end Stocks		
	Rice	Wheat	Coarse-grains	Rice	Wheat	Coarse-grains	Rice	Wheat	Corase-grains	Rice	Wheat	Coarse-grains	Rice	Wheat	Coarse-grains
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1981-82	53.2	37.5	31.1	7.3	7.7	0.2	—	2.2	—	7.5	7.2	0.1	5.3	7.2	0.2
1982-83	47.1	42.8	27.8	7.0	8.3	0.2	—	4.0	—	7.9	8.1	0.2	4.7	10.8	0.1
1983-84	60.1	45.5	33.9	7.7	9.3	—	0.6	2.1	—	6.7	6.6	0.1	7.7	14.7	0.1
1984-85	58.3	44.1	31.2	9.9	10.3	0.2	—	—	—	7.2	9.0	0.1	9.8	15.0	0.2
1985-86£	64.1	46.9	26.5	9.8	10.5	—	—	—	—	8.4	10.9	0.3	9.4	14.1	0.1
1986-87£	60.0—	48.0	28.0	9.1*	7.8*	—	—	—	—	4.3	6.0	—	8.4	14.9	—
	60.5		28.5	(9.6)	(10.4)	(0.1)				(3.7)	(6.1)	(0.2)	(9.3)	(18.9)	(0.1)

Notes : 1. Production figures relate to agricultural year (July-June)

2. Procurement figures are shown against the crop year but relate to the marketing season which is April-March for wheat and October-September for rice and coarse grains.

3. Public distribution and year-end stocks relate to calendar year.

4. Figures in brackets relate to corresponding period of the previous year.

$ Includes quantities released under the FWP/NREP/RLEGP as also for roller flour mills and open market sales of wheat.

£ Provisional.

* Upto end-June 1987.

Source : Economic Survey,1986-87. Ministry of Food and Civil Supplies, Government of India and Food Corporation of India.

Commodity-wise review

Rice

The main reasons for the lower rice production were the erratic behaviour of the monsoon in 1986, unprecedented floods in the Godavari Delta and an appreciable fall in the area under rice crop in Tamil Nadu due to the non-availability of irrigation in the Cauvery Delta. Rice production during 1986-87 was estimated at 60.0-60.5 million tonnes which was lower than the production of 64.1 million tonnes in 1985-86, and the target of 65.0 million tonnes in 1986-87.

A Special Rice Production Programme, launched during 1985-86 as a Centrally Sponsered Scheme, is under implementation in 430 selected blocks of Assam, Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal to bring about substantial improvement in production and productivity of the crop. This programme has started yielding results. Available data indicate that out of the 5.8 million tonnes of increase in the rice production during 1985-86, contribution by these six states was about 4.9 million tonnes.

On the recommendation of the Commission for Agricultural Costs and Prices (CACP), the Government enhanced the procurement prices of paddy for the 1986-87 *kharif* marketing season by Rs. 4 per quintal from Rs. 142 to Rs. 146 for common variety, Rs. 146 to Rs. 150 for fine variety and Rs. 150 to Rs. 154 for superfine variety (Table III-6). Accordingly, issue prices of common, fine and superfine varieties of rice were also raised by Rs. 8 each to Rs. 239, Rs. 251 and Rs. 266 per quintal, respectively, with effect from October 1, 1986 (Table III-7).

Table III—6 : Minimum Support/Procurement Prices (Marketing Season)*

(Rupees per quintal)

Commodities	1982-83		1983-84		1984-85		1985-86		1986-87		1987-88	
	Minimum Support Price	Procurement Price	Minimum Support Price	Procurement Price	Minimum Support Price	Procurement Price	Minimum Support Price	Procurement Price	Minimum Support Price	Procurement Price	Minimum Support Price	Procurement Price
1	2	3	4	5	6	7	8	9	10	11	12	13
Paddy-Common		122		132		137		142		146		
Fine		126		136		141		146		150		
Superfine		130		140		145		150		154		
Wheat		142		151		152		157		162		166
Jowar		118		124		130		130		132		
Bajra		118		124		130		130		132		
Maize		118		124		130		130		132		
Ragi		118		124		130		130		132		
Barley	N.A.		122		124		130		132		135	
Gram	N.A.		235		240		N.A.		260		280	
Moong	240		250		275		300		320		325	
Urad	230		245		275		300		320		325	
Tur	215		245		275		300		320		325	

* Marketing season relate to October — September for rice and coarse grains and April-March for wheat and pulses.

N.A. : Not Announced.

Source : Ministry of Agriculture, Government of India.

Table III—7 : Issue Prices of Foodgrains

(Rupees per quintal)

	w.e.f. 1.10.81	w.e.f. 1.10.82	w.e.f. 16.1.84	w.e.f. 10.10.85	w.e.f. 1.2.86	w.e.f. 1.10.86		
Rice								
Common	175	188	208	217	231	239		
Fine	187	200	220	229	243	251		
Superfine	202	215	235	244	258	266		
	w.e.f. 1.4.81	w.e.f. 1.8.82	w.e.f. 15.4.83	w.e.f. 10.8.84	w.e.f. 1.2.86	w.e.f. 1.4.86	w.e.f. 17.7.86	w.e.f. 1.5.87
Wheat								
Public Distribution System	145	160	172	172	190			195
Roller Flour Mills	155	185	208	172	190	220	205	210
	w.e.f. 1.1.81	w.e.f. 1.10.81	w.e.f. 29.12.83 (Bajra only)					
Coarse grains (Jowar, bajra, maize, ragi)	106	117	157					

w.e.f. : With effect from

Source : Ministry of Food and Civil Supplies, Government of India.

Procurement of rice during 1986-87 kharif marketing season so far (i.e., from October 1, 1986 to June 26, 1987) aggregated 9.1 million tonnes as against 9.6 million tonnes during the corresponding period of the previous season. The State-wise details of rice procurement are given in Table III-8.

Table III—8 : Procurement of Rice (Including paddy in terms of Rice)
(Marketing Season : October-September)

(Thousand tonnes)

States/Union Territories	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87*
1	2	3	4	5	6	7
Andhra Pradesh	1100	1629	1484	1789	1573	1438
Assam	44	23	11	20	28	13
Bihar	49	4	34	31	25	—
Gujarat	19	6	14	32	21	—
Haryana	883	706	624	978	1042	678
Jammu & Kashmir	53	36	43	55	39	25
Karnataka	163	110	145	101	82	107
Madhya Pradesh	368	182	312	361	571	473
Maharashtra	25	—	—	1	1	—
Orissa	130	63	117	112	136	111
Punjab	3110	3252	3273	4293	4177	4327
Rajasthan	35	34	45	46	32	20
Tamil Nadu	575	427	731	807	951	858
Uttar Pradesh	726	559	808	1121	1067	1002
West Bengal	45	14	80	97	69	46
Arunachal Pradesh	3	—	1	3	3	1
Chandigarh	—	1	5	5	7	7
Pondicherry	6	1	4	11	11	11
Total	**7334**	**7047**	**7731**	**9863**	**9835**	**9117**

* Upto end-June 1987.

Source : Ministry of Agriculture, Government of India.

Distribution of rice through the Public Distribution System (PDS) (including issues for National Rural Employment Programme and Rural Landless Employment Guarantee Programme and Employment Guarantee Scheme) during the calendar year 1986 aggregated 8.4 million tonnes as against 7.2 million tonnes in the previous year (Table III—4). In view of the adequate stocks of rice in the Cental Pool, additional allocations totalling 7.5 lakh tonnes of rice were made to the various States/Union Territories, over and above their normal monthly allocations, during the period June to December 1986 in order to increase availability through Public Distribution System. During the first six months of 1987 (i.e., January to June 1987), a quantity of 4.3 million tonnes of rice was distributed through PDS as against 3.7 million tonnes during the corresponding period of the last year (Table III-5).

There was no import of rice during the calender year 1986. However, a quantity of 10,000 tonnes of rice was received from Vietnam in repayment of earlier loan. Under the existing policy, export of *basmati* rice is allowed under Open General Licence, (OGL-3) subject to the prescribed minimum export price of Rs. 7,500 per tonne f.o.b. Export of non-*basmati* rice was also permitted with effect from February 18, 1986 within a limited ceiling on 'first come, first served' basis subject to the prescribed Minimum Export Price (MEP) of Rs. 4,000 per tonne f.o.b. This minimum export price stipulation was withdrawn subsequently in order to reduce the level of stocks and promote exports.

At end-June 1987, the stocks of rice with the Central and State Government agencies stood at 8.4 million tonnes, marginally lower than the stocks of 9.3 million tonnes a year ago.

Wheat

Wheat output during 1986-87 is estimated at 48.0 million tonnes, higher by about 1.1 million tonnes than the production of 46.9 million tonnes in 1985-86. The production target fixed for 1986-87 was 49.0 million tonnes.

The Commission for Agricultural Costs and Prices (CACP) had recommended Rs. 165 per quintal as the procurement price for wheat for the 1987-88 *rabi* marketing season. The Government, however, fixed the price at Rs. 166 per quintal (Table III-6).

In 1986, the issue price of wheat through Public Distribution System was raised from Rs. 172 to Rs. 190 per quintal with effect from February 1, 1986. The issue price for roller flour mills was also raised from Rs. 190 to Rs. 220 per quintal with effect from April 1, 1986 but reduced subsequently to Rs. 205 per quintal with effect from July 16, 1986 as these prices were above the ruling market prices of similar qualities of wheat. With effect from May 1, 1987, the Central issue price of wheat was raised by Rs. 5 to Rs. 195 per quintal (Table III—7). Similarly, the open sale price of wheat by the Food Corporation of India was also increased from Rs. 205 to Rs. 210 per quintal. Due to record production of wheat of 46.9 million tonnes in 1985-86, the procurement of wheat during 1986-87 *rabi* marketing season (April 1986 — March 1987) touched a new peak of 10.5 million tonnes which is higher by 1.9 per cent than the procurement of 10.3 million tonnes in 1985-86. In contrast, the procurement in the 1987-88 marketing season so far (i.e., from April 1, 1987 to June 30, 1987), was lower by about 25.0 per cent at 7.8 million tonnes as against 10.4 million tonnes in the corresponding period of 1986-87 (Table III-9). The lower procurement during the 1987-88 marketing season so far was due to damage to wheat crop by unseasonal rains in the wheat growing area of Punjab, Haryana and Uttar Pradesh during May 1987.

Table III—9 : Procurement of Wheat (Marketing Season — April - March)

(Thousand tonnes)

States/Union Territories	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88*
1	2	3	4	5	6	7	8
Bihar	13	16	21	43	4	—	—
Haryana	1121	1262	1399	1774	1959	2343	2220
Jammu & Kashmir	20	20	19	7	6	5	—
Madhya Pradesh	167	65	53	91	14	6	—
Punjab	3768	4826	5177	5012	6151	6477	4370
Rajasthan	10	135	178	218	37	103	62
Uttar Pradesh	1496	1380	1445	2152	2174	1598	1130
West Bengal	—	—	—	—	2	—	—
Delhi	—	14	—	3	—	—	—
Total	**6595**	**7718**	**8292**	**9300**	**10347**	**10532**	**7782**

* Upto end-June 1987

Source : Ministry of Food and Civil Supplies, Government of India.

During the calendar year 1986, the total off-take of wheat, (including open sales of wheat by the Food Corporation of India (FCI) aggregated 10.9 million tonnes, as against 9.1 million tonnes in 1985. The increase in offtake was noticed under the Public Distribution System, NREP/RLEGP and other programmes. Open market sales of wheat in 1986 aggregated 2.5 million tonnes as against 0.6 million tonnes in 1985. During the first six months of 1987 (January to June), the total off-take of wheat was 6.0 million tonnes, quite close to the off-take during the corresponding period of 1986 viz., 6.1 million tonnes. Details are given in Table III—4.

The Government of India had decided in August 1985 to allow the Food Corporation of India to sell wheat in the open market by auction/tenders. The auctions were replaced by open sale at fixed price with effect from November 13, 1985 which were discontinued subsequently from April 1, 1986. These sales were again revived on July 4, 1986. However, the Roller Flour Mills were allowed to purchase wheat from open market with effect from April 1, 1986. Further, with effect from October 1986, the Government stopped making any allotment of wheat to the Roller Flour Mills, and the RFM were required to purchase wheat in the open market. Therefore, the figures of off-take in Table III-4 are shown as 'nil'. Hence, the totals indicate a decline in off-take of wheat under the column 'Roller Flour Mills'.

In view of the large stocks of wheat with the Government which were above the norms suggested by the Buffer Stocking Policy of foodgrains, the Government initiated various measures to increase the off-take of wheat. Accordingly, (i) the allocation of wheat from the Central Pool for the Public Distribution System were made as per demands received from various State Governments/Union Territories, (ii) the State Governments were advised in November 1985 to permit the ration card holders to draw wheat from the fair price shops without any limit on quantity. This scheme, which was initially valid upto March 31, 1986 was extended further upto March 31, 1987,(iii) the wheat component in foodgrains allocation under NREP/RLEGP was fixed higher at 70 per cent as compared to 30 per cent for rice for the year 1986-87, and (iv) a quantity of 1.05 lakh tonnes of wheat has been set apart for additional support to Nutri-

tion Programme for young children, pregnant women and nursing mothers. Besides, these measures, the Food Corporation of India was allowed to sell wheat in the open market through auction/tenders.

Imports and Exports

There was no import of wheat during the calendar year 1986 due to easy availability of wheat in the country. On the other hand, export of wheat and wheat products like maida, suji and wholemeal atta were allowed by the Government. Details of export of wheat by the Food Corporation of India (FCI), State Trading Corporation (STC) and Minerals and Metals Trading Corporation (MMTC) are given below :

Exports of Wheat

(Lakh tonnes)

Destination	Basis of Supply	Quantity shipped/ transported during 1986
By FCI		
Vietnam	Commodity loan	0.26
Mauritius	Gift (Maida)	0.03
Nicargua	Gift	0.20
Nepal	Sale	0.05
African countries	Gift	0.14
By STC/MMTC		
DPR Korea	Sale	0.83
Jordan	Sale	0.54
Nepal	Sale	0.07
Total		**2.12**

Coarse grains

Despite unsatisfactory rainfall, coarse grains output is estimated to go up by 1.5 - 2.0 million tonnes to 28.0 - 28.5 million tonnes in 1986-87. This would, however, fall below the target of 32.0 million tonnes (Table III - 2). The procurement price of coarse grains for 1986-87 *kharif* marketing season was raised by Rs. 2 to Rs. 132 per quintal (Table III-6). Coarse grains procured during 1985-86 *kharif* marketing season were lower at about 0.10 million tonnes as against 0.21 million tonnes during 1984-85. Procurement during 1986-87 *kharif* marketing season so far (i.e., from October 1, 1986 to June 26, 1987) totalled only 16 thousand tonnes as against 96 thousand tonnes in the corresponding period of the preceding season. The off-take of coarse grains under the Public Distribution System (PDS) during 1986 was 0.30 million tonnes as compared with 0.09 million tonnes in 1985. During the first six months of 1987 (January-June 1987), coarse grains issued through PDS aggregated 0.04 million tonnes as against 0.18 million tonnes during the corresponding period of 1986. Coarse grains stocks with the Central and State government agencies as at end-June 1987 stood at 0.06 million tonnes as compared with 0.13 million tonnes as at end-June 1986.

Pulses

The production of pulses in 1986-87 at 13.0 million tonnes is the same as in 1985-86 but 1.0 million tonnes short of the target of 14.0 million tonnes (Table III-2). The target was not achieved due to adverse weather conditions.

High priority has been accorded to production of pulses by the Government. A new National Pulses Development Project was launched during 1986-87 to integrate the various on-going Centrally Sponsored Pulses Development Programmes, so as to propagate crop-specific and location specific technologies for achieving a sustained growth in pulses.

To augment the availability of pulses, the Government has allowed import of pulses. With effect from February 4, 1987, an import duty of 25 per cent ad-valorem was imposed on the import of pulses as an anti-dumping measure.

Cotton

The Ministry of Agriculture has estimated cotton production during the 1986-87 season at 71.8 lakh bales which is significantly lower than the targeted figure of 88.0 lakh bales and actual production of 86.1 lakh bales during 1985-86. The decline in production during the current season after two consecutive large crops is attributed mainly to lower price realisation which induced the farmer to reduce the acreage under the crop and drought conditions in some of the major cotton growing belts such as Maharashtra, Gujarat, Andhra Pradesh and Tamil Nadu.

According to the estimates of the Cotton Advisory Board (CAB), 1986-87 crop was lower at 95.0 lakh bales as against 107.0 lakh bales in 1985-86. The supply-demand position of cotton for the period 1981-82 to 1986-87 is indicated in Table III-10.

Table III—10 : Supply-Demand Position of Cotton — CAB's Estimates

(Lakh bales of 170 kgs. each)

Item	SEPTEMBER — AUGUST					
	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
1.	2	3	4	5	6	7
I. Supply	**100.85**	**110.16**	**110.57**	**118.50**	**135.83**	**134.50**
1. Opening Stock	16.35	27.16	25.41	16.00	28.83	39.50
2. Production	84.00	83.00	75.16	101.50	107.00	95.00
	(78.84)	(75.34)	(63.87)	(85.07)	(86.12)	(71.80)
3. Imports	0.50		—	1.00	—	—
II. Demand	**78.10**	**86.79**	**88.28**	**94.10**	**96.17**	**114.97**
1. Mill Consumption	70.35	75.00	80.06	86.50	86.57	95.00
2. Ex-factory Consumption	4.00	4.65	4.65	4.65	5.10	5.50
3. Exports	3.75	7.14	3.57	2.95	4.50	14.47
III. Closing Stock	**22.75**	**23.57**	**12.29**	**24.40**	**39.66**	**19.53**

Note: 1. Cotton Advisory Board's (CAB) data.
2. Figures in brackets represent estimates by the Ministry of Agriculture.
3. Figures showing opening stocks are different than that of the closing stocks of the preceding year as the opening stocks are compiled afresh every year.
4. Ex-factory consumption includes consumption by Ambar Charkha, Surgical Dressing Factories and Waste Spinning Units.

The 1986-87 season (September-August) commenced with a significantly high opening stock of 39.50 lakh bales. Taking into account the 1986-87 crop of 95.0 lakh bales, aggregate availability during 1986-87 was around 134.50 lakh bales. The total demand during 1986-87 is placed higher at 114.97 lakh bales as against 96.17 lakh bales in the preceding year due to larger demand for export of yarn and cloth. Mill consumption in 1986-87 is estimated to be at 95.0 lakh bales, which is higher than the previous season's consumption of 86.6 lakh bales. Extra-factory consumption (inclusive of consumption by waste spinning units) was placed at 5.50 lakh bales as against 5.10 lakh bales last season. Exports were placed significantly higher at 14.47 lakh bales (inclusive of the spill-over from the last season) as against 4.50 lakh bales in 1985-86. The closing stock at the end of the season was placed at 19.53 lakh bales as compared to 39.66 lakh bales at the end of the preceding season.

With a view to maintaining a degree of stability in cotton exports, the Government on October 24, 1986 announced a long term cotton export policy under which 6 lakh bales of cotton would be permitted for export each year for a period of three years beginning with the 1986-87 cotton season. The quality and quantity that will be allowed for exports would be as under:

Long and extra long staple cotton	5.0 lakh bales
Digvijay variety of cotton	0.5 lakh bales
Bengal Deshi	0.5 lakh bales

Export quota released by the Government was 5,32,357 bales. The quota was allocated to various agencies like Cotton Corporation of India (CCI), Maharashtra State Co-operative Cotton Growers' Marketing Federation (MSCCGMF) and to the private trade. Exports are permitted subject to the Minimum Export Prices (MEP) fixed by the Textile Commissioner from time to time. Initially, the MEP fixed for exports during 1986-87 ranged between 30 to 150 US cents per pound. These prices were subsequently revised upward to 52-165 US cents, following increase in cotton prices in the international and domestic markets.

The cotton price policy of the Government for the 1986-87 season continued to lay emphasis on the twin objectives of assuring remunerative prices to growers and supplies at reasonable prices to the textile industry.

The minimum support prices for the 1986-87 season for the two basic varieties i.e. F-414/H-777 in the medium staple group and H-4 in the long staple group were fixed higher at Rs. 440 and Rs. 550 per quintal respectively as against Rs. 430 and Rs. 540 per quintal respectively fixed for the previous season.

Role of Procurement Agencies

During the 1986-87 season, the Cotton Corporation of India (CCI) continued its purchase operations to (1) meet the requirements of the textile mills as also the private trade (on a commercial basis), (2) meet the demand of overseas buyers against the export quota allocated by the Government and (3) render price support to cotton growers. The CCI during the 1986-87 season so far (i.e., upto June, 1987) purchased 8.23 lakh bales as against 15.73 lakh bales purchased last season. The lower purchases this season may be attributed to lower production and higher prices in the market. The CCI does not make any purchases in Maharashtra. In this State, the State owned agency namely the Maharashtra State Co-operative Cotton Growers' Marketing Federation (MSCCGMF) undertakes cotton procurement operations under the Government's Monopoly Procurement Scheme. During the 1986-87 season (upto June 30, 1987) MSCCGMF purchased 12.12 lakh bales as against the record level of 29.57 lakh bales purchased last season.

Table III—11 : Purchases by the CCI and under the Maharashtra State Monopoly Procurement Scheme

(Lakh bales of 170 kgs. each)

Agency	September-August				
	1982-83	1983-84	1984-85	1985-86	1986-87
CCI	9.7	5.2	6.7	15.7	8.2* (15.2)
Maharashtra Monopoly Procurement Scheme	18.2	7.7	17.9	29.6	12.1* (27.6)

Figures for the corresponding period of the previous year are shown in brackets.

* Upto June 30, 1987.

The Government of Maharashtra, under the Monopoly Cotton Procurement Scheme, fixes every year guaranteed prices for various varieties payable to the farmers. These guaranteed prices used to be higher than the support prices fixed by the Central Government. The Central Government while permitting continuation of the state's scheme of procurement for three years from 1986-87 to 1988-89 however, laid down, that the guaranteed prices under the scheme should not be higher than the support prices. Accordingly MSCCGMF has in the 1986-87 season paid guaranteed prices which were equivalent to the support prices fixed for the 1986-87 season.

Production Strategy

The production target for cotton during 1986-87, the second year of the Seventh Plan was fixed at 88.0 lakh bales. To achieve the targeted production, the following strategy was adopted:

i) Accelerating the spread of improved technology in both the irrigated and rainfed areas with special emphasis on the use of pure seed, optimum agronomic practices, integrated pest management and bringing in more area under cotton in rice fallows.

ii) Expansion of irrigated areas by exploiting the potential under the command of major and minor irrigation projects to the fullest possible extent.

iii) Maximising the area under the high yielding hybrid varieties of cotton both in the irrigated and rainfed areas and also including the new desi cotton variety especially being developed for the rainfed areas. With a view to achieving the above objectives, a Centrally Sponsored Scheme for Intensive Cotton Development Programme (ICDP) with its different component schemes incorporating the above strategy, continued to be implemented in all the major cotton growing States. The total area covered (including irrigated and non-irrigated areas) under ICDP during 1986-87 season was placed at 26.46 lakh hectares (roughly 38.3 per cent of the total estimated area of 69.16 lakh hectares under cotton in the country). During 1986-87, an area of 21.7 lakh hectares was brought under improved varieties and 24.27 lakh hectares was treated with fertilisers. In addition, some of the States implemented their own Cotton Programmes/ Integrated Cotton Development Scheme to augment cotton production in the country.

Raw Jute & Mesta

According to the estimates of the Ministry of Agriculture, raw jute and mesta production during the 1986-87 season (July-June) is placed lower at 86.3 lakh bales as against the record production of 127.28 lakh bales in 1985-86. The lower raw jute and mesta production during 1986-87 season was mainly due to the initiative taken by the Government of West Bengal to bring down the acreage under raw jute and mesta cultivation. According to a tentative estimate made by the Directorate of Jute Development, the area under raw jute and mesta cultivation in West Bengal declined significantly to about 5.32 lakh hectares in 1986-87 as compared to 7.71 lakh hectares in 1985-86. The total area covered under this crop in 1986-87 is also placed much lower at 10.16 lakh hectares as against 14.96 lakh hectares in 1985-86.

The Jute Commissioner's estimates of raw jute and mesta output during 1986-87 were, however, much lower at 80.0 lakh bales as against 127.0 lakh bales in 1985-86. Taking into account estimates of the Jute Commissioner the supply position, despite lower crop in 1986-87 is expected to be comfortable due to large carry-forward stocks of around 46.8 lakh bales (the highest level so far). Thus the total availability during 1986-87 is placed at 126.8 lakh bales as against 134.5 lakh bales in the preceding season and 85.9 lakh bales in 1984-85 season. On the demand

side, mill consumption of raw jute and mesta is placed lower around 77.6 lakh bales, as against 82.7 lakh bales in the previous 1958-86 season. With village level consumption estimated at 4 lakh bales, (same as in the previous season) and export of 0.5 lakh bales (as against 1.0 lakh bales during the previous season 1985-86) total demand is expected to be around 82.1 lakh bales as against 87.7 lakh bales in 1985-86. The closing stock at the end of the 1986-87 season would thus be around 44.7 lakh bales (Table III-12).

Table III—12 : Supply-Demand Position of Raw Jute and Mesta

(Lakh bales of 180 kgs. each)

Item	JULY – JUNE					
	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
I. Supply						
1. Opening stock	32.00	27.00	10.00	9.50	7.50	46.80
2. Imports		0.42	1.50	3.00		
3. Crop	74.00	63.00	66.00	73.43	127.00	80.00
	(83.71)	(71.71)	(77.24)	(77.87)	(127.28)	(86.30)
Total Supply (1+2+3)	**106.00**	**90.42**	**77.50**	**85.93**	**134.50**	**126.80**
II. Demand						
1. Mill Consumption	73.00	75.50	64.00*	74.33	82.68	77.60
2. Exports	2.94				1.00	0.50
3. Other Domestic Consumption	3.06	4.73	4.00	4.00	4.00	4.00
Total Demand (1+2+3)	**79.00**	**80.23**	**68.00**	**78.33**	**87.68**	**82.10**
III. Closing Stock (I—II)	27.00	10.19 or 10.00	9.50	7.60 or 7.50	46.82 or 46.80	44.70

* :Mill consumption during 1983-84 was lower due to 84 days' strike in Jute industry from January 16, to April 8, 1984.

Note: Figures in brackets represent production data as given by the Ministry of Agriculture.

Source: Jute Commissioner's Office.

Raw jute (W-5 variety) prices in Calcutta ontinued to remain depressed during the entire 1986-87 season though they were officially quoted at the statutory minimum level of Rs. 308.50 per quintal (Ex-other States) throughout the season. In fact, during the peak arrival period (September-October 1986) the fibre was being sold at a discount in some upcountry markets. The subdued trend in raw jute prices during the season may be attributed to the relatively easy availability of the fibre and lower off-take by mills and trade.

On the recommendation of the Commission for Agricultural Cost and Prices (CACP) the Government has, for the 1987-88 season, enhanced the statutory minimum price of raw jute W-5 variety (Ex-Assam) by Rs. 15 to Rs. 240 per quintal from Rs. 225 per quintal fixed for the 1986-87 season. Based on this price, the Jute Commissioner, statutorily fixed prices for other grades/varieties in different states under the Jute (Licensing and Control) Order 1961. Accordingly, the statutory minimum price of raw jute (W-5 variety) in Calcutta for 1987-88 was fixed at Rs. 334.50 per quintal (Ex-other States).

During the 1986-87 season, the Jute Corporation of India (JCI) commenced procurement operations in full swing at the start of the season, with a view to preventing further deterioration in prices and has procured 22.22 lakh bales during 1986-87 under price support operations. During the 1985-86 season JCI purchases had peaked to an all time high of 28.15 lakh bales of which 1.34 lakh bales were under commercial and the balance under price support operations (Table III-13).

Table III—13 : Purchases of Raw Jute by the Jute Corporation of India

(Lakh bales of 180 kgs. each)

Item	JULY—JUNE				
	1982-83	1983-84	1984-85	1985-86	1986-87
Total Purchases	8.60	8.39	10.14	28.15	22.22
Price support operations	6.58	—	—	26.81	22.22
Commercial operations	2.02	8.39	10.14	1.34	—

Source: Jute Corporation of India

With a view to preventing a further drop in raw jute prices, the Jute Commissioner issued a directive on August 18, 1986 under the Jute (Licensing and Control) Order 1961 to all working jute mills in the country to step up their purchases and raise their inventory of raw jute to specified levels of consumption requirements in a phased manner. Under this directive, mills were asked to build up jute stocks in excess of six weeks' consumption by the end of September 1986 and 10 weeks' consumption by end-October 1986. Mills already holding stocks above these stipulated levels were not allowed to lower their stocks below 10 weeks' consumption requirement. Mill-wise performance against the above directive was monitored periodically and administrative steps were taken against defaulting mills. This directive was valid upto December 31, 1986.

Development strategy

The raw jute and mesta production target for 1986-87 was fixed at 85 lakh bales by the Ministry of Agriculture. To achieve this target, the Union Government supplemented the efforts of the State Governments through implementation of a Centrally Sponsored Scheme of Intensive Jute Development Programme (IJDP). The Programme which covered 554 thousand hectares in 27 jute and 11 mesta districts was spread over eight jute/mesta growing states, namely, West Bengal, Orissa, Bihar, Assam, Uttar Pradesh, Meghalaya, Tripura and Andhra Pradesh in a modified form. The target, however, was not fully achieved in all the states as the farmers were not enthusiastic about increasing jute/mesta production due to lower prices, following bumper crop in the previous year. About 22,201 quintals of improved certified jute seeds were distributed through National Seeds Corporation, State Seeds Corporation and departmental seed producing agencies which covered nearly about cent per cent of the programmed area. The coverage for both jute and mesta under developmental inputs were 64 thousand hectares under row cropping, 245 thousand hectares under nitrogenous fertilisers, 40 thousand hectares under foliar spraying of urea and 27 thousand hectares under plant protection.

For the IJDP programme, the Government of India made a budgetary provision of Rs. 166.86 lakhs to be shared on a 50:50 basis between the Centre and States. Under this programme there are provisions for subsidised distribution of seed-drills and wheel hoes, construction of retting tanks and demonstration etc. This scheme is monitored by the Directorate of Jute Development. Besides the Directorate also undertakes liaison work between the Centre and States in respect of project formulation, input supply, transfer of technology and removal of constraints in production as well as marketing.

As for 1987-88, the target for production of jute and mesta was 86.0 lakh bales. The year-wise target and actual production are given in the following table.

Production of Raw Jute and Mesta

(in Lakh bales of 180 kgs. each)

Year	Target	Production
1982-83	83.5	71.7
1983-84	83.5	77.2
1984-85	85.0	77.9
1985-86	86.0	127.3
1986-87	85.0	86.3
1987-88	86.0	

Source : Ministry of Agriculture.

To attain the target the Centrally Sponsored Scheme on Jute/Mesta/Sunhemp Development Programme in a modified form will be continued during the Seventh Plan. Salient features of the strategy that would be followed in the modified programme from 1987-88 onwards are as follows:

i) Ensuring timely availability of critical inputs and implements in adequate quantities.

ii) Providing technical know-how through a well managed extension service under the new system of agricultural extension service at the grass-root level.

iii) Co-ordinating the existing level of services namely, adoptive research, extension input, credit, training, etc., in general and in the selected districts in particular.

iv) Taking care of the location specific problems, such as correcting the acid-soil and increasing efficiency of fertiliser in such areas.

v) Organising large scale block demonstration of the latest research results.

vi) Creating additional retting facilities for improvement of fibre quality and strengthening the existing/newly proposed fungal culture laboratories to ensure large scale supply of fungal culture packets for improving quality of barky fibre.

vii) Organising Farmers' training programme on jute grading and helping them to receive better returns from better quality of fibre.

Oilseeds

Oilseeds production during 1986-87 season according to the estimates of Ministry of Agriculture is placed higher at 120-123 lakh tonnes as compared to the actual production of 112 lakh tonnes in the 1985-86 season. However, it is substantially lower than the target of 148 lakh tonnes fixed for 1986-87 and the earlier peak level output of 129 lakh tonnes achieved during 1984-85. The improved performance in 1986-87 may be attributed to the various oilseeds development projects initiated during the past few years. The data on production of oilseeds for the last five years are presented in Table III-14. Information for the year 1986-87 has yet to become available.

Table III—14 : Oilseed-wise output

(Lakh tonnes)

Item	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Target	**112.0**	**119.0**	**125.0**	**130.0**	**136.0**	**148.0**
Production	**121.94**	**99.95**	**126.92**	**129.46**	**111.54**	**120.00-123.00**
of which :						
Groundnut (in-shell)	72.23	52.82	70.85	64.36	55.47	
Rapeseed/Mustard	23.81	22.07	26.08	30.73	26.39	
Sesamum	5.90	5.52	5.59	5.20	4.96	
Safflowerseed	4.21	3.96	5.01	5.15	3.21	
Nigerseed	1.60	1.18	1.76	1.48	1.90	
Sunflowerseed	1.59	2.30	3.00	4.40	3.01	
Soyabean	4.67	4.91	6.14	9.55	9.82	
Linseed	4.83	3.75	4.44	3.89	3.73	
Castorseed	3.10	3.44	4.05	4.70	3.05	

Source : Ministry of Agriculture, Department of Agriculture & Co-operation, Government of India.

Support Prices

For providing incentives to oilseeds growers for increasing oilseeds output so as to reduce the country's dependence on edible oil imports, the Government announced a further increase in support prices of major oilseeds in 1986-87. The support price for the 1987-88 season for groundnut was increased by Rs. 20 to Rs. 390 per quintal and that of sunflowerseed was raised by Rs. 40 to Rs. 390 per quintal. For rapeseed/mustard and safflowerseed it was raised by Rs. 15 each to Rs. 415 per quintal. For soyabean (Black) it was raised by Rs. 5 to Rs. 260 per quintal and for soyabean (Yellow) it was raised by Rs. 10 to Rs. 300 per quintal. The support prices for 1987-88 and earlier years are indicated in Table III-15. The National Agricultural Co-operative Marketing Federation (NAFED) was designated as the agency for implementing the minimum support prices.

Imports of edible oils

Despite Government efforts to boost oilseeds production through various oilseeds development programmes, the present level of oilseeds production continues to be inadequate to meet the country's edible oil requirements. Consequently arrangements had to be made for import of edible oils and information about it is given in Table III-16.

Allocation of Imported Edible Oils to PDS and Vanaspati Industry

Imported edible oils are distributed through the Public Distribution System (PDS) and are supplied to the vanaspati manufacturers also. Vanaspati industry's requirements of imported edible oil are met in part at concessional rate and in part at commercial rate. In view of the heavy outgo of foreign exchange on imports of edible oils the allocation to the vanaspati industry was reduced during 1986-87 in the following manner. The supply at concessional rate of Rs. 11,500 per tonne fixed since July 1, 1986, was reduced from 60 per cent to 30 per cent with effect from November 1, 1986 and further to 10 per cent with effect from December 1, 1986. However, in view of the sharp increase in prices of edible oils the Government raised the allocation to 30 per cent for February 1987 and to 40 per cent for March 1987. For April 1987 this was again reduced to 30 per cent but was again raised to 50 per cent for May and June 1987. The allocation at commercial rate of Rs. 13,000 per tonne which was 10 per cent in July 1986 was raised to 20 per cent of the industry's requirement with effect from August 1, 1986 and further to 25 per cent with effect from November 1, 1986 but was discontinued from December 1, 1986. However, additional 10 per cent was allocated to vanaspati units located in Southern and Eastern zones during the period upto July 1986 and again from March 16, 1987 onwards at commercial rate. Details of allocation to the vanaspati units are indicated below:

Allocation of Imported Edible Oils to Vanaspati Industry

Period	Maximum limit of per cent usage of imported edible oils by vanaspati industry		
	Normal	Commercial	Total
1st July 1986 to 31 July 86	60%	10%	70% + 10% *
1st Aug. 86 to 31 Oct. 86	60%	20%	80%
1st Nov. 86 to 30 Nov. 86	30%	25%	55%
1st Dec. 86 to 31 Jan. 87	10%	—	10%
1st Feb. 87 to 28 Feb. 87	30%	—	30%
1st March 87 to 31 March 87	40%	—	40% + 10% *
1st April 87 to 30 April 87	30%	—	30% + 10% *
1st May 87 to 30 June 87	50%	—	50% + 10% *

* Additional allocation to Southern and Eastern zones at commercial rates.

Table III—15 : Support Prices for Oilseeds

(Rupees per quintal)

Oilseeds	1983-84	1984-85	1985-86	1986-87	1987-88
Groundnut (in-shell)	315	340	350	370	390
Soyabean (Black)	230	240	250	255	260
Soyabean (Yellow)	255	265	275	290	300
Sunflowerseed	275	325	335	350	390
Rapeseed / Mustard*	360	385	400	415	N.A.
Safflowerseed*	N.A.	N.A.	400	415	N.A.

* For rapeseed/mustard and safflowerseed the support price relates to the marketing season i.e. 1986-87 crop marketed in 1987-88 and so on.

N.A. :Not Announced.

Source : Ministry of Agriculture, Government of India.

Table III—16 : Imports of Edible Oils

Item	Quantity (Lakh tonnes)	Value(Rupees crores)
Oil Year (November-October)		
1981-82	9.95	449.69
1982-83	11.50	507.00
1983-84	16.34	1319.00
1984-85	13.68	1122.13
1985-86	11.79	488.95
1986-87 (Upto April 1987)	5.18	230.76
1985-86 (Upto April 1986)	3.66	174.86
Financial Year (April-March)		
1981-82	10.23	498.36
1982-83	9.80	418.00
1983-84	14.09	846.00
1984-85	15.85	1309.00
1985-86	10.80	769.00
1986-87	14.15	611.68

Source : Ministry of Food & Civil Supplies, Government of India.

As production of rapeseed/mustard had shown a substantial increase in the 1986-87 season the Government permitted the usage of 10 per cent expeller rapeseed/mustard oil in the manufacture of vanaspati with effect from March 16, 1987. It may be recalled that the use of expeller rapeseed/mustard oil in the manufacture of vanaspati had been banned since August 1, 1986. The limit was raised further to 20 per cent from April 1, 1987. However, use of this oil in vanaspati was banned again from May 15, 1987. The usage of solvent extracted rapeseed/mustard oil in the manufacture of vanaspati was also raised from 10 per cent permitted earlier to 20 per cent from October 1, 1986.

The allocation of imported edible oils to States is done by the Centre on a monthly basis taking into account the demand and supply position, including the requirement for festival season etc. As edible oil prices remained under pressure almost throughout

the year the supply of edible oils to the PDS was kept at a high level during November 1986 to June 1987. The allocation of imported edible oils to the vanaspati industry was, however, restricted in order to encourage the usage of minor oils and other surplus oils by the industry. Data on allocation of imported edible oils to the PDS and to the vanaspati industry during the last few years and in the current year so far are given in Table III-17.

Table III—17 : Allocation of Imported Edible Oils to PDS and Vanaspati Industry

(Lakh tonnes)

Oil Year (November-October)	Public Distribution System	Vanaspati Industry	Total
1984-85	7.27	7.68	14.95
1985-86	7.03	5.87	12.90
1986-87 (Upto May 1987)	3.16	2.13	5.29
1985-86 (Upto May 1986)	3.09	2.59	5.68

Source: Ministry of Food & Civil Supplies, Government of India.

In order to realise the potential of production of oil through non-traditional oilseeds, the concessions given in the 1986-87 Central budget were extended for 1987-88. Further, from 1987-88 the excise duty on vanaspati was made specific excise duty of Rs. 1900 per tonne as against 10 per cent ad valorem charged hitherto.

Under the 'Pulses, Edible Oilseeds and Edible Oils (Storage Control) Order 1977' the stock holding limits for pulses, edible oilseeds and edible oils have been specified. This order is amended from time to time whenever the situation demands changes. The order was amended on June 14, 1985 under which the stock holding limits were doubled to enable traders to hold more stock, which in turn would help farmers get remunerative prices and at the same time ensure availability to consumer at reasonable prices. However, in view of the rising trend in prices, the stock limit for edible oilseeds was brought down to the level that existed before the amendment was carried out in June 1985. The amendment was notified on September 30, 1986 to be made effective from October 10, 1986. The new stock holding limit for oilseeds was fixed at 1500 quintals for the wholesalers and 100 quintals for the retailers in category 'A' cities, 1000 quintals and 75 quintals, respectively, for category 'B' cities and 500 quintals and 50 quintals, respectively, for category 'C' cities.

Strategy and Measures

The total production of nine major oilseeds (groundnut, rapeseed/mustard, sesamum, soyabean, sunflower, safflower, nigerseed, linseed and castor) has stagnated around 10-13 million tonnes during the past five years which is inadequate to meet the country's edible oil requirements necessitating imports. In order to achieve a breakthrough in oilseeds production and to attain the target of 180 lakh tonnes fixed for the terminal year (1989-90) of the Seventh Plan, the Government initiated a number of oilseeds development projects. A Centrally Sponsored Scheme on oilseeds, which was taken up during the Sixth Plan period, was allowed to continue. In addition, the Government set up a Technology Mission on Oilseeds which worked out a strategy to raise oilseeds production and achieve self-sufficiency by the terminal year of Seventh Plan.

National Oilseeds Development Project (NODP)

The National Oilseeds Development Project (NODP) which was initiated during 1984-85

by reorienting and integrating the then existing Centrally Sponsored Schemes and two Special Projects, one on groundnut and other on soyabean,was further modified during 1986-87 taking into account the experience gained in the implementation of the project. The project comprised crop sub-projects to cover targeted area of 146 lakh hectares in 180 selected districts in 17 States.

Till 1985-86, the NODP provided to the States 100 per cent Central assistance as grant for various development components, such as subsidised distribution of quality seed, plant protection chemicals and equipments, improved farm implements, phosphatic fertiliser and gypsum for groundnut and soyabean, and sprinkler sets in rabi/summer groundnut areas. Subsidy was also provided for irrigation in groundnut and for ground and aerial spray to control diseases and pests. Assistance under the project was also provided for seeds production, field domonstrations, strengthening of microbiological laboratories for production of rhizobium culture, marketing operations and strengthening of organisational set up for implementation and monitoring of the Project. Provision was also made for free distribution of seed and fertiliser minikits. As against the target of 122 lakh hectares, the coverage during 1985-86 was 169.9 lakh hectares. A sum of Rs. 26.48 crores was released against the budgetary allocation of Rs. 33.84 crores. The number of seed minikits distributed exceeded 13 lakhs.

The experience gained in the implementation of NODP suggested that there was need for a comprehensive and intensive strategy for achieving self-sufficiency in edible oils during the Seventh Plan Period. Accordingly, the NODP was reoriented during 1986-87. Thrust was provided on intensification of efforts at the district level. To supplement the efforts of the States to achieve the targeted increase in oilseeds production the Government of India had issued administrative approval for continuation of the National Oilseeds Development Project during 1986-87 at a total cost of Rs. 30 crores. Of this, Rs. 17.5 crores was to be provided by the Government of India and Rs. 12.5 crores by the participating States to ensure the necessary input supply and other support services in the project areas. The Project comprises crop sub-projects to cover targeted area of 146 lakh hectares in 180 selected districts of 17 States. Except for the production of breeders and foundation seeds by the ICAR and marketing support where 100 per cent expenditure will be met by the Government of India, the expenditure on all other components was to be shared on 50:50 basis by Central and State Governments.

Oil Palm

During the year 1986-87, a Working Group on Oil Palm was set up in the Department of Agriculture and Co-operation to assess the potentialities of oil palm cultivation in India, to identify suitable areas in which oil palm cultivation could be introduced and to look into other aspects of development of oil palm cultivation in the country. In Kerala, plantation of oil palm has been taken up by Oil Palm India Ltd., which is a joint venture of the Government of India and State Government of Kerala with equity participation in the ratio of 49 : 51. The Company has taken up plantation at Yeroor, Chithara and Kulathupuzha in Kerala. The total area brought under Oil Palm cultivation is 3705 hectares. The Company has produced 975 tonnes of palm oil during the year 1985-86. It is expected that the production of crude palm oil will be 12,000 tonnes when the total planted area comes to full bearing. In Andaman & Nicobar Islands, an area of about 1493 hectares has been brought under oil palm cultivation by the Andaman & Nicobar Islands Plantation and Forest Development Corporation. It is proposed to develop cultivation of this crop in the other States as also to establish modern processing facilities.

National Dairy Development Board's Programme

To promote oilseeds production in an integrated manner, the National Dairy Development Board (NDDB) implements its project viz., 'Restructuring Edible Oils and Oilseeds Production and Marketing' in 7 States, (Gujarat, Andhra Pradesh, Maharashtra, Karnataka, Tamil Nadu, Madhya Pradesh and Orissa). Under this project, production, procurement, processing and marketing of oilseeds and vegetable oils are undertaken in co-ordination with oilseed growers' cooperative societies at the village level and the oilseeds growers' federation at the State level. The details of progress made by the Board so far upto June 30, 1987 are given in Table III-18.

Table III—18 : Progress of National Dairy Development Board Project

(Upto end — June 1987)

State	No. of Oilseeds Growers' Co-operative Societies at the village level		No. of Villages covered		No. of farmer members		Members' Oilseeds area		Procurement of oilseeds (in tonnes)	
	1985-86	1986-87	1985-86	1986-87	1985-86	1986-87	1985-86	1986-87	1985-86	1986-87
1. Gujarat	1,132	1,154	1,706	1,714	1,18,810	1,23,848	3,46,810	3,57,388	49,619	1,16,583
2. Maharashtra	111	142	742	1,106	24,774	34,687	41,139	53,207	4,181	8,598
3. Madhya Pradesh	560	716	5,372	6,747	72,451	88,233	2,64,144	2,96,753	1,34,017	1,44,458
4. Andhra Pradesh	188	227	811	930	25,740	30,100	68,325	68,325	5,399	3,923
5. Karnataka	65	161	351	914	6,787	26,928	8,144	59,468	3,351	10,247
6. Tamil Nadu	212	247	937	1,088	21,865	33,489	43,754	63,180	8,206	19,026
7. Orissa	166	212	1,450	1,817	15,199	20,592	16,163	21,619	4,412	8,775
Total	**2,434**	**2,859**	**11,369**	**14,376**	**2,85,626**	**3,57,877**	**7,88,479**	**9,19,940**	**2,09,185**	**3,11,610**

Source : National Dairy Development Board

The project is financed through the sale proceeds of edible oils received as a gift from the Co-operative League of the USA (CLUSA) and the Co-operative Union of Canada (CUC). The sale proceeds till June 30, 1987 amounted to Rs. 260.87 crores, out of which an amount of Rs. 161.06 crores was utilised/released for the co-operative project purpose.

Technology Mission on Oilseeds

Under instructions from the Prime Minister, a Technology Mission on Oilseeds has been set up in the country in April, 1986. The Mission has set the target of production at 18 million tonnes of oilseeds by the year 1989-90 and 26 million tonnes by the turn of the century from the current production level of around 12.0 - 12.3 million tonnes. The recovery level of oils has been targeted to reach a level of 5 million tonnes by 1989-90, and at 8 million tonnes by 2000 AD from the current level of 3.6 million tonnes. In order to achieve the targets, the Mission has worked out a four pronged strategy and has set up four micro-missions, each one responsible for a specified purpose, namely (i) crop technology, (ii) post harvest technology, (iii) farmer support services and (iv) price support, storage, processing and marketing. The activities specific to each micro-mission are briefly described below :

(i) Crop Technology

The Indian Council of Agricultural Research (ICAR) programme on oilseeds crop, coconut, oil palm has shown encouraging results. Promising varieties in terms of yield potential as well as disease resistant groundnut and

sunflower and suitable varieties of rapeseed/ mustard for late sowing have been identified, thus removing one of the bottle-necks for increasing area under this crop. Special thrust was accorded for evaluating the recently introduced Russian sunflower varieties. In oil palm, germplasm from Cameroon was received and tried which has shown 96 per cent germination. Besides, the scientists have indicated a number of plant production and protective technologies to be used by farmers.

(ii) Post Harvest/Processing Technology

In order to prevent oilseeds from deterioration after harvest,the evaluation of improved farm level storage methods and structures for oilseeds has been completed. Large scale application of disinfestation technologies developed by the Central Food Technological Research Institute,Mysore has been initiated. The Institute has also developed new technologies for processing mustard seed of better quality and high recovery of oil. Design and fabrication of a continuous stabiliser for a commercial stabilisation of rice-bran has been completed.

(iii) Farmer Support System

This envisages input services such as extension services and also supply of fertilisers to oilseeds growers who are generally small farmers and usually cultivate on marginal lands together with adequate and timely availability of credit from financial agencies. Training programmes for farmers/extension workers were organised. Literature on various oilseeds crops has been prepared and distributed by various State Governments.

The Directorate of Extension has started publishing a monthly newsletter on oilseeds to generate awareness among farmers and concerned agencies about the need for increasing oilseeds production in the country. During 1986-87 discussions were organised with Managing Directors of State Cooperative Banks of the major oilseeds growing States i.e. Gujarat, Uttar Pradesh, Madhya Pradesh, Maharashtra, Andhra Pradesh, Karnataka, Rajasthan, Tamil Nadu and Orissa for preparation of district credit plans for stepping up credit flow to the oilseeds sector in a systematic manner. The erstwhile programme of National Oilseeds Development has been brought under the Mission's ambit to enable it to take an integrated view of oilseeds production.

(iv) Price Support

This Mission deals with various aspects of price support, processing, storage and marketing. Support prices for groundnut, soyabean, sunflower, rapeseed/mustard and safflower seeds for the 1987-88 marketing season were announced well in advance to motivate oilseeds farmers to take up oilseeds cultivation.

Sugarcane

The Ministry of Agriculture has placed sugarcane production during 1986-87 at 175.5 million tonnes as compared to 171.7 million tonnes in 1985-86 but lower than the target of 195.0 million tonnes fixed for the season. The crop during 1986-87 season may turn out to be higher than the estimate as it was reported that the crop in most of the sugarcane growing States was reported to be progressing satisfactorily except in some areas of Gujarat, Tamil Nadu, Kerala, Orissa and Maharashtra due to drought conditions. Sugarcane productivity in 1986-87 is expected to increase significantly to 62-63 tonnes per hectare from 60 tonnes per hectare in 1985-86. The target of production in 1987-88 season is fixed at 180-185 lakh tonnes.

Some major initiatives were taken in the sugar/sugarcane policy announced on the eve of the marketing of 1985-86 crop. Taking into consideration the recommendations of the Commission for Agricultural Costs and Prices (CACP) and the views of the State Governments and representatives of the sugar industry and cane growers, the Government of India

increased the statutory minimum price of sugarcane payable by the sugar factories during the 1986-87 season from Rs. 16.50 (fixed for 1985-86) to Rs. 17.00 per quintal linked to a basic recovery of 8.5 per cent. The Government also announced in advance the statutory minimum price of sugarcane payable by sugar factories during the 1987-88 season at Rs. 18.00 per quintal linked to a basic recovery of 8.5 per cent. However, as in the earlier years State Government advised prices were higher than the statutory minimum prices. These prices ranged between Rs. 21.00 and Rs. 29.50 per quintal in 1986-87 as against Rs. 16.50 and Rs. 32.19 per quintal in 1985-86. Further, to enable sugar factories to sell larger quantities in the market, the levy/free-sale ratio was revised from 55:45 to 50:50. The increase in free-sale quotas was aimed at improving the viability of the sugar factories to offset partly the higher prices which the sugar factories were required to pay to the cane growers. As a result of these measures, the production of sugar is expected to increase substantially from 70.03 lakh tonnes in 1985-86 to about 85 lakh tonnes in 1986-87.

Tea

Production of tea during 1986 at 624.7 million kgs. was 52.3 million kgs. short of the target of 677 million kgs. set for year and 31.5 million kgs. or 4.8 per cent lower than the peak production of 656.2 million kgs. achieved during 1985. The decline in production is attributed to adverse weather conditions as also lower price realisation for teas grown on the plains during the latter part of 1985 and early 1986. Production of tea in North India as well as in South India suffered a setback, but the decline was sharp in North India. Production of tea in North India declined by 29.2 million kgs. or 5.7 per cent to 485.1 million kgs. in 1986, from 514.3 million kgs. in 1985. In South India, tea production at 139.5 million kgs. in 1986 was lower by only 2.4 million kgs. or 1.7 per cent than the production of 141.9 million kgs. in 1985.

Tea production in 1987 is expected to be higher because of favourable weather in North India at the beginning of the year. In the first six months of 1987 (January-June) North Indian tea production improved to 155.8 million kgs. as compared with 127.8 million kgs. during the corresponding period of 1986. Production in South India (till June 1987) was however, less at 67.5 million kgs. as compared to the production of 74.3 million kgs. in the corresponding period of 1986. The decline in production by about 6.8 million kgs. in South Indian tea was due to adverse weather conditions. Thus, during the first half of 1987 (upto June 1987), total production of tea at 223.3 million kgs. was higher by 21.2 million kgs. than the production of 202.1 million kgs. during the corresponding period of 1986.

After two exceptionally good years, tea exports suffered a setback in 1986-87. According to provisional data, exports of tea during the financial year 1986-87 were placed around 203.7 million kgs. as against 214.2 million kgs. in 1985-86. Earnings from tea exports during 1986-87 were lower at Rs. 619.23 crores as against Rs. 647.98 crores earned during 1985-86. The decline in exports during 1986-87 was mainly due to the lower production of orthodox tea (the variety primarily exported) as also severe price undercutting by Sri Lanka as well as financial difficulties faced by some traditional tea importing countries like Iran, Iraq and Bangladesh. Despite low prices prevailing in the international market, the unit value realisation of Indian tea increased nominally to Rs. 30.40 per kg. in 1986-87 from Rs. 30.25 per kg. in 1985-86.

The Tea (Marketing) Control Order of 1984 which stipulates routing of 75 per cent of all tea produced in the country through the public auction system continued to remain operative.

In a bid to boost exports in the wake of falling tea prices in the international market during 1986, the Government granted higher cash compensatory support (CCS) on packet tea as well as exemption of excise duty on packet tea exports.

Several measures -short and long-term - were envisaged in the Seventh Plan to increase production during the Plan period. Adoption of improved cultural practices,supply of better inputs, management, control of pests and diseases, creation of drainage and irrigation facilities etc., were some of the short-term measures. While rejuvenation, pruning and infilling were initiated as medium term measures, long term measures initiated included extension of tea areas of the existing estates, replanting, introduction of tea cultivation in non-traditional areas, etc. On the assumption that adoption of these measures, would result in increase in tea production and also taking into account the projected demand for tea at 760 million kgs. at the end of the Seventh Plan, annual target of production during 1986-87 was fixed at 677 million kgs. The Plan envisaged new planting on 4,400 hectares and replanting on 3,570 hectares during 1986-87. Besides, the Seventh Five Year Plan provided for rejuvenation and infilling on 14,450 hectares during 1986-87.

Coffee

Coffee production recovered substantially in 1986-87 to 185 thousand tonnes recording an increase of 63 thousand tonnes or 51.6 per cent over the previous season's output of 122 thousand tonnes, though lower than the peak level of 195.8 thousand tonnes achieved in 1984-85. Production during 1986-87 was however, higher than the target of 154 thousand tonnes. Production of both Arabica and Robusta varieties showed increases. Production of Robusta at 80 thousand tonnes showed a significant increase of 30 thousand tonnes or 60.0 per cent as against 50 thousand tonnes in the preceding season. Production of Arabica at 105 thousand tonnes showed an increase of 33 thousand tonnes or 45.8 per cent over the previous year's level of 72 thousand tonnes. According to the Coffee Board, coffee production during 1987-88 is expected to be 140 thousand tonnes.

On the demand side, it was expected that domestic consumption during the calendar year 1986 would be 54.4 thousand tonnes, as compared to 54.9 thousand tonnes during 1985. During 1986-87, export earnings from coffee are expected to be an all time high at around Rs. 351 crores, and also higher by Rs. 51 crores than the target of Rs. 300 crores set for the season. The higher export earnings may be attributed to the higher unit value realisation. Exports in terms of quantity during 1986-87 were placed at 82.8 thousand tonnes as against 99.3 thousand tonnes in 1985-86.

Following the buoyancy in international prices of coffee, Government with effect from January 31, 1986 raised the export duty on coffee to Rs. 600 per quintal from Rs. 300 per quintal fixed on August 2, 1985. This was raised again to Rs. 1,000 per quintal on October 21, 1986. However, following the decline in international coffee prices towards the end of 1986, the export duty on coffee was reduced to Rs. 600 per quintal with effect from January 16, 1987 and further to Rs. 330 per quintal on March 23, 1987. This has been brought down again to Rs. 170 per quintal with effect from May 19, 1987.

Tobacco

According to provisional estimates, the area and production of tobacco during 1986-87 was placed at 395.0 thousand hectares and 435.0 million kgs. respectively, as compared to 400.5 thousand hectares and 439.4 million kgs. respectively, in the preceding year indicating a drop of 1.4 per cent in area and 1.0 per cent in production (Table III-19). The decline in production during 1986-87 has been mainly in Gujarat and Uttar Pradesh and is attributed to fall in yield. Area under tobacco in Gujarat declined by 1.1 per cent while the production declined by as much as 7.6 per cent in 1986-87. In Uttar Pradesh the area declined by 2.1 per cent and production by 11.0 per cent. In West Bengal and Karnataka both the area under and production of tobacco recorded increases. In Andhra Pradesh, whereas area under tobacco declined by 2.9 per cent, production increased by 6.1 per

cent reflecting an improvement in yield. Performance of important tobacco growing States during the last three years upto 1986-87 is shown in Table III-19.

Table III – 19 : Area and Production of Tobacco in Important States

(Area 000' hectares)
(Production in Million kgs.)

States	1984-85		1985-86		1986-87*	
	Area	Production	Area	Production	Area	Production
Andhra Pradesh	177.9	170.6	149.4	141.4	145.0	150.0
Gujarat	108.4	173.5	106.2	167.8	105.0	155.0
Karnataka	48.9	31.2	46.8	30.5	48.0	35.0
Tamil Nadu	12.3	25.7	11.6	15.6	12.0	15.0
Uttar Pradesh	19.4	28.1	19.4	28.1	19.0	25.0
West Bengal	15.7	16.5	14.5	14.9	16.0	16.0
Others	54.0	40.3	52.6	41.1	50.0	39.0
Total	**436.6**	**485.9**	**400.5**	**439.4**	**395.0**	**435.0**

* Provisional

Available information for 1985-86 shows that the area under Virginia Flue Cured (VFC) tobacco showed a decline of 12.5 per cent to 116.5 thousand hectares from 133.1 thousand hectares in the previous year; production declined by 26.4 per cent to 81.0 million kgs. from 110.0 million kgs. in the previous year. The Tobacco Board has accorded registration to an area of 93.7 thousand hectares in Andhra Pradesh and 16.5 thousand hectares in Karnataka. Expected production of virginia leaf from these two States in 1986-87 is 108.2 million kgs.

According to Tobacco Board, total exports of tobacco and tobacco products during 1986-87 were higher at 75.0 million kgs. valued at Rs. 171.85 crores as against 74.9 million kgs. valued at Rs. 161.28 crores in 1985-86. Exports of manufactured tobacco during 1986-87 were, however, placed lower at 8.2 million kgs. valued at Rs. 26.98 crores as against 10.5 million kgs. valued at Rs. 21.30 crores in the previous year. The exports of unmanufactured tobacco during 1986-87 are provisionally estimated higher at 66.8 million kgs. valued at Rs. 144.87 crores as compared to 64.4 million kgs. valued at Rs. 139.98 crores during the preceding year. Significant increase in the exports of Indian leaf tobacco to Egypt and Yemen PDR helped to maintain the exports of unmanufactured tobacco at a level higher than the previous year, despite the reduction in exports to USSR to 25.0 million kgs. from 31.7 million kgs. in the previous year.

The National Co-operative Tobacco Growers Federation Limited (TOBACOFED) set up in 1983 is actively involved in purchase of tobacco. The TOBACOFED is also actively engaged in establishing internal markets as well as exploring export avenues. The TOBACOFED, since its inception, purchased a quantity of 10.2 million kgs. tobacco valued at Rs. 6.19 crores and has sold 6.4 million kgs. valued at Rs. 2.73 crores. The Federation has stopped fresh purchases as there were unsold stocks of 3.1 million kgs. with it. TOBACOFED is taking steps to liquidate the unsold stocks, promote co-operatives of non-virginia tobacco growers and explore markets for non-virginia tobacco within and outside the country. Following the decision of the TOBACOFED not to pruchase tobacco, the Gujarat State Co-operative Tobacco Growers' Federation Limited has decided to undertake purchase of tobacco from growers in Gujarat.

In all important tobacco producing areas the Agricultural Produce Market Committees exist and in most of the Market Committees tobacco is notified as one of the commodities coming under the purview of Agricultural Produce Markets Act. However, the Market Committees have not made much progress in organising marketing of tobacco on scientific lines. The Committees have been successful only in isolated markets where in fact the quantity of tobacco handled is small.

During the 1986-87 season, the tobacco growers in Andhra Pradesh faced problems in selling VFC tobacco at remunerative prices. The marketing of VFC tobacco in Andhra Pradesh commenced in February 1987. The auction sales (introduced in 1984-85) in a few platform situated particularly in the South had to be suspended often due to protest by growers against lower prices during 1986-87. As a result of sluggish conditions in the market it was decided that the Tobacco Board would enter the market and purchase tobacco at the minimum support prices. In addition, STC and Andhra Pradesh Tobacco Growers' Union have also been asked to enter the market and purchase VFC tobacco openly in the auction platforms at market prices. After this intervention the market situation improved and upto May 6, 1987 a total quantity of 54.5 million kgs. VFC tobacco was reported to have been sold at an average price of Rs. 9.85 per kg. as against Rs. 12.50 per kg. last year. The highest bid of Rs. 18.90 and Rs. 16.50 per kg. was recorded in auctions for virginia tobacco grown in light soil and black soil, respectively. In Karnataka, the auction sale of virginia tobacco commenced on September 11, 1986 and concluded on December 16, 1986. A total quantity of 16.2 million kgs. of VFC leaf was sold at an average price of Rs. 11.37 per kg. during 1986-87 as compared to Rs. 11.08 per kg. realised for 1985-86 crop. The maximum price realised for this year's crop at Rs. 28.50 per kg. compares favourably with Rs. 25.70 per kg. and Rs. 25.30 per kg. realised in the previous two years.

In order to meet the internal consumption requirements and export demand of tobacco there is need to increase the productivity of the desired variety of tobacco to meet international specifications. It has, therefore, been proposed to increase the productivity of tobacco by popularising a package of practices among the growers. The transfer of technology will be effected through Training and Visit (T & V) channels.

PRODUCTION STRATEGY AND RELATED DEVELOPMENTS

The success of Indian agriculture during the Sixth Five Year Plan provided a strong foundation to the launching of the Seventh Five Year Plan in 1985-86. The strategy for the Seventh Plan was, therefore, to take advantage of the strong base and strengthen it further for realisation of high growth. A key feature of the strategy was the extension of the Green Revolution to the Eastern Region and development of dryland areas for reducing regional imbalances which would make contribution to the programmes for eliminating poverty. The Plan laid stress on technological modernisation of agriculture, not only for increasing production but also for stepping up productivity so as to result in higher returns from agricultural opertions. Some of the major production oriented programmes initiated during 1986-87 were as follows:—

i) A National Programme of Rainfed Agriculture through watershed development was launched during the year 1986-87 in 16 major rainfed dryland farming States.

ii) Special Rice Production Programme was initiated by the Government last year in the Eastern Region for increasing production and productivity of rice. This programme continued during the year 1986-87.

iii) A National Pulses Development Programme with an outlay of Rs. 50 crores was initiated by the Government during 1986-87 to increase pulses production.

iv) A massive programme to assist the small and marginal farmers was continued during 1986-87 for developing minor irrigation, land shaping and supply of minikits to increase productivity and income of small and marginal farmers.

v) In order to ensure remunerative prices to the growers for their produce, the Government announced larger increases in support prices, particularly for pulses and oilseeds, during 1986-87.

vi) Thrust was laid on production of breeder seeds, foundation and certified seeds and their distribution to the farmers for meeting the unforeseen contigency arising out of the natural calamities at a short notice.

vii) An integrated pest management approach in paddy cultivation was stressed through field demonstrations organised during the year.

viii) A system of identifying Lead Fertiliser Suppliers at District and State levels introduced commencing with the 1986-87 *rabi* season, the main objective of this being to make a realistic assessment of fertiliser requirement in co-ordination with the State Governments' agencies to supplement the efforts of the extension machinery in fertiliser promotion in the selected districts by organising field demonstrations, training of farmers, etc.

ix) To ensure timely and adequate availability of fertilisers to the farmers in dry farming areas and newly irrigated areas specially in hilly backward, interior and inaccessible areas it was decided to open new sale points. The target fixed for 1986-87 was 18,000 new sale points.

x) Under the Centrally Sponsored Scheme for the Control and eradication of pests and diseases including weed control in endemic areas, Central assistance of Rs. 3.87 crores was provided to various States/Union Territories during 1986-87.

Special Rice Production Programme

One of the major development objectives of the Seventh Five Year Plan is to increase the productivity of rice, specially in the Eastern States. Based on the experience gained from the pilot project implemented in 51 selected blocks during 1984-85, a Special Rice Production Programme was launched in 417 selected blocks of Assam, Bihar, Eastern Uttar Pradesh, Eastern Madhya Pradesh, Orissa and West Bengal during 1985-86. During the year 1986-87, this programme was taken up in 430 selected blocks, of which 37 were in Assam, 118 in Bihar, 40 in Madhya Pradesh, 63 in Orissa, 102 in Uttar Pradesh and 70 in West Bengal. This programme laid emphasis on the spread of improved rice production technology through training of farmers and farm labourers including women as also on development of infrastructure facilities like improvement in irrigation, drainage, land development, opening of input sale centres, construction/renovation of input godowns, etc. To motivate farmers to take up improved rice production technology, use of necessary inputs in recommended doses with better management practices were emphasised, and several inputs like seeds, fertilisers, pesticides, improved bullock-drawn and hand operated farm implements, plant protection equipments, etc., were provided at subsidised rates. An outlay of Rs. 105 crores representing Central share had been approved under the Seventh Five Year Plan. An equal amount will be contributed by the States as their share. For the year 1986-87, the Central share was Rs. 24.11 crores. This programme has started yielding results. Out of the 5.8 million tonnes of additional rice production during 1985-86, about 4.9 million tonnes was contributed by the six Eastern States of Assam, Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal.

National Pulses Development Project

The National Pulses Development Project (NPDP) came into operation in 1986-87 as an off-shoot of the Centrally Sponsored Scheme

Table III—20 : Trends in Production, Export, Consumption etc., of Non-foodgrains Commodities

Year	Oilseeds		Tea (Million kgs.)		Coffee ('000 tonnes)			Sugarcane (million tonnes)		Tobacco (million kgs.)			
	Production (Million tonnes) (Nov.-Oct.)	Yield per hectare (Kgs.)	Production (Jan.-Dec.)	Exports (Apr.-Mar.)	Production (Oct.-Sep.)	Exports (Apr.-Mar)	Internal Consump-tion (Jan.-Dec.)	Production (Nov.-Oct.)	Yield per hectare (Kgs.)	Production	Exports (Apr-Mar)	Internal Consump-tion (Apr.-Mar)	
1	2	3	4	5	6	7	8	9	10	11	12	13	
1981-82	12.1	639	560.0	224.2	150.0	83.8	50.8	186.4	58359	520	116.9	384.1	
1982-83	10.0	563	560.7	194.1	130.0	83.8	54.0	189.5	56441	582	93.9	395.8	
1983-84	12.7	679	581.5	202.3	105.0*	71.2	56.1	174.1	55978	493	90.0	N.A.	
1984-85	12.9	660	639.9	217.4	195.8*	68.9**	53.5	170.3	57673	486	74.7	N.A.	
1985-86	11.2	591	656.2	214.2	122.0*	99.3**	54.9	171.7	59986	439	64.4	N.A.	
1986-87	12.0	—	624.7	203.7	185.0*	82.8**	54.4	175.5	62630**	395**	66.8	N.A.	
	12.3												

* Latest revised estimates

** Provisional

N.A. : Not Available.

Table III—21 : Some Key Indicators of Agricultural Inputs

Item	Unit	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87*
1	2	3	4	5	6	7	8	9
A. Seeds								
(i) Production of Breeder seeds	Thousand Qtls.	5.27	3.91	17.07	30.00	29.03	23.64	24.84
(ii) Production of certified seeds	Lakh Qtls.	21.86	24.18	36.61	41.26	49.97	44.84	56.51
(iii) Distribution of certified/ quality seeds	Lakh Qtls.	25.01	29.81	42.06	44.97	48.46	55.01	55.83
B. Fertiliser Consumption (NPK)								
(i) Total	Lakh tonnes	55.16	60.64	63.88	77.10	82.11	87.37	92.00
(ii) Per hectare	Kgs.	31.83	34.25	37.00	44.66	46.56	50.61	..
C. Area under high yielding varieties	Million ha.	43.07	46.49	47.48	53.74	54.14	55.42	54.04
D. Consumption of pestisides (Technical Grade Material)	Thousand Tonnes	45.00	47.00	50.00	55.00	56.00	52.00	72.00

* Anticipated Achievement

Source : Ministry of Agriculture, Government of India.

on Pulses launched in 1972-73. The basic objective of this project is to increase production of pulses through adoption of location specific technology. Main thrust was on the launching of crop and area specific programme for major pulses like gram, arhar, peas, lentil, moong and urad. Steps had been taken to provide better prices to farmers through market support operation with the help of NAFED. Similarly, milling facilities were also provided to the farmers by establishing *dal* processing mills with the financial support of NCDC through farmers' co-operatives. These steps are expected to minimise price fluctuations in the market. Farmers will have the advantage of selling processed *dal* instead of raw gram which will enable them to secure higher prices. This could eliminate middle-men to some extent. An amount of over Rs. 6 crores was sanctioned for this programme for 1986-87 as Central share. During 1986, more than 13 lakh hectares were covered under summer pulses principally in Uttar Pradesh, Bihar, Andhra Pradesh with a coverage of 6.73, 3.63 and 0.63 lakh hectares, respectively.

General Programmes :
High Yielding Varieties Programmes

A major component of the strategy for increasing agricultural production is the expansion of the area under High Yielding Varieties (HYV). In the year 1985-86, about 57.1 per cent of the total cropped area was under HYV as against 56.0 per cent in 1984-85. In 1985-86, area under HYV crop-wise was as indicated below : wheat 81.0 per cent, paddy 57.0 per cent, bajra 46.7 per cent, maize 30.5 per cent and jowar 38.6 per cent. The Government had set a target of covering 60.6 million hectares of the total cropped area under HYV during 1986-87, but the likely achievement is expected to be about 54.0 million hectares as against 55.4 million hectares in 1985-86 (Table III-22).

The HYV Programme is supported by the Central Sector Schemes comprising, i) Minikit Demonstration Programme for popularisation of newly released verieties suitable under different situations, (ii) Maize Demonstrations in Tribal/Backward areas to bring home to the scheduled caste/scheduled tribe farmers the efficacy of new technology in raising maize crop in increasing yield per unit area, (iii) State level training of extension workers to disseminate latest production technology and (iv) Replacement of rust susceptible wheat varieties in hill areas with rust resistant varieties.

Table III–22 : Crop-wise Coverage of Total Area And Area under High Yielding Varieties

(Million hectares)

Crop	1981-82		1982-83		1983-84		1984-85		1985-86		1986-87		
	Total cropped area	Area under HYV	Total cropped area	Area under HYV	Total cropped area	Area under HYV	Total cropped area	Area under HYV	Total cropped area	Area under HYV	Total cropped area	Area under HYV (Target)	Achievement*
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Paddy	40.7	19.7	38.3	18.9	41.2	21.7	41.2	22.8	40.9	23.3	..	25.8	23.5
Wheat	22.1	16.7	23.5	17.8	24.7	19.4	23.6	19.1	23.7	19.2	..	20.7	19.0
Jowar	16.6	3.9	16.4	4.4	16.4	5.3	15.4	5.1	15.8	6.1	..	5.8	4.9
Bajra	11.8	4.6	10.9	4.7	11.8	5.4	10.6	5.1	10.7	5.0	..	5.9	4.7
Maize	5.9	1.6	5.7	1.7	5.9	1.9	5.8	2.0	5.9	1.8	..	2.4	1.9
Total	**97.1**	**46.5**	**94.8**	**47.5**	**100.0**	**53.7**	**96.6**	**54.1**	**97.0**	**55.4**	**..**	**60.6**	**54.0**

* Anticipated

Source : Ministry of Agriculture, Government of India.

The Minikit Demonstration Programme envisages distribution of small quantities of seeds (0.5 to 5.0 kgs. depending upon crop and variety) to a large number of farmers free of cost to enable them to grow the new varieties in small areas and judge their performance themselves. The number of minikits for seeds in respect of different crops distributed during 1986-87 was 19.20 lakhs as against 16.67 lakhs during 1985-86.

To encourage the adoption of latest maize production technology by scheduled caste/ scheduled tribe farmers in the identified areas to bring about an increase in the productivity of maize and thereby improve their economic conditions the Maize Demonstration Scheme had been introduced in the backward/ tribal areas. Under this scheme, in 1985-86, 1,315 demonstrations were organised and the target fixed for 1986-87 was 3,400.

The programme of State level training courses in production technology of various crops was continued during 1986-87. During 1986-87, 53 training courses on millets and 20 courses on wheat were organised.

The Central Sector Scheme of replacement of rust susceptible wheat varieties in hill areas by rust resistant varieties was continued during 1986-87 for checking the spread of rust diseases in wheat. Under this scheme, 500 quintals of seeds of rust-resistant varieties of wheat were supplied to Uttar Pradesh, Himachal Pradesh, Jammu & Kashmir and Tamil Nadu for free distribution among the farmers in hill areas where wheat rust inocculum builds up in the off-season of summer and subsequently spreads to the plains in main crop season.

Seeds

Production of certified seeds during 1986-87 was estimated at 56.51 lakh quintals, an increase of 26.0 per cent over the production (44.84 lakh quintals) in 1985-86. Breeder seeds production during 1986-87 is expected to be around 0.25 lakh quintals as compared to 0.24 lakh quintals in 1985-86. During1986-87, 55.83 lakh quintals of certified/quality seeds were distributed in 1985-86 (Table III-21). The target for 1987-88 is 73.00 lakh quintals (provisional).

To ensure adequate availability of foundation seeds, breeder seeds are allocated to private seed producers for rapid multiplication of the breeder seeds to foundation seeds. The production of foundation seeds of cereals, pulses, oilseeds, fodder seed and fibre crops during 1986-87 is expected to be about 5.44 lakh quintals as against 3.36 lakh quintals during 1985-86. From 1978, the Government of India has been maintaining a buffer stock of seeds to meet contingencies such as floods and drought etc. This scheme is being implemented by the National Seeds Corporation (NSC) which maintains the reserve stocks of different varieties of seeds. About 3.00 lakh quintals of seeds were in reserve stocks during 1986-87 as compared to 2.65 lakh quintals during 1985-86. This scheme is being modified from the financial year 1987-88 to enable the State Governments (the State Seeds Corporations) to participate in the scheme on 50:50 basis. Under the revised scheme, the State Seeds Corporations would be allowed to maintain the buffer stock of seeds of only oilseeds, pulses and coarse grains. The NSC would, however, be permitted to maintain reserves for meeting the requirements of North-Eastern States for paddy in addition to oilseeds, pulses and coarse grains. Under Phase III of the National Seeds Programme which is expected to be implemented during 1987-88, infrastructural facilities for seeds production, processing, certification, quality control and distribution would be extended to State of Assam, West Bengal, Gujarat, Madhya Pradesh and North Eastern Region. As a general policy, exports of breeder and foundation seeds as also certified seeds of pulses and oilseeds are not permitted. About 70 to 80 per cent of the seeds supplied to the North Eastern States is for sowing in the *rabi* season. In view of the absence of air-conditioned storage/godowns in the region, and humid climate, the seeds for *rabi* sowing are supplied only after the monsoons. Since transportation is by road and the time between the end of monsoon and *rabi* sowings is short, the cost of transport is highly prohibitive. Therefore, a Central Sector Scheme of transportation subsidy on seeds to North Eastern States was introduced in 1986-87. Under this scheme, the difference in cost of transportation of seeds by rail and road is provided as a subsidy. In the case of Assam, the subsidy will be 50 per cent of the cost difference and in the case of remaining States in the North-Eastern region viz., Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal, the differential cost will be fully subsidised. A quantity of 80,000 quintals was planned to be transported during 1986-87.

Irrigation

During the Sixth Plan, 10.9 million hectares of additional irrigation potential was created, making the aggregate irrigation potential created by 1984-85 at 67.5 million hectares. Further, irrigation potential of the order of 2.2 m.ha was created during 1985-86; in 1986-87 about 2.3 million hectares is expected to be brought under irrigation raising the irrigation potential to 72.0 m. ha. (Table III-23). By the turn of the century it is expected that 113 million hectares would be brought under irrigation, of which 58 million hectares would be through the major and medium irrigation sources and the remaining under minor irrigation.

At the end of the Sixth Plan, the irrigation potential utilised was about 60.6 million hectares; this increased to 62.3 million hectares by March 1986. By March 1987, the utilisation was expected to be of the order of 64.1 million hectares. It is a cause of serious concern that large irrigation potential created remains unutilised. The problem is more severe in the case of major/medium schemes which involve storage and the utilisation of surface water whereas it is relatively less severe in the case of minor schemes which involve storage and utilisation of underground water resources. The unutilised potential of medium and major schemes at the end of the Sixth Plan was 4.7 m. ha. and that under minor schemes 2.3 m. ha. By 1986-87, the unutilised potential under major and medium schemes was 4.8 million ha. and that under minor schemes 3.2 m. ha. Data on irrigation potential created and its utilisation are shown in Table III-24.

Table III—23 : Development of Irrigation Potential

(Million hectares)

Item	As at the start of VI Plan (1979-80)	VI Plan (1980-85)			VII Plan (1985-90)	1985-86	1986-87	
		Target	Achieve-ment	Shortfall or excess	Target	Achieve-ment	Target	Achieve-ment*
1	2	3	4	5	6	7	8	9
I. Major & Medium	26.6	5.7	3.4	− 2.3	4.3	0.6	0.7	0.6
II. Minor (a+b)	30.0	8.0	7.5	− 0.5	8.6	1.6	1.7	1.7
(a) Surface	8.0	1.0	1.8	+ 0.8	1.5	0.3	0.3	..
(b) Ground Water	22.0	7.0	5.7	− 1.3	7.1	1.3	1.4	..
Total (I+II)	**56.6**	**13.7**	**10.9**	**− 2.8**	**12.9**	**2.2**	**2.4**	**2.3**

* Anticipated

Source : Ministry of Water Resources, Government of India.

Table III—24 : Development of Irrigation Potential and its Utilisation

(Cumulative Coverage)

(Million hectares)

Year	Major & MediumSchemes		Minor Schemes		All Schemes	
	Potential	Utilisation	Potential	Utilisation	Potential	Utilisation
1	2	3	4	5	6	7
1979-80	26.6	22.6	30.0	30.0	56.6	52.6
1980-81	27.3	22.7	31.4	31.4	58.7	54.1
1981-82	28.2	23.2	32.8	32.8	61.0	56.0
1982-83	29.1	24.0	34.2	34.2	63.3	58.1
1983-84	30.0	24.6	35.6	34.0	65.6	58.6
1984-85	30.0	25.3	37.5	35.2	67.5	60.6
1985-86*	30.6	25.8	39.2	36.4	69.7	62.3
1986-87+	31.3	26.4	40.9	37.7	72.2	64.1

* Anticipated

\+ Target

Source : Economic Survey, 1986-87.

The estimated Government outlay in the Seventh Plan on major and medium irrigation projects is Rs. 11,556 crores and on minor irrigation projects Rs. 2,805 crores. Institutional finance for minor projects is expected to be around Rs. 3,500 crores. Thus, the total outlay on irrigation project is placed at Rs. 17,861 crores. Against this, an expenditure of Rs. 2,894 crores was approved in 1985-86 and Rs. 3,351 crores in 1986-87 (Table III-25). In addition to the outlay on the creation of irrigation potential in the Seventh Plan,there would be an outlay of Rs. 1,671 crores in the Command Area Development.

The strategy which is being followed for the major and medium irrigation sector during the Seventh Plan is to lay emphasis on the provision of adequate funds for completion of projects which are in advanced stage of implementation and are capable of yielding full or partial benefits during the Seventh Plan period. The Minor Irrigation Programme

includes all schemes of ground water development and surface water (both flow and lift) which individually had a culturable command area upto 2,000 hectares through construction of new tubewells and boring and deepening of existing tubewells and also execution of surface water development schemes through diversion and storage. Considerable emphasis has been laid on minor irrigation schemes in Seventh Plan as these have relatively short gestation period and in addition to irrigation generate employment opportunities on sustainable basis. The target under minor irrigation schemes, for 1986-87, is fixed at 1.7 million hectares of which 1.4 million hectares will be from ground water and 0.3 million hectares from surface water.

Table III–25 : Financial Outlay (Major & Medium and Minor Irrigation)

(Rupees crores)

Item	1980-81	1981-82	1982-83	1983-84	1984-85	VII Plan (1985-90)	1985-86 (Approved)	1986-87 (Approved)
1	2	3	4	5	6	7	8	9
A. Major and Medium Irrigation	1211	1357	1510	1703	1833	11556	1847	2143
B. Minor Irrigation	598	564	604	715	804	6305	1047	1208
of which :								
(i) Governemnt Sector	299	301	328	389	424	2805	485	576
(ii) Institutional	299	263	276	326	380	3500	562	632
Total (A+B)	**1809**	**1921**	**2114**	**2418**	**2637**	**17861**	**2894**	**3351**

Source: Ministry of Water Resources, Government of India.

A Centrally Sponsored Scheme for strengthening the Ground Water and Surface Water (Minor Irrigation) organisations in the State/Union Territories has been in operation since 1976-77. Under this scheme, 50 per cent matching grant is provided by the Centre to the States/Union Territories for procurement of machinery and equipment for the development of ground water and surface water. This scheme would be continued during the Seventh Plan. However, besides matching assistance for procurement of machinery and equipment, assistance on a matching basis is being provided for establishment to the North-Eastern States. During 1985-86, an amount of Rs. 3.75 crores was released to the 12 States. During 1986-87, as against the anticipated Central Outlay of Rs. 4 crores, a sum of Rs. 3.07 crores was released upto February 1987.

Under another Centrally Sponsored Scheme, irrigation through the use of sprinkler/drip systems, hydrams, water turbines and man and animal operated pumps is being encouraged. This scheme has been in operation since 1982-83 and under the scheme 50 per cent matching assistance is given to State Governments/Union Territories by the Central Government in the form of subsidy to the farmers. The rates of subsidy are 25 per cent for small farmers, 33-1/3 per cent for marginal farmers and 50 per cent for scheduled castes and tribal farmers and for community schemes of small and marginal farmers. The scheme has been found to be particularly beneficial to farmers in terrains where the topography is steep, and the soils are light and have high permeability and limited water availability. Further, during Seventh Plan period subsidy will also be given to horticulture crops like grapes, papaya, banana, arecanut and coconut. During 1985-86, an amount of Rs. 25 lakhs was released to 3 States. In 1986-87, such releases made upto February 1987, amounted to Rs. 123.38 lakhs.

A pilot scheme for rectification of diesel pump sets to increase operational and fuel efficiency was launched in 1985-86 which will remain in operation till 1987-88. Central assistance to the extent of 100 per cent is being given under this scheme to the selected states where there is a concentration of diesel pump sets. During 1985-86, a sum of Rs. 5.50 lakhs was released to 7 States and during 1986-87 an amount of Rs. 8.40 lakhs has been released upto February 1987.

A Centrally Sponsored Scheme for assistance to small and marginal farmers for increasing agricultural production which was introduced during 1983-84 is being continued during the Seventh Plan period also. Under this scheme, a sum of Rs. 3.5 lakhs per block has been earmarked for minor irrigation works and subsidy is available on IRDP pattern for construction of tubewells and provision of irrigation pumpsets, etc.

Command Area Development Programme

The Centrally Sponsored Command Area Development (CAD) Programme was launched in 1974-75 with the objective of bridging the gap between creation and utilisation of irrigation potential and optimum agricultural production from irrigated land. The programme broadly covers on -farm development works like construction of field channels, land levelling, field drains, introduction of warabandi for rotational supply of water to ensure equitable and assured supply of irrigation water to each and every farm holding. It also includes arrangements for supply of inputs and credit, agricultural extension, construction of markets and godowns and development of groundwater for conjunctive use. The programme at present covers 132 selected major and medium irrigation projects with a total culturable command area of 17.3 million hectares in 18 States and 1 Union Territory.

The Seventh Plan allocation for the CAD Programme is Rs. 500 crores in the Central Sector. In 1985-86, as against a revised allocation of Rs. 82 crores, the actual expenditure was Rs. 69.81 crores. The outlay for 1986-87 under the Central sector is Rs. 93 crores which is expected to be utilised fully. For 1987-88, an outlay of Rs. 90 crores has been proposed (Table III-26).

During 1985-86, against a target for construction of field channels of 8.6 lakh hectares. the achievement was 6.8 lakh hectares. As for land levelling/shaping, against a target of 2.4 lakh hectares, the achievement was only 1.0 lakh hectares. As regards warabandi, against a target of 9.8 lakh hectares, the achievement was 7.1 lakh hectares. The decline in achievement in 1985-86 was due to resources constraint on the part of States and consequent inability to match Central grants.

During 1986-87, against a target of 13.2 lakh hectares for construction of field channels, the anticipated achievement was 6.9 lakh hectares. As regards land levelling/shaping, against a target of 2.3 lakh hectares, the anticipated achievement was 0.7 lakh hectares. As for warabandi, the anticipated achievement of 9.6 lakh hectares was far short of the target of 17.7 lakh hectares. For 1987-88, a target of 12.6 lakh hectares under construction of field channel, 1.5 lakh hectares under land levelling/shaping and 15.8 lakh hectares under warabandi was fixed (Table III-27). It is expected that the State Governments would achieve these targets.

Fertilisers and Manures

During 1986-87, fertiliser consumption was anticipated at about 9.2 million tonnes as against 8.7 million tonnes in 1985-86 (Table III-28). In order to achieve the Seventh Plan consumption target of 13.5-14.0 million tonnes,several steps were taken which included adequate availability of fertilizer at uniform price throughout the country from both indigenous producers as well as from imports, supply to

Table III–26 : Expenditure incurred under Command Area Development Programme

(Rupees crores)

Sector	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 (Approved Outlay)
1	2	3	4	5	6	7
Total	**115**	**139**	**209**	**215**	**295**	**307**
of which :						
Central Sector	36	45	73	69	82	93

Source : Ministry of Water Resources, Government of India.

Table III–27 : Achievements under Command Area Development Programme

(Lakh hectares)

Item	1981-82	1982-83	1983-84	1984-85	1985-86		1986-87		1987-88
					Target	Achievement	Target	Achievement*	Target
1	2	3	4	5	6	7	8	9	10
Construction of field channels	9.8	11.4	13.8	10.7	8.6	6.8	13.2	6.9	12.6
Land levelling/shaping	0.8	0.9	1.0	0.9	2.4	1.0	2.3	0.7	1.5
Warabandi	1.5	4.5	3.9	5.8	9.8	7.1	17.7	9.6	15.8

* Anticipated.

Source : Ministry of Water Resources, Government of India.

Table III–28 : Consumption of Fertilisers

(Lakh tonnes)

Year (April-March)	Nitrogenous (N)	Phosphatic (P_2O_5)	Potassic (K_2O)	**Total**
1	2	3	4	5
1980-81	36.8	12.1	6.2	**55.2**
1981-82	40.7	13.2	6.7	**60.6**
1982-83	42.2	14.4	7.3	**63.9**
1983-84	52.0	17.3	7.8	**77.1**
1984-85	54.9	18.9	8.3	**82.1**
1985-86*	58.2	20.7	8.5	**87.4**
1986-87@	60.2	22.3	9.5	**92.0**

* Provisional

@ Target

Source : Ministry of Agriculture, Government of India.

the farmers through a net work of retail outlets, various extension activities and establishment of a net work of soil testing laboratories in the country to advise the farmers about the balanced use of fertilisers for maximum returns.

The retail prices of both imported and indigenous fertilisers continued to be statutorily controlled under the provisions of the Fertiliser Control Order issued under the Essential Commodities Act, 1955. The prices were revised upward marginally with effect from January 31, 1986 so as to bring them with the level of July 1981 rates and also to reduce the burden on subsidy.

During the year 1985-86, short-term loans of about Rs. 260 crores at 6¼ per cent interest were made available to the States for the purchase and distribution of agricultural inputs like fertilisers, seeds and pesticides. For 1986-87, a provision of Rs. 260 crores was made, out of which Rs. 115.33 crores was released in the *kharif* season and the balance of Rs. 144.67 crores during *rabi* 1986-87.

As on March 31, 1986, there were 1.59 lakhs sale points in the country to distribute fertilisers. A target of 18,000 sale points has been fixed for the year 1986-87 to be opened in dry farming areas, newly irrigated areas as also in hilly, backward and inaccessible areas. Efforts to supplement the use of chemical fertilisers with organic manures continued during 1986-87. Production of rural and urban compost during 1985-86 was placed at 235 million tonnes and 6.7 million tonnes, respectively. The coverage of area under green manures was about 5 million hectares. Besides, about 36,000 hectares of the cultivable land had been put under sewage/sullage irrigation system.

Bio-fertilisers have been found to be cheap and renewable. The Rhizobium Culture and Blue Green Algae (BGA) have been found to be very effective in Indian conditions. Under the National Project on Development and Use of Bio-fertilisers, 40 Blue Green Algae sub-stations have been established so far for production of quality Algae culture through field multiplication programme. The production of BGA cultures was about 104 tonnes during 1985-86.

Plant Protection Measures

Integrated Pest Management Policy continued to be the cornerstone of plant protection efforts during the year. Nineteen Central Surveillance Stations and thirteen Central Plant Protection Stations located in different parts of the country, conducted surveys covering 6.50 lakh hectares for monitoring pests and diseases on economically important crops like paddy, wheat, oilseeds, pulses, sugarcane, cotton etc. for detecting build-up of pests and diseases in early state of their emergence. Field demonstrations at 30 locations were organised by the field units of Central Directorate of Plant Protection in order to popularise and propagate Integrated Pest Management approach in paddy cultivation among the farmers.

There are at present 26 Plant Quarantine and Fumigation Stations in the country for enforcement of Domestic Plant Quarantine Regulations. During 1986-87, these stations screened about 37,734 tonnes of rice, 1,11,636 bales of cotton, 4,12,785 tonnes of various plant materials and 16,05,888 live plants and issued 7,226 phytosanitary certificates. Further, 20 species of exotic/indigenous natural enemies of insect-pest and weeds were mass multiplied at 11 Central Biological Control Stations and one Parasite Multiplication Unit for large scale field releases. About 260 million predators and parasites were released for controlling identified pests in selective crops. During the year, about 1,500 tonnes of insecticides were imported to augment indigenous supply. The demand for insecticides in terms of technical grade material was projected by the Government at 72,000 tonnes for the year 1986-87.

Under the Centrally Sponsored Scheme for Control and Eradication of Pests and Diseases of Agricultural Importance including Weed Control in Endemic Areas, Central assistance amounting to Rs. 387.03 lakhs was extended to various States/Union Territories during 1986-87 to cover an area of about 57.59 lakh acres.

An Expert Group was constituted to go into the issue of continued use of insecticides which have been banned or restricted for use in Western Countries.

Agricultural Implements and Machinery

During 1986-87, about 78,000 tractors, 4,000 power tillers, 350 crawler tractors and 200 combine harvesters were planned to be sold mainly in the States of Punjab and Haryana, Uttar Pradesh, Maharashtra, Madhya Pradesh and Gujarat. A noteworthy feature of the tractor sale during the year was a shift towards low horse-power tractors, particularly below 25 P.T.O.-H.P. largely due to the exemption of tractors in this range from central excise effected in April 1985. The Agricultural Implements and Machinery Review and Release Committee which was set up in 1983, to identify, review and thereafter suggest improved agricultural implements and machinery, released three implements for adoption and recommended six implements for further field trials. Till December 1986, 15 new standards were released, and 5 more standards were expected to be released by the Indian Standards Institute in the remaining part of 1986-87. In order to help the State Governments to establish farmers' agro-service centres and to popularise the bullock-drawn implements and hand tools, a Centrally Sponsored Scheme is being implemented and an outlay of Rs. 6.82 crores has been fixed for this scheme for the Seventh Plan. During the year 1986-87, an amount of Rs. 69.41 lakhs was released to the States.

Agro-Industries Corporation

With the setting-up of Agro-Industries Corporation in Pondicherry in 1986, the total number of Agro-Industries Corporations in the country rose to 19. The business turnover of these Corporations was estimated to be about Rs. 675 crores in 1986-87 as compared with Rs. 650 crores in 1985-86. The Corporations of Gujarat, Maharashtra, Madhya Pradesh and Punjab had improved their annual turnover appreciably besides taking up the manufacture and distribution of improved implements and hand tools.

Agricultural Extension

Concomitant with increased productivity is the important role of agricultural extension which is strengthened by technical support and co-ordination at various levels of implementation, and by providing direction to the farmers engaged in production. Of the 17 major states, where reformed extension under the Training and Visit (T & V) System had been in operation, 10 had completed their project period of five years. To consolidate their experiences and achievements in the first phase of these projects, a National Agricultural Extension Project (NAEP) is now under operation in three separate parts. During 1986-87, the Central and Centrally Sponsored Programmes of the Field Extension Unit gained momentum taking care of additional technical manpower requirement for overseeing the progress of implementation of T & V Projects in the State. The Directorate of Extension continued to guide the State Departments of Agriculture in planning, co-ordinating, implementing and evaluating the training programmes for extension personnel, farmers, farm women and farm youth to improve the knowledge and skill leading to improved performance.

The Directorate continued to provide information support to the various agricultural programmes of the Government by incorporating the latest developments in agriculture

and related fields in the multi-media material produced by it for the use of extension agencies. The Directorate brings out monthly journals, leaflets, farm bulletins, newsletters, etc., in simple language for the benefit of the farmers, extension workers and students of agriculture. The Directorate, in collaboration with the Ministry of Information & Broadcasting, produced short agricultural, instructional and research films and prints in different regional languages and distributed to all the concerned States and Extension Education Institutes for screening in the rural areas. To strengthen the information service activities at the Central level and to provide information support to T & V system and information material to the mass media and other publicity agencies, a project entitled "National Agricultural Communication Project" had been approved. This is a special sub-project under the International Development Association (IDA) assisted National Agricultural Extension Project with a provision of Rs. 7.87 lakhs for 1986-87. The Directorate organised exhibitions and fairs in different parts of the country. It also participated in the national and international fairs for highlighting the progress made by the country in the field of agriculture as also the potential which some of the agricultural commodities have for exports.

Soil and Water Conservation Programmes

Soil and Water Conservation Programmes which were initiated in the First Five Year Plan had been modified over the successive Plan periods. Till the end of the Sixth Plan period, an area of 29.38 million hectares had been treated with various soil and water conservation measures at a cost of Rs. 1,212.30 crores. The programme of 1986-87 envisaged a target of 0.74 million hectares with an outlay of Rs. 161 crores. The above programmes were drawn against the Seventh Plan target of 6.75 million hectares and allocation of Rs. 826.27 crores.

The Centrally Sponsored Scheme of Soil and Water Conservation is in operation in 27 River Valley Project catchment areas covering 17 States. At present, works are being continued in 602 priority watersheds. The pattern of funding is 100 per cent Central assistance comprising 50 per cent grant and 50 per cent loans/advances to States. The Damodar Valley Corporation authorities, however, provide 50 per cent matching contribution out of its own resources. Till the end of the Sixth Plan, an area of 1.94 million hectares out of estimated priority area of 23.5 million hectares had been treated at an expenditure of Rs. 181.34 crores. In order to accelerate the pace of the programme during the Seventh Plan, it was decided to enlarge the scope of scheme by including some new catchment areas. A target of 10 lakh hectares with an outlay of Rs. 360 crores was proposed. The Seventh Plan allocation for this scheme has now been fixed at Rs. 96.60 crores and physical target at 0.43 million hectares. During 1985-86, an area of 0.10 million hectares was treated at a cost of Rs. 23.99 crores. The allocation for 1986-87 was Rs.19.50 crores, but the target was reduced to 72,000 hectares.

The Scheme of Watershed Management in the catchment areas of flood-prone rivers of Gangetic Basin is being implemented in 8 flood-prone catchment areas spread over 7 States and one Union Territory since the Sixth Plan. Out of the total catchment area of about 167 lakh hectares, an estimated area of 71 lakh hectares need treatment with appropriate soil and water conservation measures on priority basis. During the Sixth Plan, the physical achievement was of the order of 0.16 million hectares with an expenditure of Rs. 30.48 crores. Achievement recorded in 1985-86 was of 53,000 hectares for which an amount of Rs. 12.82 crores was spent. The target fixed for 1986-87 was 37,000 hectares with an outlay of Rs. 10.10 crores.

The All-India Soil and Land Use Survey Organisation continued to carry out surveys and promote modern techniques in survey operation. The remote sensing techniques have been introduced to generate basic scienti-

fic data for development of soil and land resources in a more precise and efficient manner. This organisation has ambitious programme to cover 70 lakh hectares under priority delineation surveys and 4 lakh hectares under detailed soil surveys. An area of 57,600 hectares involving 900 blocks are planned to be covered under district soil sample surveys. Besides, an area of 8 lakh hectares will be surveyed in the special programmes for hill development, waterlogged areas, wasteland, land degradation, etc.

The scheme of settlement of families affected by shifting cultivation is being implemented in the Union Territories of Arunachal Pradesh and Mizoram with 100 per cent Central assistance. It is a beneficiary-oriented programme for the settlement of shifting cultivation of jhumia families on permanent cultivation by providing one hectare of agricultural land with irrigation facility and one hectare for horticulture and plantation. Till the end of the Sixth Plan, 1,200 jhumia families had been given settlement benefits with Central grant of Rs. 112.78 lakhs. Additional 400 jhumia families (300 families of Mizoram and 100 families of Arunachal Pradesh) were considered for settlement during the Seventh Plan. During 1985-86, Central grant of Rs. 25 lakhs was released to Union Territories of Arunachal Pradesh and Mizoram. The programme for settlement of these 400 families was being continued during 1986-87.

Dryland Farming

It is estimated that rainfed areas account for 72 per cent of the net sown area of about 142 million hectares. The rest of the arable land depend on rainfall which is often erratic and unpredictable. Increasing and stabilising agricultural production in the low to medium rainfall region (i.e., upto 1,125 mm) which accounts for 68 per cent of the total rainfed area is of crucial importance to raise the level of overall agricultural production. The main crops like rice, jowar, bajra, small millets, pulses, oilseeds and cotton are grown under rainfed conditions. The thrust of agricultural development so far had been largely concentrated in the irrigated areas. Wide fluctuations in production occur in the rainfed areas year after year which adversely affect the total production thereby bringing about not only instability in the farmers' income but also at the macro level offsetting the benefits accruing from irrigated area. Hence, the development of dry land/rainfed farming has been assigned top priority in the Seventh Five Year Plan.

The main focus of this development strategy is on minimising the risk to the farmers through land improvements, ensuring soil and moisture for introduction of suitable crops and cropping systems, introduction of dryland horticulture, fodder and economic utility plantations, and providing them with area specific technologies together with requisite inputs and services. A number of State/Central Sector Schemes are under operation to step up and stabilise the production of crops under rainfed conditions.

A Centrally Sponsored Scheme of National Watershed Development Programme for Rainfed Agriculture, launched during 1986-87, is being implemented in 16 States covering 99 districts. The main components of scheme are : land and moisture management works for introduction of improved cropping systems, dryland horticulture, fodder production and farm forestry, contingency seed stocking and supply of seedlings and grass seeds/slips, training, conducting of adaptive trials, supply of improved tools and equipment and preparation of scientific field manuals etc. The total outlay on the scheme is Rs. 239 crores of which Rs. 120 crores is the Central share. Annually, about 2.32 lakh hectares are to be covered and for the Seventh Plan,the target is 9.28 lakh hectares. A sum of Rs. 30 crores was provided as Central share for 1986-87 under this scheme. The area under improved/-drought resistant seeds was targeted at 17.80 lakh hectares against which the achievement was 8.84 lakh hectares. An estimated 8.84 lakh hectares was brought under chemical

fertilisers as against the target of 18.15 lakh hectares. The progress of dryland farming is indicated in Table III-29.

Drought Prone Areas Programme

The strategy adopted in the Sixth Plan to stress on activities which contribute directly to the restoration of ecological balance was continued during the Seventh Plan.

The coverage of the programme (effective from 1985-86) remained unchanged and the programme continued to be implemented in 615 blocks in 90 districts of 13 States which included 495 blocks already covered under the programme at the end of the Sixth Five Year Plan, and 120 newly added blocks. The programme continued to be a Centally Sponsored Scheme under which allocation was shared by the Centre and the concerned State on 50:50 basis. A total outlay of Rs. 237 crores was provided under the Seventh Plan as Central share. The rate of allocation of funds was stepped up to Rs. 15 lakhs per block during 1986-87 from Rs. 12 lakhs in 1985-86. During 1985-86, Rs. 73.15 crores had been spent out of the total allocation Rs. 73.80 crores. During 1986-87, a Central sector outlay was Rs. 46 crores. The physical achievements under the programme during 1985-86 and 1986-87 are indicated in Table III-30.

Table III–29 : Progress of various aspects of Dryland Farming

Item	Unit	1986-87	
		Target	Achievement*
1	2	3	4
1. Land Development	Lakh hectares	11.64	3.80
2. Water harvesting/storage structure	Nos.	14,220	30,307
3. Area covered with improved seeds	Lakh hectares	17.80	8.84
4. Area covered with chemical fertilisers	Lakh hectares	18.15	8.84
5. Seedling planted under afforestation	Lakh numbers	..	..
6. Area planted under Social Forestry	Hectares	..	..
7. Number of persons trained	Number	7,646	17,010

* Provisional

Source: Ministry of Agriculture, Government of India.

Table III–30 : Achievement of Drought Prone Areas Programme

Item	Unit	Achievement			
		1983-84	1984-85	1985-86	1986-87*
1	2	3	4	5	6
1. Area treated under soil and moisture conservation	000' hectares	54.47	43.8	68.28	34.06
2. Creation of irrigation potential	"	106.85	25.9	45.40	38.74
3. Forestry and Pasture	"	76.11	43.5	52.30	41.79
4. Milk Societies established	Number	1586	538	..	..
5. Sheep socieites established	"	32	23	..	..
6. Number of beneficiaries (families)	In 000'	440.50	616.17	1220.47	2 147.62
7. Mandays of employment created	In lakhs	173.91	276.17	232.17	233.59

* Provisional

Source: Ministry of Agriculture, Government of India.

Desert Development Programme

The Desert Development Programme was launched in 1977-78 as a Central Sector Scheme to cover extremely arid areas for controlling desertification, restoration of ecological balance and creation of conditions intended to improve the economic conditions of people in these areas. The programme covered 132 blocks in 21 districts of 5 States at the beginning of the Sixth Plan. On the recommendation of the Task Force, the coverage was increased to 126. This was widened further to cover 131 blocks in 21 districts of 5 States from the beginning of the Seventh Plan. This is being implemented as a fully funded Central Sector Scheme. For 1986-87, a sum of Rs. 39.00 crores was provided as against which a sum of Rs. 38.50 crores was released to the States. The physical achievements during 1985-86 and 1986-87 are indicated in Table-III-31.

Table III—31 : Achievement of Desert Development Programme

Item	Unit	Achievement	
		1985-86	1986-87*
1	2	3	4
1. Soil and moisture conservation	000' Hectares	5.12	11.48
2. Crop husbandry	"	1.44	..
3. Forestry and pasture development	"	18.66	..
4. Creation of irrigation potential	"	0.97	0.87
5. Calves rams born through A—1	000' Nos.	1.96	..
6. No. of beneficiaries			
(a) Total	"	34.83	20.86
(b) Scheduled Castes	"	5.20	..
(c) Scheduled Tribes	"	1.93	..
7. Employment generated	000' Mandays	662.00	1,949.08

* Provisional

Source : Ministry of Agriculture, Government of India.

National Rural Employment Programme

The National Rural Employment Programme (NREP) which was launched in October 1980 became an integral part of the Sixth Five Year Plan from April 1981. Since then, it is being implemented as Centrally Sponsored Programme on 50:50 sharing basis between the Centre and the States. This Programme seeks to generate additional gainful employment for the unemployed and under-employed persons in the rural areas, create productive community assets for strengthening rural economic and social infrastructure and bring about improvement in overall quality of life in the rural areas. Under this programme, resources are allocated to States/Union Territories on the basis of a prescribed criteria giving 50 per cent weightage to number of agricultural labourers and marginal farmers and marginal workers and 50 per cent weightage to incidence of poverty. Under this programme, 10 per cent of the resources are earmarked for work of direct and exclusive benefit to SCs/STs and 25 per cent for social forestry works. A minimum of 50 per cent of the allocation is to be spent on wages and the balance can form the non-wage component. At present, 50 per cent of the wages are given in kind. The foodgrains, to meet this requirement, are given by the Centre to the States free of cost.

Under NREP, an outlay of Rs. 2,487.47 crores including States share of Rs. 1,236.66 crores has been provided for the Seventh Plan period. During the Plan period, the programme is envisaged to generate about 290 million mandays of employment per annum. For the year 1986-87, the Centre and the States allocated Rs. 230.0 crores and Rs. 227.50 crores, respectively. In addition, the State Governments were permitted to utilise the unspent balance of Rs. 128.84 crores carried over from the previous year. The reported utilisation upto December 1986 was Rs. 396 crores. Besides, 16.12 lakh tonnes of foodgrains were released to States and Union Territories and the reported utilisation upto December 1986 was 12.33 lakh tonnes. The employment generated upto December 1986 was 392.95 million mandays as against the target of 275.08 million mandays (Table III-32). Out of the total employment generated, the employment for SC/ST, landless category and women accounted for roughly 49 per cent, 31 per cent and 19 per cent, respectively.

Table III—32 : Progress of National Rural Employment Programme

Item	Unit	1982-83	1983-84	1984-85	1985-86	1986-87@
1	2	3	4	5	6	7
Foodgrains						
(i) Allocation	Lakh tonnes	3.13	3.22	3.09	7.30	9.50
(ii) Releases	"	2.48	2.36	3.07	9.56	16.12
(iii) Utilisation	"	1.72	1.47	1.70	5.81	12.33
Cash						
(i) Allocation by the Centre	Rs. crores	175.76	200.69	230.00	230.00	230.00
(ii) Allocation by the States	"	173.84	198.59	227.60	227.53	227.50
(iii) Unutilised balance from previous year	"	130.16	118.25	124.00	93.62	128.84
(iv) Utilisation	"	393.92	394.00	502.11	531.95	683.94
Employment Generated	Million Mandays	351.20	302.76	353.12	316.14	392.95

@ Provisional.

Source : Ministry of Agriculture, Government of India.

Construction/improvement of school buildings is one of the important works undertaken under this programme. During 1986-87 (upto December), the number of school buildings constructed/repaired, totalled 10,234 as against 20,269 in 1985-86.

Rural Landless Employment Guarantee Programme

Rural Landless Employment Guarantee Programme (RLEGP) was launched in 1983 for tackling in a more direct and specific manner the problem of unemployment among the landless in the States and Union Territories. Though this programme is primarily aimed at helping landless labour, the other unemployed in the rural areas can also be covered. This is a 100 per cent centrally funded programme. In allocation, 50 per cent weightage is now given to the number of agricultural labourers marginal farmers and marginal workers and 50 per cent weightage is given to the incidence of rural poverty.

The works under the programme can broadly be categorised as under :

i) Construction of micro habitats and housing units for SC/STfamilies and freed bonded labourers.

ii) Works of social farm forestry.

iii) Construction of rural latrines; and

iv) Other work e.g. minor irrigation schemes, road, watersheds projects, etc.

An outlay of Rs. 1,743.78 crores had been provided for RLEGP in the Seventh Plan. Employment of the order of 1013 million mandays is expected to be generated during this period. In 1985-86, an allocation of Rs. 606.33 crores (including the value of foodgrains) was made. For 1986-87, the allocation was Rs. 724.18 crores (including the value of one million tonnes of foodgrains). Employment to the extent of 175.13 million mandays was generated with an investment of Rs. 353.57 crores. The progress of this programme is indicated in Table III-33.

Table III—33 : Progress of Rural Landless Employment Guarantee Programme

Item	Unit	1983-84	1984-85	1985-86	1986-87*
1	2	3	4	5	6
Foodgrains					
(i) Allocation	Lakh tonnes		3.22	5.60	10.00
(ii) Releases	"	0.66	3.20	7.69	10.31
(iii) Utilisation	"	0.01	1.08	3.03	4.32
Cash					
(i) Allocation	Rs. crores	100.00	500.00	499.00	495.75
(ii) Releases	"	100.00	393.99	495.88	480.41
(iii) Utilisation	"	6.21	317.73	435.07	353.57
Employment Generation					
(i) Target	Million Mandays	60.00	300.00	205.73	236.45
(ii) Achievement	"	5.20	252.98	237.98	175.13
(iii) Realisation	Percent	8.66	84.33	115.67	74.07

* Provisional

Source : Ministry of Agriculture, Government of India.

Crop Insurance Scheme

A country-wide Comprehensive Crop Insurance Scheme was introduced from 1985 *kharif* season. The scheme is being implemented by the General Insurance Corporation (GIC) in collaboration with the State Governments as co-insurers in the ratio of 2:1. The premium is 2 per cent of the sum insured for the cereals such as paddy, wheat, millets, etc., and 1 per cent for the pulses and oilseeds. Fifty per cent of the premium payable by the small and marginal farmers is subsidised jointly by the Central and State Governemtns on 50:50 basis. The objectives of the scheme are : i) to provide a measure of financial support to the farmers in the event of crop failure as a result of drought, floods, etc., ii) to restore the credit eligibility of farmers after a crop failure for the next crop season; and, iii) to support and stimulate production of cereals, pulses and oilseeds. The scheme covers crop loans issued by all the institutional agencies viz., co-operative credit institutions, commercial banks and regional rural banks. Paddy, wheat, millets, pulses and oilseed crops are covered under the scheme. The sum insured is one and half times the loan amount availed of. The scheme also envisages setting up of a Crop Insurance Fund in each State with an initial fund of Rs. 1-2 crores for undertaking crop insurance. Fifty per cent of the State Fund is contributed by the Central Government. Most of the State Governments have already set up these Funds.

During 1985 *kharif* season, 11 States and 2 Union Territories implemented the Comprehensive Crop Insurance Scheme. Proposals amounting to Rs. 540.89 crores, as sum insured, covering an area of 41.80 lakh hectares benefiting 23.25 lakh farmers were received during the season. Against a premium income of Rs. 9.23 crores, a sum of Rs. 80.93 crores was paid out as claims.

During 1985-86 *rabi* season, 14 States and 4 Union Territories implemented the scheme. GIC received proposals to the tune of Rs. 245.60 crores as sum insured covering an area of 22.43 lakh hectares benefiting 13.97 lakh farmers. Against a premium income of Rs. 4.41 crores, indemnity claims of Rs. 2.94 crores were paid. During *kharif* season, 16 States and 4 Union Territories implemented the scheme. Proposals for Rs. 828.0 crores as sum insured were received covering an area of 74.8 lakh hectares, benefiting 37.7 lakh farmers. The total premium collected aggregated to Rs. 14.6 crores as at the end of January 1987.

Chapter IV

Industrial Production

Trends in Industrial Production During 1986-87

Overall Trends

In February 1987, the Central Statistical Organisation (CSO) released the new series on index numbers of industrial production (base 1980-81 = 100). On the basis of the revised series, the growth of industrial production for 1985-86 is placed at 8.7 per cent as against 6.3 per cent based on the old series. According to the provisional data released by CSO, the average index of industrial production at 154.7 for 1986-87 would record a higher growth rate of 8.9 per cent as compared with 8.7 per cent achieved during the preceding year (Table IV-1). While the rate of growth in the case of mining and quarrying and electricity sectors showed acceleration, that in the manufacturing sector indicated a marginal deceleration from 9.7 per cent to 9.0 per cent. Despite improvement in the generation of electricity, the gap between demand and supply widened resulting in imposition of power cuts in various States. Drought conditions in various parts of the country, disturbed situation in some areas, escalation of raw materials' cost, slackness of demand for certain key products and lower levels of production achieved by certain strategic industries were some of the constraints which hampered the growth of manufacturing sector.

Table IV–1 : Trends in Industrial Production* (Based on CSO's Index 100) of Industrial Production – Base 1980-81=100

Group	Weight	Increase (+) Decrease (–) over the previous year April- March		
		1984-85	1985-86	1986-87
1	2	3	4	5
General Index (Crude)	**100.00**	**+ 8.6**	**+ 8.7**	**+ 8.9**
1. Mining and Quarrying	11.46	+ 8.7	+ 4.2	+ 6.2
2. Manufacturing	77.11	+ 8.0	+ 9.7	+ 9.0
3. Electricity	11.43	+ 12.0	+ 8.3	+ 10.3

* Provisional.

Source: Central Statistical Organisation (CSO).

The rate of growth in electricity generation during 1986-87 was higher at 10.3 per cent as against 8.3 per cent achieved in the previous year. A positive growth of 5.5 per cent in hydro power generation in contrast to a fall of 5.6 per cent recorded during 1985-86 and a further growth of 12.4 per cent by the thermal (including nuclear) power generation on top of 15.6 per cent in the previous year were largely responsible for acceleration in growth rate of overall electricity generation.

The Directorate General of Technical Development (DGTD) compiles and releases production data in respect of 136 selected industries accounting for a weight of 37.82 per cent in the new series. Targets of production set by the Planning Commission were available in respect of 73 industries only. Out of these, while 21 industries with a weight of 3.23 per cent achieved their proportionate targets (for April-December) over 100 per cent, another 43 industries having a weight of 17.22 per cent achieved them over 80 per cent. In the case of remaining 9 industries, the achievement was below 80 per cent of the target.

The composite index of six infrastructure industries (electricity, coal excluding lignite, petroleum crude, petroleum refinery products, saleable steel and cement) having a weight of 28.77 per cent in the new series (adjusted weight in old series - 24.55 per cent) recorded a marginally lower growth rate of 7.4 per cent during 1986-87 as compared with 7.9 per cent in 1985-86. Though all these six industries registered growth in their output, the rate of growth improved only in the case of three industries viz.,electricity, coal and cement.

The revenue earning traffic carried by the railways at 277.4 million tonnes during 1986-87 rose by 7.3 per cent on top of an increase of 9.4 per cent achieved during the previous year. Similarly, the movement of industrial commodities registered a growth of 7.2 per cent during the year under review compared with that of 8.0 per cent during 1985-86. Significant acceleration in the movement was noticed in respect of certain commodities like cement and mineral oils.

New Series

The industrial structure has undergone a vast change over the last two decades. While the share of certain traditional industries like textiles, certain raw materials,etc. in the total value added has been showing a decline year after year, the share in value added of newly developing industries like petrochemicals, electronics etc. has been rising at a significant rate. The small scale sector has also recorded substantial expansion in terms of value of output, exports and employment during these years. These developments were not adequately reflected in the old index. The Government, therefore, set up a working group in 1978 under the chairmanship of the then Director General, CSO, to consider and recommend the change of the base year, modifications in the weighting diagram and composition of items. Based on the recommendations of the working group, the CSO compiled and released the new series on index numbers of industrial production (base 1980-81=100).

The scope and coverage of the new series has been confined to three sectors-mining and quarrying,manufacturing and electricity, as in the old series. The weight and index base have been changed from 1970 to 1980-81. The National Industrial Classification (NIC) has been adopted for the new series instead of the classification in Annual Survey of Industries (ASI) used for the old series. In the mining sector, two items have been deleted and same number of new items have been added. In the manufacturing sector, 96 new items have been added while 95 items have been deleted. Further, certain items which were separate in the old series have been clubbed together and a few have been subdivided in the new series. However, the number of items in the manufacturing sector and the total items in the new series remain same at 352 as in the old series. For the first time, the working group has identified 49 items from the small scale sector for inclusion in the series over a period. The production of

these items in the small scale sector contributed at least 25 per cent of the total production of those items in the factory sector and the small scale sector in the base year. The Development Commissioner of the Small Scale Industries (DCSSI) would arrange to provide production data on a regular basis. Initially data have been supplied in respect of 18 items only which have been included in the compilation of index from July 1984. As and when the DCSSI would make available the regular production data in respect of the remaining 31 items, they would be included for compilation of the index. The weights among the three sectors upto the last digit of NIC have been apportioned in the new series on the basis of their percentage contribution to the total gross value added figures compiled for the factory sector of ASI-1980-81 as against the net value added data used in the old series. The weights for selected items within the group have been assigned on the basis of value of output. A comparative picture showing the number of items and their weights of sectoral and two digit level of classification is presented in Table IV-2. However, some of the important industries like woollen textiles, cotton and synthetic garments, bidi, etc. do not find place in the revised index.

Industry Group - wise Analysis

The complete production data on the basis of revised index of industrial production (1980-81 = 100) further classified into 'use-based', 'input-based' and sectoral indicators and the group-wise growth rates (viz., for basic goods industries, capital goods industries, consumer goods industries, etc.) are not yet available.

Overall industrial production registered a higher growth of 8.9 per cent during 1986-87 under the revised series as compared with a growth rate of 8.7 per cent achieved in the previous year.

The data on production are available for the full year 1986-87 in respect of some of the basic industries. Accordingly, production in major industries like nitrogenous fertilizers, phosphatic fertilizers, electricity, cement and saleable pig iron showed higher growth rates of 25.0 per cent, 16.3 per cent, 10.3 per cent, 9.9 per cent and 8.8 per cent than those of 10.5 per cent, 12.9 per cent, 8.3 per cent, 9.8 per cent and 3.1 per cent, respectively, in 1985-86. On the other hand, production of saleable steel, steel ingots and pig iron recorded lower growth rates of 5.7 per cent, 0.3 per cent and 4.0 per cent than 11.1 per cent, 9.2 per cent and 8.6 per cent, respectively, in the previous year. On the basis of the April-December 1986-87 data on production, some of the industries which recorded lower growth rates during the period as compared with those in the corresponding period of the previous year (indicated in the brackets) were : caustic soda 0.8 per cent (4.4 per cent), oxygen gas 1.3 per cent (19.3 per cent), structurals 1.5 per cent (1.8 per cent), black and galvanised steel pipes and tubes 1.9 per cent (4.5 per cent) and aluminium sheets & circles 0.8 per cent (14.9 per cent). Some other industries which also registered decline in output were: D. A. gas (decline of 1.8 per cent in April-December 1986 in contrast to a rise of 2.6 per cent in April-December 1985) and aluminium ingots (8.6 per cent in continuation of the fall of 7.9 per cent).

Among the consumer goods industries, certain industries in the sub-group consumer durables, which performed well during the period April-December 1986 were : bicycles (an increase of 7.1 per cent in output in contrast to a fall of 5.6 per cent in April-December 1985), sewing machines (8.4 per cent as against a fall of 12.9 per cent) and wrist-watches (35.5 per cent as against a fall of 5.1 per cent). The industries which registered declines in output in the same period of 1986 were : electric fans (5.0 per cent as against an increase of 7.7 per cent in April-December 1985), house service meters (2.7 per cent as against a substantial rise of 15.2 per cent), hurricane lanterns (0.5 per cent as against a rise of 1.0 per cent) and radio receivers (a fall of 8.6 per cent in continuation of 2.7 per cent). During the full year 1986-87,

the output of the undernoted industries recorded lower growth rates as compared with those of the previous year (indicated in the brackets) viz., cars 21.3 per cent (35.1 per cent) motor cycles 13.3 per cent (42.7 per cent), scooters/mopeds 17.4 per cent (30.0 per cent) and three wheelers 9.2 per cent (14.6 per cent).

In the sub-group of consumer non-durables, production of sugar during the year 1986-87 registered a higher growth of 14.6 per cent as against 10.3 per cent in the year 1985-86. The following industries in the sub-group for which data are available for April-December 1986 only, improved their performance during the period. They are : baby food (a rise of 31.7

Table IV – 2 : Comparative statement of items and weights in the Old and New series.

NIC Classi-fication	Industry Group	1970 Series		1980-81 Series	
		No. of items	Weight	No. of items	Weight
1	2	3	4	5	6
Div.1	Mining and quarrying	61	9.69	61	11.46
Div. 2 & 3	Manufacturing	290	81.08	290	77.11
20 – 21	Manufacture of food products	9	7.74	11	5.33
22	Manufacture of beverages, tobacco and tobacco products	3	3.02	4	1.57
23	Manufacture of cotton textiles	3	11.65	6	12.31
24	Manufacture of wool, silk and synthetic fibre textiles	5	2.48	–	–
25	Manufacture of jute, hemp and mesta textiles	3	2.71	5	2.00
26	Manufacture of textile products (including wearing apparel other than footwear)	3	0.59	2	0.82
27	Manufacture of wood and wood products, furniture and fixtures	6	0.49	2	0.45
28	Manufacture of paper and paper products and printing industries	7	2.24	6	3.24
29	Manufacture of leather, leather and fur products (except repairs)	5	0.66	4	0.49
30	Manufacture of rubber, plastic, petroleum and coal products	21	3.93	24	4.00
31	Manufacture of chemical and chemical products (except petroleum and coal products)	85	10.76	96	12.51
32	Manufacture of non-metallic mineral products	18	3.35	5	3.00
33	Basic metal and alloy industries	25	9.31	26	9.80
34	Manufacture of metal products and parts except machinery and transport equipment	25	3.09	16	2.29
35	Manufacture of machinery, machine tools and parts except electrical machinery	34	5.55	31	6.24
36	Manufacture of electrical machinery, apparatus and appliances, etc.	16	5.28	28	5.78
37	Manufacture of transport equipment and parts	15	7.39	12	6.39
38	Other manufacturing industries	7	0.85	12	0.90
Div. 4	Electricity	1	9.23	1	11.43

Note : The weights of the individual groups at two digit level in the manufacturing sector may not add up to the total due to rounding differences.

per cent as against a fall of 0.6 per cent in April-December 1985), penicillin (a rise of 27.5 per cent as against a fall of 9.7 per cent), soaps (a rise of 2.2 per cent as against a fall of 2.4 per cent) and electric lamps-incandescent (a rise of 7.8 per cent as against a fall of 2.3 per cent). The industries which recorded a lower growth in April-December 1986 comprised: biscuits 2.6 per cent (5.4 per cent), linoleum 5.1 per cent (48.9 per cent), paper and paper boards 5.0 per cent (8.4 per cent), rubber footwear 6.7 per cent (11.5 per cent), tooth paste 7.2 per cent (14.9 per cent) and razor blades 3.7 per cent (8.6 per cent). Besides, some industries registered decline in their output in April-December 1986 as compared with that in the corresponding period in 1985-86. They were : leather cloth (a decline of 19.2 per cent against a rise of 17.0 per cent), synthetic detergents (a fall of 1.2 per cent against a rise of 21.0 per cent) and matches (a fall of 17.3 per cent against a rise of 5.2 per cent). The industries which registered further decline in their output in April-December 1986 included; cigarettes (a decline of 3.8 per cent in addition to 9.3 per cent in April-December 1985), streptomycin (a fall of 0.2 per cent from a fall of 22.5 per cent). Production of cotton and blended fabrics (mill sector) for which data are available for the entire year 1986-87 has also declined further by 1.7 per cent during the period from the fall of 1.6 per cent in the previous year.

In the intermediate goods industries, only a few industries registered higher growth rates in April-December 1986 over the corresponding period of last year. They were : polyester fibres (49.7 per cent compared with 13.0 per cent), paints & varnishes (12.5 per cent compared with 4.8 per cent), industrial explosives (15.6 per cent compared with 11.6 per cent) and storage batteries (19.8 per cent compared with 14.7 per cent). Output of DMT showed a substantial rise of 163.3 per cent as against that of 33.5 per cent during April-December 1985. On the other hand, the undernoted industries registered lower growth rates than in the previous year (growth rates in previous year are indicated in brackets) : newsprint 16.0 per cent (18.7 per cent), auto tyres 6.0 per cent (11.0 per cent), PVC resins 9.2 per cent (26.9 per cent), viscose filament yarn 8.0 per cent (27.6 per cent), bolts, nuts and rivets 3.0 per cent (11.8 per cent) and caprolactum 6.4 per cent (14.6 per cent). The industries which registered decline in output in April-December 1986 were : bicycle tyres (organised sector) (a fall of 9.0 per cent in contrast to a rise of 14.1 per cent in April-December 1985), viscose nylon filament yarn (a fall of 6.1 per cent in contrast to a rise of 22.6 per cent), grinding wheels (a fall of 4.3 per cent in contrast to a rise of 17.9 per cent), dry cells (a fall of 2.2 per cent in constrast to a rise of 6.9 per cent) and LDPE (a fall of 8.3 per cent over and above the fall of 5.2 per cent).

Under capital goods sector, industries which recorded fall in production were : power driven pumps (decline of 8.7 per cent in April-December 1986 in contrast to a rise of 5.1 per cent in April-December 1985), ball and roller bearings (a fall of 2.0 per cent as against a rise of 24.5 per cent), road rollers (a fall of 10.3 per cent as against a steep rise of 195.2 per cent), domestic refrigerators (decline of 9.9 per cent as against a rise of 20.4 per cent) and power transformers (decline of 0.6 per cent in contrast to a rise of 8.9 per cent).

The industries which registered higher growth rates in this group included : mining machinery (a rise of 5.0 per cent in April-December 1986 in contrast to a fall of 19.9 per cent in April-December 1985), chemical and pharmaceutical machinery (a rise of 3.9 per cent in contrast to a fall of 2.2 per cent), machine tools (a rise of 10.3 per cent in contrast to a fall of 0.7 per cent), railway wagons (a rise of 76.0 per cent in contrast to a fall of 34.4 per cent), forged hand tools (a rise of 62.1 per cent in contrast to a fall of 34.1 per cent) and earth moving equipment (a rise of 10.9 per cent compared with a rise of 9.8 per cent). Agricultural tractors for which data are available for the full year 1986-87 also recorded a rise of 6.6 per cent during the year in contrast to a fall of 10.4 per cent in 1985-86. Industries which recorded lower growth rates in this group

were : boilers (a rise of 19.9 per cent in April-December 1986 compared with a rise of 27.6 per cent in the same period of 1985), diesel engines (4.6 per cent compared with 8.1 per cent) and cement machinery (11.0 per cent compared with 59.7 per cent). Production of jeeps during the year 1986-87 also rose at a much lower rate of 2.9 per cent than that of 20.7 per cent in 1985-86.

Small-Scale Sector

During 1986-87 (April-March) the small-scale sector continued to maintain the tempo of growth. The number of small-scale units increased at the rate of 7.7 per cent to 14.57 lakhs in 1986-87 from 13.53 lakhs in 1985-86 (Table IV-3). The value of production of goods and services in this sector, estimated at Rs. 72,250 crores (at current prices) in 1986-87 was higher by 18.0 per cent than that of Rs. 61,228 crores in the year 1985-86. The level of employment therein increased by 5.6 per cent to about 101.4 lakh persons in 1986-87 from about 96 lakh persons in 1985-86. The investment in the small-scale sector increased to Rs. 10,881 crores in 1986-87 from Rs. 9,585 crores in 1985-86.

Table IV–3 : Small-Scale Sector

Item	April-March			
	1983-84	1984-85	1985-86 (P)	1986-87(P)
Number of Units (Lakh Nos.)	11.58	12.42	13.53	14.57
		(7.3)	(8.9)	(7.7)
(i) Production (Rupees Crores at 1979-80 prices)	30,415	34,065	39,452	N.A.
		(12.0)	(15.8)	
(ii) Production (Rupees Crores at current prices)	41,620	50,520	61,228	72,250
		(21.4)	(21.2)	(18.0)
Exports (Rupees Crores)	2,164	2,541	2,785	N.A.
		(17.4)	(9.6)	
Employment (Lakh Persons)	84.15	90.00	96.00	101.40
		(7.0)	(6.7)	(5.6)

P : Provisional.
N.A. : Not Available.
Note : Figures in brackets indicate percentage variations over the preceding year.
Source: Office of the Development Commissioner, Small-Scale Industries, Ministry of Industry.

Total estimated value of exports of SSI sector at Rs. 2,785 crores during 1985-86 was 9.6 per cent higher than that of Rs. 2,541 crores in 1984-85. The share of SSI sector in total exports also rose to 25.3 per cent in 1985-86 from 21.6 per cent recorded in 1984-85. The Government continued to accord high priority for encouraging exports from SSI sector, and provided financial support and other assistance to these exporters under various schemes.

In the context of significance of SSI units, the Central and State Governments continued the promotional efforts for them, apart from providing active assistance to entrepreneurs. The support policies/programmes of Government for SSI sector included : i) reservation of items for exclusive production and purchase, ii) priority in disbursement of loans by financial institutions, iii) concessions in import of raw materials and machinery and supply of these

materials through Small Industries Corporations and other agencies and iv) direct assistance like consultancy, marketing, training, technical guidance, etc. through a wide network of promotional bodies.viz.,Small Industries Development Organisation (SIDO), Small Industries Service Institutes(SISIs),the District Industries Centres (DICs), the Central Institute of Tool Design (CITD), Institute for Design of Electrical Measuring Instruments (IDEMI) and the National Institute for Entrepreneurship and Small Business Development (NIESBD).

A number of important developments has taken place during 1986-87. The Small Industries Development Fund (SIDF) has been set-up in the Industrial Development Bank of India on 20th May, 1986 to provide refinance assistance for development, expansion, diversification, modernisation and rehabilitation of small-scale, cottage and village industries and tiny sector units in rural areas. Besides ensuring continued flow of financial and non-financial assistance to the small industry sector, SIDF will provide a focal point for effectively co-ordinating the activities of the various organisations engaged in promoting the growth of this sector and also give a new thrust to their activities.

A recent development is the decision of the Government of India to set up a National Equity Fund,with an initial capital of Rs. 10 crores to provide seed capital assistance to small entrepreneurs in the rural areas as well as in the urban areas with a population of less than five lakhs. The scheme will be administered by IDBI through nationalised banks. Assistance under the scheme will be made available upto a maximum of Rs. 75,000 per project at a nominal service charge of 1 per cent per annum. Units availing the assistance will be required to bring in a minimum cash contribution of 10 per cent of the project cost.

New schemes of assistance have been launched under SIDF for women entrepreneurs. Also certain schemes have been initiated to promote quality control. Keeping in view the training needs of women entrepreneurs, the scheme provides for subsidising the cost of training and consultancy/escort services upto the stage of implementation of the project. Besides, term loan on concessional terms is provided for setting up the unit. To induce SSI units to produce goods of quality, refinance is made available to the full extent of loans, generally up to Rs. 7.5 lakhs, sanctioned for setting up inhouse quality testing facilities. No contribution from promoters is insisted upon for assistance under the scheme to existing units, while for new projects, the contribution will be reckoned on the basis of project cost excluding the outlay on quality control facilities. The State Small Industries Development Corporations (SSIDCs) have been assisted for the first time by the IDBI for strengthening their activities in marketing, supply of essential raw materials and machinery on hire-purchase basis and for establishment of industrial estates, etc.

In order to review the flow of institutional credit to small industries sector and to suggest measures for improving the performance of the credit delivery system, the RBI set up a Standing Advisory Committee in 1986.

Among other things the committee has suggested that

i) The State Governments and Federations/ Associations concerned with the development of small-scale industries must take up area-wise/industry-wise sample studies of small-scale industries to identify problems/causes relating to industrial sickness. ii) the information system should be improved so as to bring to the notice of the potential and existing entrepreneurs the details of the facilities available from IDBI, banks and NABARD, and iii) measures should be taken to popularise customer service centres.

With the growing thrust on quality aspect, November 1986 was observed as 'Quality Maintenance and Improvement Month' by the entire industrial sector with a view to creating quality awareness among manufacturers, workers and consumers. Measures have also been taken for technology upgradation in the small scale sector and for identifying areas which could be amenable to ancillarisation.

As regards fiscal incentives, a new scheme of excise concessions for small scale units has been introduced from the year 1986-87. Under this scheme, a SSI unit whose value of clearances does not exceed Rs. 15 lakhs (Rs. 30 lakhs where the unit is manufacturing more than one article falling under different tariff headings) is completely exempted from payment of excise duty. For clearances exceeding Rs. 15 lakhs and upto Rs. 75 lakhs, the SSI unit is required to pay excise duty at a concessional rate of 10 percentage points less than the normal duty subject to a minimum duty of 5 per cent *ad valorem*. Where the clearances exceed Rs. 75 lakhs but not beyond Rs. 1.5 crores it is required to pay duty at normal rate. All SSI units whose value of clearances do not exceed Rs. 10 lakhs are not required to obtain excise licence. Excise procedures have been considerably simplified; excise inspections limited to once a year and self-assessment procedure has been introduced for clearances upto Rs. 50 lakhs.

District Industries Centres

The District Industries Centres (DICs) Programme which was started in 1978-79 continued to make an impact on development of village and small industries. As a focal point for promotion of small, tiny, village and cottage industries mainly in rural areas and small towns the programme aims at providing all services and support to the decentralised industries under a single roof as far as practicable both at the pre-investment and post-investment stages. According to the progress reports received from 397 DICs during 1985-86, 3.62 lakh new industrial units (comprising of 2.65 lakhs artisan-based units and 0.97 lakh small-scale units) were established. These units generated additional employment opportunities for 12.23 lakh persons during 1985-86 (Table IV-4).

Table IV—4 : Performance of District Industries Centres

Item	Total Achievements (April-March)			Per DIC Achievements (April-March)		
	1984-85	1985-86	1986-87@	1984-85	1985-86	1986-87
1	2	3	4	5	6	7
1. No. of DICs sanctioned	397	397	N.A.	—	—	—
2. No. of DICs reporting	396	397	N.A.	—	—	—
3. New Registrations done (Nos.)	342,298	372,053	446,654	864	937	N.A.
4. New units established (Nos.)						
(i) Artisans	285,838	265,098	269,417	722	668	N.A.
(ii) SSI	91,551	97,419	108,521	231	245	N.A.
Total	377,389	362,517	377,938	953	913	N.A.
5. Sick units assisted (Nos.)	1,178	N.A.	N.A.	3	—	N.A.
6. Credit assistance provided by financial institutions through DICs (Rupees in crores)	611.31	623.29	657.83	1.54	1.57	N.A.
7. Additional employment generated (No. of persons)	1148,258	1223,447	1282,000	2900	3082	N.A.
8. Units given technical and other assistance (Nos.)	50,621	47,867	N.A.	128	121	N.A.

@ Expected achievements.
N.A. : Not Available.
Source: Office of the Development Commissioner, Small Scale Industries, Department of Industrial Development, Ministry of Industry.

During 1986-87, about 3.78 lakh new industrial units (comprising of 2.69 lakh artisan-based units and 1.09 lakh small-scale units) are expected to have been established with an employment generating capacity of the order of about 12.82 lakh persons. The credit assistance provided by financial institutions to these units is estimated to have increased to Rs. 657.83 crores during 1986-87 as compared to Rs. 623.29 crores during the previous year and Rs. 611.31 crores in 1984-85. In order to make the DICs more effective, organisational pattern of DICs has been restructured while maintaining its conceptual base intact. The State/U.T. Govts. have been requested to complete the process of restructuring and the matter is being pursued vigorously with all State/U.T. Govts.

A central scheme for providing self-employment to educated unemployed youth was introduced in 1983 and the DICs are entrusted with the responsibility of servicing this scheme under the overall guidance of State Governments. The scheme which earlier covered unemployed youth within the age group of 18-35 years usually chosen from vulnerable sections of the society has recently been modified so as to include ITI passed young persons also as beneficiaries. The limit of loan for industrial ventures has been increased from Rs. 25,000 to Rs. 35,000 while in the case of business ventures the limit has been reduced from Rs. 25,000 to Rs. 15,000. However, in the case of service ventures the limit remains at Rs. 25,000. The level of subsidy in all types of ventures is fixed at 25 per cent. During 1985-86, the banks sanctioned Rs. 429.99 crores to 2.21 lakh educated unemployed persons as compared with Rs. 429.53 crores sanctioned to 2.29 lakh persons in the preceding year. The DICs could thus achieve 88 per cent and 92 per cent of the targets in 1985-86 and 1984-85, respectively (The target was to cover 2.5 lakh beneficiaries per year).

Industrial Sickness

The available data on industrial sickness indicate that there was a further rise in the number of sick industrial units as well as in total bank credit outstanding against them as at the end of June 1986 as compared with that a year ago. The number of large industrial units availing bank credit limit of Rs. 1 crore and above and identified as sick by banks increased from 597 as at the end of June 1985 to 689 as at the end of June 1986 (Table IV-5). The bank credit outstanding against them increased by about 22 per cent from Rs. 2,655.39 crores to Rs. 3,238.64 crores during the same period.

According to industry-wise classification, the incidence of sickness continued to be high in the case of 'Textiles' followed by 'Engineering and Electricals.' In the case of 'Textiles' number of sick units increased from 162 as at end-June 1985 to 186 as at end-June 1986 while the amount of outstanding bank credit increased from Rs. 962.39 crores to Rs. 1,118.38 crores during the same period. The number of sick units in 'Engineering & Electricals' industry increased from 153 as at the end of June 1985 to 175 as at the end of June 1986. The amount of outstanding bank credit in respect of these units increased from Rs. 629.31 crores to Rs. 788.10 crores during that period.

State-wise, Maharashtra, West Bengal, Uttar Pradesh, Gujarat, Tamil Nadu, Karnataka and Andhra Pradesh together accounted for 569 sick units involving an outstanding bank credit of Rs. 2,786.52 crores (86.0 per cent of total outstanding bank credit against sick units) at end-June 1986 as against 489 sick units with an outstanding bank credit of Rs. 2,257.63 crores (85.1 per cent of total outstanding bank credit against sick units) as at end-June 1985 (Table IV-5 A) Out of the 689 large sick units, banks had taken decisions about viability or otherwise in respect of 598 units as at the end of June 1986. Out of these units, 374 (with outstandings of Rs. 1,896.70 crores) were considered by banks as potentially viable and 224 units (with outstandings of Rs. 1,040.84 crores) as non-viable. Viability of remaining 91 units (with outstandings of Rs. 301.10 crores) was yet to be decided by banks.

Table IV—5 : Sick Industrial Units and Outstanding Bank Credit

(Rupees crores)

Industry	End-June 1984		End-June 1985		End-June 1986	
	No. of Units	Amount of Outstanding Bank Credit	No. of Units	Amount of Outstanding Bank Credit	No. of Units	Amount of Outstanding Bank Credit
1	2	3	4	5	6	7
1. Engineering & Electricals	121	437.14	153	629.31	175	788.10
		(20.7)		(23.7)		(24.3)
2. Iron and Steel	35	160.29	39	196.48	38	166.38
		(7.6)		(7.4)		(5.1)
3. Textiles	140	697.87	162	962.39	186	1118.38
		(33.0)		(36.2)		(34.5)
4. Chemicals	29	157.35	34	113.67	39	140.08
		(7.5)		(4.3)		(4.3)
5. Sugar	43	164.16	46	148.16	47	177.02
		(7.8)		(5.6)		(5.5)
6. Jute	36	120.45	44	151.65	43	199.58
		(5.7)		(5.7)		(6.2)
7. Rubber	16	123.16	16	126.14	16	127.17
		(5.8)		(4.7)		(3.9)
8. Cement	2	9.08	3	9.45	5	41.32
		(0.4)		(0.4)		(1.3)
9. Miscellaneous	91	242.94	100	318.14	140	480.61
		(11.5)		(12.0)		(14.8)
Total	**513**	**2112.44**	**597**	**2655.39**	**689**	**3238.64**
		(100.0)		**(100.0)**		**(100.0)**

Note : Figures in brackets are percentages to total.

In the small-scale sector, incidence of sickness continued to be high. The number of identified sick industrial units increased to 1,28,687 at end-June 1986 from 97,890 units a year ago. Bank credit outstanding against these units increased to Rs. 1,184.22 crores from Rs. 954.65 crores during that period.

Out of the 1,28,687 sick units, 13,028 units (with an outstanding bank credit of Rs. 270.74 crores) were considered by banks as potentially viable and 1,03,708 units (with an outstanding bank credit of Rs. 793.65 crores) as non-viable. Banks were yet to decide about the viability of the remaining 11,951 units (with outstanding bank credit of Rs. 119.83 crores).

A major step for intervening at an early stage and detecting, preventing as well as initiating ameliorative, remedial and such other measures necessary in respect of sick industrial companies was the enactment of the Sick Industrial Companies (Special Provisions) Act, 1985. In terms of the Act, the Government of India have established a Board for Industrial and Financial Reconstruction (BIFR) in January 1987 for determining the ameliorative, remedial and other measures which need to be implemented in respect of sick industrial companies and for expeditious enforcement of the measures so determined. The BIFR has started functioning from May 15, 1987. Under the provisions of the Act, all medium and large-scale companies who have their networth eroded by 50 per cent have to report the fact of such erosion to the Board and also to hold a General Meeting of the shareholders of the company to seek a fresh mandate for the management. The Board has been given wide ranging powers in respect of approval of rehabilitation packages for sick

industrial companies including their reconstruction and revival as well as change of management or amalgamation with any other company, or sale or lease of a part or whole of the industrial undertakings,etc., or even winding up of the company.

Table IV—5A : State-wise Classification of Sick Industrial Units and Outstanding Bank Credit

(Rupees crores)

State/Union Territories	End-June 1984		End-June 1985		End-June 1986	
	No. of Units	Amount of Outstanding Bank Credit	No. of Units	Amount of Outstanding Bank Credit	No. of Units	Amount of Outstanding Bank Credit
1	2	3	4	5	6	7
1. Andhra Pradesh	24	45.26 (2.1)	31	88.84 (3.4)	39	114.28 (3.5)
2. Assam	3	6.04 (0.3)	3	6.29 (0.2)	6	15.37 (0.5)
3. Bihar	13	37.88 (1.8)	16	41.73 (1.6)	16	48.87 (1.5)
4. Chandigarh	—	—	1	2.35 (0.1)	2	3.34 (0.1)
5. Delhi	2	3.11 (0.2)	4	8.59 (0.3)	5	10.30 (0.3)
6. Goa	5	12.65 (0.6)	5	14.28 (0.5)	4	11.09 (0.3)
7. Gujarat	51	192.81 (9.1)	54	263.58 (9.9)	66	332.20 (10.3)
8. Haryana	12	29.15 (1.4)	16	42.05 (1.6)	15	42.58 (1.3)
9. Karnataka	28	196.24 (9.3)	31	151.66 (5.7)	36	183.79 (5.7)
10. Kerala	16	82.79 (3.9)	17	125.51 (4.7)	18	130.25 (4.0)
11. Madhya Pradesh	20	57.76 (2.7)	22	73.99 (2.8)	26	96.27 (3.0)
12. Maharashtra	100	491.34 (23.3)	131	724.47 (27.3)	151	898.54 (27.7)
13. Orissa	4	24.37 (1.2)	6	28.88 (1.1)	9	37.84 (1.2)
14. Pondicherry	3	10.08 (0.5)	3	10.55 (0.4)	3	11.62 (0.4)
15. Punjab	3	5.17 (0.2)	3	5.37 (0.2)	5	10.83 (0.3)
16. Rajasthan	12	51.13 (2.4)	12	38.17 (1.4)	10	31.80 (1.0)
17. Tamil Nadu	46	150.88 (7.1)	48	190.83 (7.2)	55	203.69 (6.3)
18. Uttar Pradesh	57	240.30 (11.4)	63	287.18 (10.8)	72	315.80 (9.7)
19. West Bengal	114	475.48 (22.5)	131	551.07 (20.8)	150	738.22 (22.8)
20. Tripura	—	—	—	—	1	1.96 (0.1)
Total	**513**	**2112.44 (100.0)**	**597**	**2655.39 (100.0)**	**689**	**3238.64 (100.0)**

Note : Figures in brackets are percentages to total.

Detailed guidelines were issued to banks on 24th February, 1987, advising them of the action required to be taken by them in respect of companies assisted by them, and in whose cases the provisions of the Act, when they come into force, will be attracted. The implementation of the various provisions of the Act and the directions issued in regard thereto by the BIFR will need the direct involvement and supervision of senior executives of the banks. Banks were accordingly advised to gear up their organisational and administrative arrangements and to vest such executives with the necessary powers so that the process of finalisation of the schemes is not held up for want of timely decisions or effective follow-up and the time-frame as stipulated under the Act may be adhered to. Emphasis was again laid on the importance of keeping in view the concept of viability while formulating the packages of rehabilitation. According to the Act, a company is identified as sick, at the stage when its networth has been fully eroded by its accumulated losses. Further, an industrial unit will be termed as ' weak', if at the end of any accounting year it has (i) accumulated losses equal to or exceeding 50 per cent of its peak networth in the immediately preceding five accounting years, (ii) a current ratio of less than 1:1, and (iii) suffered a cash loss in the immediately preceding accounting year. In view of the need to initiate remedial measures much before the networth is fully eroded, banks have been advised to take necessary remedial steps in accordance with the RBI guidelines in respect of 'weak' units as defined above.

The above classification into 'sick' and 'weak' units will, however, not apply to SSI units in respect of which a separate definition is framed under the guidelines issued by the Reserve Bank. Accordingly, SSI unit should be considered 'sick' if it has (a) incurred cash loss in the previous accounting year and is likely to continue to incur cash loss in the current accounting year and has an erosion of 50 per cent or more of its networth, and or (b) continuously defaulted in meeting four consecutive quarterly instalments of interest or two half-yearly instalments of principal on term loans and there are persistent irregularities in the operation of its credit limits with the bank.

The Industrial Reconstruction Bank of India (IRBI) has initiated various steps for preventing the growth of industrial sickness and in helping the revival of sick units. Out of 333 units assisted by IRBI till the end of June 1986, 136 units have been revived and 131 units were under the nursing programmes. These two categories of units totalling 267 units constitute more than 80 per cent of the units assisted by IRBI. The units which were still incurring losses numbered 12. The units which have been denotified and where advances have been recalled, suit filed, decree obtained, etc., numbered 52. In respect of 2 cases, the dues of IRBI have since been written off.

Industrial Licensing Policy

During 1986-87, the government further liberalised industrial licensing policies with a view to removing constraints on growth and creating a more congenial atmosphere for rapid industrial growth. The major policy changes effected during the year are enumerated below:
(1) The scheme of broadbanding which was introduced in 1984 was extended further during the year, covering in all, 32 broad industry groups enabling them to make requisite changes in their product-mix according to market demand without applying for fresh licences.
(2) By September 1986, 27 broad categories of industries and 82 bulk drugs and their formulations were delicensed for non-MRTP and non-FERA companies provided the item of manufacture is not reserved for small scale sector and industrial units comply with the locational constraints. However, such delicensed undertakings will be required to register themselves with the Secretariat for Industrial Approvals (SIA). The scheme of delicensing was also extended to MRTP/FERA companies in respect of 20 industries provided such undertakings apply for locations in centrally declared backward areas.
(3) The scheme of re-endorsement of industrial capacity with reference to the minimum econo-

mic scales of operation and the minimum capacity licensable in respect of 65 industries were announced in May 1986. In September 1986, another 7 industries were added to the list of the minimum economic capacities notified earlier.

(4) The list of Appendix-I industries wherein large MRTP/FERA companies were allowed to participate alongwith other companies, was further revised during the year to include some new industries covering totally 31 industrial groups. In addition, the scope of the scheme of capacity re-endorsement has been widened and a scheme of re-endorsement of capacity in respect of 72 selected industries has been introduced. A fast track approach is being introduced for speedy disposal of applications under this scheme.

(5) Exclusively export-oriented production in excess of licensed capacity has been exempt since 1981 from licensing formalities though items reserved for small scale industries were not covered by the exemption clause. Further, such production in excess of licensed capacity was not to involve any additional investment in plant and machinery. These restrictive stipulations have been withdrawn to extend added fillip to export promotion efforts.

(6) The Standing Committee on reservations of items for exclusive development in the small scale sector had reviewed the list of items earmarked for small scale sector and had recommended 8 more items to be added to the list of reserved items and 34 items to be deleted from the list. In addition, they also recommended change in the nomenclature of 28 items which are in the reserved list. The Government accepted these recommendations and accordingly 13 items have already been deleted and 4 items renamed. Two items namely, Asbestos products and Slitting and Confectioning of Photo-synthethised Jumbo Rolls were brought under special regulation requiring compulsory licensing irrespective of the level of investment-the former on account of health hazards and pollution and the latter in order to prevent the influx of spurious products into the market.

Selected Industries : A Review

The performance of selected industries in four broad groups, viz., basic goods, capital goods, intermediate goods and consumer goods industries during the year 1986-87 is briefly reviewed below.

A. Basic Industries

(a) Coal

As against the estimated demand for Coal of 176.6 million tonnes (excluding 5.7 million tonnes of washery middling) for 1986-87, the output of coal (excluding lignite) reached an all time high level of 165.8 million tonnes, registering a growth rate of 7.5 per cent from 154.3 million tonnes in 1985-86. However, the achievement of 1986-87 fell short of the target of 166.8 million tonnes by 0.6 per cent (Table IV-6). The production of coal could have been higher but for certain constraints such as power shortage, absenteeism, occasional excessive rainfall and consequent flooding of mines, breakdown of machineries, delay in development of new mines due to non-availability of land on time, fire at Godavarikhani, adverse geo-mining conditions etc. The level of pit-head stocks at Coal India Ltd., (CIL) at the end of March 1987 stood at 28.3 million tonnes as against 26.4 million tonnes last year.

For the year 1987-88, coal production target has been fixed at 183.5 million tonnes by the Department of Coal against the projected demand of 192.0 million tonnes. The gap will be met by drawing coal from pit-head stocks and by imports of coking coal by steel plants.

During the year, several steps were taken by the Department of Coal to improve coal production. An action plan was prepared for the Department which laid down month-wise targets of production, productivity, wagon-loading and despatches for each coal company and quarterly targets of capital expenditure and profit/loss accounts were also fixed. Besides it was decided to improve power supply to Bengal-Bihar region. Computers have been introduced in the coal companies particularly at the head quarters and area levels of each

Table IV– 6 : Performance of Coal Industry

(Million tonnes)

Item	April-March 1984-85	1985-86(P)	1986-87(P)
1	2	3	4
1. Production			
(a) Coal (i + ii)	**147.4**	**154.3**	**165.8**
	(+ 6.7)	**(+ 4.7)**	**(+ 7.5)**
(i) Coking Coal	36.0	35.2	
	(–)	(– 2.2)	
(ii) Non-Coking Coal	111.4	119.1	
	(+ 9.0)	(+ 6.9)	
(b) Lignite	**7.8**	**8.0**	
	(+ 6.8)	**(+ 2.6)**	
2. Imports (Coking Coal)	**0.7**	**2.0**	**2.1**
3. Despatches (i + ii)	**134.9**	**150.9**	**161.2**
	(+ 3.5)	**(+ 11.9)**	**(+ 6.8)**
(i) Coking Coal	32.5	33.8	
	(– 6.9)	(+ 4.0)	
(ii) Non-Coking Coal	102.4	117.1	
	(+ 7.3)	(+ 14.4)	
4. Exports	**0.1**	**0.2**	
5. Year-end Pit-head stocks (i + ii)	**30.2**	**29.0**	
	(+ 31.9)	**(– 4.0)**	
(i) Coking Coal	9.7	9.6	
	(+ 36.6)	(– 1.0)	
(ii) Non-Coking Coal	20.5	19.4	
	(+ 29.7)	(– 5.4)	

P : Provisional.

Note : 1) Figures in brackets represent percentage variations over the preceding year.
2) Figures of year-end stocks cannot be arrived at on the basis of other figures in the Table as figures relating to exports of coal represent actual exports and not despatches for exports.

Source: Department of Coal, Ministry of Energy.

company for monitoring various activities like production, productivity and management of inventory and to provide assistance in the field of safety and environment management etc.

Coal production target for 1986-87 for Coal India Ltd.,(CIL), (which accounts for about 90 per cent of the coal production in the country), was fixed at 143.5 million tonnes. Against the target, CIL achieved a production of 144.8 million tonnes, thereby exceeding the target by one per cent. CIL output in 1986-87 achieved a significant increase of 8.0 per cent as compared with last year's output of 134.1 million tonnes. Among the subsidiaries of CIL, Northern Coalfields Ltd., (NCL) and Bharat Coking Coal Ltd., (BCCL) had shown larger increases in production over that of the previous year by 17.1 per cent and 13.9 per cent, respectively. Output per manshift (OMS) for CIL mines in 1986-87 improved to 0.98 tonnes from 0.91 tonnes in 1985-86. However, OMS in Singareni Collieries Company Ltd., (SCCL) declined to 0.79 tonnes in the current year as against 0.81 tonnes last year.

Along with increased coal output in the current year, coal despatches to consuming sectors have also moved up. The offtake of coal by major consumers during 1986-87 increased by 6.3 per cent to 167.2 million tonnes (including 2.0 million tonnes of washery middlings and 4.0 million tonnes of colliery consumption) from 157.4 million tonnes last year. The coal despatches have been improved by resorting more to railways for moving coal to consumers. As a result, the daily average coal loadings in CIL increased to 11288 wagons per day in 1986-87 from 10880 wagons per day in 1985-86. In SCCL, daily average coal loading increased to 1252 wagons per day as against 1224 wagons per day in 1985-86.

With a view to expanding production capacity of coal, 33 projects (20 mining projects and 13 non-mining projects) were sanctioned by the Government during 1986-87 at an estimated cost of Rs. 513.1 crores.

For modernising the coal industry, the country has been seeking selective foreign assistance from technologically advanced countries like U.S.S.R., France, U.K., Poland, West Germany and East Germany to develop large capacity open-cast mines with high productivity and underground mines with difficult geo-mining conditions. In 1986-87, Inter-Governmental Working Groups were set up with Australia and Canada to establish similar co-operation.

(b) Iron Ore

The production of iron ore during 1986-87 (April-March) at 49.6 million tonnes recorded an accelerated increase of 10.2 per cent from that of 4.4 per cent witnessed in the previous year (Table IV-7). The output from captive mines of steel plants constituted 32 per cent of the total production during the calendar-year 1986 as against 33 per cent in 1985. The pithead stocks of iron ore at 2.8 million tonnes at the end of March 1987 were appreciably lower by 17.6 per cent as against 3.4 million tonnes at the end of March 1986. The despatches of iron ore for internal consumption rose to 18.1 million tonnes recording a growth rate of 5.8 per cent during 1986-87, from 17.1 million tonnes last year. On the other hand, exports of iron ore at 28.1 million tonnes grew by 4.1 per cent as compared with 5.9 per cent last year.

The iron ore production during the year 1986-87 by the National Mineral Development Corporation Ltd. (NMDC) was 9.5 million tonnes

Table IV—7 : Performance of Iron Ore Industry

(Million tonnes)

Item	April-March		
	1984-85	1985-86(P)	1986-87(P)
1	2	3	4
Production	43.1 (+ 10.5)	45.0 (+ 4.4)	49.6 (+ 10.2)
Despatches for Exports	25.5 (+ 15.4)	27.0 (+ 5.9)	28.1 (+ 4.1)
Year-end Stocks	4.7 (+ 42.4)	3.4 (− 27.7)	2.8 (− 17.6)

P : Provisional.

Note : Figures in brackets represent percentage variations over the previous year.

Source : Indian Bureau of Mines, Ministry of Steel and Mines, Government of India.

compared to 8.4 million tonnes last year, registering an increase of 13.1 per cent. The iron ore exports by the NMDC during the year stood at 9.2 million tonnes as against 8.5 million tonnes last year which is 8.2 per cent higher than last year. The projects of NMDC under construction are (i) development of Bailadila 11/C deposit to supplement and replace the Bailadila—14 deposit (in view of its yearly dwindling production) and (ii) Bailadila—5 for handling fine ore. Further, the NMDC has been assigned the task of developing dolomite deposit for supply of blast furnace grade dolomite to Visakhapatnam Steel Plant. In addition following new projects were under investigation/ planning.

1) Expansion and modification scheme of Bailadila-14,
2) The development of a new mine based on Bailadila Deposit No. 11B to meet the needs of export market as well as Visakhapatnam Steel Plant depending upon its economic viability.

The Kudremukh Iron Ore Company Ltd. (KIOCL) has achieved production target of 2.9 million tonnes upto the end of January 1987 as against the targeted production of 3.1 million tonnes of iron ore concentrate for 1986-87. As a part of revitalising the project in the context of a forecast for a better market for pellets than for the concentrate, the Government sanctioned the erection of Pellet Plant of 3.0 million tonnes per year capacity located at Mangalore for conversion of Kudremukh iron ore concentrate into pellets. The project has since been completed and with several trial runs undertaken upto the end of January 1987, about 1.65 lakh tonnes of iron ore pellets have been produced.

As a result of vigorous marketing efforts, KIOCL has been able to make steady progress in the sale of iron ore concentrate. During 1985-86, 2.06 million tonnes of iron ore concentrate were exported as against a target of 2.00 million tonnes. During 1986-87 (upto end January, 1987) the Company had exported 2.8 million tonnes of concentrate.

(c) Cement

During 1986-87, (April-March) cement production at 36.49 million tonnes registered

Table IV—8 : Performance of Cement Industry

(Million tonnes)

Item	1984-85	1985-86(P)	1986-87(P)
1	2	3	4
Installed capacity	40.79	44.39	47.80
	(+ 10.1)	(+ 8.8)	(+ 7.7)
Production	30.19	33.15	36.49
	(+ 11.5)	(+ 9.7)	(+ 10.1)
Despatches	29.46	31.92	34.66
	(+ 10.6)	(+ 8.3)	(+ 8.6)
Average capacity Utilisation Ratio (Per cent)	77.6	77.8	79.2
Imports	0.37	0.33	0.18
Year-end stocks	0.53	0.60	0.54

P : Provisional

Notes : 1) Data relating to installed capacity, production and capacity utilisation relate to the industry as a whole, while that of despatches and stocks are exclusive of mini and white cement plants.
2) Figures in brackets represent percentage variations over the preceding year.

Source: Office of the Development Commissioner for cement industry, Ministry of Industry.

an increase of 10.1 per cent as against 9.7 per cent in the preceding year (Table IV-8). Although, actual production has almost equalled the targeted production, of 36.5 million tonnes, it is significant to note that it could have been still higher but for severe infrastructural constraints, especially widespread powercuts and voltage fluctuations. A higher production target of 42.5 million tonnes has been envisaged for 1987-88.

With the addition of 3.4 million tonnes to the installed capacity during 1986-87 (as against 3.6 million tonnes in 1985-86), the overall installed capacity in the cement industry reached 47.80 million tonnes at end-March 1987 as against 44.39 million tonnes at end-March 1986. However, it was short of the targeted capacity of 52 million tonnes set for the year. Average capacity utilisation in the cement industry improved to 79.2 per cent in 1986-87 from 77.8 per cent in the previous year.

Due to increased production the demand-supply gap has narrowed down to 11.9 per cent in 1986-87 as against 15.4 per cent last year. Consequently, the imports declined to 0.18 million tonnes in 1986-87 from 0.33 million tonnes in 1985-86. The year-end stocks were also marginally lower at 0.54 million tonnes at the end of March 1987 than 0.60 million tonnes as at the end of March 1986.

Cement despatches at 34.7 million tonnes grew at almost the same rate as in the previous year (8.6 per cent in 1986-87 as against 8.3 per cent in 1985-86). It would also be significant to note in this context that share of non-levy despatches in the total despatches has moved up from 46.2 per cent in 1984-85 to 51.8 per cent in 1985-86 and further to 59.6 per cent in 1986-87. Since the introduction of partial decontrol of cement in February 1982, the Government's policy has been one of reducing industry's levy obligation in a gradual manner so as to enable it to sell higher quantities of cement in the free sale market. Such a policy would facilitate overall growth of the cement industry and encourage greater competitiveness in the open market and enable the industry to generate more funds.

The levy obligations of the industry applicable in 1986-87 were as follows :

	From 1-4-1986 to 14-12-1986	**From 15-12-1986 to 28-2-1987**
All units which were in commercial production on 1-1-1982	60 per cent of actual production	50 per cent of actual production
New units or expanded capacity of old units which started production after 1-1-82 and sick units.	40 per cent of actual production.	30 per cent of actual production.

The Government also announced recently further changes in the levy quota in respect of certain categories of cement units. As the new cement plants commencing production after 1.4.1986 had been experiencing financial difficulties due to sharp rise in capital cost for setting up factories on green field sites, the Government has given them relief by reducing levy obligation to only 15 per cent with effect from 1st March 1987. These factories will also be entitled for rebate in excise duty at the rate of Rs. 50/- per metric tonne.

The cement units which had gone into production after 1.1.1982 upto 31st March 1986 have been representing that the capital investment in their case had considerably increased and therefore sought further relief. The Government announced its decision to reduce the levy quota in respect of these units from 30 per cent to 20 per cent of their production. In addition, these units were also given the benefit of a rebate of excise duty at the rate of Rs. 20/- per metric tonne of portland cement produced by them provided the production of such cement in the factory in any financial year is not less than 30 per cent of the annual licensed capacity. The excise concession, however, would not be applicable to cement produced from clinker which is brought from outside. The rebate in excise is available from April 29, 1987 and upto 31st March 1990.

For levy cement, a uniform F.O.R. price applicable for the entire country is fixed. The F.O.R. price is Rs. 532/- per tonne for ordinary portland cement (OPC) and portland slag cement (PSC) and Rs. 517/- per tonne for pozzolana portland cement (PPC). These prices are exclusive of cost of packing material and excise duty. The F.O.R. price includes retention price (cost of production including profit margin), distribution expenses to be allowed to cement producers and an element for all India average freight. For this purpose, a freight and price pool account is operated under the Cement Control Order. The retention price for cement fixed in July 1984 continued to be in operation till December 15, 1986 when the Government keeping in view the further escalations in various inputs decided to increase the retention price of levy cement by Rs. 24.50 per tonne. The new retention price of levy cement with effect from December 15, 1986 was Rs. 399.50 per tonne of OPC and PSC and Rs. 384.50 per tonne of PPC. However, the said increase in the retention price would be met from the savings which are accruing to the Cement Regulation Account.

At the time of partial decontrol of cement, the cement producers were asked to contribute at the rate of Rs. 9/- per tonne of production of every tonne of non-levy cement to enable the Cement Regulation Account to discharge its past liabilities. As the position of funds in Cement Regulation Account has improved, it has been decided to discontinue the same.

There were 20 cement units (large size plants) with an annual production capacity of 8.20 million tonnes (17.2 per cent of installed capacity) in operation in the public sector as at the end of March 1987. There were 98 mini-cement plants with an annual production capacity of 2.58 million tonnes at the end of March 1987, against 61 plants with an installed capacity of 2.26 million tonnes as at the end March 1986. The share of mini-cement plants in cement production further improved to 4.2 per cent in 1986-87 from 2.9 per cent last year.

The cement industry has chalked out an ambitious modernisation/expansion scheme involving an investment of the order of Rs. 2500 crores. About Rs. 1435.51 crores have been spent on various programmes by the end of March 1987, comprising Rs. 831.15 crores for investment in modernisation schemes and Rs. 604.36 crores for investment in expansion schemes. The industry's modernisation programme include conversion of manufacturing process, energy conservation measures, adoption of latest technologies such as pre-heaters and pre-calcinators, installation of pollution control devices, setting up of captive power units, modernisation of quarry operations, crushing, grinding and material handling equipments. In order to minimise uncertainty on account of power cuts, Government has encouraged the cement industry to set up captive power plants so that at least 40 per cent of the power requirements of the factories are met by captive generation.

(d) Iron and Steel

Production of *saleable steel* in six integrated steel plants at 8,219 thousand tonnes in 1986-87 recorded a lower growth of 5.7 per cent as against 11.1 per cent in the last year and was 8.3 per cent less than the target set for the year. The combined production of saleable steel in five integrated steel plants of Steel Authority of India Ltd., (SAIL) at 6,312 thousand tonnes was higher by 308 thousand tonnes (or 5.1 per cent) as compared with their production in the preceding year but lagged behind the target by 12.6 per cent. (Table IV-9). The production of *steel ingots* at 9,086 thousand tonnes in 1986-87 could achieve only a marginal increase of 0.3 per cent than that of 9.2 per cent in the previous year. The production of *finished steel*, on the other hand, declined by 0.3 per cent during the year in contrast to an impressive growth of 9.6 per cent in 1985-86. The main constraint on production during the year was the severe power restrictions applied particularly during the first quarter by Orissa State Electricity Board (OSEB) on Rourkela Steel Plant (RSP) and during July and August

1986 by Damodar Valley Corporation (DVC) on Durgapur and Bokaro Steel Plants. In addition to the power restrictions, the production was affected due to oxygen shortage and fire in the new captive power plant of Bokaro in July 1986. Further, in September 1986 there was a break down in blast furnace No. 6 of Bhilai Steel Plant leading to its stoppage for 19 days.

Table IV—9 : Production of Steel

(Thousand tonnes)

Year (April-March)	Bhilai	Durgapur	Rourkela	Bokaro	TISCO	IISCO	Total (2 to 7)	VISL	ASP	Total (9 + 10)
1	2	3	4	5	6	7	8	9	10	11
Production of Steel Ingots										
1984-85	1,998	760	1,119	1,925	2,050	444	8,296	89	85	174
							(+ 4.6)			(+ 27.9)
1985-86 (P)	2,345	875	1,177	2,003	2,095	565	9,060	74	101	175
							(+ 9.2)			(+ 0.6)
1986-87 (P)	2,230	922	1,100	2,056	2,250	528	9,086	57	134	191
							(+ 0.3)			(+ 9.1)
Production of Saleable Steel										
1984-85	1,810	621	1,013	1,459	1,714	380	6,997	70	59	129
							(+ 9.4)			(+ 25.2)
1985-86 (P)	2,055	724	1,005	1,720	1,771	500	7,775	54	60	114
							(+ 11.1)			(− 11.6)
1986-87 (P)	2,150	751	1,140	1,745	1,907	526	8,219	52	82	134
							(+ 5.7)			(+ 17.5)
Production of Finished Steel										
1984-85	1,273	348	962	1,403	960	287	5,233	70	59	129
							(+ 7.1)			(+ 25.2)
1985-86 (P)	1,556	423	925	1,555	912	366	5,737	54	60	114
							(+ 9.6)			(− 11.6)
1986-87 (P)	1,571	427	993	1,520	816	394	5,721	52	82	134
							(− 0.3)			(+ 17.5)

P : Provisional.
VISL : Visvesvaraya Iron and Steel Ltd.,
ASP : Alloy Steels Plant.
Note : Figures in brackets represent percentage variations over the preceding year.
Source: Steel Authority of India Ltd.

The average capacity utilisation in respect of saleable steel in six integrated steel plants increased marginally to 87.8 per cent in 1986-87 as against 87.0 per cent in 1985-86. For 1987-88, production target of 9,135 thousand tonnes of saleable steel comprising 7,235 thousand tonnes for SAIL and 1,900 thousand tonnes for TISCO has been fixed.

Despatches of saleable steel by main producers during 1986-87 at 8,255 thousand tonnes were higher by 9.5 per cent over the preceding year. Consequently stocks of saleable steel declined from 752 thousand tonnes at the end of March 1986 to 733 thousand tonnes at the end of March 1987.

During 1986-87 the exports of saleable steel by SAIL amounted to 27 thousand tonnes, while there was no export during the preceding year. Imports, on the other hand, declined sharply to 73 thousand tonnes in 1986-87 from 618 thousand tonnes in 1985-86.

The output of ingot steel in the integrated steel plants at 9,086 thousand tonnes was marginally higher by 0.3 per cent in 1986-87 as compared to an impressive rise of 9.2 per cent in the previous year. In relation to the target fixed for the year there was a shortfall by about 15 per cent, as the average capacity utilisation fell to 69.5 per cent in 1986-87 from 78.4 per cent last year.

The Electric Arc Furnace (EAF) units (mini-steel plants) have made a remarkable progress. Presently, there are 200 mini-steel plants holding industrial licences/letter of intents with a total estimated capacity of about 6.5 million tonnes per annum of which 160 units have been installed with a capacity of 4.8 million tonnes. During 1986-87, production of mild steel, medium /high carbon steel and alloy steel at 2.92 million tonnes was marginally lower by 0.7 per cent or 0.02 million tonnes over the previous year. Production of re-rolling units, during 1986-87, at 3.41 million tonnes was 4.0 per cent higher as compared with that of 3.28 million tonnes achieved last year. In order to enable mini-steel plants to perform well, the Government has increased the quantum of imported shredded scrap material to ensure that these units do not face raw material shortage. Further to lessen the burden of import duty on scrap it has been reduced by 5 per cent.

With a view to improving the economic viability of the existing mini-steel units the Government has announced a scheme of Minimum Economic Scale of Operations. Under this scheme, Minimum Economic Scale for Electric Arc Furnace (EAF) units has been fixed at 50,000 tonnes per annum and existing units which have a capacity less than the above mentioned level are allowed to increase their capacity to this level provided they have assured adequate power supply. In pursuance of this policy, 17 mini-steel plants have been allowed to increase their licensed capacity to the minimum economic level of 50,000 TPA. In addition, they have also been allowed to diversify their production within their licensed capacity into all other grades of steel. In appropriate cases they are also encouraged to improve their economic viability by setting up rolling mills as a measure of forward integration. In addition,adoption of new technologies with a view to improving productivity and lower consumption of power and other inputs is also being encouraged. Production of EAF units has improved due to adequate import of melting scrap/sponge iron/HBI. The Government is also encouraging mini-steel plants to modernise their units by liberally allowing import of necessary capital goods and machineries.

A Scientific Advisory Committee with Scientific Adviser to the Defence Minister as its Chairman was constituted to examine all technical aspects in steel industry and to advise the Ministry of Steel on policies and programmes on iron and steel processes and products. The Committee has recently finalised a report on " National Mission on Iron and Steel" identifying five major areas, for priority treatment in the steel sector for intensive research and development. The areas are :—
i) Upgradation of coke quality and improvement in blast furnaces operation, ii) Alternative routes for liquid iron production using indigenous raw materials, iii) Quality and reliability improvement of steel products, iv) Energy conservation in steel plants and v) Continuous casting process.

SAIL has undertaken various measures to improve project implementation. Work on 4 million tonnes expansion unit at Bhilai Steel Plant continued satisfactorily and expansion scheme is expected to be commissioned in September 1988. The Stripper Yard and Additional Coil Yard components of 4 million tonnes expansion scheme of Bokaro Steel Plant

were commissioned ahead of schedule in August and November 1986, respectively.

(e) Electricity

Electricity generation during 1986-87 (April-March) achieved a growth rate of 10.3 per cent at 187.6 billion units (kwh), as against 8.3 per cent in the preceding year. But the performance during 1986-87 marginally fell short of the target of 190.0 billion units by 1.3 per cent. The non-fulfilment of overall target was due mainly to a short fall of 5.7 per cent from the target of 57.0 billion units fixed for hydel power generation (Table IV-10). Source-wise, the thermal power generation (constituting about 68.7 per cent of the total power generation) recorded a growth of 12.9 per cent during the year on top of an increase of 15.4 per cent achieved during 1985-86. Hydel power generation (accounting for 28.6 per cent of the total power output) which amounted to 53.7 billion units during the year achieved a growth rate of 5.5 per cent as against a decline of 5.6 per cent in the preceding year. The hydel performance could have been better but for deficient / delayed monsoon resulting in reduced flows into the reservoirs, delay/ slippages in commissioning of some units and forced closure of certain hydel power stations. Besides, the nuclear power generation though marginally better by 0.7 per cent in 1986-87, fell short of the target by 3.5 per cent. This was largely on account of lower generation at Madras Atomic Power Station (MAPS) as one of its units remained closed for over three months awaiting replacement of damaged transformer.

Table IV—10 : Source-wise Break-up of Generation of Electric Power

(Million Kilo Watt Hours)

Source	April—March					
	1984-85(P)		1985-86(P)		1986-87(P)	
	Power Generation	Percentage	Power Generation	Percentage	Power Generation	Percentage
1	2	3	4	5	6	7
1. **Thermal**	98,927 (+14.3)	63.0	114,120 (+15.4)	67.1	128,802 (+12.9)	68.7
2. **Hydel**	53,971 (+8.2)	34.4	50,940 (−5.6)	30.0	53,744 (+5.5)	28.6
3. **Nuclear**	4,075 (+16.6)	2.6	4,985 (+22.3)	2.9	5,022 (+ 0.7)	2.7
Total	**156,973 (+12.2)**	**100.0**	**170,045 (+ 8.3)**	**100.0**	**187,568 (+10.3)**	**100.0**

P : Provisional.
Note : Figures in brackets indicate percentage variations over the preceding year.
Source: Central Electricity Authority.

During the year 1986-87, as a result of various measures taken to achieve optimum utilisation of the existing thermal capacity, Plant Load Factor (PLF) at thermal power stations improved to 53.2 per cent from 52.4 per cent in the previous year. The Meritorious Productivity Reward Scheme for thermal stations started in 1983-84 with a view to maximising thermal power generation by motivating the employees by providing incentives, is being continued. A centrally sponsored scheme for renovation and modernisation of thermal power stations at a

cost of Rs. 500 crores was launched in the last quarter of 1984-85. In the year 1985-86, an amount of Rs. 90.26 crores was utilised by the various State Electricity Boards (SEB s) and Organisations and in the year 1986-87 an amount of about Rs. 56 crores has been released upto February 1987. Detailed guidelines in regard to the modalities for implementation of the scheme have been conveyed to the SEB s and they have been asked to constitute a special machinery which is designed to ensure expeditious execution of the scheme.

The overall power supply during the year grew at a higher rate of 10.8 per cent as against 8.4 per cent recorded last year. However the demand for power rose at a higher rate of 12.7 per cent as compared with 9.9 per cent last year. The mis-match between demand and supply of power resulted in accentuating the power shortage to 9.4 per cent in 1986-87 from 7.9 per cent in the previous year. Region-wise, the Eastern and Southern regions suffered maximum power shortages at 17.7 per cent and 11.0 per cent,respectively.

During the year the construction of transmission projects for the evacuation of power from the Central Generating Stations to the beneficiary states continue to be accorded higher priority. The programme for 1986-87 comprised of the construction of2,060 circuit kilometres (ckt-kms) of 400 kv lines and 2,707 (ckt--kms) of 220 kv lines along with the associated sub-stations. However, the achievement in completion of 400 kv lines at 3,175 ckt-kms. during the year was satisfactory while, in the case of 220 kv lines the achievement of 1,956 ckt.-kms. was much below the programme for the year.

Region-wise, the highest growth of 22.1 per cent in the thermal generation during 1986-87 was recorded by North Eastern region followed by Southern and Northern regions at 18.1 per cent and 16.0 per cent,respectively.As regards hydel generation, Eastern and Northern regions recorded substantial growth rates of 17.3 per cent and 13.2 per cent,respectively. However, the overall growth in power generation during the year was maximum in Northern region (14.4 per cent) while the minimum was recorded in North Eastern region (3.7 per cent).

With a view to reducing the transmission and distribution losses (estimated at 21.7 per cent during 1985-86), the Central Electricity Authority has issued guidelines to the State Electricity Boards and other Organisations for identification of specific reasons for the high losses in each power system and for implementing measures to strengthen and improve the transmission and distribution systems. The Indian Electricity Act, 1910, has been amended to make theft of energy a cognizable offence and provided for more stringent punishment.

The emphasis on electrification of rural areas continued during the year. The targets for village electrification and energisation of pumpsets for 1986-87 were 21,592 villages and 3.92 lakh pumpsets, etc. However, upto 31st January 1987, 12,353 villages were electrified and 3.27 lakh pumpsets were energised. The electrification of Tribal villages and Harijan Bastis continued to receive special attention; out of a total of 1.10 lakh tribal villages, 47 thousand villages had been electrified upto December 1986.

As at the end March 1987, the total installed capacity of power generation was 49,287 mw comprising 31,776 mw of thermal, 16,181 mw of hydel and 1,330 mw of nuclear (Table IV-11). The additions to the installed capacity during the year 1986-87 aggregated at 2,624 mw comprising 1,920 mw of thermal and 704 mw of hydel. The additions to the installed capacity for the year 1987-88 is targeted at 4,916 mw comprising 3,682 mw of thermal and 1,234 mw of hydel.

Table IV—11 : Installed Plant Capacity

(Mega Watt)

Year (April-March)	Thermal	Hydel	Nuclear	Total
1	2	3	4	5
1984-85 (P)	26,879	14,466	1,095	**42,440**
	(+ 12.8)	(+ 5.1)	(—)	(+ **9.7**)
1985-86 (P)	29,856	15,477	1,330	**46,663**
	(+ 11.1)	(+ 7.0)	(+ 21.5)	(+ **10.0**)
1986-87 (P)	31,776	16,181	1,330	**49,287**
	(+ 6.4)	(+ 4.5)	(—)	(+ **5.6**)

P : Provisional.
Note : Figures in brackets indicate percentage variations over the preceding year.
Source: Central Electricity Authority.

(f) Crude Oil and Petroleum Refinery Products

During 1986-87 crude oil output increased by 1.0 per cent to 30.5 million tonnes from 30.2 million tonnes in 1985-86, when it had risen by 4.1 per cent (Table IV-12). This deceleration was mainly on account of decline of 1.0 per cent in output from off-shore area to 20.6 million tonnes in 1986-87 from 20.8 million tonnes in 1985-86. The bulk of the total output during 1986-87 i.e. 27.9 million tonnes (91.5 per cent), was from the wells managed by the Oil and Natural Gas Commission (ONGC), with 20.7 million tonnes (67.9 per cent) from its off-shore wells and 7.2 million tonnes (23.6 per cent) from on-shore wells. The balance output of 2.6 million tonnes (8.5 per cent) of crude oil was from on-shore wells of the Oil India Ltd. (OIL).

The ONGC's major achievements during the year include : (i) Striking of oil for the first time in Tapti off-shore area in Well CD-1 and CA-1 and also in B-42 (Bombay off-shore) and (ii) Striking of on-shore oil for the first time in the Well Kaikalur-3 (Andhra Pradesh) and Namti (Assam). Other notable achievements were commissioning of early production systems at Indrora, Nandasan, Gandhar, Badrapur (Cachar) and Panna Off-shore Field.

The crude oil consumption (in terms of refinery throughput) rose by 6.5 per cent to 45.7 million tonnes in 1986-87 from 42.9 million tonnes in 1985-86 when increase in consumption was 20.5 per cent.

Despite this smaller increase in consumption, 15.5 million tonnes of crude oil had to be imported (15.1 million tonnes in the preceding year) in 1986-87 due to almost stagnant domestic production. There were no exports of crude oil during the year as against that of 0.5 million tonnes in 1985-86 due to increase in domestic refining capacity.

Output of petroleum refinery products during the year under review increased by 7.0 per cent to 42.7 million tonnes from 39.9 million tonnes in 1985-86. Among the various items of output, that of kerosene registered a sharp increase of 21.8 per cent followed by Naphtha (9.5 per cent) and High Speed Diesel Oil (5.6 per cent). The installed refinery capacity in the country at the end of 1986 was 45.5 million tonnes per annum (MTPA) spread over 12 refineries. The Government has decided to set up a 6 MTPA refinery at Karnal. Further, a decision has been taken to prepare project report for a three MTPA petrochemical refinery at Mangalore, jointly by Hindustan Petroleum Corporation Ltd. and M/s. Indian Rayon Corporation. The Bongaigaon Refinery is increasing its capacity by 0.35 MTPA by debottlenecking measures. The capacity of Mathura Refinery also is being increased from 6 MTPA to 7.5 MTPA by debottlenecking.

Table IV – 12 : Crude Oil and Petroleum Refinery Products

(Thousand tonnes)

Item	(April-March) 1984-85	1985-86	1986-87(P)
1	2	3	4
A. Crude Oil			
(a) Production (i + ii)	**28,990**	**30,168**	**30,463**
	(+ 11.4)	**(+ 4.1)**	**(+ 1.0)**
(i) On-shore	8,854	9,345	9,849
	(+ 2.6)	(+ 5.5)	(+ 5.4)
(ii) Off-shore	20,136	20,823	20,614
	(+ 15.8)	(+ 3.4)	(− 1.0)
(b) Imports	**13,642**	**15,144**	**15,531**
	(− 14.6)	**(+ 11.0)**	**(+ 2.6)**
B. Petroleum Refinery Products			
(a) Production	**33,236**	**39,881**	**42,685**
of which	**(+ 0.3)**	**(+ 20.0)**	**(+ 7.0)**
(i) Naphtha	3,470	4,955	5,426
	(− 3.0)	(+ 42.8)	(+ 9.5)
(ii) Kerosene	3,364	4,030	4,910
	(− 4.6)	(+ 19.8)	(+ 21.8)
(iii) High Speed Diesel Oil	11,086	14,624	15,448
	(+ 2.1)	(+ 31.9)	(+ 5.6)
(b) Imports	**6,092**	**3,865**	**3,035**
	(+ 40.8)	**(− 36.6)**	**(− 21.5)**
of which			
(i) Naphtha	338	—	33
	(+ 162.0)	(—)	(—)
(ii) Kerosene	2,611	2,568	1,923
	(+ 28.6)	(− 1.6)	(− 25.1)
(iii) High Speed Diesel Oil	2,573	890	727
	(+ 42.5)	(− 65.4)	(− 18.3)

P : Provisional.
Note : Figures in brackets represent percentage variations over the preceding year.
Source : Ministry of Petroleum and Natural Gas.

The gross imports of Petroleum, Oil and Lubricants (POL) products declined at a smaller rate of 21.5 per cent to 3.04 million tonnes as compared to a decline of 36.6 per cent in 1985-86. Exports of POL products, on the other hand, increased by 26.9 per cent to 2.5 million tonnes in 1986-87 from 2.0 million tonnes in 1985-86. Consequently, net imports of POL products declined to 0.5 million tonnes in 1986-87. The decline was observed for the second year in succession.

Availability of Liquefied Petroleum Gas (LPG) improved further during the current year to 1.5 million tonnes from 1.3 million tonnes in 1985-86. There were about 10.7 million LPG customers in the country as on 1st April 1986.

The Petroleum Conservation Research Association (PCRA) continued its efforts at conservation of petroleum products in industrial, transport, agricultural and domestic sectors. It conducted fuel oil utilisation studies in 160

industrial units till November 1986. Similar studies in another 75 units were expected to be completed by March 1987. It is expected that an annual saving of over 3.4 lakh KLs of fuel oil worth Rs. 110 crores is likely to be realised. In agricultural sector, PCRA's efforts were directed towards rectification of lift irrigation pumpsets in Gujarat and Andhra Pradesh which would result in 30 per cent saving in diesel consumption.

The Oil Cost Review Committee (OCRC) appointed by the Government in July 1983 to review the then prevailing pricing arrangement submitted its report in 1984. Consequently the Government decided in April 1986 to fix a rate of return of 12 per cent (post tax) on net worth together with interest on borrowing to enable the oil companies to generate adequate internal resources. This replaced the earlier policy of allowing a 15 per cent pre-tax return on net fixed assets and working capital employed. Keeping in view the new rate of return and the new method of calculating depreciation by the straight line method and the norms and data projected by the OCRC, the retention and ex-refinery prices of products coming under administered prices were revised with effect from April 1984, without, however, increasing the consumer prices.

The Government has increased the royalty payable on production of crude (both off-shore and on-shore) in Gujarat and Assam from Rs. 61 per metric tonne to Rs. 192 per metric tonne retrospectively from April, 1 1984. The railways announced new tariffs/enhanced freight rates on all POL despatches from 1st December 1986. The Government has, however, decided not to allow consequential increases in the prices of petroleum products for the consumers and the increase in freight rates was absorbed by the oil industry.

B. Capital Goods Industries

(a) Engineering Industries

The composite production index of engineering industry having a weight of 30.50 per cent in the general index of industrial production (new series) recorded a lower increase of 7.7 per cent during the period April-December of 1986-87 as compared with a rise of 15.2 per cent during the corresponding period of last year. The performance of engineering industry during the period was subdued due mainly to lower increase recorded by production of automobiles and fall in the production of certain other major items such as electrical fans, radio receivers, dry cells, domestic refrigerators, power transformers, etc. These industries were affected by shortfall in the availability of infrastructural inputs particularly, power and steel, sluggishness in demand in certain sectors and increased sickness.

Regarding performance of exports of engineering goods, reference is invited to the chapter on "Developments in India's Foreign Trade" of this Report.

The performance of the selected engineering industries is reviewed briefly under four broad heads viz., (i) heavy mechanical engineering industries, (ii) light mechanical engineering industries, (iii) electrical engineering industries and (iv) electronics industry.

(i) Heavy Mechanical Engineering Industries

Under this group, output of automobile industry increased by 8.3 per cent during 1986-87, as compared with 20.3 per cent rise in 1985-86 (Table IV-13). This deceleration was due mainly to the lower growth rates in the production of passenger cars and jeeps and land rovers as also due to a fall of 3.9 per cent in the production of commercial vehicles in contrast to a rise of 8.2 per cent during last year. The decline in the production of commercial vehicles was on accout of accumulation of stocks in previous year, high prices of vehicles and impact on demand due to larger movement of goods by railways. To assist the industry, therefore, the Government took certain measures such as (i) the list of components for fuel-efficient trucks, cars and two-wheelers

eligible for concessional import has been enlarged; and (ii) the customs duty on the components for fuel-efficient light commercial vehicles (LCVs) was reduced from 50 per cent to 35 per cent to benefit the LCV manufacturers who have been suffering from the appreciation of the Japanese Yen vis-a-vis the Rupee. Production of scooters, motor cycles and mopeds also showed a lower increase of 16.7 per cent than that of 32.6 per cent during 1985-86. Production of 'light, medium and heavy structurals' and diesel engines (stationary) also witnessed a similar trend. The production of diesel engines has been suffering in the past few years due to fall in demand brought about by increase in rural electrification which replaces diesel pumpsets by electric pumpsets and drop in exports to African and West Asian countries where stringent rules restrict imports of Indian products. However, production of railway wagons recorded a substantial increase of 76.0 per cent in contrast to a meagre rise of 0.8 per cent during last year, the increase in 1986-87 was on account of increased orders by railways and export orders received from Uganda and Bangladesh.

Table IV–13 : Output of Selected Heavy Mechanical Engineering Industries

Item	Unit	April-March		
		1984-85	1985-86(P)	1986-87(P)
1	2	3	4	5
1. Automobiles (i+ii+iii)	'000 Nos.	193.3	232.6	252.0
		(+ 23.3)	(+ 20.3)	(+ 8.3)
(i) Passenger Cars	"	76.1	102.8	125.4
		(+ 62.3)	(+ 35.1)	(+ 22.0)
(ii) Commercial Vehicles (Buses & Trucks)	"	94.1	101.8	97.8
		(+ 6.7)	(+ 8.2)	(− 3.9)
(iii) Jeeps and Land-rovers	"	23.2	28.0	28.8
		(+ 6.9)	(+ 20.7)	(+ 2.9)
2. Scooters, Motor cycles & Mopeds	"	897.9	1,190.9	1,390.2
		(+ 14.7)	(+ 32.6)	(+ 16.7)
3. Light, medium and heavy structurals	'000 Tonnes	126.2	132.1	99.1@
		(− 0.5)	(+ 4.7)	(+ 1.5)
4. Steel castings	"	86.7	93.0	71.6@
		(− 2.5)	(+ 7.3)	(+ 3.3)
5. Diesel Engines (Stationary)	'000 Nos.	170.3	183.9	142.1@
		(+ 9.1)	(+ 8.0)	(+ 4.6)
6. Railway Wagons (in terms of 4 wheelers)	"	13.00	13.10	11.67@
		(− 25.1)	(+ 0.8)	(+ 76.0)
7. Road Rollers	Nos.	443	750	498@
		(+ 0.7)	(+ 69.3)	(− 10.3)
8. Machine Tools	Rs. Crores	302.8	291.4	229.7@
		(+ 12.3)	(− 3.8)	(+ 10.3)

P : Provisional.
@ : Data relate to April-December.
Note : Figures in brackets represent percentage variations over the corresponding period of the preceding year.
Source : Central Statistical Organisation and Directorate General of Technical Development.

(iii) Light Mechanical Engineering Industries

Among the selected light mechanical engineering industries (Table IV-14), production of bicycles, however, registered a rise of 7.1 per cent as against a decline of 5.8 per cent during last year; the improvement was due mainly to sustained efforts made by bicycle manufacturing units to improve the quality which resulted in larger exports. Production of sewing machines also recorded an increase of 8.4 per cent as against a fall of 12.1 per cent during the preceding year; the rise was probably on account of higher production by units in Free Trade Zones for exports to East European countries. With a view to encouraging additional capacity, industrial sewing machines industry was delicensed in March 1985.

Table IV—14 : Output of Selected Light Mechanical Engineering Industries

Item	Unit	April-March		
		1984-85	1985-86(P)	1986-87(P)
1	2	3	4	5
1. Typewriters	'000 Nos.	115.8	121.5	94.1 @
		(+ 9.5)	(+ 4.9)	(+ 2.7)
2. Bicycles	"	5,892.5	5,552.6	4,442.3@
		(—)	(− 5.8)	(+ 7.1)
3. Sewing Machines	"	331.4	291.4	236.0 @
		(− 4.7)	(− 12.1)	(+ 8.4)
4. Hurricane Lanterns	"	1,284.0	1,298.0	983.3 @
		(+ 4.6)	(+ 1.1)	(− 0.5)
5. Razor Blades	Million Nos.	1,901	2,040	1,585 @
		(− 2.8)	(+ 7.3)	(+ 3.7)

P : Provisional.
@ : Data relate to April-December 1986.
Note : Figures in brackets represent percentage variations over the corresponding period of the preceding year.
Source: Central Statistical Organisation.

(iii) Electrical Engineering Industries

During 1986-87, production of all light engineering goods except electrical lamps ('GLS and others' and fluorescent) and storage batteries recorded decline (Table IV-15). Output of electrical fans, dry cells and domestic refrigerators recorded declines of 5.0 per cent, 2.2 per cent and 9.9 per cent, respectively, as against increases of 8.7 per cent, 3.5 per cent and 11.5 per cent, during last year. Production of radio receivers registered a further fall of 8.6 per cent over and above a fall of 3.2 per cent during the previous year.

Among selected heavy electrical engineering industries, output of electric motors recorded a higher increase of 13.4 per cent during 1986-87, than that of 6.3 per cent during the preceding year. Production of power transformers, on the other hand, declined by 0.6 per cent as against a rise of 7.3 per cent during 1985-86.

(iv) Electronics Industry

During 1986, electronics industry made significant progress. The major thrust areas were mini computer/micro processor based systems, Electronic Switching Systems (ESS),

Table IV–15 : Output of Selected Electrical Engineering Industries

Item	Unit	April-March		
		1984-85	1985-86(P)	1986-87 (P)
1	2	3	4	5
A. Light Electrical Engineering				
1. Electrical Lamps				
(i) GLS and Others	Million Nos.	276.6	268.8	216.4 @
		(+ 1.7)	(– 2.8)	(+ 7.8)
(ii) Fluorescent	"	40.4	40.7	36.3 @
		(+ 18.1)	(+ 0.7)	(+ 18.0)
2. Electrical Fans	'000 Nos.	4,810	5220	3590 @
		(+ 3.0)	(+ 8.7)	(– 5.0)
3. Radio Receivers	"	1,199.4	1,161.3	818.8 @
		(– 6.7)	(– 3.2)	(– 8.6)
4. Storage Batteries	"	1,990	2420	1,969 @
		(+ 3.6)	(+ 21.6)	(+ 19.8)
5. Dry Cells (Excluding graphites, electrodes & anodes)	Million Nos.	1,148.3	1,188.6	885.2 @
		(+ 11.1)	(+ 3.5)	(– 2.2)
6. Domestic Refrigerators	'000 Nos.	575.8	642.2	454.9 @
		(+ 19.1)	(+ 11.5)	(– 9.9)
B. Heavy Electrical Engineering				
1. Power Transformers	'000 KVA	25,390	27250	18290 @
		(+ 9.7)	(+ 7.3)	(– 0.6)
2. Electric Motors	'000 HP	4,940	5250	4,140 @
		(– 7.7)	(+ 6.3)	(+ 13.4)

P : Provisional

@ : Data relate to April-December.

Note : Figures in brackets represent percentage variations over the corresponding period of the preceding year.

Source : Central Statistical Organisation.

telecommunication equipments, etc. All the sectors in electronic industry viz., consumer electronics, instrumentation and industrial electronics, computers, communication and broadcasting, aerospace and defence components and export processing zones showed significant overall rise of 30.1 per cent in their production during the year over and above an increase of 40.7 per cent recorded during last year (Table IV-16).

Table IV—16 : Production in Electronic Equipment and Components
(Calendar Year Production)

(Rs. Crores)

Sector	1984	1985	1986
1	2	3	4
1. Consumer Electronics	587.0	1030.0	1,275.0
	(+ 77.9)	(+ 75.5)	(+ 23.8)
2. Instrumentation and Industrial Electronics	335.0	404.0	525.0
	(+ 33.5)	(+ 20.6)	(+ 30.0)
3. Computers	92.0	155.0	280.0
	(+ 17.9)	(+ 68.5)	(+ 80.6)
4. Communication and Broadcasting	320.5	380.0	504.0
	(+ 18.7)	(+ 18.6)	(+ 32.6)
5. Aerospace and Defence	149.0	196.0	222.0
	(+ 18.3)	(+ 31.5)	(+ 13.3)
6. Components	303.0	410.0	510.0
	(+ 31.7)	(+ 35.3)	(+ 24.4)
7. Export Processing Zones	103.5	85.0	144.0
	(+ 38.0)	(− 17.9)	(+ 69.4)
Total	**1,890.0**	**2,660.0**	**3,460.0**
	(+ 39.0)	**(+ 40.7)**	**(+ 30.1)**

Notes : 1) The figures for 1985 do not include export oriented production worth Rs. 16.0 crores from Kandla FTZ.
2) Figures in brackets represent percentage variations over the preceding year.

Source : Department of Electronics, Govt. of India.

A new dimension added during the year 1986-87 was the application of electronics for upgradation of the service sector. Computers have been introduced in banking operations, railways (passenger reservation, wagon movement optimization, etc.) and reservation on Airlines. The manufacture of Electronic Switching Systems (ESS) has already been started and a few more units will be added in the coming years. A Centre for Development of Telematics (C-DOT) has also been set up to develop indigenous technology for digital electronic switching systems. There has also been increasing use of electronics in industrial sector such as power generation and transmission networks, steel plants, coal mines, sugar mills, etc. The production base for electronics industry now has become widespread.

There are over 2,500 electronic industrial units spread over public sector, organised private sector and small scale sector. Besides these, there are a number of unregistered small units engaged mainly in the assembly of consumer electronic products, components parts used in consumer electronic items and assembly of instruments.

Keeping in view the need for rapid development of electronics industry in the country, the Government liberalised further the import of components of computers and electronic goods. A number of organisations having special requirements and large computing needs were allowed to import computer systems after examining such request from associated and indigenous angles. The major areas for which applications for such systems were cleared are Computer Aided Processing, Railway Reservations, Computerisation of various Government Departments such as Defence, Space, Atomic Energy, Power, Finance, etc. The import of computer systems as integral part of other systems such as CNC machines, various types of analytical instruments, colour

matching and control systems, special capital goods, etc. was also allowed during the year. Moreover, the process of decentralisation of licensing of items for the purpose of scheme approval continued during the year and at present 130 items are dealt with by State Directorates of Industries. Government also delegated powers to the Administrative Ministries to issue foreign collaboration approvals involving payment for technology not exceeding Rs. 1 crore .

(b) Metallurgical Industries — (Other than Iron and Steel)

A mixed trend was observed in the production of non-ferrous metals in 1986-87 as in 1985-86 (Table IV-17). The decline in the production of *aluminium* by 8.6 per cent to 175.2 thousand tonnes during 1986-87 (April-December), in addition to that of 7.9 per cent in corresponding period of 1985-86, is attributable to inadequate and erratic power supply, as power is the most critical input in production of aluminium. During 1986-87, for nearly three months the power supply position was unsatisfactory in the case of Indian Aluminium Company Limited (INDAL) and all the three smelters of INDAL were subjected to near 100 per cent power cut. For a long term measure to ensure adequate power supply, Bharat Aluminium Company Limited (BALCO) and National Aluminium Company (NALCO) both public sector companies are reportedly setting up their own captive power plants.

Table IV-17 : Production of Non-Ferrous Metals

(Thousand tonnes)

Item	April-December		
	1984	1985	1986 (P)
1	2	3	4
Virgin Metals			
1. Aluminium	208.2	191.7	175.2
	(+ 30.2)	(− 7.9)	(− 8.6)
2. Copper	24.8	19.3	25.4
	(+ 15.9)	(− 22.2)	(+ 31.6)
3. Lead	10.7	12.0	13.0
	(+ 2.9)	(+ 12.1)	(+ 8.3)
4. Zinc	38.7	51.9	51.8
	(− 11.2)	(+ 34.1)	(− 0.2)
Semi-manufactures			
1. Aluminium			
a. Sheets and Circles-Rolled Products	54.9	63.1	63.6
	(+ 19.1)	(+ 14.9)	(+ 0.8)
b. Wire Rods for Aluminium Conductor Steel Reinforced (ACSR)	14.0	12.0	11.3
	(+ 30.8)	(− 14.3)	(− 5.8)
2. Copper Sheets and Circles-Rolled Products }	12.5	10.9	10.3
3. Brass Sheets and Circles-Rolled Products }	(+ 5.0)	(− 12.8)	(− 5.5)

P : Provisional.
Note : Figures in brackets indicate percentage variations over the preceding year.
Source: D.G.T.D.

The present installed capacity for production of aluminium is 362 thousand tonnes per annum. When NALCO goes into full production, the installed capacity will increase to 580 thousand tonnes per annum. Under automatic growth scheme, HINDALCO has been allowed expansion from 120 thousand tonnes to 150 thousand tonnes per annum.

As the demand for aluminium exceeded the supply, gap between demand and supply was met by imports. During 1986-87, according to estimates of the Department of Mines, the demand - supply gap was 75 thousand tonnes as against 54 thousand tonnes in the preceding year. For 1986-87, import of 65 thousand tonnes has been planned to meet the shortage.

The price of aluminium is fixed by the Government from time to time under the Aluminium Control Order, 1970. Under the existing pricing scheme, aluminium producers are entitled to a retention price based on their cost of production and a return on net worth of the capital employed. The sale price is fixed at weighted average of the retention prices. The prices of aluminium have been revised with effect from March 1, 1987; earlier price revision was made on December 20, 1985. The Bureau of Industrial Costs and Prices (BICP) after a detailed study recommended a retention price raising the ex-factory average sale price from Rs. 19,535 per tonne to Rs. 25,311 per tonne (or 29.6 per cent increase). In order to contain the impact of the increase in the price, the Government took several measures with the result that the average ex-factory sale price fixed by the Government was lower than that recommended by the BICP. The Government has fixed the average sale price at Rs. 23,928 per tonne which is 22.5 per cent higher than earlier price of Rs. 19,535 per tonne.

Department of Mines continued to follow liberalised licensing policy for the manufacture of aluminium semis, alloys and extrusions with a view to promoting development of aluminium downstream facilities in the secondary sector.

The production of refined *copper* (cathode) according to the available data upto December 1986, was 25.4 thousand tonnes (an increase of 31.6 per cent) over that of 19.3 thousand tonnes during the corresponding period in the preceding year. The country's demand for copper is being met partly through indigenous production and partly through imports. The imports during 1986-87 are estimated at 55 thousand tonnes as compared with 62 thousand tonnes during 1985-86.

Some of the steps being taken to increase indigenous production of copper in the immediate future are as follows :-

(i) Plans have been approved for debottlenecking and modernisation of the smelters and refineries both at Indian Copper Complex (ICC) and Khetri Copper Complex (KCC) to achieve rated copper production;

(ii) Government has sanctioned an integrated study of the Singhbhum Copper Belt in Bihar at an estimated cost of Rs. 3.51 crores.

The production of *lead* in 1986-87 (April-December 1986) at 13.0 thousand tonnes recorded an increase of 8.3 per cent over that in the corresponding period of the previous year. The production of *zinc* during April-December 1986 was around 51.8 thousand tonnes, nearly at the same level as attained during April-December 1985.

The domestic production of zinc and lead could fulfil 50 per cent and 40 per cent, respectively, of the domestic demand. As indigenous production of these metals is not sufficient to meet domestic demands, the gap is being met by their imports.

C. Intermediate Goods Industries

(a) Jute Textiles

The production of jute textiles at 13.93 lakh tonnes during 1986-87 recorded an increase of 3.0 per cent in contrast to a decline of 1.3 per cent in 1985-86 (Table IV - 18).

Table IV-18 : Jute Textiles*

(Thousand tonnes)

Item	Year (April-March)	Hessian	Sacking	Carpet Backing	Others	Total
1	2	3	4	5	6	7
Production	1984-85	325.5	805.6	46.6	192.0	1,369.7
		(+ 43.1)	(+ 22.4)	(+ 53.3)	(+ 11.0)	(+ 25.8)
	1985-86	310.9	823.4	30.5	186.9	1,351.7
		(− 4.5)	(+ 2.2)	(− 34.5)	(− 2.7)	(− 1.3)
	1986-87	348.4	829.9	53.5	160.8	1,392.6
		(+ 12.1)	(+ 0.8)	(+ 75.4)	(− 14.0)	(+ 3.0)
Domestic Consumption **	1984-85	124.5	739.1	—	171.1	1,034.7
		(+ 16.7)	(+ 8.2)		(+ 8.9)	(+ 9.2)
	1985-86	131.2	795.4	1.2	166.5	1,094.3
		(+ 5.4)	(+ 7.6)		(− 2.7)	(+ 5.8)
	1986-87	143.8	799.6	3.0	142.7	1,089.1
		(+ 9.6)	(+ 0.5)	(+ 150.0)	(− 14.3)	(− 0.5)
Year-end Stocks	1984-85	19.0	37.2	6.7	10.8	73.7
		(+ 57.0)	(+ 156.6)	(+ 67.5)	(+ 52.1)	(+ 95.5)
	1985-86	17.0	26.6	10.2	12.8	66.6
		(− 10.5)	(− 28.5)	(+ 52.2)	(+ 18.5)	(− 9.6)
	1986-87	22.9	28.7	9.1	13.0	73.7
		(+ 34.7)	(+ 7.9)	(− 10.8)	(+ 1.6)	(+ 10.7)

— Nil * : Provisional.
** : Figures represent despatches from mills for internal consumption.
Note : Figures in brackets represent percentage variations over the preceding year.
Source: Ministry of Commerce (Office of the Jute Commissioner).

The rise in the output of jute goods during the year can be attributed to comfortable supply of raw jute at reasonable prices from the beginning of the year following record harvest of raw jute in 1985-86 and expected good crop during 1986-87. The production of jute goods would have been still higher but the sluggish demand faced both in the domestic and overseas markets acted as a deterrent to higher levels of production.

Category-wise, the output of carpet backing and hessian at 53.5 thousand tonnes and 348.4 thousand tonnes recorded substantial increases of 75.4 per cent and 12.1 per cent in contrast to the decreases of 34.5 per cent and 4.5 per cent, respectively, during last year. The production of sacking, however, registered only a marginal rise of 0.8 per cent compared with 2.2 per cent during the previous year. The output of other jute goods recorded a steep fall of 14.0 per cent on top of a decline of 2.7 per cent during 1985-86.

Domestic consumption of jute goods during 1986-87 at 10.89 lakh tonnes showed a marginal fall of 0.5 per cent in contrast to an increase of 5.8 per cent in the preceding year. The decline in domestic demand for jute goods is attributable mainly to their higher costs as compared with cheaper priced HDPE/PP woven sacks (synthetic substitutes). However, measures to stimulate demand for jute goods within the country by making use of jute bags obligatory for certain categories of industries upto certain percentage of their production are under Government's consideration. Advance demand projections for jute bags for packaging of foodgrains are being made to impart stability to the jute goods market. Recently, Director General of Supplies

and Disposals (DGS & D) is also placing higher orders for supplies of jute goods with mills.

With a rise in the production of jute goods and fall in domestic consumption, the stocks of jute goods with mills increased to 73.7 thousand tonnes at end-March 1987 or by 10.7 per cent from 66.6 thousand tonnes at end-March 1986. Stocks of two main constructions of jute goods i.e., hessian and sacking, increased by 34.7 per cent and 7.9 per cent, respectively. Stocks of other jute goods, however, increased marginally by 1.6 per cent. Stocks of carpet backing, on the other hand, declined by 10.8 per cent.

The information regarding exports of jute manufactures including twist and yarn and related measures implemented by the Government is covered in the chapter on 'Developments in India's Foreign Trade' of this Report.

The Government took several steps to encourage domestic consumption of jute goods and to narrow down the imbalances between supply and demand which are outlined below.

(1) Two newly developed constructions of light weight jute and jute-based blended bags have been permitted for commercial use by cement industry. Since cost of these lighter bags is expected to be somewhat lower, these bags will be in a better position to compete with synthetic bags.

(2) The Parliament has approved the Jute Packaging Materials (compulsory use in packaging commodities) Bill 1987 for mandatory use of jute bags in certain specified sectors of industry upto a defined percentage of their production.

(3) In September 1986, a comprehensive package of measures for revitalising jute industry has been announced which includes a) raising of modernisation fund of Rs. 150 crores, b) jute development fund of Rs. 100 crores for rehabilitating and restructuring of jute industry as well as development of raw jute and c) duty-free import of new technology, machinery and spares. In addition, raw jute buffer stock scheme was introduced in April 1986 to bring about stability in prices and supply.

(b) Rubber and Rubber Manufactures

The production of natural rubber in 1986-87 increased to 219.5 thousand tonnes from 200.5 thousand tonnes in 1985-86 thus recording a higher growth rate of 9.5 per cent than that of 7.6 per cent in 1985-86 (Table IV-19). The increase was due to expansion in acreage under tapping as well as improvement in productivity. The average yield per hectare was estimated to have increased to 930 kgs. from 898 kgs. in 1985-86.

Consumption of natural rubber also increased significantly by 9.3 per cent during the year and stood at 257.3 thousand tonnes as against 235.4 thousand tonnes last year. The significant rise in the production of automobiles during 1986-87 particularly in respect of light commercial vehicles and two wheelers, contributed to increased consumption of natural rubber during the year. Thus, consumption of natural rubber far exceeded its production and therefore the Government had to arrange for imports of natural rubber to the extent of 45.1 thousand tonnes through the State Trading Corporation of India (STC).

The year-end stocks of natural rubber at 62.7 thousand tonnes showed an increase of 7.3 thousand tonnes or 13.2 per cent when compared with that of 55.4 thousand tonnes a year ago.

The Rubber Board continued to take various measures for raising the production of natural rubber. Granting of financial and technical assistance under the Rubber Plantation Development Scheme introduced by the Rubber Board in 1981 accelerated the pace of new plantation and replantation of rubber. Under the scheme, capital subsidy to small growers of Rs. 5,000 per hectare, same amount of subsidy to large rubber growers (owning more than 5 hectares) in non-traditional areas, subsidy in interest

Table IV-19 : Rubber

(Thousand tonnes)

Item	April-March		
	1984-85	1985-86(P)	1986-87(P)
1	2	3	4
Production			
Natural	186.4	200.5	219.5
	(+ 6.3)	(+ 7.6)	(+ 9.5)
Synthetic	37.7	34.8	38.8
	(+ 16.7)	(− 7.7)	(+ 11.5)
Reclaimed	34.2	39.2	39.0
	(+ 11.4)	(+ 14.6)	(− 0.5)
Imports			
Natural	37.5	41.4	45.1
	(+ 4.5)	(+ 10.4)	(+ 8.9)
Synthetic	24.0	30.8	28.1
	(− 20.0)	(+ 28.3)	(− 8.8)
Consumption			
Natural	217.5	235.4	257.3
	(+ 3.8)	(+ 8.2)	(+ 9.3)
Synthetic	65.4	70.0	71.8
	(+ 5.0)	(+ 7.0)	(+ 2.6)
Reclaimed	34.6	38.2	38.6
	(+ 12.7)	(+ 10.4)	(+ 1.0)
Year-end Stocks			
Natural	54.2	55.4	62.7
	(+ 19.9)	(+ 2.2)	(+ 13.2)
Synthetic	11.6	14.5	15.1
	(+ 28.9)	(+ 25.0)	(+ 4.1)
Reclaimed	2.1	3.1	3.6
	(− 19.2)	(+ 47.6)	(+ 16.1)

P : Provisional.
Note : Figures in brackets represent percentage variations over the preceding year.
Source: Rubber Board, Government of India.

payment and free advisory support are some of the additional benefits given to the growers. The acreage planted with high yielding varieties under the scheme during 1986-87 was estimated at 12,000 hectares. The Board continued to distribute high yielding varieties of plants to the growers to popularise the use of such varieties. The Board also continued to give financial and technical assistance to co-operatives of small holders for improving the processing and marketing of rubber.

Surveys and trial plantations have been conducted by the Board in the non-traditional areas. For accelerating the development of rubber plantation in the North Eastern region, the Government has initiated a project to develop 24,000 hectares during the period 1984-85 to 1989-90. During 1986, an estimated 3,000 hectares were newly planted in this region. Comprehensive arrangements have been made to increase it to 6,000 hectares during the year 1987-88.

Production of synthetic rubber at 38.8-thousand tonnes in 1986-87 recorded a substantial rise of 11.5 per cent in contrast to a fall of 7.7 per cent in 1985-86 when the production was

34.8 thousand tonnes. The consumption of synthetic rubber increased at a lower rate of 2.6 per cent to 71.8 thousand tonnes compared with a rise of 7.0 per cent in the previous year necessitating lower imports (28.1 thousand tonnes in 1986-87 as against 30.8 thousand tonnes in 1985-86) of synthetic rubber. The stocks of synthetic rubber increased marginally to 15.1 thousand tonnes at the end of 1986-87 from 14.5 thousand tonnes a year ago.

With a view to maintaining the indigenous prices for natural rubber at the floor level of Rs. 16,500 per tonne fixed by the Government, it approved a buffer stocking scheme for natural rubber on a pilot basis in February 1986 requiring the STC to maintain stocks of indigenous and imported rubber and sell the same if the price rises to a level of Rs. 16,800 per tonne, till it falls back to its floor level of Rs. 16,500 per tonne. Alternatively, if the price falls to a level of Rs. 16,200 per tonne, the STC would purchase rubber in the market till the price touches its floor level. The STC has initiated price support operations and purchased around 6,700 tonnes of rubber till January 1987. The scheme would benefit not only the growers but also the consumers as the prices would stabilise over a period.

The data on production of selected rubber goods industries for the years 1984-85 to 1986-87 are presented in Table IV-20. The estimated production of auto tyres during 1986-87 at 130.0 lakh numbers recorded a further increase of 6.1 per cent over and above an increase of 6.9 per cent during 1985-86; such a consistent rise was due to continued overall increase in the production of automobiles. Besides, the production of auto tubes recorded a rise of 1.7 per cent during the year in contrast to a fall of 30.9 per cent during 1985-86. Production of cycle tyres and tubes on the other hand, registered a fall of 4.0 per cent and 8.2 per cent, respectively, during the year in contrast to the increases of 17.0 per cent and 59.4 per cent, respectively, during 1985-86. The fall in the output of cycle tyres and tubes could be attributed to a sizeable stock build-up of these items during the previous year. Production of rubber footwear recorded a rise of 6.5 per cent in 1986-87 on top of a rise of 4.9 per cent during the previous year.

Table IV-20 : Production of Tyres, Tubes and Footwear

(Lakh number)

Year (April-March)	Automobile Tyres		Automobile Tubes	Cycle Tyres	Cycle Tubes	Rubber Footwear (Pairs)
	Total	*of which :* Giant Tyres				
1	2	3	4	5	6	7
1984-85	114.6	46.2	146.6	311.8	170.8	358.0
	(+ 12.9)	(+ 1.3)	(+ 83.5)	(− 4.6)	(− 1.1)	(− 2.8)
1985-86 (P)	122.5	47.9	101.3	364.7	272.3	375.7
	(+ 6.9)	(+ 3.7)	(− 30.9)	(+ 17.0)	(+ 59.4)	(+ 4.9)
1986-87 (P)	130.0£	N.A.	103.0	350.0£	250.0£	400.0£
	(+ 6.1)		(+ 1.7)	(− 4.0)	(− 8.2)	(+ 6.5)

P : Provisional.
£ : Estimated Production.
Note : Figures in brackets represent percentage variations over the preceding year.
Sources : Directorate General of Technical Development, Central Statistical Organisation and Annual Report of Department of Industrial Development.

(c) Chemicals and Chemical Products

Production of Chemicals and Chemical Products which has a weight of 12.51 per cent in the general index of industrial production (1980-81 = 100) registered a lower growth rate of 13.0 per cent (April-October 1986) in their output as against 19.7 per cent rise recorded in the corresponding period last year (Table IV-21).

Table IV–21 : Production of Major Chemicals and Chemical Products

(Thousand tonnes)

Item	April-Dec. 1984	April-March 1984-85	Apr.-Dec. 1985	Apr.-March 1985-86(P)	Apr.-Dec. 1986	Apr.-March 1986-87(P)@
1	2	3	4	5	6	7
1. Nitrogenous Fertilisers (N content)	2821	3917	3085	4328	3884	5300
		(+ 12.2)	(+ 9.4)	(+ 10.5)	(+ 25.9)	(+ 22.5)
2. Phosphatic Fertilisers (P_2O_5)	942	1264	1032	1428	1198	1650
		(+ 20.6)	(+ 9.6)	(+ 13.0)	(+ 16.1)	(+ 15.5)
3. Caustic Soda	521	696	544	726	549	750
		(+ 7.7)	(+ 4.4)	(+ 4.3)	(+ 0.9)	(+ 3.3)
4. Soda Ash	608	812	622	918	646	950
		(+ 4.1)	(+ 2.3)	(+ 13.1)	(+ 3.9)	(+ 3.5)
5. Paints and Varnishes (Organised Sector)	97	131	102	140	115	154
		(+ 14.9)	(+ 5.2)	(+ 6.9)	(+ 12.7)	(+ 10.0)
6. Soaps (Organised Sector)	284	377	277	342	283	390
		(+ 4.1)	(−2.5)	(−9.3)	(+ 2.2)	(+ 14.0)
7. Synthetic Detergents (Organised Sector)	123	168	148	186	147	200
		(+ 18.3)	(+ 20.3)	(+ 10.7)	(−0.7)	(+ 7.5)
8. Drugs and Pharmaceuticals (Rs. crores)						
(i) Bulk Drugs		365		409		458
		(+ 2.8)		(+ 12.1)		(+ 12.0)
(ii) Formulations		1827		1945		2139
		(+ 3.8)		(+ 6.5)		(+ 10.0)
9. Alcohol (Million Litres)+		594		580		N.A.
		(+ 3.1)		(− 2.4)		

@ : Estimated.
P : Provisional.
+ : Data relate to alcohol year, i.e., December-November.
N.A. : Not Available.
Note : Figures in brackets represent percentage variations over the preceding year.
Sources : (i) Department of Chemicals and Petrochemicals, Ministry of Industry.
(ii) Department of Fertilisers, Ministry of Agriculture.
(iii) Department of Industrial Development, Ministry of Industry.
(iv) D.G.T.D.

Among selected items in this group, production of fertilisers (nitrogenous & phosphatic) is estimated to have risen by 20.7 per cent during 1986-87 as compared with a rise of 11.1 per cent in the last year. This accelerated rise is attributable to higher capacity utilisation of existing units and significant contribution of new units. Production of nitrogenous fertilisers (in terms of nutrients), according to the available data for the period April-December, 1986 increased by 25.9 per cent as against 9.4 per cent rise during the corresponding period last year. The production of phosphatic fertilisers also grew at a faster rate of 16.1 per cent, during April-December 1986 as against 9.6 per cent in April-December 1985.

Quite significantly, the nitrogenous fertiliser plants are set to achieve average capacity utilisation of 79.5 per cent in 1986-87 from a level of 71.2 per cent in the previous year. It is expected that the capacity utilisation of the fertiliser industry would improve further with the commissioning of more new generation modern plants based on proven technology and equipment. The problem of low performance in the fertiliser industry is confined to old and sick units which are faced with the problems of obsolesence, defective design/ equipments and unstable power supply. The power problems faced by these units are being solved through installation of captive power facilities.

At present, there are 42 fertiliser plants producing a wide range of nitrogenous and complex/phosphatic fertilisers. Besides,there are over 50 smaller units producing Single Super Phosphate and six units producing Ammonium Sulphate as by-product from steel plants. The commencement of production in two new phosphatic fertiliser plants at Paradeep (Phase-I) in the public sector and Haldia in the private sector was a notable development during the year.

Necessary steps have been taken for the installation of the additional capacity both in nitrogenous and phosphatic fertiliser plants envisaged during the Seventh Plan period. Consequently, installation of new units and expansion of existing units in respect of 15 plants are at present, under implementation.

The production of industrial alcohol during the year 1985-86 (December-November) declined by 2.4 per cent to 580 million litres from 594 million litres during 1984-85. The duty free import of alcohol (denatured) to actual users had to be continued during the year to make up for the short supply of alcohol.

Production of Caustic Soda at 549 thousand tonnes registered a lower rate of growth of 0.9 per cent in 1986-87 (April-December) than 4.4 per cent increase in the preceding year.

Production (in terms of value) of bulk drugs and formulations maintained an upward movement with an estimated production valued at Rs. 458 crores and Rs. 2139 crores in 1986-87, thus showing a rise of 12.0 per cent and 10.0 per cent, respectively, over the levels of last year. The trend of increasing production in a large number of essential drugs was maintained during 1986-87.

The 1978 Drug Policy was reviewed in the light of the considerable changes in the pharmaceutical sector in the country since 1978. The new measures for rationalisation, quality control, and growth of pharmaceutical industry were announced in December 1986. The new measures are directed towards the speedy growth of this industry in the desired areas and in conformity with the healthy needs of the people. In order to achieve economies of scale, minimum economic capacities were announced during the year for certain drugs. A number of drugs were brought under the delicensing scheme to facilitate their production to a desired level.

During the year, the prices of 21 bulk drugs have been fixed/revised under the Drugs (Price control) order 1979 on the basis of changes in the cost. Prices of about 1200 formulations were also revised/fixed during the year.

D. Consumers Goods Industries

Sugar

Sugar production in the year 1986-87 (October-September) is expected to reach the peak level of 85 lakh tonnes as compared with that of 70.03 lakh tonnes in 1985-86; the earlier peak was at 84.38 lakh tonnes in 1981-82. Production during the 1986-87 season so far (upto June 30, 1987) at 83.85 lakh tonnes was 15.15 lakh tonnes or 22 per cent higher than that of 68.70 lakh tonnes during the corresponding period last season, as also higher by 13.82 lakh tonnes than that of 70.03 lakh tonnes during the entire 1985-86 season. Together with imported sugar, total availability in 1986-87 (till June 30) was 109.80 lakh tonnes as against 98.31 lakh tonnes in the corresponding period of the previous season. Total

offtake was around 65.35 lakh tonnes comprising 65.17 lakh tonnes for internal consumption and 0.18 lakh tonnes for exports, as against 60.71 lakh tonnes comprising of 60.53 lakh tonnes for internal consumption and 0.18 lakh tonnes for exports during the same period last season. Stocks of sugar as on June 30, 1987 at 44.45 lakh tonnes were also higher than that of 37.60 lakh tonnes on the same day last season. Data on sugar production, consumption etc. are indicated in Table IV-22. The increase in sugar production during 1986-87 was due to a series of measures initiated by the Government.

Table IV—22 : Availability and Consumption of Sugar

(October—September) (Lakh tonnes)

Item	1984-85	1985-86	1985-86 Oct. 1, 1985 to June 30, 1986	1986-87 Oct. 1, 1986 to June 30, 1987
1. Opening stock	23.74	15.79	15.79	18.96
	(0.94)	(1.84)	(1.84)	(1.24)
2. Production	61.43	70.03	68.70	83.85
3. Imports	11.87	16.19	13.82	6.99
4. Total supply (1+2+3)	**97.04**	**102.01**	**98.31**	**109.80**
5. Internal consumption	80.93	82.72	60.53	65.17
	(10.97)	(16.97)	(14.37)	(6.89)
6. Exports	0.32	0.33	0.18	0.18
7. Total offtake (5+6)	81.25	83.05	60.71	65.35
8. Closing stock (4—7)	15.79	18.96	37.60	44.45
	(1.84)	(1.24)	(1.29)	(1.34)

Note: Figures in brackets relate to imported sugar which have been included in the item.

Source: Indian Sugar Mills' Association

Policy Measures

The Government announced its new sugar policy for the current (1986-87) season on December 12, 1986 (as also for the rest of the Seventh Plan period). The policy aimed at harmonising the interests of consumers, sugarcane growers and the sugar industry. The existing policy of partial decontrol with a dual price mechanism as also the practice of announcing the statutory minimum price of sugarcane well in advance of the sowing season was to continue. The ratio of levy and free sale quota has been modified from 55:45 to 50:50 with a view to improving the viability of sugar factories, besides making available to the consumers a larger quantity of sugar in the open market at reasonable prices.

To increase sugar production during the 1986-87 sugar season, the Union Government decided to provide incentives to sugar factories for early as well as late crushing of sugarcane. Rebate in excise duty for early crushing was announced on September 10, 1986 and was given on sugar produced in excess during the period October 1, 1986 to November 30, 1986 as compared to the output during the corresponding period of the previous two sugar seasons. The quantum of rebate in excise duty for levy sugar was Rs. 17 a quintal and for free sale sugar Rs. 24 per quintal. Rebate in excise duty for late crushing was announced on April 10, 1987 for sugar produced in excess during the period May 1 to June 30, 1987 as compared to the average production during the corresponding period of the previous three sugar seasons. The quantum

of rebate in excise duty for levy and free sale is the same as announced for early crushing.

The statutory minimum cane price for the 1986-87 season was increased from Rs. 16.50 to Rs. 17.00 per quintal linked to a basic recovery of 8.5 per cent. The Government had also announced that the statutory minimum cane price for the 1987-88 season would be Rs.18.00 per quintal linked to a basic recovery of 8.5 per cent.

Following the enhancement of the minimum price of sugarcane from Rs. 16.50 per quintal to Rs. 17.00 per quintal in 1986-87, the ex-factory price of levy sugar (all-India average) which is worked out on the basis of statutory minimum price of sugarcane announced for the season and the conversion cost schedule recommended in the Report of the Bureau of Industrial Cost and Price,was enhanced from Rs. 391.24 to Rs. 398.34 per quintal. As in the past, mills considered weak were to receive an additional Rs. 26 per quintal. With the increase in the all-India average ex-factory price of levy sugar, government decided to increase the retail price of levy sugar (distributed through fair price shops) from Rs. 4.80 per kg. to Rs. 4.85 per kg. with effect from December 15, 1986.

The Government increased the monthly levy quota with effect from February 1987 to 3.32 lakh tonnes keeping in view the increase in the population since the last revision in the quota in 1983. The quotas were earlier fixed for the estimated population as on October 1, 1983 on the basis of a monthly per capita availability of 425 grams. The monthly levy quotas have now been revised (the same per capita availability of 425 grams) for the estimated population as on October 1, 1986. This is expected to meet the increased requirements of the State Governments for levy sugar. The quantum of levy sugar allocation to the States during three months of 1986-87 season was kept at 3.13 lakh tonnes per month as in the earlier seasons. However, additional quantities of 50,000 tonnes were released for distribution for September, October 1986 and September 1987.

The release of sugar during the current season at 91.78 lakh tonnes was higher as compared to 88.16 lakh tonnes in the preceding season. Data on sugar releases both for levy and free sale for the current and preceding season are given in Table IV-23.

With a view to augmenting availability of sugar for internal consumption and to keep sugar prices in check sugar imports were continued during the 1986-87 season. However, following improved production in the 1986-87 season, imports of sugar were kept low. Imports upto April 30, 1987 amounted to 3.74 lakh tonnes as compared to 12.38 lakh tonnes during the corresponding period of the previous season and 16.26 lakh tonnes imported during the entire 1985-86 season. During the financial year 1986-87 sugar imports totalled 7.95 lakh tonnes valued at Rs. 212 crores as against 20.22 lakh tonnes valued at Rs. 446.84 crores in the previous financial year. Imports are being handled by the Food Corporation of India (FCI) since May 1985. Imported sugar was released into the market through three channels viz. (i) by tenders at selected centres (ii) by supply to State Government/Agencies for sales in the open market and (iii) by diversion of limited quantities to the public distribution system wherever needed. The imported sugar sold through state governments was generally sold at a price below Rs. 5.80 per kg. The issue price was revised upwards from Rs. 520 to Rs. 540 per quintal, with effect from January 1987.

The International Sugar Agreement, 1977 of which India was an exporting member, expired on December 31, 1984. As negotiations for a new International Sugar Agreement (ISA) failed at the UN Conference, a new Agreement viz., International Sugar Agreement, 1984 without economic clauses was evolved for a period of two years from January 1, 1985 to 31st December 1986. The term of this Agreement has been extended upto December 31, 1987. India is a member of this Agreement. Under this new Agreement, members are free to import/export any quantity without quota

Table IV–23 : Sugar releases during 1985-86 and 1986-87 season

(Lakh tonnes)

Month	1985-86			1986-87		
	Levy	Free Sale	Total	Levy	Free Sale	Total
October	3.63	4.00	7.63	3.63	4.50	8.13
November	3.63	4.00	7.63	3.13	4.50	7.63
December	3.13	3.75	6.88	3.13	4.25	7.38
January	3.13	3.75	6.88	3.13	4.00	7.13
February	3.13	3.60	6.73	3.32	4 10	7.42
March	3.13	3.50	6.63	3.32	4.20	7.52
April	3.13	4.00	7.13	3,32	4.20	7.52
May	3.13	4.50	7.63	3.32	4.30	7.62
June	3.13	4.50	7.63	3.32	4.30	7.62
July	3.13	4.50	7.63	3.32	4.30	7.62
August	3.13	4.50	7.63	3.32	4.30	7.62
September	3.63	4.50	8.13	3.82	4.75	8.57
Total	39.06	49.10	88.16	40.08	51.70	91.78
Monthly Average	3.26	4.09	7.35	3.34	4.31	7.65

restrictions. In view of this, and taking into account the difficult sugar situation in the country (fall in production and increase in consumption) export of sugar during the years 1984-85 and 1985-86 was restricted to preferential EEC and U.S. quotas; besides, a small quantity of sugar was exported to Nepal and Maldives. Total exports in 1985 and 1986 were placed at 0.38 lakh tonnes and 0.36 lakh tonnes respectively. The pattern of restricted exports is likely to continue in 1987. The International Sugar Organisation Council decided to convene a UN Sugar Conference in London on September 8-9 to approve a new administration agreement. The Council also set up preparatory Committee to examine the terms of a new Sugar Agreement.

Licensing in Sugar Industry

The policy for licensing of additional capacity in sugar industry during the Seventh Five Year Plan which was under consideration of the Government was announced on December 12, 1986. The broad guidelines to be followed for granting licences for the establishment of new sugar factories and expansions in the existing units are as under:

(i) The sectoral priorities followed during the Sixth Plan period would continue during the Seventh Plan period also. First priority would be accorded for the establishment of a new sugar factory in the cooperative sector. The public sector would be accorded the next priority.

(ii) The basic criterion for the establishment of a new sugar factory would be abundant availability of sugarcane in a compact area around the proposed factory site. Potential for further cane development would be an additional factor.

(iii) To ensure supply of adequate quantity of sugarcane for the existing sugar mills as well as to meet the requirements arising from future expansion in capacity, no licence would be granted for the establishment of a new sugar

factory within a radius of 40 kms. of an existing unit.

(iv) To take advantage of the economies of scale as well as facilities of modern technology, subject to the availability of sugarcane, new units would now be licensed for an initial capacity of 2500 Tonnes Crushing per Day (TCD) and not for 1250 TCD as done earlier. Expansion in the existing units would be allowed upto 3500 TCD. Proposals for expansion in the existing units upto a maximum of 5000 TCD would be permitted, provided the entire additional requirement of sugarcane accrues through increased productivity and not by expansion of area.

(v) Establishment of new sugar units in backward areas will be given priority subject to adequate availability of cane and also techno-economic feasibility.

This policy would be the guiding factor for the pending proposals for establishment of new sugar factories and effecting expansion in the existing units.

As on June 30, 1987 the licensed capacity of the sugar industry was 95.91 lakh tonnes spread over 398 sugar factories while the installed annual sugar production capacity was 77.83 lakh tonnes representing 377 sugar factories. During the crushing season 1986-87, the installed annual sugar production capacity is expected to increase further through commissioning of 21 more sugar factories and the completion of 78 expansion projects.

Sugar Development Fund set up under the Sugar Development Fund Act, 1982, is funded by transfer of proceeds of sugar cess (Rs. 14 per quintal) collected under Sugar Cess Act, 1982 on sugar produced in the country. This fund is to be utilised by the Government of India for the purposes of making loans for,

i) Rehabilitation/modernisation of sugar industry;

ii) Development of sugarcane by the sugar factory;

iii) Grants to established institutions for research projects aimed at the development of sugar industry;

This act was amended in November 1982 to enable the government to apply the fund also for defraying expenditure on building up and maintenance of buffer stocks of sugar. This amendment was carried out with a view to stabilising prices. During 1986-87 (upto December 31, 1986), a sum of Rs. 40 crores was credited to the Sugar Development Fund taking the total amount in the Fund to Rs. 361 crores. Of this, a sum of Rs. 6.87 crores was paid (upto December 31, 1986) to sugar mills as charges for holding the buffer stocks as against Rs. 16.53 crores paid during 1985-86. Loans on soft terms of Rs. 13.49 crores for sugarcane development and Rs. 3.29 crores for modernisation and rehabilitation of sugar factories also had been sanctioned from the Fund.

The Levy Sugar Price Equalisation Fund was created in 1976 (which came into existence in April 1976) for securing recovery of the excess realisation made by sugar mills under interim Orders of Courts, over and above the prices fixed under the Essential Commodities Act and refunding the same to rightful claimants. During the year 1986, a sum of Rs. 1.78 crores was recovered from the mills and credited to the fund, bringing the total amount thus credited, to Rs. 10.24 crores since the establishment of the fund. In addition, under court orders, the Food Corporation of India collected by way of recovery, a sum of Rs. 11.82 crores.

(b) Textiles — Cotton and Synthetic

The growth rate of the composite production index of textile industry having a weight of 12.31 per cent in the general index of industrial production has been hovering around 2.3 per

cent during the last five years. This stagnancy is accounted for by incidence of sickness, particularly in the organised mill sector, insufficient availability of synthetic yarn and divergent organisational structure of the industry, all leading towards higher costs of output.

With a view to rectifying depressed state of affairs in the textile industry, the Government announced a new textile policy in June 1985. In addition, the Industrial Development Bank of India (IDBI) established a modernisation fund of Rs. 750 crores for the revival of the industry. However, despite these measures, the textile industry is not showing expected progress, particularly mill sector whose production of cloth is declining over the years.

At the end of March 1987, there were 1031 mills (both spinning and composite) with an estimated installed capacity of 26.12 million spindles and 206 thousand looms. The capacity utilisation of spindles and looms as at the end of March 1987 declined to 72 per cent and 61 per cent from 73 per cent and 62 per cent, respectively, a year ago. The low productivity could be attributed to substantial backlog of modernisation, high cost of raw materials, insufficient and indifferent management in some cases, unskilled labour, and intermittent power cuts.

Available data indicate that the number of closed mills as at the end of October 1986 increased to 84 from 78 as at the end of December 1985. During the same period, the number of spindles affected due to closure of mills increased to 21.92 lakhs from 19.63 lakhs and the number of looms to 20.0 thousand from 19.3 thousand.

The total production of yarn (cotton, blended/mixed yarn and 100 per cent man-made fibre yarn) registered a growth rate of 5.1 per cent during 1986-87, almost the same as that during 1985-86 (5.0 per cent) (Table IV-24). The marginal improvement in the output of yarn in 1986-87 was brought about by increases in the production of blended/mixed yarn and 100 per cent man-made fibre spun yarn. On the other hand, the rate of growth of production of cotton yarn decelerated from 5.9 per cent in 1985-86 to 3.8 per cent in 1986-87. The higher rates of growth in the output of non-cotton yarn perhaps indicate the transformation taking place in the product-mix of the industry. With a view to making available adequate quantity of yarn to the handloom sector, the Government have taken various measures to ensure adequate flow of yarn to this sector.

The domestic consumption of all yarn showed a smaller increase of 1.3 per cent during 1986-87 as compared with 5.3 per cent in the previous year mainly on account of deceleration in demand for yarn both from mill sector and decentralised sector. The export of cotton yarn during the year increased to 28 million kgs. from 11 million kgs. in the preceding year registering an increase of more than two and a half times. In terms of value also, exports increased to Rs. 101 crores from Rs. 45 crores in 1985-86.

As a result of smaller growth in domestic consumption which was partly compensated by higher exports, the unsold stocks of yarn at the end of March 1987 moved up to 33.1 million kgs. from 31.1 million kgs. a year ago.

The total output of cloth (cotton, blended and mixed and fully man-made fibre fabrics) in the mill and decentralised sectors increased by 3.9 per cent in 1986-87 almost at the same rate as compared with 4.0 per cent in 1985-86 (Table IV-25). The improvement in all cloth production was entirely on account of an increase of 6.0 per cent in the production of cloth by decentralised sector. Production in the mill sector, on the other hand, has been showing a declining trend over the past few years. While the production of cotton fabrics showed a decline of 4.5 per cent during the year 1986-87, the blended and mixed fabrics and fully man-made fibre fabrics registered increases of 7.0 per cent and 50.0 per cent, respectively, during the same period. This is attributable to the rising demand for blended fabrics than for cotton fabrics. Mills also seem

Table IV-24 : Production, Consumption and Exports of Yarn

(Million Kgs.)

Item	April-March 1984-85 (P)	1985-86 (P)	1986-87 (P)
1	2	3	4
A. Production (i+ii+iii)	**1,382**	**1,451**	**1,525**
	(+ 4.6)	**(+ 5.0)**	**(+ 5.1)**
(i) Cotton Yarn	1,183	1,253	1,300
	(+ 6.4)	(+ 5.9)	(+ 3.8)
(ii) Blended / Mixed Yarn	129	128	146
	(− 3.7)	(− 0.8)	(+ 14.1)
(iii) 100 per cent Man-made fibre spun yarn	70	70	79
	(− 6.7)	(−)	(+ 12.9)
B. Exports *			
Value (Rs. Crores)	36	45	101
	(+ 56.5)	(+ 25.0)	(+ 124.4)
Quantity	9	11	28
	(+ 28.6)	(+ 22.2)	(+ 154.5)
C. Domestic consumption (all yarn) (i+ii)	**1,193**	**1,256**	**1,272**
	(+ 7.6)	**(+ 5.3)**	**(+ 1.3)**
(i) Mill Sector+	430	451	457
	(+ 4.6)	(+ 4.9)	(+ 1.3)
(ii) Decentralised Sector £	763	805	815
	(+ 9.3)	(+ 5.5)	(+ 1.2)
D. Year-end Stocks (Unsold)	**23.6**	**31.1**	**33.1**
	(+ 21.0)	**(+ 31.8)**	**(+ 6.4)**

P : Provisional.
* : Relates to cotton-yarn only.
\+ : Relates to consumption for weaving cloth only.
£ : Excluding deliveries of yarn to hosiery and other purposes.
Notes : 1) Figures of yarn exclude filament yarn.
2) Figures in brackets represent percentage variations over the corresponding period of the preceding year.
Sources : Office of the Textile Commissioner and Indian Cotton Mills Federation.

to have shifted their production pattern and started producing more of blended fabrics. In the decentralised sector, the production of cotton fabrics and fully man-made fibre fabrics showed a rise of 7.0 per cent and 4.6 per cent, respectively; blended and mixed fabrics, however, declined marginally by 0.4 per cent during the year.

The domestic consumption of cloth recorded a lower rise of 3.5 per cent as against 9.4 per cent last year on account of sluggishness in demand for cloth. This has resulted in an increase of unsold stocks of cloth (mill sector) at the end of March 1987 by 8.8 per cent to 174 million metres from 160 million metres a year ago.

The total value of exports of all textiles accelerated significantly by 26.5 per cent to Rs. 2,186 crores in 1986-87 as compared with that of 8.1 per cent in 1985-86 when the exports were of the order of Rs. 1,728 crores. Among the items exported, readymade garments and cotton piecegoods accounted for a prominent share; their share during the last four years has been around 63.2 per cent and 24.3 per cent, respectively. The exports of readymade garments by the end of March 1987 spurted substantially by 37.6 per cent as

Table IV-25 : Production, Consumption and Exports of Cotton and Man-made Textiles

(Million metres)

Item	April-March 1984-85 (P)	1985-86 (P)	1986-87 (P)
1	2	3	4
A. Production (i+ii)	**12,014**	**12,498**	**12,988**
	(+ 2.2)	**(+ 4.0)**	**(+ 3.9)**
(i) Mill Sector (a+b+c)	3,432	3,376	3,317
	(− 1.6)	(− 1.6)	(− 1.7)
(a) Cotton Fabrics	2,619	2,587	2,470
	(− 3.1)	(− 1.2)	(− 4.5)
(b) Blended / Mixed Fabrics	808	783	838
	(+ 3.7)	(− 3.1)	(+ 7.0)
(c) 100 per cent Man-made Fibre Fabrics	5	6	9
	(+ 25.0)	(+ 20.0)	(+ 50.0)
(ii) Decentralised Sector (a+b+c)	8,582	9,122	9,671
	(+ 3.8)	(+ 6.3)	(+ 6.0)
(a) Cotton Fabrics	6,421	6,591	7,052
	(+ 6.4)	(+ 2.6)	(+ 7.0)
(b) Blended/Mixed Fabrics	470	554	552
	(− 3.1)	(+ 17.9)	(− 0.4)
(c) 100 per cent Man-made Fibre Fabrics	1,691	1,977	2,067
	(− 3.3)	(+ 16.9)	(+ 4.6)
B. Exports* (Rs. Crores)	**1,599**	**1,728**	**2,186**
	(+ 33.4)	**(+ 8.1)**	**(+ 26.5)**
C. Domestic Consumption (all cloth) +	**10,212**	**11,172**	**11,552**
	(− 4.5)	**(+ 9.4)**	**(+ 3.5)**
D. Year-end Stocks (Unsold) (all cloth)++	**175**	**160**	**174**
	(− 19.0)	**(− 8.6)**	**(+ 8.8)**

P : Provisional.
* : Relates to Cotton Textiles, Handloom Textiles, Ready-made Garments, Man-made textiles, etc.
\+ : Relates to total availability.
++ : Relates to mill sector only.
Note : Figures in brackets represent percentage variations over the corresponding period of the preceding year.
Sources: Office of the Textile Commissioner and Indian Cotton Mills' Federation.

compared with that of 15.6 per cent whereas the export of cotton piecegoods increased by 8.0 per cent as against a fall of 2.4 per cent in the preceding year.

The Government, however, has been assisting the industry to boost exports by taking various steps like providing assistance through cash compensatory support (CCS) scheme for export of many textile items, putting a number of items of garment manufacturing machinery on OGL list to help modernisation and establishment of fully export oriented units. Export promotion councils have also been taking number of steps to augment the exports of specific textile products.

The Textile Modernisation Fund of Rs. 750 crores has been established to finance requirements of modernisation of the textile industry over the next five years. The scheme is being operated by the IDBI from August, 1986 for a period of two years and will be reviewed thereafter. Almost 75 per cent of the fund amounting to around Rs. 560 crores would be provided to weak but viable units. The remaining 25 per cent of the fund will be utilised for modernisation assistance to healthy units on

usual terms applicable to such loans disbursed by the IDBI. The scheme also provides for grant of special loans towards meeting a part of the promoter's contribution (maximum up to 80 per cent) in the case of selected, weak but viable units. These loans will carry simple interest at 6 per cent per annum and will be for a period of 12 years including an initial moratorium of 6 years on payment of principal and interest.

In order to meet the clothing needs of the weaker sections of the population, responsibility for production of controlled cloth is being shared by the handloom sector and the National Textile Corporation (NTC). At present four varieties of controlled cloth are being produced by the NTC mills namely dhoties, sarees, long-cloth and polyester blended shirtings. In the handloom sector, sarees, dhoties, shirting, long-cloth and lungies are being produced under the Janata Cloth Scheme. Under the new textile policy, the total quantum of annual target of production of controlled cloth and janata cloth was placed at 700 million sq. metres. For the year 1986-87, the target for the handloom sector is 500 million sq. metres and for NTC 200 million sq. metres. The production of controlled cloth will be phased out gradually from NTC and by the end of the Seventh Plan (i.e. 1989-90) the entire quantity of controlled cloth is expected to be produced in the handloom sector. During the year 1986-87, NTC is required to produce 32 million metres of Sulabh and 18 million metres of polyester blended shirting under controlled cloth scheme. During April-September 1986, the production of Sulabh was 6.20 million metres and polyester blended shirting was 3.5 million metres. The scheme of production of polyester blended cloth with duty exempt polyester fibre has also been entended to the handloom sector during the year under review. During the fiscal year 1985-86, nationalised mills suffered a net loss of Rs. 117.09 crores. Besides, the managed units incurred a net loss of Rs. 36.03 crores. As against this, the provisional net loss during the period April-December 1986 incurred by nationalised mills is estimated at about Rs. 120.57 crores. The corresponding loss of managed units is placed around Rs. 30 crores. The increase in losses during the current year as compared with the previous year are reported to be due to power cuts in some states, lower production, lower sales realisation as a result of adverse marketing conditions and additional liabilities on account of interest and depreciation. Management committees have been constituted in the mills under NTC to revitalise the working of the mills.

(c) Paper, Paper Boards and Newsprint

(i) Paper and Paper Boards

At the end of December 1986, there were 288 units in paper industry with a total annual installed capacity of 27.6 lakh tonnes. The production of paper and paper boards during 1986-87 is estimated at around 16 lakh tonnes which is higher by 1.4 lakh tonnes or 9.6 per cent over 1985-86 (Table IV-26). This level of production during 1986-87 should be viewed against the background that five integrated units and a number of small paper mills accounting for a total installed capacity of about 3.5 lakh tonnes remained closed during the year. Moreover, due to sluggish demand, many of the individual paper mills had to carry about a month's production as stock in general as against the usual stocks which are equal to production of seven to ten days. Despite these adverse factors, the capacity utilisation was marginally higher at 59.1 per cent during 1986-87. Among the important developments that directly affected the paper industry during 1986-87, the foremost was the repeal of the Paper Control Order 1979, effective from January 22, 1987. This order had affected finances of the industry as under its provisions, the paper mills were required to produce 20 to 25 per cent of their output as white printing paper for supply to the educational sector at a statutorily fixed price which was below the cost of production.

Another important development related to the inclusion of the paper industry under the purview of the MODVAT Scheme with effect

Table IV-26 : Paper, Paper Boards and Newsprint

(Thousand tonnes)

Year (April-March)	No. of units	Installed Capacity	Production	Capacity Utilisation Ratio (per cent)
1	2	3	4	5
A. Paper and Paper Boards				
1984-85	252	2,337	1,361 (+ 8.7)	60.46
1985-86	267	2,655	1,460 (+ 7.3)	58.49
1986-87	288	2,758	1,600 (+ 9.6)	59.12
B. Newsprint				
1984-85	3	230	197 (+ 11.9)	85.65
1985-86	4	280	270 (+ 37.1)	105.88
1986-87 (April-Dec.)	4	288	206 (+ 16.0)	– N.A.

Notes : 1. Capacity utilisation ratio is worked out on the basis of mid-year capacity.
2. Figures in brackets are percentage variations over the corresponding period of the preceding year.

Source: Indian Paper Mills' Association.

from March 1, 1987 as announced in the Union Budget for 1987-88. However, the Government has revised the excise duty rates applicable to paper and paper boards which is likely to increase the effective rate of duty. The kraft paper used in packing of apples has been exempted from excise duty.

Operational constraints such as raw materials, power, etc. and closure/stoppage of production of small paper mills as also of five integrated units were identified as the major adverse influences on capacity utilisation in paper industry. The Government has since then initiated steps to prepare schemes for removing these constraints as also for revival/rehabilitation of closed mills. Efforts are also being made to ensure availability of raw material, coal, power, etc. to the paper industry. Imports of wood pulp, chips and waste paper have been placed under Open General Licence (OGL) and are totally exempted from customs duty. Even imports of wood logs have been placed under OGL with low rates of customs duty. Excise concessions are being allowed for use of bagasse and other non-conventional raw materials for production of paper and paper boards. Setting up of capacity for manufacture of writing paper from agricultural residues and wastes has been delicensed. All these measures are expected to have some positive impact on production and capacity utilisation. But it is important to note in this context that the forest resources on which large paper mills are dependent for manufacture of paper have been depleting very fast. Besides, a committee under the chairmanship of the Secretary (Industrial Development) has been set up to look into the financial health of the paper industry.

(ii) Newsprint

The production of newsprint at 2.06 lakh tonnes during 1986-87 (April-December) recorded a rise of 16.0 per cent over that of 18.7 per cent recorded during the corresponding period of last year. The total installed capacity of newsprint mills presently is 2.88 lakh tonnes

per annum. Still, realising the need for augmenting production further, 16 more letters of intent and 2 industrial licences have been issued for raising total capacity to 7,57,500 tonnes per annum. These projects are under various stages of implementation which when completed will make substantial contribution towards meeting the demand for newsprint indigenously by the end of the Seventh Five Year Plan.

Chapter V

Price Trends and Price Policy

Price Trends : *The Main Features*

The index of wholesale prices (WPI) for 'all commodities' (1970 - 71 = 100) showed a rise of 5.3 per cent in 1986-87 which was higher as compared with 3.8 per cent in 1985-86. However, it was lower than that (7.6 per cent) registered in 1984-85. On an average basis, the increase was marginally lower at 5.3 per cent in 1986-87 as against 5.7 per cent in 1985-86 and 7.1 per cent in 1984-85. The rise in the wholesale prices in 1986-87 was sectional rather than general in character. A few commodities such as, edible oils and oilseeds and fibres, facing specific supply shortages, were responsible for the price rise. At the other end, absolute reduction in the prices of petroleum and petroleum products as well as those of sugar, khandsari and gur group helped to contain the inflation rate.

The year witnessed normal seasonal trends in prices. In the first phase covering 17 to 18 weeks in the lean season upto end-July 1986, there was a noticeable upswing, with the WPI registering an increase of 5.6 per cent — about the same as in the previous year of 5.4 per cent. This was followed by a slower rise of 1.4 per cent during the period — August to October 1986 as against a fall of 1.1 per cent in the corresponding period of 1985. During the final phase covering the harvesting season from November 1986 to March 1987, there was a drop of 1.7 per cent as against 0.4 per cent fall in the same period of 1985-86.

Major commodity groups which shared the price rise during the first phase of the year under review, were cereals, fruits and vegetables, milk and milk products, edible oils, oilseeds, electricity, sugar, gur and khandsari, tea and raw jute. Commodities which moderated the impact of rising prices during this period were raw cotton, coffee, cotton textiles, pulses and condiments and spices. The deceleration in the second phase was chiefly on account of declines in prices of fruits and vegetables, eggs, fish and meat, minerals and raw jute, while a few items under manufactured products, like tea, sugar, gur and khandsari registered lower increases. During the last phase of 1986-87, declines were noticed under minerals, sugar, khandsari and gur, fruits and vegetables, oilseeds, cereals, pulses and tea. In contrast, increases were reported by jute textiles, cotton textiles, coffee, raw cotton, raw jute, edible oils, eggs, fish and meat and electricity.

Commodity/Group-wise Trends

Although the increase in WPI of 5.3 per cent was shared by all the three major groups, viz., "Primary Articles", "Fuel, Power, Light and Lubricants" and "Manufactured Products", the rise in "Manufactured Products" was the highest at 6.3 per cent (as compared with 3.1 per cent in the previous year) and was accounted chiefly by the sharp increases in the prices of edible oils owing to domestic

shortage in production. The weighted contribution of "Manufactured Products" to the general price rise of 56.5 per cent was also the highest and this share in the total showed a perceptible increase over the preceding year's share of 38.5 per cent. "Primary Articles" exerted more pressure on the general price rise in 1986-87, as compared with that of 1985-86, because of the increases in the prices of a few articles mentioned above. In the group of "Fuel, Power, Light and Lubricants", the declines in some components like mineral oils have moderated the rise in prices of other components like electricity and led to a net rise in price of the group as a whole by only 2.8 per cent [Table V–1].

Table V–1 : Extent of Price Rise Based on Wholesale Price Index (1970-71 = 100)

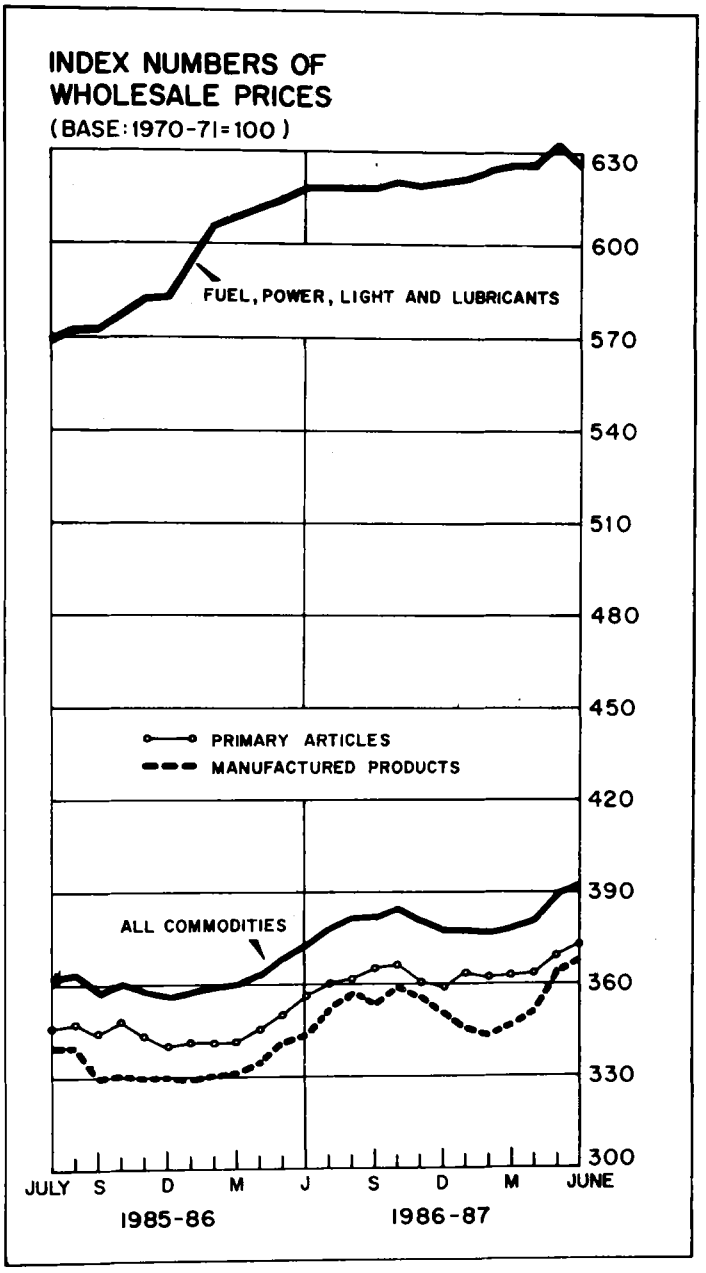
(Major group-wise)

Items	Weight	Percentage variation		Weighted contribution	
		1985-86	1986-87	1985-86	1986-87
1	2	3	4	5	6
ALL COMMODITIES	**1000.00**	**+ 3.8**	**+ 5.3**	**100.0**	**100.0**
Primary Articles	416.67	+ 2.8	+ 4.9	+ 29.1	+ 35.9
Fuel, Power, Light and Lubricants	84.59	+ 8.9	+ 2.8	+ 32.4	+ 7.6
Manufactured Products	498.74	+ 3.1	+ 6.3	+ 38.5	+ 56.5

Primary Articles

The larger increase of 4.9 per cent in the index of "Primary Articles" during the year 1986-87 as compared with 2.8 per cent in the previous year was mainly on account of higher prices of non-food articles. Increase in 'food articles' was of a lower order at 6.5 per cent as compared with 7.8 per cent in 1985-86 [Table V–2(a)] and was attributed to fall in prices of food grains (wheat and bajra) and pulses (gram). The sub-group 'fruits and vegetables' recorded lower increase as a result of fall in prices of vegetables. Condiments and spices registered only a marginal rise of 0.3 per cent in contrast to a steep fall of 19.8 per cent in the preceding year. In contrast, prices of sub-groups like milk and milk products and coffee registered substantially larger increases as compared with 1985-86. Tea recorded a sharp increase in contrast to a steep decline in the previous year.

Among non-food articles group, major increases were witnessed by oilseeds of major varieties (groundnuts, rapeseed, mustard seed and copra) owing to shortfall in their production. Prices of raw cotton and raw jute showed steep increases (in contrast to a sharp decline witnessed during the preceding year) due to demand pressures in the wake of shortfall in supplies. Prices of sugarcane recorded a smaller rise while rubber prices remained unchanged. 'Minerals' sub-group evinced a sharp fall of 30.9 per cent as against a marginal increase of 0.6 per cent last year, due mainly to a marked fall of 38.4 per cent in the prices of crude petroleum and natural gas following similar fall in international prices.



Fuel, Power, Light and Lubricants

The movements in the price indices of the items under this group are by and large governed by the revisions in their administered prices by Government [Table V—2(b)]. Index in this group rose by 2.8 per cent mainly because of an increase in the prices of lubricating oil by 2.9 per cent while petrol, high speed diesel oil, etc., reported marginal declines. However, the price index for electricity rose by 11.1 per cent compared with a sharp increase of 24.2 per cent in 1985-86. A large number of States had revised their electricity tariffs for domestic and industrial users in 1985-86; a few more fell in line in 1986-87.

Table V—2(a) : Index Numbers of Wholesale Prices : Primary Articles

(Base 1970-71 = 100)

Major Groups, Groups, Sub-groups and Commodities	Weight	End March 1985	End March 1986	End March 1987	Percentage Variations		Weighted Contribution (Approximate)	
					End March 1986 over End March 1985	End March 1987 over End March 1986	1985-86	1986-87
1	2	3	4	5	6	7	8	9
ALL COMMODITIES	**1000.00**	**346.3**	**359.3**	**378.2**	**+ 3.8**	**+ 5.3**	**100.0**	**100.0**
PRIMARY ARTICLES	**416.67**	**321.6**	**330.7**	**347.0**	**+ 2.8**	**+ 4.9**	**+ 29.1**	**+ 35.9**
A. FOOD ARTICLES	**297.99**	**297.4**	**320.5**	**341.4**	**+ 7.8**	**+ 6.5**	**+ 53.0**	**+ 33.0**
(i) **FOOD GRAINS**	129.27	276.2	303.3	297.6	+ 9.8	− 1.9	+ 26.9	− 3.9
a) CEREALS	107.43	245.0	274.1	275.3	+ 11.9	+ 0.4	+ 24.0	+ 0.7
Rice	51.31	270.2	282.2	301.0	+ 4.4	+ 6.7	+ 4.7	+ 5.1
Wheat	34.17	213.3	249.1	244.6	+ 16.8	− 1.8	+ 9.4	− 0.8
Jowar	8.39	234.0	257.5	256.0	+ 10.0	− 0.6	+ 1.5	− 0.1
Bajra	5.64	224.5	312.8	263.6	+ 39.3	− 15.7	+ 3.8	− 1.5
b) PULSES	21.79	430.1	447.1	407.5	+ 4.0	− 8.9	+ 2.8	− 4.6
Gram	10.39	502.1	533.0	374.5	+ 6.2	− 29.7	+ 2.5	− 8.7
(ii) **FRUITS AND VEGETABLES**	61.32	306.5	373.4	418.8	+ 21.8	+ 12.2	+ 31.6	+ 14.7
Vegetables	24.86	176.2	321.8	299.2	+ 82.6	− 7.0	+ 27.8	− 3.0
Fruits	36.46	395.4	408.5	500.4	+ 3.3	+ 22.5	+ 3.7	+ 17.7
(iii) **MILK AND MILK PRODUCTS**	61.50	270.4	276.8	311.8	+ 2.4	+ 12.6	+ 3.0	+ 11.4
(iv) **EGGS, FISH AND MEAT**	18.97	409.9	458.8	524.5	+ 11.9	+ 14.3	+ 7.1	+ 6.6
Fish	6.31	485.4	540.5	663.9	+ 11.4	+ 22.8	+ 2.7	+ 4.1
Meat	8.46	469.5	539.9	577.2	+ 15.0	+ 6.9	+ 4.6	+ 1.7
(v) **CONDIMENTS AND SPICES**	10.94	262.8	210.7	211.3	− 19.8	+ 0.3	− 4.4	—
(vi) **OTHER FOOD ARTICLES**	16.04	427.2	336.1	383.5	− 21.3	+ 14.1	− 11.2	+ 4.0
Tea	11.49	468.3	356.3	424.8	− 23.9	+ 19.2	− 9.9	+ 4.2
Coffee	1.61	224.6	227.0	250.9	+ 1.1	+ 10.5	—	+ 0.2

(Contd.)

Table V—2(a) : Index Numbers of Wholesale Prices : Primary Articles,concld.

(Base 1970-71 = 100)

Major Groups, Groups, Sub-groups and Commodities	Weight	End March 1985	End March 1986	End March 1987	Percentage Variations		Weighted Contribution (Approximate)	
					End March 1986 over End March 1985	End March 1987 over End March 1986	1985-86	1986-87
1	2	3	4	5	6	7	8	9
B. NON-FOOD ARTICLES	**106.21**	**307.0**	**277.2**	**319.8**	**− 9.7**	**+ 15.4**	**− 24.4**	**+ 23.9**
(i) **FIBRES**	31.73	297.8	187.9	238.7	− 36.9	+ 27.0	− 26.8	+ 8.5
Raw Cotton	22.46	240.1	179.7	239.5	− 25.2	+ 33.3	− 10.4	+ 7.1
Raw Jute	4.29	573.3	162.2	189.4	− 71.7	+ 16.8	− 13.6	+ 0.6
(ii) **OIL SEEDS**	42.01	290.5	278.6	347.3	− 4.1	+ 24.7	− 3.8	+ 15.3
Groundnuts	18.21	294.6	299.6	347.6	+ 1.7	+ 16.0	+ 0.7	+ 4.6
Rape and Mustard seeds	8.22	247.5	241.0	340.1	− 2.6	+ 41.1	− 0.4	+ 4.3
Copra	4.49	320.2	236.6	367.3	− 26.1	+ 55.2	− 2.9	+ 3.1
(iii) **OTHER NON-FOOD ARTICLES**	32.47	337.3	362.4	363.6	+ 7.4	+ 0.3	+ 6.3	+ 0.2
Sugarcane	16.42	210.3	248.9	253.8	+ 18.4	+ 2.0	+ 4.9	+ 0.4
Rubber	1.28	319.4	364.6	364.6	+ 14.2	—	+ 0.4	—
Logs, Timber and Bamboo	3.34	915.1	845.9	812.4	− 7.6	− 4.0	− 1.8	− 0.6
Raw Tobacco	8.07	198.7	234.3	256.3	+ 17.9	+ 9.4	+ 2.2	+ 0.9
C. MINERALS	**12.47**	**1024.9**	**1031.3**	**713.1**	**+ 0.6**	**− 30.9**	**+ 0.5**	**− 21.0**
(i) **METALLIC MINERALS**	2.29	299.5	330.7	355.4	+ 10.4	+ 7.5	+ 0.5	+ 0.3
Iron Ore	1.56	284.9	323.9	359.0	+ 13.7	+ 10.8	+ 0.5	+ 0.3
(ii) **OTHER MINERALS**	4.16	373.7	375.8	381.2	+ 0.6	+ 1.4	+ 0.1	+ 0.1
Lime Stone	2.30	394.8	394.8	394.8	—	—	—	—
(iii) **PETROLEUM CRUDE AND NATURAL GAS**	6.02	1752.1	1752.1	1079.1	—	− 38.4	—	− 21.4

Table V—2(b) : Index Numbers of Wholesale Prices: Fuel, Power, Light and Lubricants

(Base 1970-71 = 100)

Major Groups, Groups, Sub-groups and Commodities	Weight	End March 1985	End March 1986	End March 1987	Percentage Variations		Weighted Contribution (Approximate)	
					End March 1986 over End March 1985	End March 1987 over End March 1986	1985-86	1986-87
1	2	3	4	5	6	7	8	9
FUEL, POWER, LIGHT & LUBRICANTS	**84.59**	**559.2**	**609.2**	**626.2**	**+ 8.9**	**+ 2.8**	**+ 32.4**	**+ 7.6**
A. COAL MINING	11.47	633.7	717.1	716.9	+ 13.2	—	+ 7.2	—
Coal	10.39	641.9	730.7	730.7	+ 13.8	—	+ 7.1	—
Coke	0.75	575.2	606.3	606.3	+ 5.4	—	+ 0.2	—
B. MINERAL OILS	49.12	606.1	622.2	622.7	+ 2.7	+ 0.1	+ 6.1	+ 0.1
Kerosene	8.35	382.7	410.4	410.4	+ 7.2	—	+ 1.8	—
Petrol	8.56	607.1	643.8	640.9	+ 6.0	− 0.5	+ 2.4	− 0.1
Aviation Spirit	4.55	684.7	690.5	688.6	+ 0.8	− 0.3	+ 0.2	—
Light Diesel Oil	3.44	929.3	929.3	929.3	—	—	—	—
High Speed Diesel Oil	13.74	437.9	453.6	450.7	+ 3.6	− 0.6	+ 1.7	− 0.2
Lubricating Oil	6.48	525.8	525.8	541.2	—	+ 2.9	—	+ 0.5
Furnace Oil	4.00	1412.5	1412.5	1412.5	—	—	—	—
C. ELECTRICITY	24.00	427.6	531.0	590.1	+ 24.2	+ 11.1	+ 19.1	+ 7.5

Manufactured Products

The index of this group registered a larger rise of 6.3 per cent as against that of 3.1 per cent in 1985-86 [Table V—2(c)]. The sharp increases in the prices of edible oils, textiles (cotton and jute group of textiles) as also increases in the prices of non-ferrous metals and their alloys and metal products, during the year contributed to the larger increase in prices of "Manufactured Products". Prices of edible oils witnessed a steep rise due to shortfall in domestic production. Prices of textiles showed an upward trend due to rising prices of raw jute and cotton. The upward revision in the prices of metals was in response to the trends in the international market and appreciation of the Pound Sterling *vis-a-vis* rupee. In contrast, the index of sugar, khandsari and gur experienced a decline due mainly to a sharp decline in the prices of khandsari and gur following improved supply. The sub-groups like chemicals and non-metallic mineral products registered marginal increases in 1986-87. Other groups like iron, leather and leather products, and machinery and transport equipments faced moderate price increases which are lower as compared to the increases in the preceding year.

Consumer Price Indices

The All-India Consumer Price Index (CPI) for Industrial Workers (1960 = 100) increased significantly from 638 in March 1986 to 686 in March 1987, recording a rise of 7.5 per cent over the year as compared with an increase of 8.9 per cent during the preceding year. On an average basis, the increase during 1986-87 at 8.8 per cent was larger than in the previous year (Table V—3). As in 1985-86, during 1986-87 also the CPI exhibited a continuous upward trend till November 1986 rising from 638 during April to 692 in November. However, there was downward trend thereafter, and CPI touched 686 in March 1987.

Table V—3 : Consumer Price Indices

(April-March-Average)

	1984-85	1985-86	1986-87
1	2	3	4
1. Consumer Price Index for Industrial Workers (1960=100)	582.4	619.8	674.4
2. Per cent variation in (1)	+ 6.4	+ 6.4	+ 8.8
3. Consumer Price Index for Urban Non-manual Employees (1960=100)	532.3	568.3	613.1
4. Per cent variation in (3)	+ 8.2	+ 6.8	+ 7.9
5. Consumer Price Index for Agricultural Labourers (July 1960 – June 1961 = 100)	521.4	546.3	572.1
6. Per cent variation in (5)	+ 0.3	+ 4.8	+ 4.7

The centre-wise analysis reveals that during the year the rate of increase in CPI was the highest in Rangapara (Assam) (19.4 per cent), followed by Noamundi (Bihar) (14.7 per cent), Alleppey (Kerala) (13.6 per cent), Mariani (Assam) (12.1 per cent), Alwaye (Kerala) (11.7 per cent), Guntur (Andhra Pradesh) (11.2 per cent), and Jharia (Bihar) (11.1 per cent). Only in one centre Gudur (Andhra Pradesh) there was a fall of 0.2 per cent in CPI.

Table V—2(c) : Index Numbers of Wholesale Prices : Manufactured Products

(Base 1970-71 = 100)

Major Groups, Groups, Sub-groups and Commodities	Weight	End March 1985	End March 1986	End March 1987	Percentage Variations		Weighted Contribution (Approximate)	
					End March 1986 over End March 1985	End March 1987 over End March 1986	1985-86	1986-87
1	2	3	4	5	6	7	8	9
MANUFACTURED PRODUCTS	**498.74**	**330.8**	**34[illegible]**	**362.3**	**+ 3.1**	**+ 6.3**	**+ 38.5**	**+ 56.5**
A. FOOD PRODUCTS	133.22	321.7	338.5	365.0	+ 5.2	+ 7.8	+ 17.1	+ 18.8
a) **SUGAR, KHANDSARI AND GUR**	72.41	340.5	374.3	351.2	+ 9.9	− 6.2	+ 18.8	− 8.9
Sugar	21.91	249.5	307.4	305.2	+ 23.2	− 0.7	+ 9.8	− 0.3
Khandsari	4.92	303.0	368.6	320.0	+ 21.7	− 13.2	+ 2.5	− 1.3
Gur	45.58	388.3	407.0	376.7	+ 4.8	− 7.4	+ 6.6	− 7.3
b) **MISCELLANEOUS FOOD PRODUCTS**	49.16	301.7	294.5	395.0	− 2.4	+ 34.1	− 2.7	+ 26.1
i) **EDIBLE OILS**	37.16	298.1	297.2	405.5	− 0.3	+ 36.4	− 0.3	+ 21.3
Vanaspati	7.52	287.7	326.9	416.3	+ 13.6	+ 27.3	+ 2.3	+ 3.6
Groundnut Oil	14.15	309.7	315.2	419.0	+ 1.8	+ 32.9	+ 0.6	+ 7.8
Mustard Oil	6.68	238.7	243.7	351.8	+ 2.1	+ 44.4	+ 0.3	+ 3.8
B. BEVERAGES, TOBACCO AND TOBACCO PRODUCTS	27.08	260.2	322.0	366.2	+ 23.8	+ 13.7	+ 12.8	+ 6.3
C. TEXTILES	110.26	286.3	263.7	285.5	− 7.9	+ 8.3	− 19.2	+ 12.7
i) **COTTON TEXTILES**	81.02	263.2	261.6	274.1	− 0.6	+ 4.8	− 1.0	+ 5.4
Cotton Yarn	13.82	303.8	261.5	278.4	− 13.9	+ 6.5	− 4.5	+ 1.2
Cotton Cloth (Mills)	38.04	263.2	271.4	275.1	+ 3.1	+ 1.4	+ 2.4	+ 0.7
ii) **JUTE, HEMP AND MESTA TEXTILES**	12.14	399.3	226.2	253.9	− 43.4	+ 12.2	− 16.2	+ 1.8
D. PAPER AND PAPER PRODUCTS	8.51	377.9	392.6	391.6	+ 3.9	− 0.3	+ 1.0	–
E. LEATHER AND LEATHER PRODUCTS	3.85	427.0	504.7	530.6	+ 18.2	+ 5.1	+ 2.2	+ 0.5
F. RUBBER AND RUBBER PRODUCTS	12.07	358.6	362.4	385.2	+ 1.1	+ 6.3	+ 0.4	+ 1.5
G. CHEMICALS AND CHEMICAL PRODUCTS	55.48	303.8	319.2	336.4	+ 5.1	+ 5.4	+ 6.5	+ 5.0
a) **FERTILISERS**	12.52	262.5	288.9	288.8	+ 10.1	–	+ 2.5	–

(Contd).

Table V–2(c) : Index Numbers of Wholesale Prices : Manufactured Products (*Concld.*)

(Base 1970-71 = 100)

Major Groups, Groups, Sub-groups and Commodities	Weight	End March 1985	End March 1986	End March 1987	Percentage Variations		Weighted Contribution (Approximate)	
					End March 1986 over End March 1985	End March 1987 over End March 1986	1985-86	1986-87
1	2	3	4	5	6	7	8	9
H. NON-METALLIC MINERAL PRODUCTS	14.15	448.8	443.3	450.4	− 1.2	+ 1.6	− 0.6	+ 0.5
CEMENT, LIME AND PLASTER	7.07	500.4	470.4	467.2	− 6.0	− 0.7	− 1.6	− 0.1
Cement	7.03	501.3	471.3	468.1	− 6.0	− 0.7	− 1.6	− 0.1
I. BASIC METALS, ALLOYS AND METAL PRODUCTS	59.74	469.4	471.7	489.0	+ 0.5	+ 3.7	+ 1.1	+ 5.5
a) **IRON, STEEL AND FERRO ALLOYS**	34.73	535.1	541.0	544.9	+ 1.1	+ 0.7	+ 1.6	+ 0.7
Pig Iron	1.67	594.0	594.0	594.0	—	—	—	—
Structurals	4.72	544.2	544.2	544.2	—	—	—	—
Steel Plates and Sheets	5.97	507.2	507.2	507.2	—	—	—	—
Bars and Rods	7.31	581.0	581.0	581.0	—	—	—	—
b) **NON-FERROUS METALS AND THEIR ALLOYS**	11.78	393.3	400.4	444.6	+ 1.8	+ 11.0	+ 0.6	+ 2.8
Aluminium	4.29	413.2	437.8	532.6	+ 6.0	+ 21.7	+ 0.2	+ 2.2
c) **METAL PRODUCTS**	13.23	364.7	353.2	381.8	− 3.2	+ 8.1	− 1.2	+ 2.0
J. MACHINERY AND TRANSPORT EQUIPMENTS	67.18	313.2	346.7	362.2	+ 10.7	+ 4.5	+ 17.2	+ 5.5
a) **NON-ELECTRICAL MACHINERY**	30.91	336.4	367.9	390.3	+ 9.4	+ 6.1	+ 7.5	+ 3.7
b) **ELECTRICAL MACHINERY**	19.54	260.1	282.7	287.9	+ 8.7	+ 1.8	+ 3.4	+ 0.5
c) **TRANSPORT EQUIPMENTS**	16.73	332.1	382.0	396.8	+ 15.0	+ 3.9	+ 6.4	+ 1.3
K. MISCELLANEOUS PRODUCTS	7.20	281.7	281.9	287.3	+ 0.1	+ 1.9	—	+ 0.2

The Consumer Price Index for Urban Non-manual employees (1960=100) moved up from 584 in March 1986 to 625 in March 1987 or by 7.0 per cent. This was somewhat smaller than that of 8.1 per cent recorded in 1985-86. On an average basis, the index registered a larger increase of 7.9 per cent than that of 6.8 per cent in the previous year.

The centre-wise analysis shows that while all the centres witnessed increases in the index, it was the highest in Meerut (Uttar Pradesh) (10.8 per cent) followed by Madras (Tamil Nadu) (9.9 per cent), Kozhikode and Trivandrum (Kerala) (9.7 per cent each).

Reflecting partly the fact that food prices have not experienced any uptrend, the Consumer Price Index for Agricultural Labourers (Base: July 1960 – June 1961 = 100) showed a moderate increase of 4.7 per cent in 1986-87 as compared with 4.8 per cent in 1985-86 and 0.3 per cent in 1984-85 (all on an average index basis).

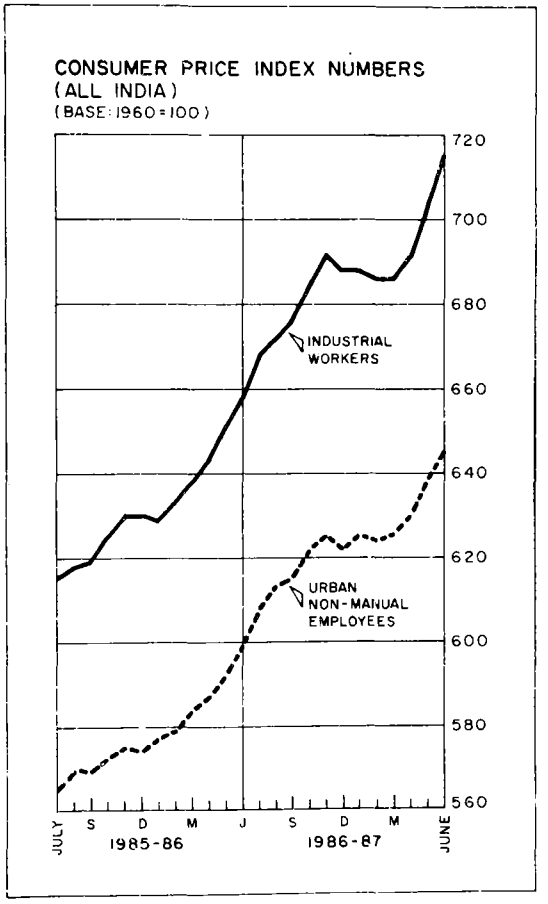
Price Trends During April-June Quarter of 1987-88

During the first quarter of 1987-88, the WPI increased by 4.3 per cent on a point-to-point basis which was marginally higher than that of 4.2 per cent in the corresponding quarter of 1986-87. This increase is attributed mainly to larger rise in the prices of 'Primary Articles' of 6.7 per cent, as against 4.3 per cent in the preceding year, while the increase in respect of 'Manufactured Products' was of a lower order of 3.7 per cent as against 5.0 per cent in the preceding year (Table V–4).

Among 'Primary Articles', the rise in prices was more pronounced under non-food articles with an increase of 13.4 per cent as against 4.5 per cent in the same period of the previous year, although food articles also showed a marginally higher rise. The former was the result of sharp increases in the prices of oilseeds and fibres because of continued shortages in their supplies.

The rise in prices of food articles was mainly on account of higher prices of cereals and pulses. These had shown declines in the corresponding quarter of the preceding year. In contrast, sub-groups like fruits and vegetables and milk and milk products reported lower increases as compared with the increases in the corresponding period of last year.

In 'Manufactured Products', the rise was chiefly due to higher prices of 'sugar, khandsari and gur', edible oils, cotton and jute groups of textiles and chemical products. The rate of



increase was however, lower during April-June 1987 due to smaller rise in the prices of gur, textiles and chemicals and chemical products.

Table V—4 : Variations in Index Numbers of Wholesale Prices

(1970-71 = 100)

Items	Weight	Percentage Variations (Point - to - Point)	
		1986-87 End-June over End-March	1987-88* End-June over End-March
1	2	3	4
ALL COMMODITIES	**1000.00**	**+ 4.2**	**+ 4.3**
I. Primary Articles	416.67	+ 4.3	+ 6.7
Food Articles	297.99	+ 4.8	+ 5.0
Cereals	107.43	− 1.5	+ 2.8
i) Rice	51.31	+ 5.1	+ 4.4
ii) Wheat	34.17	− 8.6	− 2.2
Pulses	21.79	− 9.7	+ 7.7
Fruits and Vegetables	61.32	+ 16.2	+ 8.8
Milk and Milk Products	61.50	+ 3.5	+ 2.3
Other Food Articles	16.04	+ 20.1	+ 8.9
Tea	11.49	+ 21.5	+ 7.4
Non-food Articles	106.21	+ 4.5	+ 13.4
Fibres	31.73	− 4.5	+ 13.4
Raw Cotton	22.46	− 7.8	+ 17.7
Oilseeds	42.01	+ 16.0	+ 23.7
Minerals	12.47	+ 0.1	+ 0.1
II. Fuel, Power, Light and Lubricants	84.59	+ 1.5	−
Coal	10.39	−	−
Mineral Oils	49.12	+ 0.3	−
III. Manufactured Products	498.74	+ 5.0	+ 3.7
Sugar, Khandsari and Gur	72.41	+ 14.7	+ 10.8
i) Sugar	21.91	− 4.2	+ 1.6
ii) Khandsari	4.92	− 1.0	+ 9.7
iii) Gur	45.58	+ 23.2	+ 14.4
Edible Oils	37.16	+ 15.1	+ 17.2
Textiles	110.26	+ 1.7	+ 1.1
Paper and Paper Products	8.51	− 0.1	−
Cement	7.03	+ 0.1	− 0.8
Chemicals and Chemical Products	55.48	+ 1.3	+ 1.1
Iron, Steel and Ferro Alloys	34.73	+ 0.3	−

* Provisional.

During the first quarter of the current financial year, i.e. April-June 1987, the Consumer Price Index for Industrial Workers (base 1960 = 100) rose sharply from 686 in March 1987 to 715 in June 1987 or by 4.2 per cent as against a rise of 3.1 per cent in the corresponding quarter of the previous year. The Consumer Price Index for Urban Non-manual Employees (base : 1960 = 100) also moved up from 625 to 645 by June 1987 (or by 3.2 per cent). Similarly, the Consumer Price Index for Agricultural Labourers (base : July 1960 – June 1961 = 100) went up from 573 to 588 during the period April-June 1987 (or by 2.6 per cent).

Price Policies

The main thrust of price policy during the fiscal year 1986-87 as also in the subsequent period upto June 1987 was on moderating inflationary pressures. This was sought to be achieved through effective price surveillance and demand-supply management as well as specific measures to soften the impact of inflation. Accordingly, various measures were taken by the Government during the period under review in respect of a number of commodities with a bearing on their prices*. These included modifications in policies relating to the public distribution system, raising of support prices/issue prices for boosting production, provision of subsidies for the supply of essential commodities at reduced prices for the benefit of consumers and changes in import/export duties relating to certain commodities, taking into account developments in domestic and international markets. The major changes effected in some of the individual products are set out below:

The main stress of agricultural price policy continued to be on increased production of crops by providing assured and remunerative prices to the farmers. Accordingly, certain adjustments were made in prices of specific agricultural commodities such as upward revision of minimum support prices or an assured procurement of the crop from the farmers at the minimum prices. These changes in respect of agricultural products are referred to in Chapter-III

Many changes in the price policies were also effected in respect of industrial products to contain the rise in prices by encouraging indigenous production and improving supplies through imports in case of shortfalls in domestic production. Changes in excise and custom duties were also effected in respect of few commodities. Some of them are referred to below:

In view of the Government's policy to reduce the levy obligations on cement industry in a gradual manner to enable the industry to sell a higher quantity of cement in the open market, the levy obligation was reduced further in December 1986 as follows:

1.	The units which were in production prior to 1-1-1982	60 per cent to 50 per cent of actual production
2.	New units which came after 1-1-1982 in production and those declared sick	40 per cent to 30 per cent of actual production.

In December 1986, the Government increased the retention price of levy cement from Rs. 375 per tonne to Rs. 399.50 per tonne with a view to compensating the cement industry for increase in the prices of various inputs like coal, as also for hike in tariff, railway

During the year two papers (1) 'Agricultural Policy – A Long Term Perspective' and (2) 'Administered Price Policy – A Discussion paper' were presented to the Parliament. These papers emphasised the various policy options available to the Government in regard to the need for and timing of, changes in public sector prices and agricultural prices.

freight and wages. To check an increase in the retail price, it was also decided to meet Rs. 24.50 per tonne out of Cement Regulation Account and no increase in F.O.R. price was effected. It was further decided to eliminate the obligation of contributing Rs. 9 per tonne on non-levy cement to the Cement Regulation Account. The Union Budget for 1987-88 reduced the excise duty leviable on portland cement to Rs. 175 a tonne from Rs. 225 a tonne earlier. This concession is applicable to units commencing production on or after April 1, 1986. The excise rebate would be available from March 1, 1987 to March 31, 1990. Besides their levy quota was also reduced to 15 per cent. On April 29, 1987, further reliefs were extended to cement units which commenced production between January 1, 1982 and March 31, 1986. These units would get excise relief of Rs. 20 per tonne for portland cement, and besides, their levy quota was also reduced from 30 per cent to 20 per cent. Both these measures are valid for a period of 3 years. These excise duty benefits would be given to mini cement plants as well.

The Union Government announced a new drug policy on December 8, 1986, to help the growth of drug industry. The policy measures included quality control and rationalisation of use of drugs so as to ensure their abundant availability at reasonable prices and setting up of an apex body called the National Drug and Pharmaceuticals Authority to function as an advisory body on matters of development of pharmaceutical industry. Further, as against the existing three categories of drugs and pharmaceuticals there would be only two "price controlled" categories in the future. While the first category would consist drugs necessary for the National Health Programme, the second category would cover other essential drugs. The rest of the pharmaceuticals would be in the decontrolled category. Prices of drugs in the decontrolled category would, however, be constantly and closely monitored through an effective monitoring system which would be developed. The main plank of the new drug policy with regard to pricing is, provision of larger incentives to production so that with greater availability, prices would automatically stabilise through the operation of market forces.

On June 20, 1986, the Union Government announced a substantial increase in the crude oil royalty payable to the Governments of Gujarat and Assam, by the Oil and Natural Gas Commission (ONGC) and Oil India Ltd., from Rs. 61 to Rs. 192 per tonne retrospectively from April 1, 1984. In order to mitigate revenue loss to the Union Government owing to falling prices of crude oil in the international market since December 1985, the duty structure on crude oil was revised. In the place of the basic duty of 10 per cent *ad valorem* and auxiliary duty of Rs. 300 per tonne charged earlier on crude oil, a specific rate of basic customs duty of Rs. 160 per tonne and auxiliary duty of Rs. 400 a tonne on crude oil were fixed on December 4, 1986.

The Union Budget for 1987-88 raised further the customs duty on imported crude petroleum by Rs. 500 per tonne. Besides, the rate of cess on crude oil for the development of oil industry was also increased from Rs. 300 to Rs. 600 per tonne effective March 1, 1987. With effect from January 30, 1987, the Union Government fixed the basic price for gas at landfall points and onshore at Rs. 1,400 per 1,000 cubic metres. The price of natural gas along the Hazira - Bijapur - Jagdishpur pipeline would be Rs. 2,250 per 1,000 cubic metres. Further, in view of special conditions obtaining in North-Eastern States, a concessional price of Rs. 1,000 per 1,000 cubic metres of gas was fixed for that region. In addition, a special discount upto Rs. 500 per 1,000 cubic metres on this price could also be given in individual cases.

As a sequel to the hike in gas prices announced by the Oil and Natural Gas Commission on January 30, 1987,the Gujarat State Fertilizers Company (GSFC), raised the price of caprolactum by Rs. 1,400 a tonne to Rs. 30,400 per tonne (ex-factory) with effect from February 1, 1987.

Effective March 20, 1987, the Government fixed the ex-storage prices of liquefied petroleum gas (cooking gas) supplied in cylinders to non-domestic users at Rs. 5,001.10 per tonne for essential category and Rs. 6,151.39 per tonne for non-essential category.

Effective October 1, 1986, the Government raised the prices of Naptha used for steam generation (MF Naptha) from Rs. 1,982 per tonne to Rs. 3,211 per tonne. The prices of Naptha used by the fertiliser industry as feedstock (SR Naptha) were, however, kept unchanged.

The prices of aluminium are fixed by Government from time to time under Aluminium Control Order, 1970 promulgated under Essential Commodities Act. The revisions are made on the basis of the studies done by the Bureau of Industrial Costs & Prices (BICP).

Under the existing pricing scheme the aluminium producers are entitled to a retention price based on their cost of production and a return on net worth part of the capital employed. The sale price is fixed as weighted average of the retention prices. The producer whose retention price is lower than the sale price is required to pay the difference between the prices into an account called the Aluminium Regulation Account (ARA) and the producer whose retention price is higher than the sale price is entitled to get the difference from ARA.

To reduce the price of imported aluminium to the domestic producers the Government reduced the import duty on aluminium ingots from 69.5 per cent *ad valorem* to 35.6 per cent in June 1986. As a sharp uptrend in the price of aluminium was noticed during the year, due to shortfall in domestic production, the Minerals and Metals Trading Corporation (MMTC) imported around 65,000 tonnes of primary aluminium during 1986-87 to bridge the gap between demand and supply.

Effective March 1, 1987, the Government raised the prices of different grades of aluminium. The sale price, inclusive of excise duty, of commercial grade ingots was increased from Rs. 21,962 to Rs. 26,449 per tonne, electrical conductor grade ingots from Rs. 22,188 a tonne to Rs. 27,152 per tonne and electrical conductor grade wire rods from Rs. 22,894 per tonne to Rs. 27,858 per tonne. On the same date the Government also raised the retention prices of 4 aluminium producers.

In the Budget for 1987-88, the Government reduced the excise duty on CG grade aluminium from 13 per cent to 11 per cent. In the case of imported aluminium a specific duty of Rs.3,700 per tonne was levied.

The ex-godown prices of some of the non-ferrous metals were periodically revised by the Government taking into account the price trends in the international market and appreciation in the value of Pound-sterling/dollar vis-a-vis the rupee.

Chapter VI

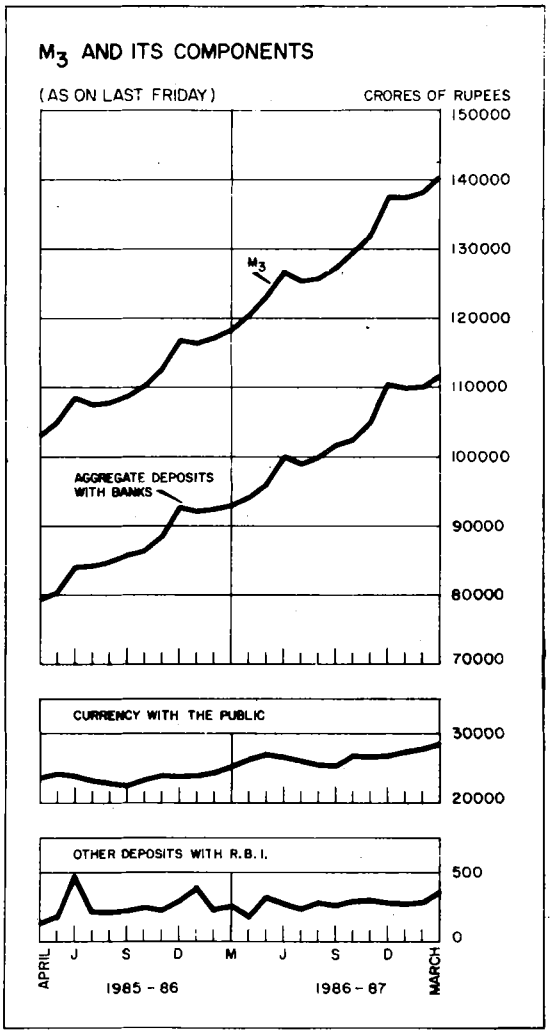
Monetary Developments

Overall Trends

The pace of monetary expansion in terms of all the four measures of money supply,viz., M_1, M_2, M_3, and M_4 accelerated during 1986-87 as compared with the previous year. However, the growth differential as between these two years was much wider in respect of M_1 and M_2 than with respect to M_3 and M_4. The rate of expansion in each of the monetary aggregates M_1 to M_4 during 1986-87 ranged from 15.7 per cent to 18.5 per cent. The average growth rate in M_1 and M_3 during the five-year period 1982-83 to 1986-87 was 15.6 per cent and 17.6 per cent, respectively.

Money supply with the public, i.e., M_1 (comprising currency with the public, demand deposits with banks and 'other' deposits with the Reserve Bank) registered a larger increase by Rs. 7,397 crores (17.0 per cent) as compared to Rs. 3,950 crores (10.0 per cent) in 1985-86 but the rate of growth was almost the same as the annual average of 17.1 per cent during the earlier three years, viz. 1982-83 to 1984-85. Aggregate monetary resources or M_3 (comprising M_1+ time deposits with banks) recorded a rise of Rs. 21,918 crores as compared to Rs.16,381 crores in the previous year; the growth rate at 18.5 per cent was higher than that of 16.1 per cent in 1985-86 and the annual average of 17.8 per cent during the earlier three years, 1982-83 to 1984-85.

The growth in M_2 (M_1 + post office savings bank deposits) during 1986-87 at Rs. 7,304 crores or 15.7 per cent was higher than that of



Rs. 4,165 crores (9.8 per cent) in the preceding year. M_4 (M_3+ total post office deposits) also showed a larger increase of Rs. 21,416 crores or 16.5 per cent as compared with that of Rs. 17,869 crores or 15.9 per cent in 1985-86 (Table VI-1).

Table VI—1 : Money Supply and its Components

(Rupees crores)

Items	Variations during financial year						Out-standings as on the last Friday of March 1987@	Variations during the quarter			
	1984-85		1985-86		1986-87@			April-June 1986		April-June 1987@	
	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage		Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8	9	10	11	12
M_1 (a+b+c)	+ 6,583	+ 19.9	+ 3,950	+ 10.0	+ 7,397	+ 17.0	50,996	+ 3,205	+ 7.4	+ 2,063	+ 4.0
(a) Currency with the public	+ 3,111	+ 15.9	+ 2,504	+ 11.0	+ 3,371	+ 13.4	28,539	+ 1,490	+ 5.9	+ 1,939	+ 6.8
(b) Demand deposits with banks	+ 3,187	+ 24.2	+ 1,798	+ 11.0	+ 3,925	+ 21.6	22,105	+ 1,694	+ 9.3	+ 210	+ 1.0
(c) 'Other' deposits with RBI	+ 285	+ 89.6	− 352	− 58.4	+ 101	+ 40.2	352	+ 21	+ 8.4	− 86	− 24.4
Post Office Savings Bank Deposits	+ 184	+ 6.9	+ 215	+ 7.6	− 93	− 3.1	2,954	− 184	− 6.0	—	—
M_2 (M_1 + Post Office Savings Bank Deposits)	+ 6,767	+ 18.9	+ 4,165	+ 9.8	+ 7,304	+ 15.7	53,950	+ 3,021	+ 6.5	+ 2,063	+ 3.8
Time deposits with banks	+ 9,475	+ 17.9	+ 12,431	+ 20.0	+ 14,521	+ 19.4	89,260	+ 5,344	+ 7.2	+ 4,485	+ 5.0
M_3 (M_1 + Time Deposits with Banks)	+ 16,058	+ 18.7	+ 16,381	+ 16.1	+ 21,918	+ 18.5	1,40,256	+ 8,549	+ 7.2	+ 6,548	+ 4.7
Total Post Office Deposits	+ 1,172	+ 12.9	+ 1,488	+ 14.5	− 502	− 4.3	11,270	− 178	− 1.5	—	—
M_4 (M_3 + Total Post Office Deposits)	+ 17,230	+ 18.1	+ 17,869	+ 15.9	+ 21,416	+ 16.5	1,51,526	+ 8,371	+ 6.4	+ 6,548	+ 4.3

@Data are provisional.

Though the absolute addition to reserve money was higher at Rs. 6,904 crores in1986-87 as compared to Rs. 6,381 crores during 1985-86, the growth rate at 18.2 per cent was lower by 2.1 percentage points.

Money Supply - Components

Among the components of M_1, currency with the public expanded by Rs. 3,371 crores or 13.4 per cent which was higher than the increase of Rs. 2,504 crores or 11.0 per cent in the preceding year; however, the growth rate was lower than the annual average growth of 16.1 per cent recorded during the earlier three years, viz., 1982-83 to 1984-85. On the other hand, the accretion to demand deposits with banks at Rs. 3,925 crores or 21.6 per cent was more than twice that of Rs. 1,798 crores or 11.0 per cent in 1985-86; it was also higher than the annual average increase of 17.7 per cent during the earlier three-year period 1982-83 to 1984-85. The moderation in the growth of currency absorption over the last three years seems to be associated with a shift of real income as well as crude terms of trade against the agricultural sector and in favour of non-agricultural sectors. The steep growth in demand deposits in 1986-87 seems to have been contributed partly by the floating funds arising from developments in the capital market.

Looking at the components of aggregate monetary resources, the share of currency in the expansion of M_3 which ranged between 19 to 23 per cent during 1982-83 to 1984-85, declined to 15.3 per cent in 1985-86 and stood at 15.4 per cent in 1986-87. The increase in aggregate deposits with banks at Rs. 18,446 crores or 19.9 per cent was larger than that of Rs. 14,229 crores or 18.1 per cent in the previous year and also larger than the annual average growth of 18.1 per cent during the preceding three years, viz., 1982-83 to 1984-85. The share of aggregate deposits with banks in the expansion of M_3, which had ranged between 77 and 87 per cent during 1982-83 to 1985-86 on a point-to-point basis, stood at 84.2 per cent in 1986-87. However, time deposits with banks showed a larger absolute rise of Rs. 14,521 crores than that of Rs. 12,431 crores in 1985-86 but suffered a nominal fall of 0.6 percentage point in the growth rate at 19.4 per cent. As a result, the share of time deposits in expansion of M_3 slipped from 75.9 per cent in 1985-86 to 66.3 per cent in 1986-87; during the preceding three years the ratio had ranged from 59.0 per cent to 65.2 per cent. 'Other' deposits with RBI increased by Rs. 101 crores in 1986-87 in contrast to a decline of Rs. 352 crores in 1985-86.

Sources of Change in Money Supply

A higher expansion in M_3 during 1986-87 was associated mainly with a larger expansion in net bank credit to Government and higher accrual to net foreign exchange assets of the banking sector than in 1985-86; the increase in bank credit to commercial sector was lower than in the preceding year (Table VI-2).

Net bank credit to Government registered a large increase of Rs. 12,825 crores or 21.9 per cent during 1986-87 as compared with Rs. 9,572 crores or 19.6 per cent in the previous year. This was mainly on account of a sharp rise in other banks' credit to Government by Rs. 5,958 crores or 30.4 per cent as against only Rs.445 crores or 2.3 per cent in 1985-86. Net RBI credit to Government recorded a lower rise of Rs. 6,867 crores or 17.7 per cent as compared with Rs. 9,127 crores or 30.7 per cent in the previous year. Apart from the fact that Government securities have been made more attractive through increase in coupon rates, stricter monitoring by RBI of SLR compliance on a daily basis by banks explains the sharp rise in other banks' holdings of Government securities during 1986-87.

Table VI—2 : Sources of Money Stock (M_3)

(Rupees crores)

Items	Variations during financial year						Outstanding as on last Friday of March 1987@	Variations during the quarter			
	1984-85		1985-86		1986-87@			April-June 1986		April-June 1987@	
	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage		Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8	9	10	11	12
Sources of Money Stock (M_3)(1+2+3+4−5)	**+ 16,058**	**+ 18.7**	**+ 16,381**	**+ 16.1**	**+ 21,918**	**+ 18.5**	**140,256**	**+ 8,549**	**+ 7.2**	**+ 6,548**	**+ 4.7**
1. Net Bank Credit to Government (A+B)	**+ 8,445**	**+ 20.8**	**+ 9,572**	**+ 19.6**	**+ 12,825**	**+ 21.9**	**71,347**	**+ 6,773**	**+ 11.6**	**+ 6,080**	**+ 8.5**
A. RBI's net credit to Government (i−ii)	+ 3149	+ 11.8	+ 9,127	+ 30.7	+ 6,867	+ 17.7	45,768	+ 4,880	+ 12.5	+ 4,874	+ 10.6
(i) Claims on Government (a+b)	+ 8,321	+ 31.0	+ 3,881	+ 11.0	+ 6,757	+ 17.3	45,837	+ 4,767	+ 12.2	+ 4,875	+ 10.6
(a) Central Government	+ 7,808	+ 30.5	+ 5,639	+ 16.9	+ 6,487	+ 16.6	45,567	+ 4,767	+ 12.2	+ 5,061	+ 11.1
(b) State Governments	+ 513	+ 41.2	− 1,758	− 100.0	+ 270	£	270	—	—	−186	− 68.9
(ii) Government deposits with RBI (a+b)	+ 5,172	+2,044.3	− 5,246	− 96.7	− 110	− 61.5	69	− 113	− 63.1	+ 1	+ 1.4
(a) Central Government	+ 5,173	+ 2,085.9	− 5,261	− 97.0	− 106	− 66.3	54	− 109	− 68.1	− 1	− 1.9
(b) State Governments	−1	− 20.0	+ 15	+ 375.0	− 4	− 21.1	15	− 4	− 21.1	+ 2	+ 13.3
B. Other banks' credit to Government	+ 5,296	+ 38.2	+ 445	+ 2.3	+ 5,958	+ 30.4	25,579	+ 1,893	+ 9.6	+ 1,206	+ 4.7
2. Bank Credit to Commercial Sector (A+B)	**+ 10,809**	**+ 18.0**	**+ 11,051**	**+ 15.6**	**+ 10,878**	**+ 13.3**	**92,730**	**+ 1,814**	**+ 2.2**	**+ 803**	**+ 0.9**
A. RBI's credit to commercial sector*	+ 389	+ 16.4	+ 301	+ 10.9	+ 363	+ 11.8	3,429	− 17	− 0.6	− 59	− 1.7
B. Other banks' credit to commercial sector (i+ii+iii)	+ 10,420	+ 18.1	+ 10,750	+ 15.8	+ 10,515	+ 13.3	89,301	+ 1,831	+ 2.3	+ 862	+ 1.0
(i) Bank credit by commercial banks	+ 7,660	+ 18.5	+ 7,118	+ 14.5	+ 7,173	+ 12.8	63,255	+ 1,163	+ 2.1	+ 517	+ 0.8
(ii) Bank credit by co-operative banks	+ 1,013	+ 12.7	+ 1,534	+ 17.0	+ 1,073	+ 10.2	11,613	+ 28	+ 0.3	− 219	− 1.9
(iii) Investments by commercial & co-operative banks in other securities	+ 1,747	+ 21.0	+ 2,098	+ 20.8	+ 2,269	+ 18.7	14.433	+ 640	+ 5.3	+ 564	+ 3.9
3. Net Foreign Exchange Assets of the Banking Sector (A+B)	**+ 1,633**	**+ 99.2**	**+ 195**	**+ 5.9**	**+ 1,251**	**+ 36.0**	**4,725**	**+ 274**	**+ 7.9**	**− 223**	**− 4.7**
A. RBI's net foreign exchange assets (i−ii)	+ 1,420	+ 87.4	+ 299	+ 9.8	+ 1,251	+ 37.4	4,594	+ 274	+ 8.2	− 223	− 4.9
(i) Gross foreign assets	+ 1,484	+ 25.9	+ 54	+ 0.7	+ 631	+ 8.7	7,892	+ 179	+ 2.5	− 420	− 5.3
(ii) Foreign liabilities	+ 64	+ 1.6	− 245	− 5.9	− 620	− 15.8	3,298	− 95	− 2.4	− 197	− 6.0
B. Other banks' net foreign exchange assets	+ 213	+ 968.2	− 104	− 44.3	—	—	131	—	—	—	—
4. Government's Currency Liabilities to the Public	**+ 57**	**+ 7.9**	**+ 163**	**+ 21.0**	**+ 201**	**+ 21.4**	**1,141**	**+ 74**	**+ 7.9**	**—**	**—**
5. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (A+B)	**+ 4,886**	**+ 28.8**	**+ 4,600**	**+ 21.1**	**+ 3,237**	**+ 12.2**	**29,687**	**+ 386**	**+ 1.5**	**+ 112**	**+ 0.4**
A. Net non-monetary liabilities of RBI	+ 2,581	+ 50.6	+ 2,991	+ 38.9	+ 2,183	+ 20.4	12,860	+ 557	+ 5.2	− 253	− 2.0
B. Net non-monetary liabilities of other banks (derived)	+ 2,305	+ 19.4	+ 1,609	+ 11.4	+ 1,054	+ 6.7	16,827	− 171	− 1.1	+ 365	+ 2.2

@ Data are provisional. £ Increase over near-zero.

* **RBI's credit to commercial sector excludes, since the establishment of NABARD, its refinance to banks.**

Bank credit to commercial sector recorded a lower increase of Rs. 10,878 crores or 13.3 per cent as compared with Rs. 11,051 crores or 15.6 per cent in the previous year. This was mainly due to a lower rise in other banks' credit to commercial sector of Rs. 10,515 crores or 13.3 per cent as against Rs. 10,750 crores or 15.8 per cent in 1985-86. The increase in scheduled commercial banks' credit at Rs. 7,169 crores in 1986-87 was higher than that of Rs. 7,114 crores in 1985-86; the rise of Rs. 7,169 crores comprised of the increase in non-food credit of Rs. 7,573 crores (as against Rs. 7,244 crores in the preceding year) and the decline in food credit of Rs. 404 crores (as compared with Rs. 130 crores in 1985-86). While the decline in food credit in 1986-87 was due to the Government's release of food subsidy to the Food Corporation of India, the larger expansion in non-food credit was explained by increased demand from industry due to increase in stocks in respect of some industries.

The net foreign exchange assets of the banking sector showed a substantial improvement of Rs. 1,251 crores or 36.0 per cent as against Rs. 195 crores or 5.9 per cent in the previous year. Net non-monetary liabilities of the banking sector increased by Rs. 3,237 crores or 12.2 per cent as compared with that of Rs. 4,600 crores or 21.1 per cent in the preceding year.

Seasonal Trends

Seasonal variations in M_3, both component-wise and source-wise, during the last two busy and slack seasons are presented in Table VI-3. During the slack season of 1986 (end-April to end-October), M_3 registered a larger expansion at Rs. 9,155 crores or 7.6 per cent as compared with Rs. 7,033 crores or 6.8 per cent in the previous slack season. Of the components, there was a large increase in currency with the public in contrast to a decline in the preceding slack season. Aggregate deposits with banks also showed a larger expansion in absolute terms than in the previous slack season. Source-wise, while net bank credit to Government recorded a larger increase, bank credit to commercial sector showed a lower rise than in the previous slack season; net foreign exchange assets of the banking sector registered a larger decline than the preceding slack season.

During the busy season of 1986-87, the expansion in M_3 was higher in absolute terms at Rs. 12,077 crores as compared with Rs. 10,261 crores in the 1985-86 busy season; the growth rate, however, remained unchanged at 9.3 per cent. Source-wise, both net bank credit to Government and bank credit to commercial sector displayed similar trend as in the slack season; net foreign exchange assets, however, recorded a substantially higher rise than in the previous busy season.

Reserve Money

There was some moderation in reserve money growth rate from 20.3 per cent in 1985-86 to 18.2 per cent in 1986-87 but the growth rate was higher than the annual average growth during the earlier three years of 1982-83 to 1984-85 at 15.6 per cent. Of the components, currency with the public showed a faster expansion and bankers' deposits with RBI, a lower rise, than in the previous year. 'Other deposits with RBI, which depicted a negative growth of 58.4 per cent in 1985-86 improved considerably in the following year showing an increase of 40.2 per cent (Table VI-4).

Source-wise, the increase in Reserve Bank's claims on Government was lower than in the previous year; its claims on scheduled commercial banks recorded an increase in contrast to a decline last year. Net foreign exchange assets increased substantially during the year.

Table VI–3 : Seasonal Variations in M_3 and its Sources of Change

(Rupees crores)

Items	Variations during							
	Slack Season				Busy Season			
	1985		1986@		1985-86		1986-87@	
	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8	9
I. M_1 [a+b(i)+c]	**+ 236**	**+ 0.6**	**+ 1,706**	**+ 3.8**	**+ 4,423**	**+ 11.1**	**+ 5,610**	**+ 12.2**
II. M_3 [a+b+c]	**+ 7,033**	**+ 6.8**	**+ 9,155**	**+ 7.6**	**+ 10,261**	**+ 9.3**	**+ 12,077**	**+ 9.3**
(a) Currency with the public	− 302	− 1.3	+ 659	+ 2.5	+ 2,918	+ 12.5	+ 3,179	+ 11.8
(b) Aggregate deposits with banks (i+ii)	+ 7,231	+ 9.1	+ 8,392	+ 8.9	+ 7,401	+ 8.6	+ 8,907	+ 8.7
(i) Demand deposits	+ 434	+ 2.7	+ 943	+ 5.2	+ 1,563	+ 9.5	+ 2,440	+ 12.9
(ii) Time deposits	+ 6,797	+ 10.8	+ 7,449	+ 9.8	+ 5,838	+ 8.3	+ 6,467	+ 7.8
(c) 'Other' deposits with RBI	+ 104	+ 72.7	+ 104	+ 55.0	− 58	− 23.5	− 9	− 3.1
III. Sources of change in M_3 (1+2+3+4−5)								
1. Net Bank Credit to Government (A+B)	**+ 4,444**	**+ 8.7**	**+ 6,715**	**+ 11.1**	**+ 5,048**	**+ 9.1**	**+ 7,700**	**+ 11.4**
(A) RBI's net credit to Government (i−ii)	+ 3,664	+ 12.2	+ 6,925	+ 18.7	+ 3,511	+ 10.4	+ 4,593	+ 10.4
(i) Claims on Government (a+b)	+ 1,355	+ 4.2	+ 6,855	+ 18.4	+ 3,587	+ 10.6	+ 4,599	+ 10.4
(a) Central Government	+ 3,234	+ 10.6	+ 6,934	+ 18.7	+ 3,560	+ 10.6	+ 4,474	+ 10.1
(b) State Governments	− 1,879	− 96.7	− 79	− 85.9	+ 27	+ 41.5	+ 125	+ 961.5
(ii) Government deposits with RBI (a+b)	− 2,309	− 97.3	− 70	− 50.0	+ 76	+ 118.8	+ 6	+ 8.6
(a) Central Government	− 2,319	− 97.9	− 73	− 58.4	+ 75	+ 150.0	+ 10	+ 19.2
(b) State Governments	+ 10	+ 250.0	+ 3	+ 20.0	+ 1	+ 7.1	− 4	− 22.2
(B) Other banks' credit to Government	+ 780	+ 3.7	− 210	− 0.9	+ 1,537	+ 7.0	+ 3,107	+ 13.3
2. Bank Credit to Commercial Sector (A+B)	**+ 4,617**	**+ 6.6**	**+ 4,217**	**+ 5.1**	**+ 7,075**	**+ 9.4**	**+ 5,957**	**+ 6.9**
(A) RBI's credit to commercial sector £	+ 316	+ 11.5	+ 368	+ 12.0	− 6	− 0.2	− 30	− 0.9
(B) Other banks' credit to commercial sector (i+ii+iii)	+ 4,301	+ 6.4	+ 3,849	+ 4.9	+ 7,081	+ 9.9	+ 5,987	+ 7.2
(i) Bank credit by commercial banks	+ 2,813	+ 5.8	+ 2,334	+ 4.2	+ 4,599	+ 8.9	+ 4,330	+ 7.4
(ii) Bank credit by co-operative banks	+ 260	+ 2.9	+ 394	+ 3.7	+ 1,351	+ 14.6	+ 500	+ 4.5
(iii) Investments by commercial and co-operative banks in other securities	+ 1,228	+ 12.4	+ 1,121	+ 9.2	+ 1,131	+ 10.2	+ 1,157	+ 8.7
3. Net Foreign Exchange Assets of the Banking Sector (A+B)	**− 164**	**− 4.8**	**− 637**	**− 16.2**	**+ 684**	**+ 21.1**	**+ 1,212**	**+ 36.9**
(A) RBI's net foreign exchange assets (i−ii)	+ 32	+ 1.0	− 637	− 16.8	+ 592	+ 18.5	+ 1,212	+ 38.4
(i) Gross foreign assets	− 120	− 1.6	− 908	− 11.8	+ 476	+ 6.6	+ 841	+ 12.4
(ii) Foreign liabilities	− 152	− 3.7	− 271	− 7.0	− 116	− 2.9	− 371	− 10.2
(B) Other banks' net foreign exchange assets	− 196	− 83.4	–	–	+ 92	+ 235.9	–	–
4. Government's Currency Liabilities to the Public	**+ 44**	**+ 5.6**	**+ 116**	**+ 12.0**	**+ 135**	**+ 16.3**	**+ 62**	**+ 5.7**
5. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (A + B)	**+ 1,908**	**+ 8.4**	**+ 1,256**	**+ 4.6**	**+ 2,681**	**+ 10.9**	**+ 2,854**	**+ 10.0**
(A) Net non-monetary liabilities of RBI	+ 1,436	+ 18.3	+ 1,215	+ 11.8	+ 1,034	+ 11.1	+ 979	+ 8.5
(B) Net non-monetary liabilities of other banks (derived)	+ 472	+ 3.2	+ 41	+ 0.2	+ 1,647	+ 10.8	+ 1,875	+ 11.0

@ Provisional.

£ RBI credit to commercial sector excludes, since the establishment of NABARD, its refinance to banks.

Table VI—4 : Reserve Money : Components and Sources of Change

(Rupees crores)

Items	Variations during financial year				Outstanding as on last Friday of March 1987@	Variations during the quarter			
	1985-86		1986-87@			April-June 1986		April-June 1987@	
	Absolute	Percentage	Absolute	Percentage		Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8	9	10
Reserve Money (1+2+3+4)	**+ 6,381**	**+ 20.3**	**+ 6,904**	**+ 18.2**	**44,762**	**+ 3,919**	**+ 10.4**	**+ 4,395**	**+ 9.8**
1. Currency with the public	+ 2,504	+ 11.0	+ 3,371	+ 13.4	28,539	+ 1,490	+ 5.9	+ 1,939	+ 6.8
2. 'Other' deposits with RBI	− 352	− 58.4	+ 101	+ 40.2	352	+ 21	+ 8.4	− 86	− 24.4
3. Cash with banks	+ 89	+ 7.4	+ 73	+ 5.7	1,364	+ 438	+ 33.9	+ 310	+ 22.7
4. Bankers' deposits with RBI	+ 4,140	+ 59.1	+ 3,359	+ 30.1	14,507	+ 1,970	+ 17.7	+ 2,232	+ 15.4
Sources of change in Reserve Money (1+2+3−4)									
1. Reserve Banks' claims on (a+b+c+d)	**+ 8,910**	**+ 25.2**	**+ 7,634**	**+ 17.3**	**51,886**	**+ 4,128**	**+ 9.3**	**+ 4,366**	**+ 8.4**
(a) Government (Net)	+ 9,127	+ 30.7	+ 6,867	+ 17.7	45,768	+ 4,880	+ 12.5	+ 4,874	+ 10.6
(b) Scheduled commercial banks	− 490	− 31.5	+ 357	+ 33.4	1,425	− 410	− 38.4	− 157	− 11.0
(c) State co-operative banks	+ 7	+ 26.9	+ 3	+ 9.1	36	− 6	− 18.2	− 7	− 19.4
(d) Financial institutions (i+ii+iii)	+ 266	+ 6.7	+ 407	+ 9.6	4,657	− 336	− 7.9	− 344	− 7.4
(i) NABARD	− 35	− 2.9	+ 44	+ 3.7	1,228	− 319	− 26.9	− 285	− 23.2
(ii) IDBI	+ 254	+ 10.9	+ 290	+ 11.2	2,885	− 5	− 0.2	− 10	− 0.3
(iii) Others	+ 47	+ 11.1	+ 73	+ 15.5	544	− 12	− 2.5	− 49	− 9.0
2. Net Foreign Exchange Assets of RBI	**+ 299**	**+ 9.8**	**+ 1,251**	**+ 37.4**	**4,594**	**+ 274**	**+ 8.2**	**− 223**	**− 4.9**
3. Government's Currency Liabilities to the Public	**+ 163**	**+ 21.0**	**+ 201**	**+ 21.4**	**1,141**	**+ 74**	**+ 7.9**	**—**	**—**
4. Net Non-monetary Liabilities of RBI	**+ 2,991**	**+ 38.9**	**+ 2,183**	**+ 20.4**	**12,860**	**+ 557**	**+ 5.2**	**− 253**	**− 2.0**

@ Provisional.

Some Monetary Relationships

The ratio of currency to aggregate deposits, on a point-to-point basis, declined from 0.271 in 1985-86 to 0.256 in 1986-87. The ratio of currency to M_3 also declined from 0.213 to 0.203 while that of aggregate deposits to M_3 increased slightly from 0.785 in 1985-86 to 0.794 in 1986-87.

Between 1982-83 and 1986-87, both the ratios of currency to aggregate deposits and currency to M_3 have shown a gradual decline thus continuing the secular trend of the spread of banking habit which has been receiving an impetus since the early 1970s following the rapid expansion of branch network of banks.

The incremental ratios of currency to aggregate deposits and currency to M_3 declined steadily since 1983-84 from 0.289 and 0.222 to 0.176 and 0.153, respectively, in 1985-86 but increased slightly to 0.183 and 0.154 in 1986-87.

The data based on average of months given in Table VI-5 show that both the absolute and incremental ratios of currency to aggregate deposits and currency to M_3 followed a similar trend as the ratios on a point-to-point basis except for 1984-85.

Table VI–5 : Monetary Ratios

	1982-83	1983-84	1984-85	1985-86	1986-87@
A. Point-to-point basis (as on last Friday of March)					
(a) Currency / Aggregate Deposits	0.297	0.296	0.288	0.271	0.256
(b) Currency/M_3	0.229	0.228	0.222	0.213	0.203
(c) Aggregate Deposits /M_3	0.769	0.769	0.772	0.785	0.794
Incremental Ratios					
(a) Currency/Aggregate Deposits	0.263	0.289	0.246	0.176	0.183
(b) Currency/M_3	0.208	0.222	0.194	0.153	0.154
(c) Aggregate Deposits / M_3	0.789	0.768	0.789	0.869	0.842
Money Multiplier					
(a) M_1 / RM*	1.235	1.147	1.260	1.152	1.139
(b) M_3 / RM*	3.153	2.980	3.239	3.126	3.133
Incremental Money Multiplier					
(a) $\triangle M_1 / \triangle$ RM*	1.438	0.793	2.481	0.619	1.071
(b) $\triangle M_3 / \triangle$ RM*	3.946	2.281	6.053	2.567	3.175
B. Average of last Friday of months from April-March					
(a) Currency/Aggregate Deposits	0.295	0.290	0.292	0.273	0.259
(b) Currency / M_3	0.227	0.225	0.225	0.214	0.205
(c) Aggregate Deposits/M_3	0.771	0.773	0.771	0.783	0.793
Incremental Ratios					
(a) Currency / Aggregate Deposits	0.238	0.264	0.301	0.176	0.181
(b) Currency / M_3	0.193	0.208	0.229	0.150	0.153
(c) Aggregate Deposits / M_3	0.809	0.789	0.760	0.854	0.846
Money Multiplier					
(a) M_1 / RM*	1.224	1.212	1.199	1.164	1.136
(b) M_3 / RM*	3.148	3.193	3.154	3.147	3.150
Incremental Money Multiplier					
(a) $\triangle M_1 / \triangle$ RM*	1.225	1.140	1.134	0.960	0.974
(b) $\triangle M_3 / \triangle$ RM*	3.965	3.479	2.958	3.108	3.165

RM = Reserve Money * Not adjusted for changes in reserve requirements.

@ Provisional.

Notes: 1) Reserve money comprises of currency with the public, bank reserves, i.e. cash with banks, banks' balances with RBI and "other" deposits with RBI.

2) Money multiplier refers to ratio of money supply or aggregate monetary resources to reserve money.

Money multiplier, i.e., the ratio of M_1 or M_3 to reserve money, calculated on a point-to-point basis, showed an apparent degree of stability with M_3/RM ratio ranging between 3.126 and 3.133 during the year 1985-86 and 1986-87 and M_1/RM ratio declining only fractionally from 1.152 to 1.139. Similarly, during the preceding three years, the former ratio had remained within the range of 2.980 to 3.239 and the latter within 1.147 to 1.260. These data on average of months basis also showed a fair degree of stability. This apparent stability, however, has to be interpreted with considerable caution because of the acute sensitivity of the resultant growth rates in monetary magnitudes to even a 0.1 change in the money

multiplier ratio. Besides, in incremental money multiplier, such an apparent stability is not seen particularly on a point-to-point basis, thus signifying the possible difficulties in using the ratio for short-term forecasting. The $\Delta M_1/\Delta$ RM ratio varied from 0.619 to 2.481 during the past five years (1982-83 to 1986-87) on a point-to-point basis and from 0.960 to 1.225 on an average basis. The $\Delta M_3/\Delta$ RM ratio ranged between 2.281 and 6.053 on a point-to-point basis and between 2.958 and 3.965 on an average basis.

Taking into consideration adjusted reserve money @, i.e., adjusted to policy changes in cash reserve ratio requirements, the movements in money multiplier on a point-to-point basis, presented in the table below, show wider fluctuations, particularly in incremental ratios.

	As on the last Friday of				
	1982-83	1983-84	1984-85	1985-86	1986-87*
Money Multiplier M_3/ RM (adjusted)	3.8	3.8	4.2	4.0	4.2
Incremental Money Multiplier $\Delta M_3/\Delta$RM (adjusted)	4.7	3.5	11.8	3.0	5.5

* Provisional.

The adjusted money multiplier thus obtained moved up from 3.8 in 1982-83 to 4.2 in 1984-85 but declined to 4.0 in 1985-86; it stood at 4.2 in 1986-87. The incremental money multiplier based on adjusted reserve money declined from 4.7 in 1982-83 to 3.5 in 1983-84 but spurted to 11.8 in 1984-85. It declined to 3.0 in 1985-86 and stood at 5.5 in 1986-87.

Income Velocity of Money

The income velocity of money, i.e., ratio of national income at factor cost (at current prices) to average M_1 declined to 4.6 in 1986-87 from 4.8 in 1985-86. It had moved in the range of 4.8 - 5.2 in the earlier three years of 1982-83 to 1984-85. The income velocity of aggregate monetary resources, i.e., ratio of net national income to average M_3 also declined marginally to 1.7 from 1.8 in 1985-86. The ratio had moved in the range of 1.8 - 2.0 in the earlier three years of 1982-83 to 1984-85 (Table VI—6).

Monetary trends during April-June 1987

The first quarter of the current financial year (1987-88) witnessed a lower expansion in M_3 at Rs. 6,548 crores or 4.7 per cent than

@ The adjusted reserve money is derived by adjusting for policy changes such as those relating to cash reserve ratio and incremental reserve requirements as also net defaults of commercial banks with respect to the average and incremental reserve requirements. For details of concept and methodology of working out the adjusted reserve money series, reference may be made to "Reserve Money-Concepts and Policy Implications for India" published in RBI Occasional Papers (Vol. 5, No. 1), June 1984.

Table VI—6 : Income Velocity of Money Supply and Aggregate Monetary Resources

(Rupees crores)

Financial Year	National Income at Factor Cost (at current prices)		Currency with the Public*		Money Supply with the Public*		Aggregate Monetary Resources*		Average Income Velocity of		
	Amount	Annual Percentage Increase	Amount	Annual Percentage Increase	Amount	Annual Percentage Increase	Amount	Annual Percentage Increase	Currency	Money Supply	Aggregate Monetary Resources
1	2	3	4	5	6	7	8	9	10	11	12
1982-83	1,33,807	10.6	15,531	11.9	26,563	11.1	68,326	14.3	8.6	5.0	2.0
1983-84	1,58,265	18.3	18,003	15.9	30,449	14.6	80,185	17.4	8.8	5.2	2.0
1984-85	1,74,018	10.0	21,340	18.5	36,034	18.3	94,758	18.2	8.2	4.8	1.8
1985-86	1,95,707	12.5	23,774	11.4	41,043	13.9	1,10,971	17.1	8.2	4.8	1.8
1986-87 @	2,15,429	10.1	26,730	12.4	46,977	14.5	1,30,255	17.4	8.1	4.6	1.7

* Average of outstandings as on last Friday of months.

@ Provisional

that of Rs. 8,549 crores or 7.2 per cent in April-June 1986. M_1 also recorded a lower rise of Rs.2,063 crores or 4.0 per cent as against Rs.3,205 crores or 7.4 per cent. Of the components, a larger increase was recorded in currency with the public at Rs. 1,939 crores or 6.8 per cent as compared with Rs. 1,490 crores or 5.9 per cent in April-June 1986. Demand deposits and time deposits with banks recorded lower increases of Rs. 210 crores or 1.0 per cent and Rs. 4,485 crores or 5.0 per cent respectively, as against Rs. 1,694 crores or 9.3 per cent and Rs. 5,344 crores or 7.2 per cent in the corresponding quarter of 1986.

Source-wise, net bank credit to Government recorded a lower rise of Rs. 6,080 crores or 8.5 per cent as compared with Rs. 6,773 crores or 11.6 per cent in April-June 1986. Bank credit to commercial sector showed an increase of only Rs. 803 crores or 0.9 per cent as against Rs. 1,814 crores or 2.2 per cent in April-June 1986; net foreign exchange assets declined in contrast to a rise in the corresponding quarter of 1986.

The expansion in reserve money during the first quarter of 1987-88 was higher in absolute terms at Rs. 4,395 crores as compared with Rs.3,919 crores in April-June 1986 but the growth rate at 9.8 per cent was lower by 0.6 percentage point. The deceleration in growth of reserve money during the quarter was due to a lower growth in net RBI credit to Government and a decline in its net foreign exchange assets.

Currency and Coinage

During the fiscal year 1986-87, the expansion in currency in circulation (comprising currency with the public and cash with banks), was higher at Rs. 3,444 crores or 13.0 per cent as compared with Rs. 2,594 crores or 10.9 per cent in 1985-86.

Notes in circulation, the major constituent of currency, increased by Rs. 3,243 crores or 12.7 per cent as compared with Rs. 2,431 crores or 10.5 per cent during the previous year. Its share in total currency in circulation, however, declined from 96.5 per cent at end March 1986 to 96.2 per cent at end March 1987. Circulation of rupee coins showed a larger increase than in 1985-86 while small coins showed a smaller increase. Their share in total currency was 2.4 per cent and 1.4 per cent respectively, at the end of March 1987 as compared with 2.0 per cent and 1.5 per cent a year ago (Table VI-7). During the first quarter of fiscal 1986-87, i.e., up to the end of June 1987 the expansion in currency in circulation at Rs. 2,249 crores was higher than that of Rs. 1,928 crores in the corresponding quarter of 1985-86. The share of notes in circulation moved up to 96.5 per cent by end-June 1987.

During the year (data are provisional and do not cover all issue offices) the issue of notes of all denominations was of a lower order as compared with that in 1985-86. Notes in the denomination of Rs. 100 declined both in absolute terms and as a proportion of total currency issue. The decline was of the order of Rs. 5,324 crores in contrast to an increase of Rs. 1,114 crores during the previous year. The share of these notes in total currency also declined from 56.6 per cent in March 1986 to 56.4 per cent in March 1987 (Table VI-8). The issue of notes in the denominations of Rs. 50 and Rs. 20 declined by Rs. 1,111 crores and Rs.607 crores respectively. Their share in the total currency issue, however, increased by 2.3 percentage points and 0.1 percentage point to 18.6 per cent and 6.8 percent respectively, as at the end of March 1987. Notes in the denominations of Rs. 10, Rs. 5 and Rs. 2 recorded declines of Rs. 1,530 crores, Rs.682 crores and Rs. 328 crores respectively, during 1986-87. The share of these notes in total currency also declined from 9.6 per cent, 4.9 per cent and 2.5 per cent in March 1986 to 5.9 per cent, 3.6 per cent and 1.9 per cent at the end of March 1987.

Table VI—7 : Details of Currency in Circulation

(Rupees crores)

Financial Year	Notes in circulation		Circulation of rupee coins		Circulation of small coins		Currency in circulation		Of which with banks	
	Out-standing	Varia-tions over the previous year	Out-standing	Varia-tions over the previous year	Out-standing	Varia-tions over the previous year	Out-standing	Varia-tions over the previous year	Out-standing	Varia-tions over the previous year
1	2	3	4	5	6	7	8	9	10	11
1984-85	23,088 (96.7)	+ 3,200	426 (1.8)	+ 40	351 (1.5)	+ 18	23,865 (100.0)	+ 3,258	1,202	+ 148
1985-86	25,519 (96.5)	+ 2,431	531 (2.0)	+ 105	409 (1.5)	+ 58	26,459 (100.0)	+ 2,594	1,291	+ 89
1986-87 @	28,762 (96.2)	+3,243	709 (2.4)	+ 178	432 (1.4)	+ 23	29,903 (100.0)	+ 3,444	1,364	+ 73
Quarter ended June 1986	27,373 (96.4)	+ 1,854	582 (2.1)	+ 51	432 (1.5)	+ 23	28,387 (100.0)	+ 1,928	1,729	+ 438
Quarter ended June 1987 @	31,011 (96.5)	+ 2,249	709 (2.2)	—	432 (1.3)	—	32,152 (100.0)	+ 2,249	1,674	+ 310

@ Provisional

Notes: 1. Figures in brackets are proportions to total currency.
2. Data relate to last Friday.

Table VI—8 : Percentage Share of Rs. 2/-, Rs. 5/-, Rs. 10/-, Rs. 20/-, Rs. 50/- and Rs. 100/- Notes in Total Currency Issued ×

End of March	Percentage Share						Total
	Rs. 2/-	Rs. 5/-	Rs. 10/-	Rs. 20/-	Rs. 50/-	Rs. 100/-	(1 to 6)
	1	2	3	4	5	6	7
1985	2.3	5.1	9.2	6.8	16.2	57.4	97.0
1986	2.5	4.9	9.6	6.7	16.3	56.6	96.6
1987 @	1.9	3.6	5.9	6.8	18.6	56.4	93.2

× Inclusive of issue of small coins

@ Exclusive of figures from Ahmedabad, Bhubaneshwar, Calcutta, Hyderabad, Jaipur and New Delhi.

Demonetisation of Notes

Of the high denomination notes in circulation worth Rs. 145.23 crores as on January 16, 1978, when they were demonetised, notes worth Rs. 125.11 crores including those declared by banks and Government treasuries were tendered for exchange to the Reserve Bank. Of these, the value of the notes passed by the Bank for exchange into lower denomination notes was of the order of Rs. 119.21 crores.

Issue of Notes and Coins

Decimal coins of various denominations valued at Rs. 50.19 crores were minted during the financial year 1986-87. No new series of notes were issued during July 1986 - May 1987. The Government of India has decided to issue commemorative coins with the theme 'fisheries' on the occasion of the celebration of the 6th World Food Day in the denomination of Rs. 100/-, Rs. 20/- and 50 paise during the year. While the coins in the denomination of 50 paise have been issued for regular circulation through the offices and agencies of the Reserve Bank, the coins in the denomination of Rs. 100/-, Rs. 20/- and 50 paise in proof / uncirculated sets will be sold by the Government Mint in Bombay.

Lost, Destroyed and Mutilated Notes

During 1986-87, about 2.27 lakhs claims were received in respect of lost, destroyed and mutilated notes involving 337.83 lakh pieces. The total amount involved in these claims was Rs. 21.66 crores and claims approved for payments was Rs. 19.63 crores. Payment against approved claims (including those received/approved during the previous year) totalled Rs. 21.48 crores (for details please see statement 124 of Vol. II).

Note Forgeries

The total number of forged notes, including one rupee notes detected at the issue offices of the Reserve Bank, branches of other banks and seized by the police throughout the country increased to 54,898 pieces in 1986 from 32,137 pieces in 1985. The value of the forged notes during the year came to Rs. 34.08 lakh as compared with Rs. 19.91 lakh in the previous year (for details reference may be made to Statement 125 of Vol.II).

Trends in Bullion Prices

During the financial year 1986-87, gold prices displayed a marked firmness in the domestic market with an increase of 22.5 per cent based on a point-to-point comparison of monthly average levels (March 1987 over March 1986). However, on the basis of financial year average (of 12 months ended March 1987) the price rise was only 9.3 per cent over the preceding year. In international markets, while gold prices ruled firm during the year, silver prices exhibited an easy trend. The premium on monthly average price of gold per 10 grammes in Bombay over that of London, narrowed from 55.8 per cent in March 1986 to 53.3 per cent in March 1987 and 47.9 per cent in June 1987. Domestic silver prices also ruled firm during the year with a rise of 19.5 per cent based on monthly average levels of March 1987 over March 1986. The premium on monthly average price of silver per kilogram in Bombay over that of New York, widened from 79.6 per cent in March 1986 to 101.9 per cent in March 1987, but came down to 61.2 per cent in June 1987.

Gold

Domestic Market

In the Bombay market, gold prices exhibited a firm trend during the financial year 1986-87. Prices which opened slightly higher at Rs. 2,145 per 10 grammes on April 1, as against Rs. 2,140 per 10 grammes at the end of March, firmed up to Rs. 2,260 per 10 grammes on April 21, on account of good seasonal demand and better upcountry advices in the wake of limited supplies. Thereafter, prices declined reaching Rs. 2,080 per 10 grammes on June 12, 1986 — the lowest during the year — on account of low demand and improved offerings. Since then prices remained more or less steady upto end-July. Gold prices depicted a distinct firmness between August and October reaching a peak of Rs. 2,430 per 10 grammes on October 21, 1986. The firm trend was due to seasonal factors

and certain developments such as the sealing of the Indo-Pakistan border and stricter vigilance by the Customs authorities which had led to a virtual drying up of supplies. The intensified raids on bullion traders and stock brokers had affected the market sentiment taking gold prices to new peaks. The developments on the price front in the international markets had also influenced the trend. Prices eased thereafter on account of tapering off of demand following the conclusion of festival season and moved largely in the range between Rs. 2,350 to Rs. 2,400 per 10 grammes upto end-December 1986. Thereafter, prices spurted reaching a new peak of Rs. 2,655 per 10 grammes - highest for the year - on February 24, 1987. This record high was the result of persistent dwindling of floating stocks due to seizures of smuggled gold and good demand on account of marriage season. Prices eased slightly in March and closed at Rs. 2,570 per 10 grammes on March 31, 1987. Over the year March 1986 to March 1987 (based on monthly average levels), gold prices recorded a substantial increase of Rs. 477.99 (22.5 per cent) as compared with Rs. 31.16 (1.5 per cent) in the previous year. The financial year average of gold prices (for the 12 months ended March 1987) at Rs. 2,323.49 was higher by Rs. 198.02 (9.3 per cent) over that of 1985-86.

International Markets

In the London market, gold prices displayed a firm trend during the financial year 1986-87. Prices after opening at $ 333.70 per troy ounce on April 1, 1986 - the lowest during the year - as against the March-end level of $ 345.50, ruled steady moving in the range between $ 333.70 and $ 347.95 per troy ounce upto end-June 1986. Thereafter, prices displayed a firm trend upto end-October 1986, with the firmness being pronounced in August and September when prices touched a record level of $ 442.75 - the highest for the year - on September 22, 1986. The firmness was on account of several factors like the looming crisis in South Africa and the imposition of economic sanctions against the world's largest producer of gold which affected the market sentiment. The weakening of the U.S. dollar lured investors away from the currency to gold and gyrations in platinum prices also aided the sentiment. During the two months that followed, November and December 1986, gold prices declined moving in the range between $ 380.40 and $ 410.25 per troy ounce in response to the pressure on platinum prices and a slight improvement in the U.S. dollar. Prices hardened in January reaching $ 421.25 per troy ounce on January 19, on account of uncertainties surrounding exchange rates and weakening of the U.S. dollar coupled with a strengthening of oil prices. Prices moved both ways during February and March 1987 in the range between $ 392.60 and $ 421.80 per troy ounce and closed at $ 419.00 per troy ounce on March 31. Gold prices recorded an increase of $ 62.76 (18.1 per cent) over the year 1986-87 as compared with $ 42.89 (14.1 per cent) in the previous year. The financial year average of gold prices (for the 12 months ended March 1987) at $ 383.33 was higher by $ 55.58 (17.0 per cent) over that of 1985-86.

Spread between Domestic and International Prices

The premium on gold prices in Bombay over that of London, per 10 grammes based on monthly averages widened from Rs. 762.51 in March 1986 to Rs. 906.19 in March 1987. The percentage premium however, came down from 55.8 per cent to 53.3 per cent during the same period. Based on financial year averages, the premium on gold price in Bombay over that of London per 10 grammes narrowed from Rs. 835.75 (64.8 per cent) in 1985-86 to Rs. 746.47 (47.3 per cent) in 1986-87 (Tables VI - 9 and VI - 10).

Table VI—9 : Gold Prices in Bombay and London
(Monthly Averages)

(Rupees per 10 grammes)

Month	Bombay	London	London (U.S. dollars per troy ounce)	Spread between Bombay and London Prices	
				Absolute	Percentage
1	2	3	4	5	6
March 1976	535.04	388.71	132.68	+ 146.33	+ 37.6
March 1984	1,963.07	1,364.19	394.74	+ 598.88	+ 43.9
March 1985	2,097.27	1,256.06	303.20	+ 841.21	+ 67.0
March 1986	2,128.43	1,365.92	346.09	+ 762.51	+ 55.8
1986-87					
April 1986	2,203.17	1,357.76	340.96	+ 845.37	+ 62.3
May "	2,195.46	1,376.17	342.33	+ 819.29	+ 59.5
June "	2,127.00	1,386.96	342.80	+ 740.04	+ 53.4
July "	2,109.00	1,402.99	348.55	+ 706.01	+ 50.3
August "	2,179.62	1,521.21	376.29	+ 658.41	+ 43.3
September "	2,245.45	1,706.19	418.15	+ 539.26	+ 31.6
October "	2,352.88	1,752.62	423.86	+ 600.26	+ 34.2
November "	2,385.45	1,669.73	396.98	+ 715.72	+ 42.9
December "	2,399.64	1,655.49	391.60	+ 744.15	+ 45.0
January 1987	2,466.17	1,711.71	408.52	+ 754.48	+ 44.1
February "	2,611.57	1,683.23	401.05	+ 928.34	+ 55.2
March "	2,606.42	1,700.23	408.85	+ 906.19	+ 53.3
1987-88					
April 1987	2,701.14	1,808.59	439.67	+ 892.55	+ 49.4
May "	2,804.10	1,885.20	461.65	+ 918.90	+ 48.7
June "	2,744.31	1,855.39	449.28	+ 888.92	+ 47.9

Notes: 1. Based on closing quotations for Bombay market and morning fixing for London market.
2. The conversion factor is 1ounce = 0.0311035 kg.
3. The quotations in dollars per troy ounce in London market have been converted into rupees per 10 grammes at the cross rates based on daily average of spot buying and selling rates of U.S. dollar in London and average of Reserve Bank's spot buying and selling rates of sterling.

April-June 1987 Position

The uptrend noticed in gold prices upto end-March continued in April 1987, with prices reaching an all-time high of Rs.2,920 per 10 grammes on April 25, 1987 mainly due to persistent reports of drying up of supplies following large-scale seizure of smuggled gold by the Customs authorities which affected the floating stocks that too at a time when demand was at its peak level on account of the marriage season. Prices ruled firm in May but eased slightly in June 1987 due to dull demand and weak upcountry advices in the wake of higher supplies. In the London market, gold prices ruled firm in April and May with prices reaching a new peak of $ 479.95 per troy ounce on May 20, 1987 on account of weakening of the U.S. dollar and short-covering. Thereafter, prices ruled easy and closed at $ 447.10 per troy ounce on June 30, 1987.

Table VI—10 : Gold Prices in Bombay and London
(Financial Year Averages)

(Rupees per 10 grammes)

Year	Bombay	London (U.S. dollars per ounce)	London	Spread between Bombay and London Prices	
				Absolute	Percentage
1	2	3	4	5	6
1970-71	184.96	36.81	88.71	+ 96.25	+ 108.5
1975-76	544.99	149.48	416.06	+ 128.93	+ 31.0
1980-81	1,522.44	584.92	1 484.67	+ 37.77	+ 2.5
1981-82	1,719.17	420.95	1,209.94	+ 509.23	+ 42.1
1982-83	1,722.54	401.43	1,250.38	+ 472.16	+ 37.8
1983-84	1,858.47	404.15	1,342.06	+ 516.41	+ 38.5
1984-85	1,983.92	340.01	1,293.78	+ 690.14	+ 53.3
1985-86	2,125.47	327.75	1,289.72	+ 835.75	+ 64.8
1986-87	2,323.49	383.33	1,577.02	+ 746.47	+ 47.3

Notes: 1) Based on closing quotations for Bombay market and morning fixing for London market.
2) The conversion factor is 1 ounce = 0.0311035 kg.
3) The quotations in dollars per troy ounce in London market have been converted into rupees per 10 grammes at the cross rates based on daily average of spot buying and selling rates of U.S. dollar in London and average of Reserve Bank's spot buying and selling rates of sterling.

Silver

Domestic Market

In the Bombay market, silver prices exhibited a firm trend for the major part of the financial year 1986-87. Prices, which opened lower at Rs. 3,995 per kg. on April 1, as compared to Rs. 4,015 per kg. at the end of March, firmed up to Rs. 4,217 per kg. on April 24 on account of good seasonal demand and poor supplies. Thereafter, prices displayed an easy trend touching Rs. 3,881 per kg. on July 5 the lowest during the year-on account of larger supplies, coupled with poor demand and weaker upcountry advices. Silver prices showed a distinct firmness during August to October reaching a peak of Rs. 4,531 per kg. on October 30, consequent upon good festival demand, thin offerings accompanied by some speculative support. It is further reported that there was a rise in industrial demand for silver. During the next three months November to January, prices remained subdued but advanced again in the following two months touching a new peak of Rs. 4,923 per kg. on March 17 mainly on account of good seasonal demand in the wake of paucity of supplies and encouraging overseas advices. Reduced availability of smuggled silver due to stricter vigilance also aided the sentiment. At the end of the year on March 31, the price settled down at Rs. 4,794 per kg. Over the year March 1986 to March 1987, silver prices recorded a substantial increase of Rs. 779.50 (19.5 per cent) as compared with Rs. 61.95 (1.6 per cent) in the previous year. The annual average of silver prices for the 12 months ended March 1987 at Rs. 4,247.10 per kg. was higher by Rs. 328.75 (8.4 per cent) over that of 1985-86.

International Markets

In the New York market, silver prices after opening lower at 512 cents per ounce on April 1, 1986 as compared with March-end level of 533 cents per ounce declined to 510 cents per ounce by end-April and further to 487

cents per ounce on May 20 - the lowest for the period-following heavy liquidation and easier oil prices. Thereafter, prices depicted mixed trend during June-July fluctuating in the range of 499 to 538 cents per ounce but spurted in August and September reaching a peak of 600 cents per ounce on September 22. This firmness was due largely to the weakening of the U.S. dollar and an improvement in oil prices. The increase in gold and platinum prices also aided the sentiment. During the subsequent three months, October to December, silver prices declined reaching 524 cents per ounce on November 26 in line with the trend in gold and platinum prices. But later, prices rose in January reaching 568 cents per ounce on January 27 and barring some temporary easiness in February the rising trend continued tili the price reached 630.50 cents per ounce on March 31 - the highest for the year - due to uncertainties surrounding exchange rates, weakening of U.S. dollar and strengthening of oil prices. Over the year March 1986 to March 1987, silver gained 4.85 cents per ounce (0.9 per cent) compared with a decline of 37.23 cents (6.2 per cent) in the previous year. The yearly average of silver prices for the 12 months ended March '87 at 539.87 cents per ounce was lower by 69.13 cents (11.4 per cent).

Table VI—11 : Silver Prices in Bombay and New York
(Monthly Averages)

(Rupees per kg.)

Month	Bombay	New York	New York (Cents per troy ounce)	Spread between Bombay and New York Prices	
				Absolute	Percentage
1	2	3	4	5	6
March 1976	1,163.56	1,227.30	418.90	− 63.74	− 5.2
March 1984	3,547.88	3,335.30	965.11	+ 212.58	+ 6.0
March 1985	3,937.05	2,490.48	601.36	+ 1,446.57	+ 58.1
March 1986	3,999.00	2,226.34	564.13	+ 1,772.66	+ 79.6
1986-87					
April 1986	4,104.57	2 084.16	523.29	+ 2,020.41	+ 97.0
May "	4 100.88	2,057.59	511.68	+ 2,043.29	+ 99.3
June "	3,974.63	2,084.78	515.26	+ 1,889.85	+ 90.6
July "	3,942.04	2,034.51	504.93	+ 1,907.53	+ 93.8
August "	4,053.43	2,110.38	521.83	+ 1,943.05	+ 92.1
September "	4,214.23	2,319.60	568.26	+ 1,894.63	+ 81.7
October "	4,336.96	2 343.56	566.70	+ 1,993.40	+ 85.1
November "	4,339.36	2,352.28	559.53	+ 1,987.08	+ 84.5
December "	4,299.92	2,267.61	536.38	+ 2,032.31	+ 89.6
January 1987	4,290.63	2,316.53	552.88	+ 1,974.10	+ 85.2
February "	4,530.09	2,302.93	548.76	+ 2,227.16	+ 96.7
March "	4,778.50	2,366.40	568.98	+ 2,412.10	+ 101.9
1987-88					
April 1987	5,001.59	3,052.09	742.40	+ 1,949.50	+ 63.9
May "	5,097.35	3,444.85	843.90	+ 1,652.50	+ 48.0
June "	4,933.88	3,059.97	741.09	+ 1,873.91	+ 61.2

Notes: 1) Based on closing quotations for Bombay market and afternoon fixing for New York market.
2) The conversion factor is 1 ounce = 0.0311035 kg.
3) The quotations in cents per troy ounce in New York market have been converted into rupees per kg. at the cross rates based on the daily average of spot buying and selling rates of U.S. dollar in London and average of Reserve Bank's spot buying and selling rates of sterling.

Spread between Domestic and International Prices

The premium on silver price in Bombay over that of New York, per kg. based on monthly averages widened from Rs. 1772.66 (79.6 per cent) in March 1986 to Rs. 2412.10 (101.9 per cent) in March 1987. Based on financial year averages, the premium on silver price in Bombay over that of New York widened from Rs. 1,522.00 (63.5 per cent) in 1985-86 to Rs. 2,027.07 (91.3 per cent) in 1986-87 (Tables VI-11 and VI-12).

Table VI—12 : Silver Prices in Bombay and New York (Financial Year Averages)

(Rupees per kg.)

Year	Bombay	New York (Cents per troy ounce)	New York	Spread between Bombay and New York Prices	
				Absolute	Percentage
1	2	3	4	5	6
1970-71	536.08	170.90	412.18	+ 123.90	+ 30.1
1975-76	1,169.36	437.36	1,221.33	− 51.97	− 4.3
1980-81	2,616.63	1,585.14	4,020.30	− 1,403.67	− 34.9
1981-82	2 636.06	914.52	2,627.05	+ 9.01	+ 0.3
1982-83	2 798.34	906.49	2,829.74	− 31.40	− 1.1
1983-84	3 505.80	1,060.64	3,516.66	− 10.86	− 0.3
1984-85	3,593.59	740.98	2,810.19	+ 783.40	+ 27.9
1985-86	3,918.35	609.00	2,396.35	+ 1,522.00	+ 63.5
1986-87	4,247.10	539.87	2,220.03	+ 2,027.07	+ 91.3

Notes: 1) Based on closing quotations for Bombay market and afternoon fixing for New York market.
2) The conversion factor is 1 ounce = 0.0311035 kg.
3) The quotations in cents per troy ounce in New York market have been converted into rupees per kg. at the cross rates based on the daily average of spot buying and selling rates of U.S. dollar in London and average of Reserve Bank's spot buying and selling rates of sterling.

April-June 1987 Position

The uptrend in silver prices continued in April 1987 with prices touching an all-time high of Rs. 5,235 per kg. on April 28 following speculative buying coupled with bullish overseas advices. Thereafter, prices moved in the range between Rs. 5,054 to Rs. 5,140 per kg. in May and eased in June closing at Rs. 4,897 per kg. on June 30. In the New York market, silver prices, continued to rule firm in April and May with prices reaching a new peak of 1020 cents per ounce on April 27 on account of weakening of the U.S. dollar and uptrend in platinum and gold prices. Thereafter prices eased and closed at 715 cents on June 30.

Chapter VII

Banking Developments

OVERALL REVIEW

During 1986-87 (April-March) the operations of scheduled commercial banks showed that, on a point-to-point basis, aggregate deposits reached a new high and their rate of growth recorded a further acceleration. In absolute terms bank credit registered a marginal rise. However, investments registered increases both in absolute and relative terms.

On an average basis, deposit growth of banks was also higher in absolute terms than that in the preceding year. The expansion in bank credit was marginally higher in absolute terms, while the growth in investments of banks was significantly higher both in absolute and relative terms.

The credit policy continued to maintain a cautious stance in view of a large over-hang of reserve money and continued high rate of growth of overall liquidity (M_3) during the past four years. The emphasis was on containing the growth of M_3 in 1986-87 to a level well below the average in those years. Accordingly, a number of measures were initiated to curb the overall growth of liquidity in the banking system, while ensuring that banks would meet the needs of productive activity in the economy.

Special emphasis was laid during the year on stricter maintenance of SLR by banks on a daily basis. The 4 per cent band of waiver on SLR defaults was gradually reduced and eventually extinguished in October 1986. The CRR was raised from 9.0 to 9.5 per cent in February 1987 and the release of impounded cash balances announced earlier was partly rescinded in March 1987. The SLR of banks was also raised from 37.0 to 37.5 per cent in April 1987. Rationalisation of selective credit controls was carried further during the year. Besides, the CRR on FCNR deposit liabilities was raised from 3.0 to 9.5 per cent in May 1987. However, for NRE and FCNR accounts, the SLR continued to be 25.0 per cent.

With a view to boosting export performance, the cost of export credit was lowered by 2.5 – 4.5 percentage points in March and August 1986 followed by a reduction in refinance rate of the Reserve Bank from 10.0 to 9.0 per cent in August 1986. The availability of export refinance was also liberalised. Further relaxations were made in respect of CAS by extending larger discretionary powers to the banks as also by bringing down the number of cases subject to CAS approval substantially in April 1986 and July 1987. The Bank has reduced the

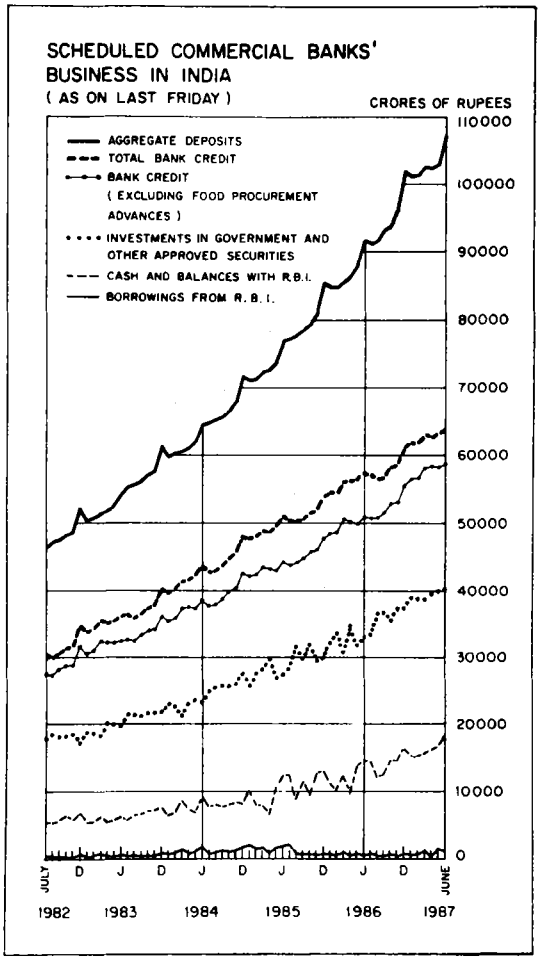
lending rates and deposit rates and rationalised the maturity structure of deposits with effect from April 1, 1987. All lending rates above 15.0 per cent were reduced by 1.0 percentage point with a ceiling rate of 16.5 per cent instead of 17.5 per cent earlier and the maximum deposit rate was also lowered by 1.0 percentage point to 10.0 per cent with a view to ensuring a reasonable margin between the lending and borrowing rates.

Specific measures were taken to promote bill acceptances as a mode of financing by banks; the bill discount rate of banks was kept lower at a maximum of 15.5 per cent as against the general lending rate of 16.5 per cent. The bill rediscount rate was raised to 12.5 per cent to attract more funds into the rediscount market.

The banking system has made further progress in achieving the targets fixed for it in the deployment of credit. The ratio of priority sector advances to total net bank credit of 50 major banks reached 42.3 per cent at end-March 1987 as against 40.8 per cent a year ago and as against a target of 40.0 per cent set for it. Direct advances to agriculture reached a level of 16.2 per cent of net bank credit at end-December 1986 as against the target of 16.0 per cent set for March 1987.

Advances under the New 20-Point Programme granted by public sector banks stood at Rs. 7,897 crores in 152 lakh borrowal accounts at end-December 1986. The share of export credit in non-food gross bank credit was also higher at 5.0 per cent at end-March 1987 as against 4.4 per cent a year ago. Advances under Differential Rate of Interest Scheme exceeded the target of 1.0 per cent of the total advances set for it and stood at Rs. 561 crores at end-December 1986 constituting 1.17 per cent of the total advances at the end of the previous year.

Credit-deposit ratio has declined from 65.6 per cent at end-March 1986 to 61.5 per cent at end-March 1987. The public sector banks have achieved the target of credit–deposit



ratio of 60.0 per cent set for their rural branches and not for the semi-urban branches. Thus the credit-deposit ratio in respect of rural branches of scheduled commercial banks including RRBs stood at 65.3 per cent while the same for semi-urban branches was much lower at 51.3 per cent at end-December 1986.

In the field of branch expansion, commercial banks including RRBs opened 262 branches during July 1986 to March 1987 bringing the total branch net work to 53,565 of which those at rural and semi-urban centres worked out to 75.7 per cent. Of the new offices opened during the period, 80.5 per cent were in unbanked centres.

CREDIT POLICY

As the annual rate of growth in the overall liquidity as measured by M_3 was in the region of 17-18 per cent, during the last four years, the basic stance of credit policy continued to be one of caution. Accordingly, the main emphasis on credit policy was to contain the growth of M_3 in 1986-87 to well below this level to avoid resurgence of inflation.

Reserve requirements, with special emphasis on effective maintenance of SLR on a daily basis, continued to remain a major instrument of credit policy during the period under review. Effective from October 11, 1986, the 4 per cent band of waiver on SLR defaults was gradually reduced and eventually extinguished. The CRR was also raised in February 1987 and the release of impounded cash balances announced earlier, was partly rescinded in March 1987.

As the growth of overall liquidity during the financial year 1986-87, particularly during the last quarter, was in excess of what was necessary to support productive activity, various measures were taken during the quarter April-June 1987 to moderate the pace of monetary expansion. These, *inter alia*, included a hike in SLR in April 1987 and an increase in CRR on FCNR deposits in May 1987.

Besides reserve requirements, rationalisation of selective credit control measures undertaken in 1985-86 was carried further during 1986-87. The Credit Authorisation Scheme was further liberalised by raising the cut-off point for working capital limits for manufacturer/trader exporters and by extending larger discretionary powers to banks. Changes were also effected in the 'fast track' arrangements to impart greater flexibility in its use without diluting financial discipline.

With a view to reducing the cost of credit and imparting flexibility to the interest rate policy, selective changes were also made in the structure of lending rates and deposit rates and maturity structure of deposits. A co-ordinated across-the-board reduction in interest rates on savings instruments was implemented in April 1987 covering bank deposits, post office deposits, National Saving Certificates, company deposits, debentures, public sector bonds and other schemes. To provide an element of flexibility to the banking system to respond more effectively to interest rate changes in the case of bank deposits, there was also a conscious effort to reduce the maturity period applicable to the maximum deposit rate. As regards the lending rates of banks, the process of a gradual reduction in the maximum lending rate already initiated in April 1983 and April 1985 was carried further in April 1987 in view of the real rates being higher, particularly in relation to the maximum lending rates of banks.

April 1986

As mentioned in the last year's Report, after reviewing the monetary and credit developments and after an assessment of the prospects, the following credit policy measures were announced for the first half of 1986-87.

Statutory Liquidity Ratio–Band of Waiver

In order to enable banks to adjust to the maintenance of SLR on a daily basis, a scheme of phased penalties on SLR defaults was imposed which became effective from September 14, 1985. The scheme provided for a band of waiver upto 4 per cent of the amount of SLR required to be maintained which was to be gradually reduced and eventually extinguished.

Changes in the Credit Authorisation Scheme

After a detailed review of the scheme, a few changes were effected such as, an increase in the cut-off point for CAS working capital limits, uniform cut-off point for working capital limits for manufacturer/trader exporters and enlargement of the discretionary powers of banks to sanction *ad hoc* limits; some changes were also made in the 'fast track' scheme with effect from April 1986.

August 1986

Interest and Refinance Rates on Export Credit

Keeping in view the imperative need to boost exports, the structure of interest rates on export credit, which was rationalised in March 1986, was further revised downwards in August 1986. The two revisions together resulted in a significant lowering of interest rates in the range of 2.5 to 4.5 percentage points for a large part of export credit. Further, in order to ensure that the margin between the effective rate obtained by banks (after adjusting for interest subsidy) and the refinance rate remained unimpaired, the interest rate on the Reserve Bank's export credit refinance to scheduled commercial banks was also reduced from 10 per cent to 9 per cent which became effective from August 1, 1986.

October 1986

Release of Impounded Cash Balances

As mentioned in the last year's Report, of the total amount of Rs. 1,859 crores impounded as cash balances with the Reserve Bank between January 14, 1977 and October 31, 1980 one-fifth (Rs. 372 crores) was released in two instalments in October 1984 and December 1984 and one-third (Rs. 495 crores) of the remaining was released in October 1985, leaving a balance of Rs. 992 crores impounded with the Reserve Bank. It was decided to release one-half, i.e., Rs. 496 crores of this balance in two equal instalments on November 22, 1986 and on January 31, 1987 for supplementing banks' resources to meet the anticipated increase in credit requirements during the 1986-87 busy season. However, only one instalment was released in November 1986 while the release of the second instalment was postponed and subsequently rescinded in March 1987 in view of banks' comfortable liquidity position.

Access to Discretionary Refinance Facility

To facilitate easier access to banks of this facility, scheduled commercial banks (excluding the regional rural banks) were permitted to draw discretionary refinance upto an amount equivalent to 0.5 per cent of the banks' average deposits in 1985-86 at the interest rate of 14 per cent per annum for a period not exceeding 14 days without prior sanction of the Reserve Bank of India. Drawing for a period beyond 14 days or of amounts in excess of the limit indicated above continued to require prior sanction of the Reserve Bank.

Treasury Bills

Two measures in the field of debt management policy relating to treasury bills were also announced.

182-Days Treasury Bills

Following the recommendation of the Committee to Review the Working of the Monetary System to develop the treasury bills as a monetary instrument with flexible rates, a scheme for 182-Days treasury bills, initially on a monthly auction basis and without any rediscounting facilities with the Reserve Bank was introduced and the first auction was held in November 1986. The new instrument was devised essentially to provide an alternative avenue for short term investments and it was expected that over a period of time, a wide array of maturities would emerge thereby facilitating the development of a secondary market. The 182-Days treasury bill is an approved investment for SLR purposes of the banks. It is also considered as an eligible collateral for borrowing under the stand-by refinance facility.

Waiver of Penalty on SLR Defaults

The 4 per cent band of waiver granted to banks upto July 18, 1986 under the comprehensive scheme of phased introduction of penalties referred to earlier, was gradually reduced and finally extinguished with effect from October 11, 1986.

182-Days Treasury Bill Refinance Facility

A new 182-Days Treasury Bill refinance facility was introduced from April 1987. Under this facility, scheduled commercial banks are provided refinance by the Reserve Bank of India equivalent to 50 per cent of their holdings of 182-Days Treasury Bills. The interest rate on refinance under this facility is 10 per cent per annum.

Additional Early Rediscounting Fee on 91-Days Treasury Bills

In order to discourage volatile movements in the treasury bills portfolio of the Reserve Bank, an additional fee on early rediscounting of 91-Days treasury bills within 14 days of purchase from the Reserve Bank of India was introduced in November 1986. The rate of fee charged per one lakh rupees face value ranged between Rs. 8.11 on the first day and Rs. 50 on the 7th day and remained at that rate till the 14th day. Beyond the 14th day there was no levy of the additional early rediscounting fee. This resulted in the effective yield being zero on the first day but rising gradually upto the 14th day. Effective from October 8, 1986, rediscounted treasury bills held with the Reserve Bank with an unexpired maturity period of over 30 days are being reissued to the investors with a rate of return identical to that on fresh bills. The additional early rediscounting fee is levied both on fresh bills as well as on the recycled bills issued by the Reserve Bank.

Export Refinance Limits

Deviating from the usual practice, it was decided not to bring forward the base year for calculating the export refinance limits of banks. As a result, banks were expected to avail of higher export refinance of Rs. 200 crores.

February 1987

Increase in CRR

Large increases have been witnessed in the growth of overall liquidity in the economy during December 1986 and January 1987. With a view to immobilising a part of the liquidity of the banking system without hindering the seasonal flow of credit to the productive sectors, it was decided to raise the cash reserve ratio from 9.0 per cent to 9.5 per cent, effective from the fortnight beginning February 28, 1987.

Discretionary Refinance Limits

With a view to providing easier access to the discretionary refinance facility, effective October 30, 1986, all licensed scheduled commercial banks (excluding regional rural banks) were permitted to draw discretionary refinance without prior sanction by the Reserve Bank upto an amount equivalent to 0.5 per cent of the banks' average deposits in 1985-86 (April-March) at a rate of interest of 14 per cent per annum for a period not exceeding 14 days followed by a "cooling off" period of 14 days. Banks seeking discretionary refinance for a block of more than 14 days or an amount in excess of the limit stipulated would, however, require the prior sanction of the Reserve Bank.

March 1987

In a review of credit policy undertaken in March 1987, it was observed that as a result of measures taken in 1985-86 there was a marked improvement in compliance with the maintenance of SLR by banks. Further, the week-to-week volatility in the banks' holdings of treasury bills also declined sharply. While the large increase in the reserve money during the past few years had been a cause for concern, the moderate growth of net domestic assets of the Reserve Bank* indicated that domestically generated primary money creation had been kept under reasonable control thereby preventing a possible large secondary expansion. However, to check the re-emergence of inflationary pressures, it was considered desirable to work towards containing the growth of overall liquidity in 1987-88 to a rate well below that in 1986-87. It was assumed that with a reasonably good monsoon and the growth of industrial output at around the previous year's level,

*Reserve money *minus* (net foreign exchange assets of RBI + banks' balances with RBI + other deposits with RBI)

gross national product in real terms would grow at around 5 per cent in 1987-88.

Consistent with the assumption of moderation in the growth of M_3, the working estimate for scheduled commercial banks' deposit growth in 1987-88 was estimated at Rs. 18,500 crores (18.0 per cent). The deposit growth during the two halves of the year was also expected to be approximately equal. Taking into account the seasonal pattern of credit, the non-food credit expansion for the first half of 1987-88 was expected to be around Rs. 2,000 crores.

As the banks were expected to have a very comfortable liquidity position in the first half of 1987-88, it was felt desirable that the policy adjustments should be put through during this period. Accordingly, the following package of credit policy measures were announced for the first half of 1987-88.

Lending and Deposit Rates

As already mentioned earlier, in order to reduce the cost of money and to impart flexibility to the interest rate policy, certain changes in lending and deposit rates were announced. The reduction in lending rates would provide relief to certain categories of borrowers for whom the interest rates had been raised sharply earlier. Further, the selective changes in deposit rates and maturity structure of deposits would not adversely affect mobilisation of bank deposits as there has been a co-ordinated reduction in interest rates on other instruments of savings such as debentures, company deposits, public sector bonds, post office deposits and National Savings Certificates.

(i) Lending Rates

All lending rates of scheduled commercial banks prescribed at levels above 15 per cent were reduced by one percentage point (see Annexure I). The changes effective April 1, 1987 are as follows:

Scheduled Commercial Banks' Lending Rates
(per cent per annum)

Effective upto March 31, 1987	Effective April 1, 1987
i) Band of 16.50—17.50 and 17.50 (fixed)	16.50(fixed)
ii) Bands with a ceiling of 16.50	Bands with a ceiling of 15.50
iii) 16.50(fixed)	15.50(fixed)

In order to promote the development of the bill market as also to improve the payments system, the maximum effective interest rate on the discounting of bills of exchange was reduced to 15.5 per cent, which is one percentage point below the new maximum lending rate.

(ii) Deposit Rates

Domestic

The new rates of deposits with respective maturities are indicated in Table VII-1. The maximum deposit rate was reduced with effect from April 1, 1987 from 11 per cent to 10 per cent and this maximum rate was made applicable to deposits with a maturity of two years and above. Existing deposits, however, would continue to be governed till maturity by the rates effective upto March 31, 1987. As the flexibility of the banks to adjust downwards interest rates was greatly hampered because of the bunching of term deposits at the longer end of maturities in the more recent years, the maturity structure has been shortened. The maximum deposit rate being paid on 2 years' deposits instead of 5 years' deposits, is expected to enable banks to adjust better to interest rate movements in the future.

Table VII–1 : Scheduled commercial banks' interest rates on deposits (excluding FCNR/NRE)

(Per cent per annum)

	Effective upto March 31, 1987	Effective April 1, 1987
1. Current Accounts	Nil	Nil
2. Savings Accounts	5.0	5.0
3. Term Deposits		
(a) 15 days to 45 days	3.0	3.0
(b) 46 days to 90 days	4.0	4.0
(c) 91 days and above but less than 6 months	6.5	6.5
(d) 6 months and above but less than 1 year	8.0	8.0
(e) 1 year and above but less than 2 years	8.5	9.0
(f) 2 years and above but less than 3 years	9.0	10.0*
(g) 3 years and above but less than 5 years	10.0	
(h) 5 years and above	11.0	

* Rate applicable to 2 years and above.

The existing deposit rate structure and maturity pattern of FCNR Accounts remain unchanged (these rates had already been delinked from domestic deposit rates and a separate structure of rates was prescribed for FCNR deposits@). In the case of NRE deposit rates of one year and over, its link with the domestic rate was severed and an independent structure of interest rates and maturities was specified effective April 1, 1987. The specified rates and maturities for NRE deposits are, however, not different from those obtaining prior to March 31, 1987.

Statutory Liquidity Ratio

From the fortnight beginning April 25, 1987, the SLR was raised from 37 per cent to 37.5 per cent of net demand and time liabilities. In respect of deposit liabilities under the NRE accounts and FCNR accounts, the SLR continues to be at 25 per cent.

Cash Reserve Requirements on Foreign Currency (Non-Resident) Accounts

In order to reduce the overall liquidity in the banking system, the cash reserve ratio in respect of FCNR deposit liabilities was raised from 3 per cent to 9.5 per cent effective May 23, 1987. The FCNR deposit liabilities will, however, continue to be exempt from the 10 per cent incremental cash reserve ratio introduced in November 1983.

Access to Discretionary Refinance

As it was felt that banks which were not members of the food credit consortium and those with a large share in FCNR deposits would face some problems in adjusting to the March 1987 measures, it was clarified that in such cases requests for additional discretionary refinance for very short periods, would be considered on merits.

Defaults in the Maintenance of CRR by Scheduled Commercial Banks—Scheme of Penalties

The scheme of graduated interest rates on eligible cash balances for shortfalls in the maintenance of cash reserve ratio introduced in January 1982 continues to be in operation. To give some further relief to banks for small shortfalls in CRR, the schedule of graduated interest rates was revised from April 1, 1987 (Table VII-2). Accordingly, there would now

@ For FCNR deposit rates see Table VII-3.

be no penalty on CRR shortfalls upto and inclusive of 5 per cent of the absolute cash balances required to be maintained. The tapering scale of interest rates have also been spread over 10 slabs instead of the earlier 5 slabs.

Table VII—2 : Shortfall in maintenance of cash reserve ratio — schedule of graduated interest rates on cash balances

Effective upto March 31, 1987		Effective April 1, 1987	
Shortfall during a fortnight as percentage of the absolute amount of CRR required to be maintained (upto and inclusive of)	Rate of interest payable on the amount above the statutory minimum of 3 per cent actually maintained (per cent per annum)	Shortfall during a fortnight as percentage of the absolute amount of CRR required to be maintained (upto and inclusive of)	Rate of interest payable on the amount above the statutory minimum of 3 per cent actually maintained (per cent per annum)
0	10.50	0	10.50
0.5	10.00	0.5	10.25
1.0	8.75	1.0	10.00
1.5	5.25	1.5	9.50
2.0	2.50	2.0	8.75
3.0	0.50	2.5	7.75
Over 3.0	0	3.0	6.50
		3.5	5.00
		4.0	3.00
		4.5	1.25
		5.0	0.50
		Over 5.0	0

Interest Rates on FCNR Deposits

In the context of a continued decline in interest rates abroad, particularly in the United States, interest rates on term deposits under the Foreign Currency (Non-Resident) Accounts (FCNR) Scheme were revised downwards with effect from September 8, 1986. However, effective May 25, 1987, interest rates on the longer maturities were raised. The interest rates on Non-Resident (External) Rupee (NRE) Accounts were, kept unchanged. The rates for FCNR and NRE deposits are given in Table VII-3 below :

Table VII—3 : Interest rates on non-resident deposits

(Per cent per annum)

Maturity	FCNR Rates effective from			NRE Rates effective from
	May 5, 1986	September 8, 1986	May 25, 1987	May 27, 1985
1. 15 days to 45 days	3.0	3.0	3.0	3.0
2. 46 days to 90 days	4.0	4.0	4.0	4.0
3. 91 days to less than 6 months	6.5	6.5	6.5	6.5
4. 6 months to less than 1 year	8.0	7.5	8.0	8.0
5. 1 year and above but below 2 years	8.5	8.0	9.5	10.5
6. 2 years and above but below 3 years	9.0	8.5	10.0	11.0
7. 3 years and above but below 5 years	10.0*	9.0*	10.5*	12.0
8. 5 years and above				13.0

* FCNR deposits can be accepted at this rate only for 3 years maturity.

Implementation of the Recommendations of the Working Group on the Money Market

Based on the recommendations of the Working Group on the Money Market (Chairman : Shri N.Vaghul), the Reserve Bank introduced some measures, the more important of which are as follows :

i) Lowering of the Bill Discount Rate

Interest rates prescribed for short-term advances to various categories of borrowers which were uniform on their cash credits, overdrafts and bills, were revised. Consequent upon the reduction in the maximum lending rate from 17.5 per cent to 16.5 per cent, with effect from April 1, 1987, the interest rate on bills for such category of borrowers was prescribed one percentage point below the new maximum lending rate. Thus, effective April 1, 1987, the bill discounting rate for such borrowers would be 15.5 per cent, which was, in effect a reduction of 2 percentage points over the then existing level.

ii) Raising of the Rediscount Rate

With effect from April 1,1987, the ceiling on the rediscount rate was raised from 11.5 per cent per annum to 12.5 per cent per annum. With this, the spread between the discount and rediscount rates at their ceiling levels stands reduced to a little over 2.5 percentage points. This measure was expected to attract additional funds into the rediscount market as also encourage the LIC and UTI to progressively move from the call money market to the rediscount market.

iii) Measures to Promote Bill Financing

Besides lowering the discount rate (to make the bills system attractive to borrowers) and increasing the rediscount rate (to augment the supply of funds in the rediscount market), many other measures were taken to promote bill financing which are given in a subsequent section of this chapter.

Opening of Savings Bank Accounts in the Name of Fish Farmers Development Agencies (FFDAs)

All scheduled commercial banks were advised on May 7, 1987, that they could open savings bank accounts of Fish Farmers Development Agencies (FFDAs) since the activities of FFDAs would be treated on par with Small Farmers Development Agencies (SFDAs) for the purpose of opening savings bank accounts.

Interest Rates on Advances for Self-employment to Educated Unemployed

Banks were advised on May 4, 1987, that the rates of interest for loans under the scheme for providing self-employment to educated unemployed youth would be as under :

	Loans upto Rs. 25,000/-	Loans exceeding Rs. 25,000/-
a) Specified backward areas	10.00%	12.50%
b) Other areas	12.00%	13.50%

Loans upto Rs. 35,000 are allowed under the scheme for industrial ventures.

BANKING TRENDS

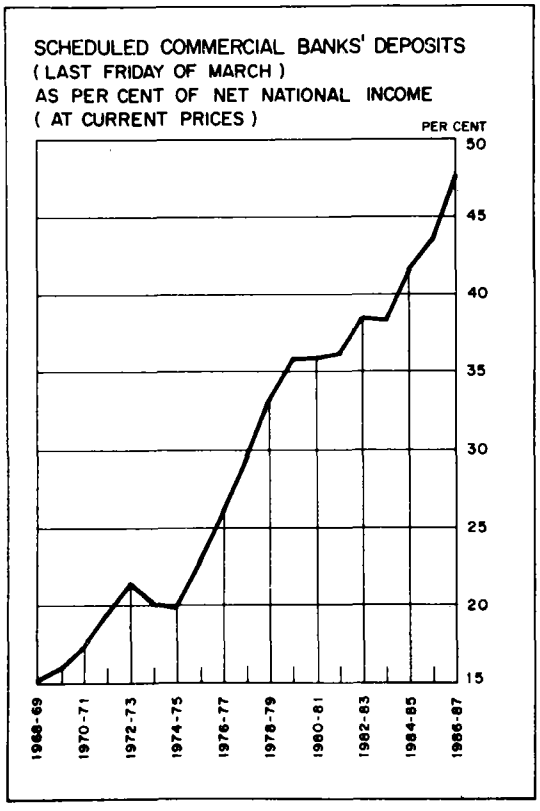
The data on banking variables on a point-to-point basis for the financial year 1986-87 reveal that banks faced more comfortable liquidity position than in 1985-86 on account of larger increase in deposits, on the one hand, and slackness in the demand for credit, on the other. Banks' investments in Government and other approved securities were larger than in the previous year.

On an average basis, however, the picture is slightly different in that while growth in aggregate deposits and bank credit slackened during the year, investments recorded a sharp rise.

Banking Trends (on a point-to-point basis)

Deposit Growth

Increase in aggregate deposits by Rs. 17,340 crores (20.3 per cent) during the financial year 1986-87 was an all-time record and exceeded significantly the previous year's level of Rs. 13,160 crores (18.2 per cent). Continued growth in real GNP at a rate of about 4 to 5 per cent during the past few years, accompanied by a shift of money incomes in favour of the non-agricultural sectors particularly the services sector has helped to stimulate deposit growth.



Quarter-wise, except for the second quarter (July-September), the increase in deposits during all the other quarters exceeded that in the corresponding quarters of the previous year, both in absolute and percentage terms. A sharp spurt in deposits by Rs. 6,424 crores (7.5 per cent) in the first quarter of 1986-87 (April-June) as compared with Rs. 4,831 crores (6.7 per cent) in the corresponding quarter of 1985-86 was followed by the second quarter's lower growth, both in absolute and percentage terms, of Rs. 1,426 crores (1.6 per cent) as against that of Rs. 1,720 crores (2.2 per cent) during the corresponding quarter a year ago. The third quarter (October-December), which is also the last quarter of the accounting year for the banks, witnessed the largest growth in deposits amounting to Rs. 8,645 crores (9.3 per cent) as compared with that of Rs. 6,662 crores (4.5 per cent) during the corresponding quarter of 1985-86, which, reflected partly the availability of floating funds and, partly larger window dressing by banks. The last quarter of the financial year, as usual, faced a reaction to the previous quarter's spurt: deposits increased moderately by Rs. 845 crores (0.8 per cent) in contrast to a decline of Rs. 53 crores (–0.1 per cent) in 1985-86 (Table VII-4).

Looking at the components of deposits, time deposits continued to account for a major share of total deposit growth, registering an increase of Rs. 13,718 crores (or by 19.7 per cent) during 1986-87 as compared with Rs. 11,679 crores (20.1 per cent) in 1985-86. Demand deposits also recorded an impressive growth of Rs. 3,622 crores (or by 23.2 per cent) which was, however, more than double the increase of Rs. 1,481 crores (10.5 per cent) in 1985-86.

Component-wise, break-up of aggregate deposits for the last six years reveal that the share of demand deposits in total deposits, which have generally been on the decline between 1980-81 and 1983-84, has stabilised at around 18-19 per cent during the last four years as indicated overleaf.

Share of demand and time deposits in total deposits
(As on the last Friday of March)

(In per cent)

	1980-81	1981-82	1982-83*	1983-84	1984-85	1985-86	1986-87
Demand	20.5	19.2	19.4	18.7	19.6	18.3	18.7
Time	79.5	80.8	80.6	81.3	80.4	81.7	81.3

* Based on March 31, 1983 figures.

In incremental terms, the volatility in the annual growth rates of demand deposits as compared with time deposits is also equally revealing. While demand deposits have been following a zig-zag path with the rate of growth spurting up every alternate year,(@) the rate of growth in time deposit has been more or less stable.

Percentage growth in demand, time and total deposits

	1981-82	1982-83*	1983-84	1984-85	1985-86	1986-87
Total deposits	+ 15.1	+ 17.4	+ 18.0	+ 19.2	+ 18.2	+ 20.3
Demand deposits	+ 7.5	+ 19.1	+ 13.3	+ 24.9	+ 10.5	+ 23.2
Time deposits	+ 17.1	+ 17.0	+ 19.1	+ 17.9	+ 20.1	+ 19.7

* Based on March 31, 1983 figures.

Table VII—4 : Quarterly variations in deposits

(Rupees crores)

Quarter	Demand Deposits		Time Deposits		Total Deposits	
	1985—86	1986—87	1985—86	1986—87	1985-86	1986-87
April — June	+ 908	+ 1381	+ 3923	+ 5043	+ 4831	+ 6424
					(+ 6.7)	(+ 7.5)
July-September	— 837	— 76	+ 2557	+ 1502	+ 1720	+ 1426
					(+ 2.2)	(+ 1.6)
October-December	+ 1950	+ 2778	+ 4712	+ 5867	+ 6662	+ 8645
					(+ 4.5)	(+ 9.3)
January-March	— 540	— 461	+ 487	+ 1306	— 53	+ 845
					(— 0.1)	(+ 0.8)
Total	**+ 1481**	**+ 3622**	**+ 11679**	**+ 13718**	**+ 13160**	**+ 17340**
					(+ 18.2)	**(+ 20.3)**
	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88
April-June	+ 1381	+ 149	+ 5043	+ 4452	+ 6424	+ 4601
					(+ 7.5)	(+ 4.5)

Note : 1. Figures in brackets indicate percentage growth rates.
2. Data for September 1986 onwards are partially revised.

@ The fluctuations are considerably narrowed down if the rates of growth are worked out on the basis of average of the monthly outstandings in each of the years.

Component-wise, analysis of aggregate deposits of all commercial banks for the period end-March 1977 to end-December 1986 based on Form X returns is presented in Table VII-5. It may be observed therefrom that in the past few years while the share of term deposits in total deposits has been steadily increasing, that of current account deposits and savings deposits has generally been on the decline. With the exception of March 1985, the share of term deposits in total deposits increased from 55.0 per cent in March 1979 to 61.8 per cent in December 1986. The share of current account deposits in total deposits declined continuously (from 19.2 to 17.0 per cent) between March, 1978 to 1983; however, subsequently it edged up marginally in 1984 and 1985 only to slump again to 16.7 per cent in 1986. Its share, however, improved to 17.1 per cent by end-December 1986. The share of savings deposits, however, increased continuously from 24.4 per cent to 27.0 per cent between 1977 to 1980 but subsequently witnessed a steady decline except in 1985. The distinct shift in favour of term deposits can, *inter alia* be attributed to the increase in interest rates in the long end of maturities accompanied by rising nominal incomes.

Table VII–5 : Deposits of all commercial banks according to type

(Rupees crores)

As on the last Friday of March	Current Deposits	Savings Deposits	Term Deposits	Total Deposits
1	2	3	4	5
1977	3,385	4,422	10,315	18,122
	(18.7)	(24.4)	(56.9)	
1978	4,409	5,717	12,792	22,918
	(19.2)	(24.9)	(55.8)	
1979	5,175	7,303	15,239	27,717
	(18.7)	(26.3)	(55.0)	
1980	5,799	8,834	18,060	32,693
	(17.7)	(27.0)	(55.2)	
1981	6,900	9,045	22,941	38,886
	(17.7)	(23.3)	(59.0)	
1982	7,683	10,427	26,721	44,831
	(17.1)	(23.3)	(59.6)	
1983	8,886	11,940	31,458	52,284
	(17.0)	(22.6)	(60.2)	
1984	10,680	14,056	37,538	62,274
	(17.2)	(22.6)	(60.3)	
1985	13,310	16,980	43,805	74,095
	(18.0)	(22.9)	(59.1)	
1986	14,582	19,113	53,717	87,412
	(16.7)	(21.9)	(61.5)	
1986 (last Friday of December)	17,647	21,792	63,870	1,03,309
	(17.1)	(21.1)	(61.8)	

Source: Returns in Form X received under section 27 of the Banking Regulation Act, 1949.

Expansion in Bank Credit

The expansion of Rs.7,169 crores in bank credit during the year was marginally higher in absolute terms as compared to that of Rs. 7,114 crores in 1985-86 (Table VII-6). The growth rate at 12.8 per cent was, however, lower by 1.7 percentage points. Food credit showed a larger decline of Rs. 404 crores as compared with that of Rs. 130 crores in the previous year. This was due to the Government of India's decision to make available soft loans

to FCI so as to enable it to repay part of the outstanding food credit to banks. Non-food credit, on the other hand, expanded by Rs. 7,573 crores, as compared with Rs. 7,244 crores during the preceding year; in percentage terms, however, the growth rate at 15.0 per cent was lower by 1.7 percentage points than in the previous year.

Table VII—6 : Variations in scheduled commercial banks' data
(Seasonal and Annual)

(Rupees crores)

Items	Seasonal variations				Annual variations		Quarterly variations	
	Slack season 1985	Busy season 1985-86	Slack season 1986@	Busy season 1986-87@	(April-March) 1985-86	1986-87@	April-June 1986	April-June 1987@
1	2	3	4	5	6	7	8	9
Aggregate Deposits	+ 6,764	+ 6,754	+ 7,734	+ 8,549	+ 13,160 (+ 18.2)	+ 17,340 (+ 20.3)	+ 6,424 (+ 7.5)	+ 4,601 (+ 4.5)
(a) Demand Deposits	+ 398	+ 1,242	+ 835	+ 2,290	+ 1,481 (+ 10.5)	+ 3,622 (+ 23.2)	+ 1,381 (+ 8.8)	+ 149 (+ 0.8)
(b) Time Deposits	+ 6,366	+ 5,512	+ 6,899	+ 6,259	+ 11,679 (+ 20.1)	+ 13,718 (+ 19.7)	+ 5,043 (+ 7.2)	+ 4,452 (+ 5.3)
Borrowings from the Reserve Bank	− 64	− 164	+ 132	− 245	− 604	+ 339	− 410	− 157
Cash in hand and balances with the Reserve Bank	+ 2,781	+ 279	+ 4,886	+ 1,427	+ 4,252	+ 3,372	+ 2,275	+ 2,501
Money at call and short notice	+ 508	+ 127	+ 1,581	− 811	+ 1,747	− 236	− 248	− 74
Investments in Government and other approved securities	+ 2,015	+ 2,542	+ 855	+ 4,153	+ 2,415 (+ 8.6)	+ 8,081 (+ 26.4)	+ 2,526 (+ 8.3)	+ 1,753 (+ 4.5)
(a) Government securities	+ 730	+ 1495	− 290	+ 3074	+ 347 (+ 1.9)	+ 5853 (+ 30.7)	+ 1852 (+ 9.7)	+ 1196 (+ 4.8)
(b) Other approved securities	+ 1,285	+ 1,047	+ 1,145	+ 1,079	+ 2,068 (+ 21.9)	+ 2,228 (+ 19.4)	+ 674 (+ 5.9)	+ 557 (+ 4.1)
Bank credit	+ 2813	+ 4,595	+ 2,333	+ 4,327	+ 7,114 (+ 14.5)	+ 7,169 (+ 12.8)	+ 1,162 (+ 2.1)	+ 517 (+ 0.8)
(a) Food procurement advances	+ 125	+ 175	− 375	− 1,244	− 130 (− 2.3)	− 404 (− 7.3)	+ 876 (+ 15.8)	− 174 (− 3.4)
(b) Other advances	+ 2,688	+ 4,420	+ 2,708	+ 5,571	+ 7,244 (+ 16.7)	+ 7,573 (+ 15.0)	+ 286 (+ 0.6)	+ 691 (+ 1.2)

@: Partially revised.

Notes : 1. Bank credit figures are inclusive of credit extended through recourse to participation certificates.
2. The seasonal variations are based on outstanding as on the last Friday of April and October and annual variations are based on the data as on the last Friday of March.
3. Figures in brackets indicate percentage change over the previous corresponding period.

Source: Returns submitted by banks under section 42(2) of the Reserve Bank of India Act, 1934.

An analysis of seasonal variations in bank credit reveals that both during the slack season of 1986 and busy season of 1986-87 there was an increase in non-food credit in contrast to a decline in food credit (see Table VII-6). The increase in non-food credit by Rs. 2,708 crores during the slack season of 1986 was higher in absolute terms than that of Rs. 2,688 crores in the slack season of 1985. The growth rate was, however, lower by 0.8 percentage point. The increase of Rs. 5,571 crores (10.5 per cent) during the 1986-87 busy season was

substantially larger, both in absolute and percentage terms, than the increase of Rs. 4,420 crores (9.7 per cent) in the previous busy season.

The credit-deposit ratio at 61.5 per cent on March 27, 1987 was lower by 4.1 percentage points as compared with that a year ago. The incremental non-food credit-deposit ratio at end-March 1987 at 43.7 per cent was substantially lower than that of 55.0 per cent, a year ago.

Trends in Investments

Investments of scheduled commercial banks in Government and other approved securities witnessed a sharp spurt of Rs. 8,081 crores or 26.4 per cent during the year 1986-87, as against Rs. 2,415 crores or 8.6 per cent in 1985-86. The substantial accretion to investments particularly in Government securities, reflects partly an increase in the yield rates of Government securities as also better compliance of statutory provisions by banks consequent upon the phased reduction of the 4 per cent band of waiver on SLR defaults. The investment-deposit ratio at 37.6 per cent was higher by 1.8 percentage points than that a year ago.

Scheduled commercial banks' cash in hand and balances with the Reserve Bank recorded a lower order of increase of Rs. 3,372 crores during the year as compared with that of Rs. 4,252 crores in 1985-86. The cash-deposit ratio at the end of March 1987 was 15.1 per cent as compared with 14.3 per cent a year ago. Banks increased their indebtedness to the Reserve Bank to the tune of Rs. 339 crores against a reduction of Rs. 604 crores in the previous year.

Trends During the Quarter April-June 1987

The operations of scheduled commercial banks during the first quarter of the financial year (1987-88) were marked by a deceleration in the rate of growth of major banking variables as compared to that during the corresponding period a year ago. Deposit growth at Rs. 4,601 crores (4.5 per cent) during the first quarter of 1987-88 was lower than the increase of Rs. 6,424 crores (7.5 per cent) during the corresponding period of 1986-87.

Component-wise, demand deposit increased marginally by Rs. 149 crores as compared with an increase of Rs. 1,381 crores in April-June 1986 and time deposit recorded a lower order of increase of Rs. 4,452 crores as compared with Rs. 5,043 crores last year.

Bank credit registered an increase of Rs. 517 crores (0.8 per cent) during the first quarter of 1987-88 which was less than half of Rs. 1,162 crores (2.1 per cent) during the corresponding period of 1986-87. Food credit declined by Rs. 174 crores in contrast to an appreciable increase of Rs. 876 crores in the corresponding quarter of 1986-87. The magnitude of increase of non-food credit in absolute terms at Rs. 691 crores was larger than that of Rs. 286 crores in the corresponding quarter of 1986-87. Banks' investments in Government and other approved securities registered a lower increase of Rs. 1,753 crores than the increase of Rs. 2,526 crores in the corresponding quarter of the previous year.

Banking Trends (based on averages)

Data on banking variables on the basis of averages of months are presented in Table VII-7. It may be observed therefrom that some of the major variables reveal trends which differ from those on a point-to-point basis. During 1986-87, aggregate deposits recorded an increase of Rs. 15,077 crores which was larger only in absolute terms than the increase of Rs. 12,800 crores in the previous year. In percentage terms, the increase at 18.9 per cent was fractionally lower as compared to that in 1985-86 (19.1 per cent). In relation to GNP at current market prices, aggregate deposits continued to experience an upward trend noticed during past many years as part of the growing institutionalisation of savings. The data for the last seven years presented in

Table VII-8 reveal that the proportion of aggregate deposits to GNP at current market prices, which recorded a steady increase from 27.4 per cent in 1980-81 to 33.0 per cent in 1985-86, improved further to 35.5 per cent in 1986-87.

Table VII—7 : Variations in scheduled commercial banks' data
(Average of last Friday of months)

(Rupees crores)

Items	Outstanding			Variations	
	1984-85	1985-86	1986-87*	1985-86	1986-87
Aggregate Deposits	67,062	79,862	94,939	+ 12,800	+ 15,077
				(+ 19.1)	(+ 18.9)
(a) Demand Deposits	12,254	14,567	17,148	+ 2,313	+ 2,581
				(+ 18.9)	(+ 17.7)
(b) Time Deposits	54,808	65,295	77,791	+ 10,487	+ 12,496
				(+ 19.1)	(+ 19.1)
Borrowings from the Reserve Bank	1,297	1,018	621	− 279	− 397
				(− 21.5)	(− 39.0)
Cash in hand & balances with the Reserve Bank	8,124	10,946	14,022	+ 2,822	+ 3,076
				(+ 34.7)	(+ 28.1)
Money at call & short notice	423	1,291	1874	+ 868	+ 583
				(+ 205.2)	(+ 45.2)
Investments	25,632	30,091	35,979	+ 4,459	+ 5,888
				(+ 17.4)	(+ 19.6)
(a) Government securities	17,004	19,703	23,278	+ 2,699	+ 3,575
				(+ 15.9)	(+ 18.1)
(b) Other approved securities	8,628	10,388	12,701	+ 1,760	+ 2,313
				(+ 20.4)	(+ 22.3)
Bank Credit	44,963	51,860	58,759	+ 6,897	+ 6,899
				(+ 15.3)	(+ 13.3)
(a) Food procurement advances	5,225	6,072	5,784	+ 847	− 288
				(+ 16.2)	(− 4.7)
(b) Other advances	39,738	45,788	52,891	+ 6,050	+ 7,103
				(+ 15.2)	(+ 15.5)

* Partially revised.

Notes : 1. Data relate to the average of 12 months period i.e. last Friday of April to last Friday of March.
2. Figures in brackets indicate percentage change over the previous year.

Table VII—8 : Proportion of aggregate deposits in GNP at current market prices

Fiscal Years	Average £ Aggregate Deposits	GNP at Current market prices	Deposits as % of GNP
1	2	3	4
1980—81	35,030	1,27,751	27.4
1981—82	41,795	1,47,677	28.3
1982—83	48.233	1,64,455	29.3
1983—84	56,923	1,93,070	29.5
1984—85	67,062	2,12,914	31.5
1985—86	79,862	2,42,080	33.0
1986—87	94,939	2,67,740*	35.5

* Estimated.
£ Average of 12 months period i.e. last Friday of April to last Friday of March (fortnightly data).

Though both demand and time deposits contributed to the increase, the rate of growth in demand deposits was lower than that in the previous year, while the growth in time deposits continued to be at the same rate as in the previous year.

Bank credit registered an increase of Rs. 6,899 crores (13.3 per cent) which was marginally larger in absolute terms over the increase of Rs. 6,897 crores (15.3 per cent) in 1985-86. Food credit declined by Rs. 288 crores (−4.7 per cent) in contrast to an increase of Rs. 847 crores (16.2 per cent) in the previous year. The increase of Rs. 7,103 crores (15.5 per cent) in non-food credit was larger both in absolute and percentage terms than that of Rs. 6,050 crores (15.2 per cent) in 1985-86. Banks' investments in Government and other approved securities moved up significantly by Rs. 5,888 crores (19.6 per cent) during 1986-87 which was larger than the increase of Rs. 4,459 crores (17.4 per cent) in the preceding year. Banks' cash in hand and balances with the Reserve Bank at Rs. 3,076 crores were higher in absolute terms compared to that of Rs. 2,822 crores in the previous year while in percentage terms, the growth was lower by 6.6 percentage points.

Call Money Market

As in the previous year, stringent conditions generally continued to prevail in the inter-bank call money market throughout the year under review, with the call money rate ruling at or near the ceiling rate of 10 per cent. This was true both in Calcutta and Bombay money markets, though the Bombay market enjoyed occasional spells of easiness between April 1986 to January 1987. The Calcutta market witnessed a distinctly firm trend throughout the year.

Some of the reasons responsible for the tight conditions in the call money market during the year are higher demand for funds to meet CRR and SLR obligations occasioned by a hike in CRR, stricter surveillance and imposition of penalty on defaults of CRR and SLR and banks' subscription to public sector bond issued with higher effective interest rates on account of tax benefits.

SELECTIVE CREDIT CONTROL

Selective credit controls have, in the past few years been made more responsive to commodity balances and trends in prices. Thus in the credit policy measures announced on March 31, 1987, the controls were made less stringent in the context of favourable responses in commodity balances and development in prices. However,in the light of the price-output developments relating to oilseeds and vegetable oils, cottonseed and cottonseed oil which were exempted from the provisions of selective credit controls in April 1986 were brought back under the purview of the control and the minimum margins on oilseeds and vegetable oils were raised, both with effect from July 15, 1987. The changes introduced in selective credit control are discussed below.

Changes introduced in April 1987

i) Minimum Margins

The minimum margins have been reduced across-the-board by 15 percentage points in the case of pulses, 'other foodgrains' (other than paddy, rice and wheat), released stocks of sugar, gur and *khandsari*. The structure of minimum margins on bank advances effective April 1, 1987 is given in Table VII- 9

ii) Level of Credit

The base period for determining maximum permissible level of credit in the case of commodities where such ceilings were applicable was brought forward to the three-year period ended 1984-85 (November-October).

iii) Exemption for Advances to State-level Oilseeds Growers' Co-operative Federations

Advances to the state-level oilseeds growers' co-operative federations under the National

Table VII–9 : Minimum margins on bank advances against stocks of commodities covered by Selective Credit Controls

(Effective April 1, 1987)

(Percentages)

Commodities	Against stocks		Against warehouse receipts
	Processing Units/Mills	Others	
1. Other foodgrains (other than paddy, rice and wheat)	30	45	30
2. Pulses	30	45	30
3. Oilseeds (groundnuts, rapeseed/mustard, linseed, castorseed and all imported oilseeds)	30	45	30
4. Vegetable oils (groundnut oil, rapeseed/mustard oil, linseed oil, castor oil,vanaspati and all imported oils)	30@	60	45
5. Sugar			
a) Buffer	0	–	–
b) Unreleased stocks	17.5	–	–
c) Released	60	60	45
6. Gur and *Khandsari*	30	60	45

@ Applicable to registered oil mills and vanaspati manufacturers.

Dairy Development Board's Oilseeds Project against stocks of oilseeds purchased from grower-members and of oils thereof were exempted from the level of credit and minimum margin requirements of selective credit controls. The rate of interest on such advances, however, continues to be governed by the selective credit control directives.

iv) Reduction in Interest Rate

With the reduction of all lending rates of scheduled commercial banks above 15 per cent by one percentage point, the interest rate on advances against stocks of commodities covered by selective credit controls (including those against sugar to sugar factories) has been fixed at 16.50 per cent with effect from April 1, 1987.

Changes introduced in July 1987

i) Reimposition of selective credit controls on advances against Cottonseed and Cottonseed Oil

Advances against cottonseed and cottonseed oil which were outside the purview of Selective Credit Control since April 1986 have been brought back under the purview of Selective Credit Control with effect from July 15, 1987.

All stipulations/ exemptions which were in force prior to removal of selective credit control on cottonseed and cottonseed oil in April 1986 have also been brought back into force. (For details refer Annexure).

ii) Minimum Margins on Oilseeds and Vegetable Oils

The minimum margins on oilseeds (including cottonseed) and vegetable oils (including cottonseed oil and vanaspati) have been raised across-the-board by 15 percentage points with effect from July 15, 1987. The structure of minimum margins as on July 15, 1987 on advances against commodities covered by the control is given in Table VII-10.

Table VII—10 : Minimum margins on bank advances against stocks of oilseeds and vegetable oils (including vanaspati)

(Effective July 15, 1987)

(Percentages)

Commodities	Against Stocks		Against warehouse receipts
	Processing Units/Mills	Others	
1. Oilseeds (groundnuts, rapeseed/mustard, cottonseed, linseed, castorseed and all imported oilseeds)	45	60	45
2. Vegetable Oils (groundnut oil, rapeseed/mustard oil, cottonseed oil, linseed oil, castor oil, vanaspati and all imported oils)	45@	75	60

@ Applicable to registered oil mills and vanaspati manufacturers.

Advances to Sugar Industry for 1986-87 Crushing Season

Scheduled commercial banks were advised on September 25,1986 that they could sanction for 1986-87 season (October-September) need-based credit limits upto 110 per cent of the maximum amount availed during the previous season (excluding temporary excess drawings) without obtaining Reserve Bank's prior authorisation. This limit was enhanced to 115 per cent on November 5, 1986. While suitable sub-limits could be fixed within the overall drawing limit and allowed as cash credit against stocks of sugar pledged/hypothecated, stocks and consumable spares, bills purchased and discounted, etc., the banks were advised not to allow any other credit facilities outside the overall limit whether on clean basis or secured by assets such as spares, other raw materials, plant and machinery, etc. Sanction of additional credit limits beyond those indicated above to individual sugar mills covered by Credit Authorisation Scheme would require the prior authorisation of Reserve Bank.

Advances against certain Sensitive Commodities*

The outstanding advances of scheduled commercial banks against certain sensitive commodities amounted to Rs. 1617 crores at the end of March 1987 showing an increase of only Rs. 91 crores during 1986-87 as compared with that of Rs. 315 crores during 1985-86 (Table VII-11). At this level, such advances formed 2.6 per cent of total scheduled commercial banks' credit as against 2.7 per cent a year ago. The increase in advances was shared by all commodities except cotton and *kapas* and oilseeds.

Of the outstanding amount as at the end of March 1987, cotton and *kapas* accounted for 31 per cent, sugar (including *khandsari)* for 29 per cent, foodgrains for 18 per cent and raw jute for 16 per cent.

The major borrowers against the security of selected commodities were mills/factories and industrial users; these two categories accounted for 87 per cent of the total advances at the end of March 1987 as compared with 88 per cent at the end of March 1986 (Table VII-12).

Commodity-wise, these two categories of borrowers accounted for 99 per cent of advances against sugar (including *khandsari),* 98 per cent against castor oil, 97 per cent against vanaspati, 95 per cent against raw jute, 92 per cent against linseed oil, rapeseed and mustard oil.

* The Commodities covered are indicated in Table VII-11

Table VII—11 : Scheduled Commercial Banks' Outstanding Advances Against Selected Commodities

(Rupees crores)

Commodities	AS ON THE LAST FRIDAY OF					
	March 1985		March 1986		March 1987*	
	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total
	1	2	3	4	5	6
1. Foodgrains (excluding food procurement advances)	**214.1**	**17.7**	**265.2**	**17.4**	**290.2**	**17.9**
a) Paddy and Rice	128.8	10.6	165.9	10.9	185.0	11.4
b) Wheat	29.2	2.4	39.6	2.6	40.8	2.5
c) Other Foodgrains	56.1	4.6	59.7	3.9	64.4	4.0
2. Sugar (including *Khandsari)*	**366.5**	**30.3**	**434.0**	**28.4**	**461.3**	**28.5**
3. Oilseeds	**17.0**	**1.4**	**19.7**	**1.3**	**18.1**	**1.2**
a) Groundnut	7.7	0.6	6.9	0.4	7.5	0.5
b) Rapeseed/Mustard	8.2	0.7	10.6	0.7	9.0	0.6
c) Linseed	0.4	—	0.9	0.1	1.0	0.1
d) Castorseed	0.7	0.1	1.3	0.1	0.6	—
4. Vegetable Oils	**38.1**	**3.1**	**29.9**	**2.0**	**32.0**	**2.0**
a) Groundnut Oil	11.4	0.9	10.6	0.7	12.7	0.8
b) Rapeseed/Mustard Oil	12.1	1.0	13.1	0.9	12.2	0.7
c) Linseed Oil	1.9	0.2	1.1	0.1	1.3	0.1
d) Castor Oil	12.7	1.0	5.1	0.3	5.8	0.4
5. Vanaspati	**36.5**	**3.0**	**43.0**	**2.8**	**48.3**	**3.0**
6. Cotton and Kapas@	**390.0**	**32.2**	**539.6**	**35.4**	**503.7**	**31.1**
a) Indigenous	383.2	31.7	529.5	34.7	494.0	30.1
b) Imported	6.8	0.6	10.1	0.7	9.7	1.0
7. Raw Jute+	**148.0**	**12.2**	**194.2**	**12.7**	**263.4**	**16.3**
8. Total	**1210.2**	**100.0**	**1525.6**	**100.0**	**1617.0**	**100.0**

* Data are provisional.

@ Inclusive of advances to Cotton Corporation of India.

\+ Inclusive of advances to Jute Corporation of India.

Source : Estimates are based on returns received from head office of banks.

Table VII—12 : Security-wise advances to mills/factories and industrial users

(As percentage to total credit against respective commodities)

Sr. No.	Commodities	LAST FRIDAY OF March 1987*	March 1986
1.	Sugar (including *khandsari*)	98.7	98.3
2.	Castor Oil	98.3	96.1
3.	Vanaspati	96.9	97.4
4.	Raw Jute	94.8	94.9
5.	Linseed Oil	92.3	100.0
6.	Rapeseed/Mustard Oil	91.8	87.8
7.	Wheat	87.5	89.6
8.	Paddy and Rice	87.2	89.0
9.	Linseed	80.0	88.9
10.	Groundnut Oil	79.5	74.5
11.	Groundnut	74.7	73.9
12.	Other Foodgrains	73.9	72.0
13.	Cotton and *kapas*	73.8	77.9
14.	Rapeseed/Mustard	62.2	74.5
15.	Castorseed	50.0	69.2
	All Selected Commodities	**87.1**	**88.4**

* Provisional.

Source : Basic Statistical Return — 3.

QUALITATIVE CHANGES IN BANK CREDIT DISTRIBUTION

Sectoral Deployment of Credit

Data on sectoral deployment of credit by 50 scheduled commercial banks which account for about 95 per cent of gross bank credit as available upto March, 1987 are presented in Table VII-13. Gross bank credit of these banks increased by Rs. 7,330 crores (13.3 per cent) during the financial year 1986-87 as compared with that of Rs. 7,257 crores (15.1 per cent) during the preceding year. Of the outstanding gross bank credit amounting to Rs. 62,543 crores at end-March, 1987, the share of priority sector advances was the largest followed by credit to medium and large industries. The shares of these sectors in gross bank credit increased from 39.1 per cent and 34.7 per cent, respectively, at the end of March, 1986 to 40.1 per cent and 35.5 per cent, at end-March 1987. The share of export credit was also higher at 5.0 per cent at end-March,1987 as against 4.4 per cent a year ago. The only identified sectors to experience loss in share are food procurement credit (from 10.0 per cent to 8.2 per cent) and wholesale trade (from 5.6 per cent to 4.9 per cent of gross credit).

The share of priority sector advances in net bank credit* was 42.3 per cent as at end-March 1987 as against 40.8 per cent a year ago –both of which are higher than the target of 40 per cent. Out of the total priority sector advances of Rs. 25,059 crores as at end-March, 1987, the share of agriculture was the largest at 42.3 per cent followed by small-scale industries (36.3 per cent) and other priority sectors (21.4 per cent).

Out of the incremental non-food gross bank credit of the 50 banks aggregating Rs. 7,734 crores during 1986-87, the share of priority sector amounted to Rs. 3,493 crores or 45.2 per cent. Within the incremental priority sector advances, while the share of agriculture was Rs. 1,530 crores or 43.8 per cent, that of small-scale industries was Rs. 1,287 crores or 36.8 per cent; these were better than the incremental shares in the previous year. Incremental credit to medium and large industries at the end of March 1987 recorded a marginally lower increase than that in the previous year; its share in incremental non-food gross bank credit, however, recorded a decline to 39.0 per cent from 43.7 per cent a year ago. Credit to wholesale trade recorded a marginal increase of Rs. 6 crores compared to an increase of Rs. 417 crores in the previous year. Incremental credit to other sectors comprising residual sectors, financial institutions like hire-purchase agencies, leasing companies, etc., recorded a more than two-fold increase from Rs. 582 crores (7.9 per cent of incremental non-food gross bank credit) to Rs. 1,218 crores (15.7 per cent of incremental non-food credit).

*Net bank credit equals gross bank credit *minus* bills rediscounted with RBI, IDBI, EXIM Bank and other approved financial institutions.

Table VII–13 : Sectoral deployment of gross bank credit@
(As on the last Friday)

(Rupees crores)

Sector	Outstanding			Variations over the year	
	March 1985	March 1986	March 1987	1985-86	1986-87
	1	2	3	4	5
I. Public food procurement credit	**5,665**	**5,535**	**5,131**	**– 130**	**– 404**
	(11.8)	**(10.0)**	**(8.2)**		
II. A. Priority sectors	**18,409**	**21,566**	**25,059**	**+ 3,157**	**+ 3,493**
	(38.4)	**(39.1)**	**(40.1)**		
(i) Agriculture	7,660	9,058	10,588	+ 1,398	+ 1,530
	(16.0)	(16.4)	(16.9)		
(ii) Small-scale industries	6,612	7,816	9,103	+ 1,204	+ 1,287
	(13.8)	(14.2)	(14.6)		
(iii) Other priority sectors	4,137	4,692	5,368	+ 555	+ 676
	(8.6)	(8.5)	(8.6)		
B. Industry (medium & large)	**15,939**	**19,170**	**22,187**	**+ 3,231**	**+ 3,017**
	(33.2)	**(34.7)**	**(35.5)**		
C. Wholesale trade (other than food procurement)	**2,649**	**3,066**	**3,072**	**+ 417**	**+6**
	(5.5)	**(5.6)**	**(4.9)**		
D. Other sectors	**5,294**	**5,876**	**7,094**	**+ 582**	**+ 1,218**
	(11.0)	**(10.6)**	**(11.3)**		
III. Non-food gross bank credit (A+B+C+D)	**42,291**	**49,678**	**57,412**	**+ 7,387**	**+ 7,734**
	(88.2)	**(90.0)**	**(91.8)**		
Export credit (included under item III)	2,335	2,409	3,143	+ 74	+734
	(4.9)	(4.4)	(5.0)		
IV. Gross bank credit (I + III)	**47,956**	**55,213**	**62,543**	**+ 7,257**	**+ 7,330**
	(100.0)	**(100.0)**	**(100.0)**		

@ Provisional.

Notes : 1. Data relate to 50 scheduled commercial banks which account for about 95 per cent of gross bank credit. Further, these data include bills rediscounted with the RBI, IDBI, EXIM Bank and other approved financial institutions and participation certificates.

2. Figures in brackets are percentages to total gross bank credit.

Source : Credit Planning Cell, RBI.

Data on sectoral classification of scheduled commercial banks' advances, based on Basic Statistical Returns for all reporting banks are available upto June, 1985. Table VII-14 presents sector-wise details of bank credit for the period June 1982 to June 1985 with comparable data for March 1968. A marked shift in the direction of bank credit is witnessed during the period between March 1968 and June 1985. During this period, total credit registered an increase of more than fifteen-fold, with significant increases in advances to agriculture and allied activities and to small-scale industries. During this period, while the share of agriculture and allied activities, small-scale industries and wholesale trade in total credit increased from 2.2 per cent, 6.9 per cent and 17.7 per cent respectively to 17.6 per cent, 13.3 per cent and 19.1 per cent, that of large and medium industries dropped significantly from 60.6 per cent to 28.0 per cent.

Table VII—14 : Sectoral classification of scheduled commercial banks' advances

(Rupees crores)

Sector	Outstanding as on last Friday of									
	March 31, 1968		June 1982		June 1983		June 1984		June 1985	
	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total
	1	2	3	4	5	6	7	8	9	10
I. Industry	**2,068**	**67.5**	**14,014**	**47.3**	**16,635**	**47.5**	**18,343**	**42.3**	**20,659**	**41·3**
(a) Large & medium industries	1,857	60.6	10,477	35.4	12,778	36.5	12,931	29.8	14,030	28.0
(b) Small-scale industries	211	6.9	3,537	11.9	3,857	11.0	5,412	12.5	6,629	13.3
II. Agriculture and allied activities	**67**	**2.2**	**5,104**	**17.2**	**5,786**	**16.5**	**7,655**	**17.7**	**8,820**	**17.6**
Of which :										
(a) Direct finance	—	—	3,831	12.9	4,260	12.2	6,144	14.2	7,339	14.7
(b) Plantations	58	1.9	419	1.4	411	1.2	455	1.1	457	0.9
III. Internal trade	**588**	**19.2**	**5,488**	**18.5**	**6,574**	**18.8**	**9,400**	**21.7**	**11,687**	**23.4**
(a) Wholesale trade	541	17.7	4,449	15.0	5,380	15.4	7,652	17.7	9,560	19.1
Of which :										
Food procurement	109	3.5	2,825	9.5	3,589	10.2	5,238	12.1	6,765	13.5
(b) Retail trade	47	1.5	1,038	3.5	1,194	3.4	1,748	4.0	2,127	4.3
IV. Services	**—**	**—**	**673**	**2.3**	**844**	**2.4**	**1,245**	**2.9**	**1,537**	**3.1**
V. Personal loans	**—**	**—**	**1,160**	**3.9**	**1,403**	**4.0**	**1,418**	**3.3**	**1,672**	**3.3**
VI. All Others*	**341@**	**11.1**	**3,205**	**10.8**	**3,778**	**10.8**	**5,265**	**12.1**	**5,620**	**11.3**
VII. Total	**3,064**	**100.0**	**29,644**	**100.0**	**35,020**	**100.0**	**43,326**	**100.0**	**49,995**	**100.0**

— Not available.

@ Includes services and personal loans.

* Includes advances to transport operators also.

Notes : 1. The occupational pattern of credit for December 1983 and onwards may not be strictly comparable with those for the earlier years consequent on the revised system of reporting of BSR-1 and 2 with effect from December 1983 round of the survey.

2. Data for June 1985 are provisional.

Source: March 31, 1968 data are based on Survey of Advances of Scheduled Commercial Banks according to purpose. Data for 1982 to 1985 are based on BSR-1 surveys conducted by the Banking Statistics Division, DESACS, RBI.

Industry-wise Deployment of Credit

Details of industry-wise deployment of credit pertaining to the 50 scheduled commercial banks referred to above are furnished in Table VII-15. During the financial year 1986-87 outstanding credit to industry –large, medium and small scale – at Rs. 31,290 crores registered an increase of Rs. 4,304 crores which was lower than that of Rs. 4,435 crores during 1985-86. The share of credit to industry which formed 48.9 per cent of the outstanding gross bank credit as at end-March, 1986 improved to 50.0 per cent by end-March, 1987.

Table VII– 15 : Industry-wise deployment of gross bank credit @
(Public and private sectors)
(As on the last Friday)

(Rupees crores)

Industry	Outstanding			Variations	
	March 1985	March 1986	March 1987	1985-86	1986-87
	1	2	3	4	5
Coal	119	93	160	− 26	+ 67
	(0.2)	(0.2)	(0.3)		
Iron and steel	1,430	1,270	1,633	− 160	+ 363
	(3.0)	(2.3)	(2.6)		
Other metals and metal products	801	958	1,050	+ 157	+ 92
	(1.7)	(1.7)	(1.7)		
All engineering	5,560	6,760	7,937	+ 1,200	+ 1,177
	(11.6)	(12.2)	(12.7)		
Electricity	415	493	532	+ 78	+ 39
	(0.9)	(0.9)	(0.9)		
Cotton textiles	1,869	2,169	2,459	+ 300	+ 290
	(3.9)	(3.9)	(3.9)		
Jute textiles	263	274	298	+ 11	+ 24
	(0.5)	(0.5)	(0.5)		
Other textiles	1,365	1,639	1,811	+ 274	+ 172
	(2.8)	(3.0)	(2.9)		
Sugar	428	536	550	+ 108	+ 14
	(0.9)	(1.0)	(0.9)		
Tea	295	320	387	+ 25	+ 67
	(0.6)	(0.6)	(0.6)		
Vegetable oils (including vanaspati)	311	347	386	+ 36	+ 39
	(0.6)	(0.6)	(0.6)		
Tobacco & tobacco products	159	184	228	+ 25	+ 44
	(0.3)	(0.3)	(0.4)		
Paper & paper products	596	672	798	+ 76	+ 126
	(1.2)	(1.2)	(1.3)		
Rubber & rubber products	434	460	513	+ 26	+ 53
	(0.9)	(0.8)	(0.8)		
Chemicals, dyes, paints, drugs & pharmaceuticals	2,325	3,156	3,665	+ 831	+ 509
	(4.9)	(5.7)	(5.9)		
Of which : fertiliser	361	700	852	+ 339	+ 152
	(0.8)	(1.3)	(1.4)		
Cement	282	351	472	+ 69	+ 121
	(0.6)	(0.6)	(0.8)		
Leather & leather products	323	376	420	+ 53	+ 44
	(0.7)	(0.7)	(0.7)		
Construction	265	285	379	+ 20	+ 94
	(0.6)	(0.5)	(0.6)		
Petroleum	72	373	119	+ 301	− 254
	(0.2)	(0.7)	(0.2)		
SAFAUNS*	376	326	282	− 50	− 44
	(0.8)	(0.6)	(0.5)		
Residual	4,863	5,944	7,211	+ 1,081	+ 1,267
	(10.1)	(10.8)	(11.5)		
Total credit to industry	**22,551**	**26,986**	**31,290**	**+ 4,435**	**+ 4,304**
	(47.0)	**(48.9)**	**(50.0)**		
Total gross bank credit	**47,956**	**55,213**	**62,543**	**+ 7,257**	**+ 7,330**
	(100.0)	**(100.0)**	**(100.0)**		

@ : Provisional
* : Ships Acquired From Abroad Under New Scheme.
Note : Figures in brackets are percentages to total gross bank credit.
Source : Credit Planning Cell, R.B.I.

With the exception of petroleum and SAFAUNS, credit to other industries witnessed an increase during 1986-87. Some of the industries which accounted for a large chunk of the incremental credit of Rs. 4,304 crores during the year, were engineering (Rs. 1,177 crores), cotton, jute and other textiles (Rs. 486 crores), iron and steel (Rs. 363 crores), chemicals, dyes, paints, drugs and pharmaceuticals (Rs. 509 crores) and cement (Rs. 121 crores). Of the above, except for engineering, textiles and chemicals groups of industries, the increase in the case of others was larger than that during the previous year. Advances to iron and steel industries recorded a significant increase during the year in contrast to a decline in the previous year. Following the previous year's trend, SAFAUNS recorded a return flow of credit to the extent of Rs. 44 crores. Credit to petroleum industry registered a decline of Rs. 254 crores in contrast to an increase of Rs. 301 crores in the previous year.

Data on the share of major industries in total advances of scheduled commercial banks as at the end of June 1982 to 1985 with comparable data as at the end of March 1968 are furnished in Table VII-16. Over the period

Table VII—16 : Advances of scheduled commercial banks to major industries

(Percentage to total bank credit)

Industry	March 31, 1968	As on the last Friday of June 1982	1983	1984	1985
	1	2	3	4	5
Basic metals and metal products	..	6.0	7.2	5.2	4.6
Of which : Iron and Steel	3.7	3.5	4.8	3.1	2.4
Beverage and tobacco	..	0.7	0.7	0.7	0.7
Cement	1.3	0.6	0.6	0.5	0.6
Chemicals and chemical products	6.0	5.9	5.5	4.8	4.8
Of which :					
Heavy industrial chemicals	..	0.9	0.8	0.7	0.8
Drugs and pharmaceuticals	..	1.0	1.0	1.0	0.9
Fertilisers	..	1.7	1.5	1.0	0.9
Coal	0.8	0.2	0.2	0.2	0.1
Edible oils and vanaspati	1.4	0.7	0.6	0.6	0.6
Engineering	15.7	9.5	8.9	7.8	7.3
Heavy engineering	8.9	4.4	4.1	3.3	2.9
Light engineering	6.8	2.3	2.2	2.0	2.1
Others	..	2.8	2.6	2.5	2.4
Leather and leather products	..	0.7	0.6	0.6	0.6
Manufacturing of basic minerals	..	0.9	1.2	0.5	0.5
Paper, paper products and printing	1.6	1.7	1.7	1.6	1.7
Rice, flour and dal mills	..	0.7	0.7	0.8	0.9
Rubber and rubber products	0.7	0.9	0.8	0.8	0.8
Sugar	5.3	1.3	1.7	1.1	0.7
Textiles	15.5	7.8	7.5	7.0	6.9
Of which :					
Cotton textiles	10.3	3.9	3.7	3.4	3.2
Jute textiles	3.1	0.7	0.5	0.4	0.4
Vehicles, vehicle parts and transport equipments	..	2.3	2.1	2.0	2.2
Other Industries	..	7.4	7.5	8.1	8.4
Total credit to industry	**67.5**	**47.3**	**47.5**	**42.3**	**41.3**
Total Bank Credit	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

.. Not avaiiable.

Notes : 1. The occupational pattern of credit for December 1983 and onwards may not be strictly comparable with those for the earlier years consequent on the revised system of reporting of BSR-1 and 2 with effect from December 1983 round of the survey.

2. Data for June 1985 are provisional.

Source: March 31, 1968 data are based on Survey of Advances of Scheduled Commercial Banks according to purpose. Data for 1982 to 1985 are based on BSR-1 surveys conducted by Banking Statistics Division, DESACS, RBI.

June 1982-85, there has been a steep decline in the share of credit to industry in total bank credit. Industry-wise data reveals that but for rice, flour and dal mills and other industries the percentage share of all the other industries in total bank credit declined during the above period.

Table VII-17 presents the data on certain ratios relating to inventories and bank borrowings of public limited companies in the private sector. It may be observed that the inventory-sales ratio of large companies (each with the paid-up capital of Rs. 1 crore and above) at 25.1 per cent in 1985-86 registered a marginal increase over that of 24.5 per cent in 1984-85. The proportion of short-term bank borrowings to inventories, however, remained unchanged at 42.8 per cent in 1985-86 as in 1984-85. However, in respect of all public limited companies, as compared with 1982-83, short-term bank borrowings as percentage of total

Table VII—17 : Ratio of inventories to sales and bank borrowings to inventories (Public limited companies in the private sector)

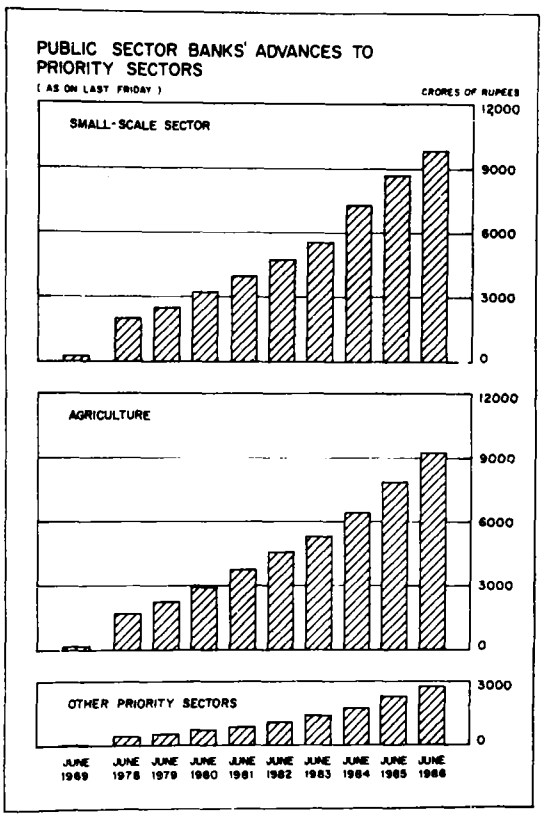
Year	Total Inventories as percentage of sales@	Raw materials and components as percentage of total inventories	Short-term bank borrowings as percentage of total inventories	Total bank borrowings as percentage of total inventories
1838 Public Limited Companies+				
1982-83	27.7	29.3	41.4	50.6
1983-84	26.3	28.0	43.9	55.7
1984-85	24.7	28.4	45.3	57.4
541 Large Public Limited Companies £				
1983-84	26.1	29.7	40.2	52.1
1984-85	24.5	29.7	42.8	54.2
1985-86	25.1	29.8	42.8	54.1

@ : Net of rebates, discounts, excise duty and cess.
\+ : Public Limited Companies including small-sized companies, each with paid-up capital of less than Rs. 5 lakhs.
£ : Each with paid-up capital of Rs. 1 crore and above.
Source : RBI studies on company finances.

inventories have risen rather sharply to 45.3 per cent in 1984-85 from 41.4 per cent in 1982-83. The proportion of total bank borrowings to total inventories in respect of large public limited companies rose from 52.1 per cent in 1983-84 to 54.1 per cent in 1985-86.

Advances to Priority Sector

The progress made by public sector banks in financing the priority sectors since nationalisation is highlighted in Table VII-18.



The number of priority sector borrowal accounts of public sector banks increased from 242 lakhs as at end-December 1985 to 262 lakhs by end-December 1986. During this period priority sector advances of these banks increased by Rs. 3,163 crores or 15.3 per cent to Rs. 23,811 crores. The share of priority sector advances in total bank credit increased by 0.7 percentage point from 42.9 per cent at end-December 1985 to 43.6 per cent by end-December 1986, thus surpassing the national target of 40 per cent which was to be achieved by March 1985. This performance of public sector banks in lending to priority sectors in the post-nationalisation period is remarkable as these advances had accounted for only 14.6 per cent of total bank credit in June 1969.

During the year 1986, agricultural advances increased by Rs. 1,345 crores (15.3 per cent) and formed 42.5 per cent of the incremental priority sector advances. Direct agricultural advances registered an increase of 19.7 per cent during the year and constituted 16.2 per cent of net bank credit as at the end of December 1986, thus surpassing marginally the stipulated target of 16 per cent to be attained by banks by March 1987.

Within the priority sector advances, those granted to weaker sections, which aggregated Rs. 4,894 crores as at the end of December, 1985 and constituted 10.2 per cent of net bank credit as on that date, increased to Rs. 5,890 crores as at the end of December 1986, forming 10.8 per cent of net bank credit. Public sector banks had thus exceeded the target of a minimum level of 10 per cent of advances prescribed for borrowers under this category. Of the outstanding advances of Rs. 9,354 crores under the small-scale sector at end-December 1985, small-scale industries accounted for the largest share of 79.1 per cent followed by road and water transport operators (20.1 per cent). Under other priority sectors, of the advances of Rs. 2,416 crores as at end-December 1985, retail trade and small business and professional and self-employed

Table VII – 18 : Public sector banks' advances to priority sectors
(As on the last Friday)

Sector	No. of Accounts (in '000s)			Amount outstanding (Rupees crores)		
	June 1969	December 1985	December 1986	June 1969	December 1985	December 1986@
	1	2	3	4	5	6
I. Agriculture	165	16,000	16,858	162	8,793	10,138
(i) Direct finance	160	15,027	15,964	40	7,415	8,876
(ii) Indirect finance	5	973	894	122	1,378	1,262
II. Small-scale sector*	53	2,188	N.A.	257	9,354	N.A.
(i) Road & water transport operators	2	592	N.A.	6	1,883	N.A.
(ii) Small-scale industries	51	1,595	N.A.	251	7,396	N.A.
(iii) Setting up of industrial estates	–	1	N.A.	–	75	N.A.
III. Other priority sectors	42	5,680	N.A.	22	2,416	N.A.
(i) Retail trade & small business	33	3,989	N.A.	19	1,721	N.A.
(ii) Professional self-employed persons	8	1,613	N.A.	2	653	N.A.
(iii) Education	1	66	N.A.	1	33	N.A.
(iv) Indirect finance to other priority sectors (Lending to SC/ST) corporations/organisations)	–	5	N.A.	–	5	N.A.
IV. Housing loans to SC/ST and weaker sections +	–	164	N.A.	–	64	N.A.
V. Consumption loans +	–	162	N.A.	–	21	N.A.
Total Priority sectors advances	**260**	**24,194**	**26,157**	**441**	**20,648**	**23,811**
VI. Exports	–	–	–	204	48,067	54,642
Total bank credit	–	–	–	**3,016**	—	—
Percentage of priority sector advances to total bank credit	–	–	–	14.6	42.9	43.6

* Relate to number of units
@ Data provisional.
– Nil or negligible.
\+ Data available from December 1981 only.
N.A. Not available

Note : Data for 1969 are from Banking Statistics, Government of India and for subsequent years from Rural Planning and Credit Department, R.B.I.

accounted for the major shares of 71.2 per cent and 27.0 per cent, respectively. Advances to SC/ST beneficiaries increased from Rs. 1,307 crores as at end-December 1985 to Rs. 1,596 crores by end-December 1986 and its share in the total priority sector advances also moved up from 6.4 per cent to 6.7 per cent during the period. Housing loans to SC/ST and weaker sections and consumption loans amounted to Rs. 64 crores and Rs. 21 crores, respectively, as at the end of December 1985.

In August, 1986, Government of India revised the earlier 20-Point Programme. Instructions regarding the schemes/activities which were eligible for bank finance under the modified 20-Point Programme and the action to be taken by banks were issued in December, 1986 for implementation with effect from April 1, 1987. According to the provisional data as at the end of December 1986, public sector banks had extended financial assistance under the new 20-Point Programme to the extent of Rs. 7,897 crores for 152 lakh borrowal accounts which formed 33.2 per cent of their total priority sector advances or 14.5 per cent of total bank credit. As at end-December 1985, such advances amounted to Rs. 6,869 crores (136 lakh accounts) and formed 33.3 per cent of their total priority sector advances.

Regional and Rural/Urban Pattern of Credit-Deployment in terms of Credit-Deposit Ratios

With a view to reducing inter-regional imbalances as also to check migration of funds from rural areas to urban areas, public sector banks were asked to achieve a credit-deposit ratio of 60 per cent in rural and semi-urban areas separately by March 1979. This target was subsequently extended to private sector banks also. Banks have so far been successful in attaining the stipulated target only in respect of rural branches while they have fallen short of the target in the case of semi-urban branches. In both rural and semi-urban areas, the performance of public sector banks has been better than that of private sector banks.

The credit-deposit ratio in respect of rural branches of scheduled commercial banks (including regional rural banks) had improved from 56.7 per cent as on last Friday of March 1980 to 66.3 per cent by last Friday of March, 1986 but slid back subsequently to 65.3 per cent as on last Friday of December 1986. The ratio, however, exceeded the national target by a comfortable margin (Table VII-19). On the other hand, the performance of banks in semi-urban areas has not been encouraging as the credit-deposit ratio edged up from 49.1 per cent on last Friday of March 1980 to 53.2 per cent on last Friday of March 1986. However, inspite of the impressive performance of banks in several areas in the post-nationalisation period, wide inter-State and inter-regional disparities still persist.

Region-wise and State-wise credit-deposit ratios of scheduled commercial banks (including RRBs), further classified according to public and private sector banks and population groups as at the end of December 1986 are given in Table VII-20. It may be observed therefrom that for the public sector banks (excluding RRBs) the ratios were 60.5 per cent and 51.3 per cent for rural and semi-urban areas while in the case of private sector banks the ratios were 51.9 per cent and 48.1 per cent, respectively. It may also be observed therefrom that bank branches in the Southern region alone have achieved the national target of 60 per cent both in the rural (99.4 per cent) and semi-urban (65.4 per cent) areas. Banks in the Central and Western regions have attained the target only in rural areas. In the North-Eastern region, banks have come close to achieving the target in rural areas (59.7 per cent) but lagged far behind in semi-urban areas (35.2 per cent). The Northern region and Eastern region lagged behind the target both in rural (47.9 per cent and 55.5 per cent) and semi-urban areas (51.6 per cent and 32.7 per cent, respectively).

State-wise the performance both in rural and semi-urban areas was very uneven (Table VII-20). In the case of rural areas, while many

Table VII—19 : Population group-wise credit-deposit ratio of scheduled commercial banks

(Rupees crores)

Last Friday of March	RURAL			SEMI-URBAN			URBAN			METROPOLITAN			TOTAL		
	Deposit	Credit	C.D. Ratio	Deposit	Credit	C.D. Ratio	Deposit	Credit	C.D. Ratio	Deposit	Credit	C.D. Ratio	Deposit	Credit	C.D. Ratio
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1980	3,745	2,124	56.7	7,220	3,548	49.1	7,908	4,747	60.0	12,872	11,655	90.5	31,745	22,073	69.5
1981	4,854	2,846	58.6	8,882	4,533	51.0	9,450	5,773	61.1	14,881	12,779	85.9	38,067	25,930	68.1
1982	6,097	3,725	61.1	10,328	5,415	52.4	10,917	6,763	61.9	16,799	14,491	86.3	44,141	30,394	68.9
1983	7,212	4,432	61.5	12,226	6,371	52.1	12,592	7,610	60.4	19,360	17,287	89.3	51,390	35,700	69.5
1984	8,892	5,698	64.1	14,516	7,692	53.0	13,921	8,334	59.9	23,538	20,639	87.7	60,867	42,364	69.6
1985	9,918	6,632	66.9	16,077	8,669	53.9	18,840	11,533	61.2	27,913	23,906	85.6	72,748	50,740	69.7
1986	11,987	7,947	66.3	18,264	9,712	53.2	22,252	13,153	59.1	33,138	27,163	82.0	85,641	57,974	67.7
Dec. 86 (Last Friday)	14,375	9,387	65.3	21,404	10,985	51.3	26,660	14,631	54.9	40,186	29,675	73.8	1,02,625	64,677	63.0

Source : Quarterly Return on Aggregate Deposits and Gross Bank Credit, Banking Statistics Division, DESACS.

Table VII – 20 : State-wise credit-deposit ratios of offices of public and private sector scheduled commercial banks according to population groups
(As on the last Friday of December 1986)

(Per cent)

Region/State/ Union Territories	Rural			Semi-Urban			Urban/Metropolitan			Total		
	Public*	Private	Total@	Public*	Private	Total@	Public*	Private	Total@	Public*	Private	Total@
	1	2	3	4	5	6	7	8	9	10	11	12
Northern Region	**45.7**	**36.7**	**47.9**	**51.9**	**41.5**	**51.6**	**55.8**	**69.2**	**56.8**	**53.7**	**63.3**	**54.7**
Haryana	75.4	84.2	77.7	59.4	40.8	59.2	65.7	56.5	65.5	65.5	55.2	66.1
Himachal Pradesh	37.3	–	37.9	45.2	16.0	44.3	–	–	–	39.9	16.0	39.9
Jammu & Kashmir	27.3	30.5	30.8	33.9	46.6	39.1	34.5	65.4	49.1	32.8	54.0	43.1
Punjab	35.0	14.8	35.3	50.9	20.4	50.8	45.1	47.8	45.2	44.2	41.0	44.3
Rajasthan	76.8	64.5	84.2	54.4	44.0	53.9	67.0	60.8	66.0	64.9	56.3	65.9
Chandigarh	87.2	–	87.2	22.8	–	22.8	171.0	43.6	169.0	166.6	43.6	164.7
Delhi	25.2	21.1	25.1	12.3	–	12.3	47.7	74.1	49.8	47.3	73.7	49.3
North-Eastern Region	**53.6**	**44.4**	**59.7**	**34.9**	**29.1**	**35.2**	**49.9**	**41.8**	**49.5**	**44.4**	**37.2**	**45.8**
Assam	59.6	41.4	64.2	40.2	32.3	39.8	57.0	46.5	56.1	50.8	41.2	51.4
Manipur	168.9	–	163.7	111.7	–	112.3	45.7	–	46.1	67.1	–	67.8
Meghalaya	44.0	–	45.4	24.3	60.0	25.1	24.4	13.7	23.6	27.4	17.3	27.4
Nagaland	43.1	–	43.4	43.6	11.8	41.8	–	–	–	43.5	11.8	42.1
Sikkim	40.9	–	40.9	23.5	–	23.5	–	–	–	26.3	–	26.3
Tripura	72.1	–	95.2	64.6	–	70.8	41.1	65.3	44.0	50.9	65.3	62.5
Arunachal Pradesh	24.6	67.9	24.8	15.4	–	15.1	–	–	–	24.4	67.9	24.6
Mizoram	32.5	–	42.6	6.5	–	7.0	–	–	–	8.2	–	9.9
Eastern Region	**46.6**	**24.9**	**55.5**	**32.1**	**33.3**	**32.7**	**50.2**	**78.8**	**52.8**	**46.0**	**75.8**	**49.3**
Bihar	43.2	–	52.1	31.6	29.5	31.8	34.7	35.2	34.6	35.6	34.7	38.0
Orissa	101.7	–	122.6	67.2	–	68.0	74.1	107.1	73.9	77.5	107.1	83.3
West Bengal	35.5	24.9	39.8	23.6	33.6	24.5	52.7	79.7	56.0	46.9	76.6	50.3
Andaman & Nicobar Islands	40.3	–	40.3	37.1	–	37.1	–	–	–	37.8	–	37.8
Central Region	**55.5**	**33.7**	**60.5**	**47.6**	**35.8**	**46.9**	**42.2**	**53.5**	**42.6**	**46.1**	**46.2**	**47.5**
Madhya Pradesh	71.1	17.8	80.1	53.5	30.2	52.3	59.3	63.1	59.2	59.5	51.7	60.9
Uttar Pradesh	50.7	33.9	54.8	45.0	36.2	44.6	36.3	52.8	37.1	41.2	45.8	42.8
Western Region	**59.0**	**63.7**	**60.8**	**49.0**	**52.9**	**49.1**	**77.6**	**89.5**	**79.0**	**71.8**	**87.5**	**73.4**
Gujarat	57.7	–	58.5	48.3	106.9	48.3	58.9	54.6	58.9	55.7	55.1	55.8
Maharashtra	74.6	63.7	76.5	54.9	51.0	54.6	82.1	90.0	83.2	79.8	88.1	81.0
Dadra & Nagar Haveli	66.8	–	66.8	–	–	–	–	–	–	66.8	–	66.8
Goa, Daman & Diu	20.3	68.3	20.4	38.0	63.7	38.7	–	–	–	31.9	63.9	32.5
Southern Region	**95.6**	**62.9**	**99.4**	**67.2**	**51.2**	**65.4**	**85.9**	**84.2**	**85.7**	**81.6**	**68.8**	**81.4**
Andhra Pradesh	100.7	63.3	108.3	74.3	38.7	72.8	74.5	55.8	73.2	79.0	53.1	79.6
Karnataka	98.5	54.2	105.7	82.7	49.7	79.5	83.9	68.9	82.3	86.0	62.0	85.7
Kerala	63.8	56.6	70.0	48.1	52.2	50.1	81.6	70.5	79.6	60.0	57.2	61.1
Tamil Nadu	99.0	76.1	97.0	76.2	52.6	72.6	99.7	108.2	100.9	93.9	89.6	93.5
Lakshadweep	27.8	–	27.8	–	–	–	–	–	–	27.8	–	27.8
Pondicherry	61.3	31.9	60.2	40.7	39.7	40.6	50.4	44.0	49.9	50.8	42.8	50.3
All India	**60.5**	**51.9**	**65.3**	**51.3**	**48.1**	**51.3**	**64.8**	**80.7**	**66.3**	**61.4**	**72.9**	**63.0**

* Public sector banks comprise State Bank of India, 7 Associate Banks of SBI and 20 Nationalised Banks.
@ Including Regional Rural Banks.

Source : Quarterly Return on Aggregate Deposits and Gross Bank Credit, Banking Statistics Division, DESACS, RBI.

States/Union Territories like Himachal Pradesh, Jammu & Kashmir, Punjab, Delhi, Arunachal Pradesh, West Bengal, and Goa, Daman and Diu had credit-deposit ratios less than 40 per cent, only 15 States/Union Territories exceeded the 60 per cent target. In the case of semi-urban offices, while 12 States/Union Territories had credit-deposit ratios less than 40 per cent, only 6 States/Union Territories exceeded the target.

Credit-Deposit Ratio According to Sanction and Utilisation

Credit-deposit ratios of scheduled commercial banks (including RRBs) according to sanction and utilisation, on a State/region-wise basis, have been presented for end-June, 1984 and 1985 (see Table VII-21). It may be observed therefrom that in terms of credit-deposit ratio according to sanction, Northern, North-Eastern, Central and Eastern regions remained below the national average in both the years. The three regions below the national average, namely, North-Eastern, Central and Northern witnessed a further decline in their respective credit-deposit ratios as at the end of June, 1985. The improvement in the C-D ratio of Eastern region was on account of a significant rise in the ratio from 51.9 per cent to 57.8 per cent between end-June 1984 to end-June 1985 in the case of West Bengal. Some of the States/Union Territories in the North-Eastern and Eastern regions like Meghalaya, Nagaland, Sikkim, Arunachal Pradesh, Mizoram, Bihar and Andaman and Nicobar Islands had credit-deposit ratios below 40 per cent as at end-June 1985. The two features highlighted by the data according to the utilization of credit are that the credit-deposit ratio for only one out of the four regions below the national average, namely, the Eastern improved as at end-June 1985. At end-June 1985, some States/Union Territories had C-D ratios of less than 40 per cent even according to utilisation. They are Bihar, Meghalaya, Arunachal Pradesh, Mizoram, Sikkim, Delhi, Goa, Daman and Diu and Lakshadweep. In the case of all of them except for Delhi and Lakshadweep, the C-D ratio according to utilisation as at end-June 1985 was marginally higher than that according to sanction.

The reasons for low credit-deposit ratios in certain regions/States can be traced to their low credit absorption capacity, which in turn, is attributable to factors like irregular availability of power, poor infrastructural faclities, unfavourable land tenure and ownership patterns and inadequate investment in agriculture and industry and lack of bankable schemes. Nevertheless, banks have played a major catalytic role in States where infrastructural facilities are good as they were directed to improve the ratios, whenever they were lower than the national average.

Investment + Credit-Deposit Ratio (CI-D Ratio)

Banks' contribution to the development of any State/region cannot be judged merely in terms of credit-deposit ratio because besides extending credit, banks also invest in the securities and bonds of the State governments and State-level institutions like Electricity Boards, Improvement Trusts, Local Boards, etc. When both bank credit and investment figures are taken into account, it is observed that banks' contribution to the economic development of States/regions is far higher than that indicated by credit-deposit ratio alone. This is more so in the case of the economically backward States/regions like the North-Eastern and Eastern regions. For example, the credit-deposit ratios of the above two regions according to utilisation in June 1985 were 65.9 per cent and 52.6 per cent, respectively (Table VII-21). For the same period credit plus investment to deposit ratios (CI-D) for the two regions according to utilisation were 89.8 per cent and 66.8 per cent, respectively.

Frequency Distribution of Credit-Deposit Ratio

The data on frequency distribution of districts based on credit-deposit ratios of rural

Table VII – 21 : Credit-deposit ratio and investment + credit-deposit ratio of scheduled commercial banks

Region/State/ Union Territory	Credit – Deposit Ratio				Investment + Credit – Deposit Ratio			
	June 1984*		June 1985*		June 1984*		June 1985*	
	Sanction	Utilisation	Sanction	Utilisation	Sanction	Utilisation	Sanction	Utilisation
	1	2	3	4	5	6	7	8
Northern Region	**68.1**	**68.8**	**66.4**	**66.1**	**75.3**	**76.0**	**73.4**	**73.1**
Haryana	92.4	113.7	105.6	131.4	109.7	131.0	121.5	147.3
Himachal Pradesh	56.5	57.3	72.4	74.7	71.0	71.8	87.4	89.7
Jammu & Kashmir	62.9	63.4	62.1	62.8	78.6	79.1	76.4	77.1
Punjab	60.2	74.8	81.2	91.1	66.0	80.6	86.6	96.5
Rajasthan	76.2	79.1	71.2	73.5	104.1	107.0	97.4	99.7
Chandigarh	232.0	123.0	135.5	55.9	232.2	123.2	135.7	56.1
Delhi	54.6	52.0	44.0	38.5	54.9	52.3	44.3	38.8
North-Eastern Region	**45.5**	**73.7**	**42.2**	**65.9**	**70.9**	**99.1**	**66.1**	**89.8**
Assam	48.7	88.3	44.9	77.1	74.0	113.6	67.0	99.2
Manipur	76.5	77.9	59.5	61.9	167.4	168.8	139.2	141.6
Meghalaya	26.8	25.5	22.8	23.0	57.7	56.4	51.9	52.1
Nagaland	46.1	49.6	37.0	45.5	91.6	95.1	84.1	92.6
Sikkim	11.0	35.4	12.1	28.9	11.3	35.7	12.1	28.9
Tripura	79.3	81.9	75.9	78.2	105.3	107.9	104.8	107.1
Arunachal Pradesh	26.3	35.0	22.0	33.1	26.3	35.0	22.0	33.1
Mizoram	9.2	10.5	14.8	18.8	9.2	10.5	14.8	18.8
Eastern Region	**51.5**	**50.2**	**53.8**	**52.6**	**66.2**	**64.9**	**68.0**	**66.8**
Bihar	39.7	43.4	36.8	39.5	58.6	62.3	54.6	57.3
Orissa	93.1	96.1	85.6	88.7	135.0	138.0	123.7	126.8
West Bengal	51.9	48.0	57.8	54.3	61.9	58.0	67.5	64.0
Andaman & Nicobar Islands	20.5	27.6	38.8	50.3	20.5	27.6	38.8	50.3
Central Region	**57.3**	**57.2**	**48.5**	**48.7**	**72.3**	**72.2**	**63.6**	**63.8**
Madhya Pradesh	63.6	65.6	60.1	61.7	82.1	84.1	78.7	80.3
Uttar Pradesh	55.2	54.3	44.6	44.3	69.0	68.1	58.5	58.2
Western Region	**83.7**	**81.7**	**81.5**	**80.3**	**92.2**	**90.2**	**89.4**	**88.2**
Gujarat	50.3	54.3	52.7	56.4	63.0	67.0	65.6	69.3
Maharashtra	99.1	94.5	93.8	90.8	106.3	101.7	100.3	97.3
Dadra & Nagar Haveli	90.9	114.0	88.5	122.4	90.9	114.0	88.5	122.4
Goa, Daman & Diu	30.6	32.6	34.4	35.5	32.1	34.1	35.6	36.7
Southern Region	**81.9**	**82.5**	**77.7**	**78.3**	**94.7**	**95.3**	**89.8**	**90.4**
Andhra Pradesh	78.3	79.0	75.3	76.1	91.6	92.3	88.3	89.1
Karnataka	82.9	84.7	79.5	80.9	95.1	96.9	91.2	92.6
Kerala	72.9	74.0	66.9	68.4	85.7	86.8	79.2	80.7
Tamil Nadu	90.6	89.9	85.4	84.8	103.6	102.9	97.2	96.6
Lakshadweep	15.6	15.6	21.5	18.7	15.6	15.6	21.5	18.7
Pondicherry	56.1	59.3	56.3	60.8	56.3	59.5	56.4	60.9
All India	**70.7**	**70.7**	**67.9**	**67.9**	**81.9**	**81.9**	**78.7**	**78.7**

* Provisional.

Note : For Deposit and Credit (Sanction & Utilisation) BSR-1 & 2 Survey, The investment figures are estimated based on BSR-5 survey for March 1984 & 1985.

Source : BSD, DESACS, RBI.

and semi-urban offices as at the end of December 1986 as also in the previous two years are presented in Table VII-22. The credit-deposit ratio in respect of rural branches was 60 per cent or more in 245 districts (or 56.1 per cent) at end-December 1986 out of 437 districts as against 246 districts (or 56.6 per cent) out of 435 districts in the previous year. The average size of deposits per district in this category went up from Rs. 21 crores in the previous year to Rs. 24 crores. The number of districts with credit-deposit ratio below 40 per cent came down from 92 in December 1985 to 89 in December 1986. In the case of semi-urban offices, the number of districts with credit-deposit ratio of 60 per cent and above declined from 148 at the end of December 1985 to 141 at the end of December 1986.

Table VII—22 : Frequency distribution of districts based on credit-deposit ratio of scheduled commercial banks (As on the last Friday)

(Rupees crores)

Credit-Deposit Ratio	December 1984			December 1985			December 1986		
	No. of Districts	Deposits@	Advances	No. of Districts	Deposits@	Advances	No. of Districts	Deposits@	Advances
1	2	3	4	5	6	7	8	9	10
Rural Offices									
Upto 20%	24	757	108	24	1,109	146	20	671	103
		(32)			(46)			(34)	
20% to 30%	24	754	178	26	938	228	29	1,822	431
		(31)			(36)			(63)	
30% to 40%	44	1,325	464	42	1,932	681	40	2,382	850
		(30)			(46)			(60)	
40% to 50%	46	1,403	625	40	1,333	598	44	1,569	698
		(31)			(33)			(36)	
50% to 60%	46	1,133	615	57	1,501	824	59	2,088	1,147
		(25)			(26)			(35)	
60% and above	246	4,322	4,352	246	5,054	5,160	245	5,843	6,158
	*(57.2)	(18)		*(56.6)	(21)		*(56.1)	(24)	
Total	**430**	**9,694**	**6,342**	**435**	**11,867**	**7,637**	**437**	**14,375**	**9,387**
Semi-Urban Offices									
Upto 20%	20	1,260	212	20	1527	259	23	2,203	362
		(63)			(76)			(96)	
20% to 30%	44	1,701	417	50	2,079	514	49	2,181	538
		(39)			(42)			(45)	
30% to 40%	54	1,739	610	57	2,768	997	65	3,510	1,263
		(32)			(49)			(54)	
40% to 50%	73	3,267	1,443	68	3,256	1,470	73	3,693	1,650
		(45)			(48)			(51)	
50% to 60%	56	2,460	1,338	54	2,468	1,337	50	2,909	1,571
		(44)			(46)			(58)	
60% and above	143	5,340	4,319	148	5,987	4,813	141	6,907	5,601
	*(36.7)	(37)		*(37.3)	(40)		*(35.2)	(49)	
Total	**390**	**15,767**	**8,339**	**397**	**18,085**	**9,390**	**401**	**21,403**	**10,985**

@ Figures in brackets indicate amount of deposits per district under each size class.

* As percentage of total number of districts.

Source: Quarterly Return on aggregate deposits and gross bank credit, Banking Statistics Division, DESACS., R.B.I.

Deposit and Credit of Scheduled Commercial Banks : Area-wise and State-wise

The post nationalisation era was characterised by an impressive growth in banking facilities, especially in the rural and semi-urban centres as is evident from their performance in the sphere of deposit mobilisation and credit deployment.

The share of rural offices in total deposits and advances as on the last friday of December 1986 was 14.0 per cent and 14.5 per cent, respectively, as against a mere 3.1 per cent and 1.5 per cent in June 1969, which indicates that both with regard to mobilisation of deposits and deployment of credit the performance of rural offices has been remarkable (Table VII-23). Also, the improvement has been generally steady. The share of semi-urban offices in total deposits on the other hand, declined marginally from 22.0 per cent to 20.9 per cent, whereas their share in total credit increased from 11.3 per cent to 17.0 per cent during the period under review. The combined share of urban and metropolitan offices both in deposit mobilisation and credit deployment declined from 74.9 per cent and 87.2 per cent to 65.1 per cent and 68.5 per cent respectively. The average deposits and bank credit per office registered significant increases during the period since June 1969 in respect of all the population groups.

Table VII–23 : Distribution of deposits and advances of scheduled commercial banks according to population groups (As on the last Friday)

(Rupees crores)

Population group	June 1969		December 1985		December 1986		Increase (June 1969 to December 1986)	
	Deposits	Advances	Deposits	Advances	Deposits	Advances	Deposits	Advances
	1	2	3	4	5	6	7	8
Rural	**145**	**54**	**11,867**	**7,637**	**14,375**	**9,386**	**14,230**	**9,332**
Percentage to total	3.1	1.5	13.8	13.5	14.0	14.5	14.5	15.3
Average amount per office	0.10	0.04	0.40	0.26	0.48	0.32	—	—
Semi-Urban	**1,024**	**407**	**18,085**	**9,390**	**21,404**	**10,985**	**20,379**	**10,578**
Percentage to total	22.0	11.3	21.1	16.7	20.9	17.0	20.8	17.3
Average amount per office	0.31	0.12	1.71	0.89	2.01	1.03	—	—
Urban	**1,209**	**722**	**22,108**	**13,003**	**26,660**	**14,631**	**25,452**	**13,909**
Percentage to total	25.9	20.0	25.7	23.1	26.0	22.6	26.0	22.8
Average amount per office	0.63	0.38	2.92	1.72	3.49	1.91	—	—
Metropolitan	**2,287**	**2,426**	**33,807**	**26,295**	**40,186**	**29,675**	**37,899**	**27,249**
Percentage to total	49.0	67.2	39.4	46.7	39.1	45.9	38.7	44.6
Average amount per office	1.53	1.62	6.43	5.00	7.50	5.54	—	—
Total	**4,665**	**3,609**	**85,868**	**56,326**	**1,02,625**	**64,677**	**97,960**	**61,068**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**
Average amount per office	0.57	0.44	1.63	1.07	1.92	1.21	—	—

Note : The data for December 1985 and December 1986 are provisional.

Source: Banking Statistics — Volume 2 for June 1969 and Quarterly Return on Aggregate Deposits and Gross Bank Credit for December 1985 and December 1986. Banking Statistics Division, DESACS, R.B.I.

Distribution of Deposits by Population Groups/ Types of Deposits

Data on mobilisation of deposits by scheduled commercial banks classified according to population groups and type of deposits as at the end of June, 1985 are presented in Table VII-24. It may be observed therefrom that the number of accounts and total deposits stood at 2,190 lakhs and Rs. 77,767 crores, respect-

Table VII–24 : Distribution of deposits of scheduled commercial banks according to population group & type of deposits
(As on the last Friday of June 1985)

(No. of accounts in thousands)
(Amount in Rupees lakhs)

Population Group	Current			Savings			Term			Total		
	No. of Accounts	Amount Outstanding	Average per account (Rs.)	No. of Accounts	Amount Outstanding	Average per account (Rs.)	No. of Accounts	Amount Outstanding	Average per account (Rs.)	No. of Accounts	Amount Outstanding	Average per account (Rs.)
	1	2	3	4	5	6	7	8	9	10	11	12
Rural	**1,059**	**73,365**	**6,928**	**43,176**	**4,13,842**	**959**	**13,539**	**5,53,940**	**4,091**	**57,774**	**10,41,147**	**1,802**
Per cent to total deposits category	12.1	5.9		29.6	18.0		20.9	13.1		26.4	13.4	
Per cent to total deposits	1.8	7.0		74.7	39.8		23.5	53.2		100.0	100.0	
Semi–Urban	**2,323**	**1,68,382**	**7,248**	**42,683**	**5,86,888**	**1,375**	**18,101**	**9,20,560**	**5,086**	**63,107**	**16,75,830**	**2,656**
Per cent to total deposits category	26.6	13.6		29.3	25.6		28.0	21.7		28.8	21.5	
Per cent to total deposits	3.7	10.1		67.6	35.0		28.7	54.9		100.0	100.0	
Urban	**2,634**	**3,17,439**	**12,052**	**32,564**	**5,63,752**	**1,731**	**18,650**	**11,60,419**	**6,222**	**53,848**	**20,41,610**	**3,791**
Per cent to total deposits category	30.1	25.7		22.4	24.6		28.9	27.3		24.6	26.3	
Per cent to total deposits	4.9	15.6		60.5	27.6		34.6	56.8		100.0	100.0	
Metropolitan	**2,724**	**6,77,517**	**24,872**	**27,235**	**7,30,626**	**2,683**	**14,346**	**16,10,018**	**11,223**	**44,305**	**30,18,161**	**6,812**
Per cent to total deposits category	31.2	54.8		18.7	31.8		22.2	37.9		20.2	38.8	
Per cent to total deposits	6.1	22.5		61.5	24.2		32.4	53.3		100.0	100.0	
Total	**8,740**	**12,36,703**	**14,150**	**1,45,658**	**22,95,108**	**1,576**	**64,636**	**42,44,937**	**6,567**	**2,19,034**	**77,76,748**	**3,550**
Per cent to total deposits category	100.0	100.0		100.0	100.0		100.0	100.0		100.0	100.0	
Per cent to total deposits	4.0	15.9		66.5	29.5		29.5	54.6		100.0	100.0	

Note : Data are provisional.
Source: BSR-2 Survey, Banking Statistics Division, DESACS, R.B.I.

ively, with an average of Rs. 3,550 per account. The combined share of rural and semi-urban offices in the total number of accounts worked out to 55.2 per cent; their share in savings and term deposit accounts constituted about 58.9 per cent and 48.9 per cent, respectively, whereas in current account, it was lower at 38.7 per cent.

Savings deposit accounts continued to claim the highest share (66.5 per cent) in the total number of accounts. Term deposits, however, claimed the largest share (54.6 per cent) in total amount of deposits. This feature was discernible in respect of all the population groups (Table VII-24). Both in terms of number of accounts and amount, deposits in current account were not significant in rural areas. However, in the case of other areas, current deposits were quite significant in terms of amount though not in terms of accounts.

Table VII-25 : Region-wise distribution of deposits and advances of all scheduled commercial banks (As on the last Friday)

(Rupees crores)

Region/State/ Union Territory	Aggregate Deposits			Gross Bank Credit		
	June 1969	December 1986	Variation	June 1969	December 1986	Variation
	1	2	3	4	5	6
I. Northern Region	**869.78**	**22,508.09**	**21,638.31**	**493.80**	**12,314.19**	**11,820.39**
	(18.6)	**(21.9)**	**(22.1)**	**(13.7)**	**(19.0)**	**(19.4)**
(i) New Delhi	449.25	10,266.41	9,817.16	291.22	5,063.80	4,772.58
	(9.6)	(10.0)	(10.0)	(8.1)	(7.8)	(7.8)
II. North-eastern Region	**49.05**	**1,809.13**	**1,760.08**	**16.90**	**829.13**	**812.23**
	(1.1)	**(1.8)**	**(1.8)**	**(0.5)**	**(1.3)**	**(1.3)**
III. Eastern Region	**844.27**	**16,420.68**	**15,576.41**	**768.62**	**8,099.19**	**7,330.57**
	(18.1)	**(16.0)**	**(15.9)**	**(21.3)**	**(12.5)**	**(12.0)**
(i) West Bengal	643.45	10,415.87	9,772.42	699.71	5,235.27	4,535.56
	(13.8)	(10.1)	(10.0)	(19.4)	(8.1)	(7.4)
IV. Central Region	**476.06**	**14,336.34**	**13,860.28**	**238.23**	**6,806.90**	**6,568.67**
	(10.2)	**(14.0)**	**(14.1)**	**(6.6)**	**(10.5)**	**(10.8)**
(i) Uttar Pradesh	364.90	10,618.09	10,253.19	172.95	4,542.77	4,369.82
	(7.8)	(10.3)	(10.5)	(4.8)	(7.0)	(7.2)
V. Western Region	**1,575.79**	**25,958.25**	**24,382.46**	**1,285.86**	**19,052.63**	**17,766.77**
	(33.8)	**(25.3)**	**(24.9)**	**(35.6)**	**(29.5)**	**(29.1)**
(i) Gujarat	401.97	6,200.81	5,798.84	195.43	3,462.22	3,266.79
	(8.6)	(6.0)	(5.9)	(5.4)	(5.4)	(5.3)
(ii) Maharashtra	1,124.42	18,910.57	17,786.15	1,070.62	15,313.26	14,242.64
	(24.1)	(18.4)	(18.2)	(29.7)	(23.7)	(23.3)
VI. Southern Region	**850.24**	**21,592.52**	**20,742.28**	**805.45**	**17,575.38**	**16,769.93**
	(18.2)	**(21.0)**	**(21.2)**	**(22.3)**	**(27.2)**	**(27.5)**
(i) Tamil Nadu	293.49	6,450.41	6,156.92	380.63	6,030.78	5,650.15
	(6.3)	(6.3)	(6.3)	(10.5)	(9.3)	(9.3)
All India	**4,665.19**	**1,02,625.00**	**97,959.81**	**3,608.86**	**64,677.42**	**61,068.56**

Note : Figures in brackets indicate percentage to total.

Source: Banking Statistics — Vol. 2 for June 1969 and Quarterly Return on Aggregate Deposits and Gross Bank Credit for December 1986. Banking Statistics Division, Department of Statistical Analysis & Computer Services, Reserve Bank of India.

indicating thereby that large-size accounts were held by fewer number of traders and businessmen.

A detailed analysis of the performance of banks in the post-nationalisation period brings into focus some inter-State disparities, though significant narrowing has been achieved in recent years. The reduction in inter-State disparities has been more noteworthy in bank credit and investments than in deposits mobilised, thus presenting an improved picture in credit plus investment to deposit ratios regionally.

The share of the Western and Eastern Regions in aggregate deposits fell significantly from 33.8 per cent in June 1969 to 25.3 per cent in December 1986 and from 18.1 per cent to 16.0 per cent, respectively; all other regions have increased their share of bank deposits. Among the important States, Maharashtra and West Bengal have experienced significant reductions in their percentage share (Table VII-25).

Population group-wise data show that urban and metropolitan centres together accounted for 65.1 per cent of the total deposits, with the semi-urban and rural offices claiming 20.9 per cent and 14.0 per cent respectively, at end-December 1986. However, in terms of growth rates, the performance of rural offices was more impressive than that of the other groups.. Rural deposits increased by nearly ten times from Rs. 145 crores to Rs. 14,375 crores during the period from June 1969 to December, 1986. Deposits with semi-urban and urban/metropolitan offices moved up from Rs. 1,024 crores and Rs. 3,496 crores to Rs. 21,404 crores and Rs. 66,846 crores, respectively.

Uttar Pradesh claimed the maximum share in the incremental deposits in respect of rural areas with accretion of Rs. 2,329 crores. The share of other States in incremental rural deposits ranged between Rs. 240 crores and Rs. 1,500 crores. Kerala claimed the maximum share in the incremental deposits in respect of semi-urban areas with accretion of Rs. 2,435 crores which may perhaps be due to the large inflow of non-resident deposits. Uttar Pradesh also obtained the second place in respect of incremental deposit accretions in semi-urban areas with a share of Rs. 3,506 crores followed by Punjab Rs. 1,723 crores. The share of other States ranged between Rs. 100 crores and Rs. 1,600 crores. The share of Maharashtra was the highest at Rs. 15,716 crores in incremental urban/metropolitan deposits aggregating Rs. 63,350 crores. Delhi, West Bengal, Uttar Pradesh and Maharashtra accounted for 60 per cent of such incremental deposits.

Credit Deployment

Credit deployment by scheduled commercial banks increased substantially from Rs. 3,609 crores in June 1969 to Rs. 64,677 crores in December, 1986 (Table VII-25). Maharashtra claimed the highest share in incremental credit (Rs. 14,243 crores) followed by Tamil Nadu (Rs. 5,650 crores), Delhi (Rs. 4,773 crores), West Bengal (Rs. 4,536 crores) and Uttar Pradesh (Rs. 4,370 crores).

During the post-nationalisation period, rural offices stepped up their scale of operations significantly in the sphere of credit deployment as is evident from the surge in credit from Rs. 54 crores to Rs. 9,386 crores. As in the case of deposits, Uttar Pradesh led the field with the highest share of Rs. 1,273 crores in incremental credit for rural areas followed by Andhra Pradesh with Rs. 1,146 crores. The share of other States ranged between Rs. 100 crores and Rs. 1,000 crores.

Credit outstanding of semi-urban offices increased from Rs. 407 crores to Rs. 10,985 crores. Kerala accounted for the highest share (Rs. 1,241 crores) of the incremental credit followed by Tamil Nadu, Uttar Pradesh,

Table VII-26 : Distribution of loans and advances* of scheduled commercial banks according to interest range (As on the last Friday)

(Rupees crores)

Interest Range	June 1982		June 1983		June 1984		June 1985	
	No. of Accounts	Amount out-standing	No. of Accounts	Amount out-standing	No. of Accounts	Amount out-standing	No. of accounts	Amount out-standing
	1	2	3	4	5	6	7	8
6 per cent and less	68,819	406.2	86,176	472.9	63,392	402.4	80,603	556.0
	(4.5)	(1.9)	(4.8)	(1.9)	(5.1)	(1.5)	(5.8)	(1.8)
Above 6 upto 10 per cent	41,171	545.7	63,579	738.5	47,105	1,114.4	58,583	1,245.7
	(2.7)	(2.6)	(3.6)	(2.9)	(3.8)	(4.0)	(4.2)	(4.0)
Above 10 upto 12 per cent	2,61,515	2180.6	2,48,751	2,641.2	1,02,338	2,540.8	1,06,899	2,725.4
	(16.9)	(10.3)	(13.9)	(10.3)	(8.2)	(9.3)	(7.7)	(8.7)
Above 12 upto 14 per cent	5,81,464	5,810.6	7,73,799	6,746.5	6,11,927	8,450.9	6,92,988	10,064.9
	(37.6)	(27.6)	(43.3)	(26.4)	(49.1)	(30.8)	(49.7)	(32.3)
Above 14 upto 15 per cent	2,35,294	1,861.9	2,35,083	2,238.5	1,17,891	2,389.5	1,21,809	2,775.5
	(15.2)	(8.8)	(13.2)	(8.8)	(9.5)	(8.7)	(8.7)	(8.9)
Above 15 upto 16 per cent	51,637	895.4	53,484	923.5	41,816	889.5	40,634	999.1
	(3.3)	(4.2)	(3.0)	(3.6)	(3.3)	(3.2)	(2.9)	(3.2)
Above 16 upto 17 per cent	49,351	914.9	56,095	1,483.2	52,253	1,473.7	66,872	2,362.6
	(3.2)	(4.4)	(3.2)	(5.8)	(4.2)	(5.4)	(4.8)	(7.6)
Above 17 upto 18 per cent	49,344	2,113.4	1,71,653	7,261.6	1,79,474	9,069.1	2,05,511	9,670.4
	(3.2)	(10.0)	(9.6)	(28.4)	(14.4)	(33.0)	(14.8)	(31.0)
Above 18 per cent	2,07,396	6,368.5	97,263	3,049.9	30,361	1,121.0	19,693	796.4
	(13.4)	(30.2)	(5.4)	(11.9)	(2.4)	(4.1)	(1.4)	(2.5)
Total	**15,45,991**	**21,097.2**	**17,85,883**	**25,555.8**	**1,246,557**	**27,451.4**	**1,393,592**	**31,195.9**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

* Relate to accounts with credit limit over Rs. 10,000 upto June 1983 and over Rs. 25,000 from December 1983 onwards; exclude inland and foreign bills purchased and discounted.

Notes : 1) Figures in brackets indicate percentage to total.
2) Data for June 1985 are provisional.

Source: Basic Statistical Returns, Banking Statistics Division, Department of Statistical Analysis & Computer Services, Reserve Bank of India.

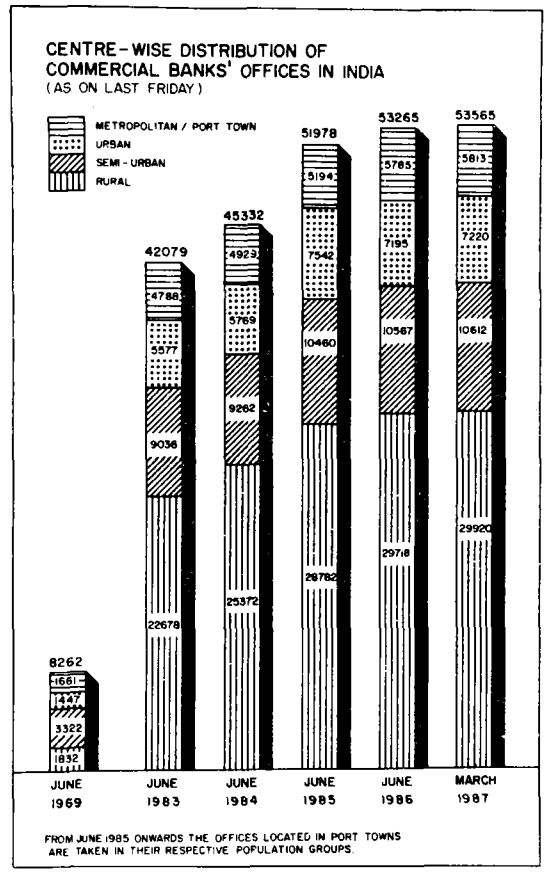
Andhra Pradesh, Punjab, Karnataka, Gujarat and Maharashtra.

There was a thirteen-fold increase in credit extended by urban and metropolitan offices between June 1969 and December 1986. Of the incremental credit of Rs. 41,158 crores, Maharashtra with an increase of Rs. 12,908 crores accounted for the highest share followed by Delhi, West Bengal and Tamil Nadu.

Distribution of Credit According to Interest Range

Data on scheduled commercial banks' credit classified according to interest range for the three years ended June 1983, June 1984 and June 1985 are presented in Table VII-26. It will be seen that there was a marked change in the distribution of credit in favour of middle and lower interest range between June 1984

and June 1985. In percentage terms, the total share of two highest interest rate brackets of 17 to 18 per cent and above 18 per cent fell from 37.1 per cent in June 1984 to 33.5 per cent, reflecting the lowering of the maximum lending rate from 18 to 17.5 per cent effective from April 1, 1985. Almost corresponding increases took place under the interest brackets of 12 to 14 per cent which capture the bulk of priority sector advances and food and export credits and under 16 to 17 per cent which cover large advances with better credit ratings.



GEOGRAPHICAL AND FUNCTIONAL COVERAGE OF BANKS

Branch Expansion

Under the current branch licensing policy covering the period April 1985 to March 31, 1990 (for details please see the previous year's Report), Lead Banks were advised to prepare and submit lists of identified centres for opening new bank offices through their respective State Governments. Out of 7,463 centres identified by the Lead Bank Groups/State Governments for opening new offices, 4,396 centres were found eligible for allotment, as per the norms of the policy and were allotted to commercial banks including RRBs; 1,804 centres were allotted to RRBs, 2,494 centres to public sector banks and 98 centres to private sector banks.

The commendable performance of banks with regard to geographical coverage of branches since nationalisation is evident from the fact that there was a six-fold increase in the number of offices from 8,262 in June, 1969 to 53,565 offices in March, 1987 (Table VII-27). Of the total 262 branches opened between July, 1986 to March, 1987, 211 offices or more than 80.5 per cent were opened in unbanked centres. Since nationalisation, out of the 45,244 offices opened, 29,408 offices have been in unbanked centres.

Table VII-28 reveals that of the total offices opened during the period July, 1986 to March 1987, 214 branches (81.7 per cent) were in rural areas. As at the end of March, 1987, 45.2 per cent of all offices of State Bank of India and its Associates, 45.9 per cent of the offices of nationalised banks and 32.4 per cent of the offices of other commercial banks were in rural areas. About 92.3 per cent of the offices of Regional Rural Banks were in rural areas during the above period (Table VII-29).

Data on State-wise average population per bank office as at the end of June 1969, June 1986 and March 1987 are also presented in Table VII-29. The average population per bank office which was 65,000 at the end of June 1969, came down to 13,000 at the end of June 1986 and remained unchanged as at end-

Table VII– 27 : State-wise distribution of bank offices and population per bank office as at the end of June 1969, June 1986 and March 1987

State / Union Territory	Number of offices at the end of			Number of offices opened				Population per bank office (in thousands) as at the end of		
	June 1969	June 1986	March 1987	1985-86 (July to June)	of which at unbanked centres	1986-87 (July 86 to March 87)	of which at unbanked centres	June 1969	June 1986	March 1987
	1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	567	4,130	4,162	43	26	32	30	75	13	13
Assam	74	975	981	108	92	4	2	198	21	20
Bihar	273	4,229	4,232	212	189	1	–	207	17	16
Gujarat	752	3,085	3,089	64	48	4	3	34	11	11
Haryana	172	1,111	1,118	14	10	5	5	57	12	12
Himachal Pradesh	42	552	565	14	9	10	10	80	8	8
Jammu & Kashmir	35	727	727	16	15	–	–	114	8	8
Karnataka	756	3,926	3,958	73	45	30	29	38	9	9
Kerala	601	2,724	2,725	19	8	–	–	35	9	9
Madhya Pradesh	343	3,737	3,768	98	83	32	28	116	14	14
Maharashtra	1,118	4,919	4,940	100	53	20	3	44	13	13
Manipur	2	67	67	6	5	–	–	497	21	21
Meghalaya	7	130	132	5	5	2	2	147	10	10
Nagaland	2	66	66	2	1	–	–	205	12	12
Orissa	100	1,735	1,752	42	29	8	6	212	15	15
Punjab	346	2,004	2,013	9	5	9	6	42	8	8
Rajasthan	364	2,681	2,694	69	63	13	13	70	13	13
Sikkim	–	19	19	–	–	–	–	–	17	17
Tamil Nadu	1,060	3,930	3,935	29	21	5	4	37	12	12
Tripura	5	136	136	13	13	–	–	276	15	15
Uttar Pradesh	747	7,345	7,408	108	79	62	56	119	15	15
West Bengal	504	3,418	3,457	192	129	20	12	87	16	16
Andaman & Nicobar Islands	1	14	14	1	1	–	–	82	13	13
Arunachal Pradesh	–	54	56	6	6	2	2	–	12	11
Chandigarh	20	107	107	2	–	–	–	7	4	4
Dadra & Nagar Haveli	–	6	6	–	–	–	–	–	17	17
Delhi	274	1,059	1,060	16	–	3	–	10	6	6
Goa, Daman & Diu	85	260	260	–	–	–	–	8	4	4
Lakshadweep	–	5	5	–	–	–	–	–	8	8
Mizoram	–	51	50	5	5	–	–	–	10	10
Pondicherry	12	63	63	–	–	–	–	31	10	10
All India Total	**8,262**	**53,265**	**53,565**	**1,266@**	**940**	**262£**	**211**	**65**	**13***	**13***

* Country as a whole.

@ Exclude 21 branches opened upto 30.6.85 but reported late by the banks. Thus total offices opened are 1287.

£ Exclude 38 branches opened earlier but reported late by banks. Thus total offices opened are 300.

Note : Column No. 4 indicates the actual number of branches opened during July 1985 to June 1986.

Sources : Department of Banking Operations & Development, Reserve Bank of India.

Table VII–28 : Share of rural offices in new offices

Period (July-June)	Total offices opened during the year	Of which those opened in rural areas	(2) as percentage of (1)
	1	2	3
1970-71	1,882	1,217	64.7
1975-76	2,490	881	35.4
1980-81	3,287	2,550	77.6
1983-84@	3,253	2,694	82.8
1984-85@	6,222	5,061	81.3
1985-86	1,266	936	73.9
1986-87 (July 1986-March 1987)	262	214	81.7

@ Adjusted for offices closed.

March 1987. Of the 675 centres identified as unbanked block headquarters in the country, 644 were covered by branches of commercial banks/RRBs; 31 such centres are yet to be covered by banks.

Indian Banks' Offices Abroad

During the year 1986-87, no new branches were opened abroad by Indian banks. Bank of Baroda closed four of its overseas branches, viz., Umm-Al-Quawain branch in the United Arab Emirates, Bradford and Luton branches in U.K. and New Amsterdam branch in Guyana. Besides, as part of the reorganisation of branches of Indian banks in the United Kingdom, the operations of Punjab National Bank (4 branches), Central Bank of India (3 branches) and Union Bank of India (1 branch) were taken over by State Bank of India, Bank of India and Bank of Baroda respectively, from January 1,1987. Bank of Baroda also took over the only branch of Punjab and Sind Bank in U.K. from February 1, 1987. During the period under review the State Bank of India also closed down its representative office in Beirut (Lebanon). Thus, the number of foreign branches (of 8 public sector banks and one private sector bank) and representative offices (of 4 banks) of Indian banks was reduced from 134 to 123 and from 11 to 10 respectively, as on June 30, 1987 (Table VII-30). Indian banks had 6 wholly-owned subsidiaries (including 3 Deposit Taking Companies in Hongkong) and 6 joint venture banks/affiliates abroad (having less than 50 per cent share holding) as at the end of June 1987.

Primary (Urban) Co-operative Banks

The Primary Co-operative Banks (PCBs), commonly called Urban Co-operative Banks, are small-sized co-operatively organised banking units which operate in metropolitan, urban and semi-urban centres to cater mainly to the needs of small borrowers viz., owners of small-scale industrial units, retail traders, professionals and salaried classes. The Reserve Bank is responsible for licensing of existing/new banks and branches, sanctioning of credit limits to SCBs on behalf of PCBs for financing the SSI units as well as conducting their statutory inspections.

The number of PCBs as at the end of June 1987 stood at 1,359 (which included 97 Salary

Table VII– 29 : Bank group-wise/ population group-wise distribution of commercial bank offices in India

Bank Group	Number of offices as on														
	19.7.1969+					30.6.1986 **					31.3.1987**				
	Rural	Semi-urban	Urban	Metro-politan/ Port Town	Total	Rural@	Semi-urban@	Urban @	Metro-politan/ Port Town	Total	Rural*	Semi-urban*	Urban	Metro-politan/ Port Town	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
State Bank of India	462	796	163	150	1,571	3,585	2,054	1,058	753	7,450	3,587	2,060	1,062	758	7,467
	(29.4)	(50.7)	(10.4)	(9.5)	(100.0)	(48.1)	(27.6)	(14.2)	(10.1)	(100.0)	(48.0)	(27.6)	(14.2)	(10.2)	(100.0)
Associate Banks of SBI	358	375	86	75	894	1,306	1,118	557	384	3,365	1,306	1,118	557	385	3,366
	(40.0)	(42.0)	(9.6)	(8.4)	(100.0)	(38.8)	(33.2)	(16.6)	(11.4)	(100.0)	(38.8)	(33.2)	(16.6)	(11.4)	(100.0)
14 Nationalised Banks	703	1,465	928	1,072	4,168	10,172	4,419	3,797	3,306	21,694	10,213	4,477	3,867	3,351	21,908£
	(16.9)	(35.1)	(22.3)	(25.7)	(100.0)	(46.9)	(20.4)	(17.5)	(15.2)	(100.0)	(46.6)	(20.4)	(17.7)	(15.3)	(100.0)
6 Nationalised Banks ∓						1,481	728	763	582	3,554	1,493	734	764	586	3,577
						(41.7)	(20.5)	(21.5)	(16.4)	(100.0)	(41.7)	(20.5)	(21.4)	(16.4)	(100.0)
Regional Rural Banks						11,742	858	126	3	12,729	11,918	861	127	3	12,909
						(92.3)	(6.8)	(1.0)	(–)	(100.0)	(92.3)	(6.7)	(1.0)	(–)	(100.0)
Other Commercial Banks	337	708	279	364	1,688	1,432	1,390	894	757	4,473	1,403	1,362	843	730	4,338
	(20.0)	(41.9)	(16.5)	(21.6)	(100.0)	(32.0)	(31.1)	(20.0)	(16.9)	(100.0)	(32.4)	(31.4)	(19.4)	(16.8)	(100.0)
Total	**1,860**	**3,344**	**1,456**	**1,661**	**8,321**	**29,718**	**10,567**	**7,195**	**5,785**	**53,265**	**29,920**	**10,612**	**7,220**	**5,813**	**53,565**
	(22.3)	**(40.2)**	**(17.5)**	**(20.0)**	**(100.0)**	**(55.8)**	**(19.8)**	**(13.5)**	**(10.9)**	**(100.0)**	**(55.9)**	**(19.8)**	**(13.4)**	**(10.9)**	**(100.0)**

\+ Classification of branches according to population groups is on the basis of 1961 census.

∓ Number of offices as on July 19, 1969 are included under "Other Commercial Banks"group.

@ Rural, Semi-urban and Urban centres have been reclassified by DESACS.

* Bank of Cochin, Lakshmi Commercial Bank and Miraj State Bank were amalgamated with State Bank of India, Canara Bank and Union Bank of India respectively.

£ Hindustan Commercial Bank Ltd, merged with Punjab National Bank.

** Revised figures based on computerised data. Classification of branches according to population groups is on the basis of 1981 census.

Note : Figures in brackets indicate percentage to total in each bank group.

Source: Department of Banking Operations & Development, R.B.I.

Table VII- 30 : Offices* of Indian scheduled commercial banks outside India (As at the end of June 1987)

Country	Bank of Baroda	Bank of India	Bharat Overseas Bank Ltd.	Canara Bank	Indian Bank	Indian Overseas Bank	State Bank of India	Syndicate Bank	UCO Bank	Total
1. Bangladesh	—	—	—	—	—	—	1	—	—	1
2. Bahamas	1	—	—	—	—	—	1	—	—	2
3. Belgium	1	—	—	—	—	—	1	—	—	2
4. Bahrain	1	—	—	—	—	—	1	—	—	2
5. Cayman Islands	—	1	—	—	—	—	1	—	—	2
6. Channel Islands	—	1	—	—	—	—	—	—	—	1
7. Fiji Islands	11	—	—	—	—	—	—	—	—	11
8. France	—	1	—	—	—	—	1	—	—	2
9. Guyana	1	—	—	—	—	—	—	—	—	1
10. Hongkong	—	2	—	—	—	6	1	—	2	11
11. Japan	—	2	—	—	—	—	2	—	—	4
12. Kenya	7	2	—	—	—	—	—	—	—	9
13. Mauritius	6	—	—	—	—	—	—	—	—	6
14. Maldive Islands	—	—	—	—	—	—	1	—	—	1
15. Oman	3	—	—	—	—	—	—	—	—	3
16. Panama	—	—	—	—	—	—	1	—	—	1
17. South Korea	—	—	—	—	—	1	—	—	—	1
18. Sri Lanka	—	—	—	—	2	3	1	—	—	6
19. Singapore	—	1	—	—	1	1	1	—	3	7
20. Seychelles	1	—	—	—	—	—	—	—	—	1
21. Thailand	—	—	1	—	—	—	—	—	—	1
22. United States of America	1	2	—	—	—	—	4	—	—	7
23. United Kingdom	11	13	—	1	—	—	5	1	2	33
24. United Arab Emirates	7	—	—	—	—	—	—	—	—	7
25. Federal Republic of Germany	—	—	—	—	—	—	1	—	—	1
Total	**51**	**25**	**1**	**1**	**3**	**11**	**23**	**1**	**7**	**123**

* Excluding representaive offices, subsidiaries and joint ventures.

Source: Department of Banking Operations and Development, R.B.I.

Earners' Societies). Of the total number of PCBs, 845 were licensed which included 42 Salary Earners' Societies. As on December 31, 1986, there were 3,059 offices of the PCBs operating in the country including 249 offices of the Salary Earners' Societies. The deposits mobilised by the PCBs rose from Rs. 3,255 crores at end-June 1985 to Rs. 3,939 crores at end-June 1986, showing an increase of 21 per cent over the year as compared to 22.4 per cent increase during the previous year. Over the year, the loans outstanding of PCBs rose by 20.7 per cent to Rs. 3,046 crores at end-June 1986, the growth rate being marginally higher than that recorded in the previous year (20 per cent). Their deposits and loans outstanding increased to Rs. 4,413 crores and Rs. 3,509 crores, respectively, by February 1987—the latest period for which the information is available. The progress made by the PCBs over the years is presented in the Table VII-31.

Table VII—31 : Progress of Primary Co-operative Banks

(Rupees crores)

Items	Co-operative year (July-June)			
	1983-84	1984-85	1985-86	1986-87
1. Total number of PCBs*	1,310	1,331	1,346	1,359
	(101)	(102)	(99)	(97)
2. Total number of offices of PCBs*	2,751	2,897	3,031	3,059 @
	(232)	(236)	(245)	(249)
3. Deposits	2,659	3,255	3,939	4,413 @@
4. Loans outstanding	2,103	2,524	3,046	3,509 @@

* Include Salary Earners' Societies, figures for which are given in brackets.
@ As on December 31, 1986.
@@ As on February 27, 1987.
Source : RBI.

Issue of Licences and Inspections

The number of licensed PCBs increased from 461 at the end of June, 1986 to 845 at the end of June, 1987, reflecting the appreciable rise in the number of licences granted to the PCBs to commence/carry on banking business in India. During 1986-87 (July-June), 384 PCBs (new as well as existing) were issued such licences as against 33 PCBs last year (July-June). During 1986-87 (July-June) inspections of 386 PCBs were conducted under Section 35 of the Banking Regulation Act, 1949 (as applicable to co-operative societies) as against 470 in the previous year.

Short-term Credit Limits

During 1986-87 (April-March), short-term credit limits for financing cottage and small-scale industrial units at concessional rate of interest i.e.,2.5 per cent below the Bank rate, aggregating Rs. 30 crores were sanctioned to 53 PCBs as against the limits of Rs. 25 crores sanctioned to 43 PCBs in the preceding year. The outstanding borrowings of PCBs against these limits amounted to Rs. 25 crores as on March 31, 1987 as against Rs. 22 crores a year ago.

Credit Authorisation Scheme

Under the Credit Authorisation Scheme, PCBs have to get clearance from the RBI before sanctioning the limits/making advances in excess of the ceilings indicated below :

Urban banks with Time and Demand Liabilities (TDL) of	Limit to a single party in excess of
Below Rs. 1 crore	Rs. 5 lakhs or 5 per cent of TDL, whichever is less
Rs. 1 crore and above but less than Rs. 10 crores	Rs. 20 lakhs or 5 per cent of TDL, whichever is less
Rs. 10 crores and above	Rs. 40 lakhs

During 1986-87 (July-June), 66 proposals from 12 PCBs involving an aggregate amount of Rs. 46.0 crores were received for authorisation out of which 38 proposals for an amount of Rs. 25.0 crores were approved.

DICGC Scheme for Financing of SSI Units and Small Borrowers

PCBs which have been licensed and unlicensed PCBs recommended by the RBI are eligible to avail of the guarantee cover under Small Loans (Small-Scale Industries) Guarantee Scheme 1981 and Small Loans (Co-operative Banks) Guarantee Scheme, 1984 of the Deposit Insurance and Credit Guarantee Corporation. As at the end of December 1986, 136 licensed and 30 unlicensed urban banks have joined the Small Loans (SSI) Guarantee Scheme 1981. Besides this, 46 licensed and 10 unlicensed banks had joined Small Loans (Co-operative Banks) Guarantee Scheme, 1984.

Interest Rates on Deposits

For details of interest rates on deposits (domestic deposits and FCNR/NRE deposits) and advances, please refer to the Section on interest rates on deposits and advances as applicable to scheduled commercial banks appearing in this chapter. However, the PCBs may at their discretion, allow additional interest on all term and savings deposits (other than FCNR Accounts and NR(E) Rupee Accounts) upto 1 per cent over and above the prescribed rates.

Advances Against Sensitive Commodities

With effect from April 1, 1987, following changes were effected in respect of advances against sensitive commodities.

a) The base period for computing the peak level credit of borrowers (who are already enjoying limits in excess of Rs. 2 lakhs against sensitive commodities) has been shifted to the years 1982-83, 1983-84 and 1984-85 (November-October).

b) Minimum margins on 'other foodgrains' (other than paddy, rice and wheat), pulses, sugar, gur and khandsari were also reduced across-the-board by 15 percentage points.

The level of credit to a single borrower was, however, retained at Rs. 2 lakhs.

Maximum Limit on Advances

The directive on maximum limit on advances was modified effective from November 25, 1986, raising the maximum limit on advances to a single party from Rs. 30 lakhs to Rs. 40 lakhs in respect of banks with total time and demand liabilities (TDL) of Rs. 10 crores or more. PCBs were permitted to allow the parties excess drawings upto 10 per cent of the limit sanctioned by the bank or authorised by RBI or Rs. 10 lakhs, whichever is less for a period upto 3 months in order to meet the contingencies or temporary increase in credit limits. The banks were also permitted to renew the limits earlier approved by the RBI.

Lending to Priority Sectors

Lending to 'Priority Sector' and 'Weaker Sections' by the urban co-operative banks were

required to reach a level of 60 per cent and 15 per cent, respectively, of the total loans and advances outstanding as at the end of June, 1986. Available information indicates that while smaller urban co-operative banks have made substantial endeavour in achieving the stipulated levels, the performance of bigger urban co-operative banks was not satisfactory.

Study Teams/Committees

Standing Advisory Committee for Urban Co-operative Banks

The Sixth meeting of the Standing Advisory Committee (SAC) for Urban Co-operative Banks was held in February 1987. The Committee discussed, among others, matters relating to the role of State Co-operative Banks in the growth and development of urban co-operative banks, restrictions on provision of finance to nominal members of urban banks, appointment of Chief Executives and other key personnel in urban co-operative banks. It was recommended that urban co-operative banks may be allowed to grant loans for purchase of consumer durable articles such as television sets, refrigerators, two-wheelers, etc., to individuals who are not already regular members of the bank by admitting such borrowers as nominal members. The SAC also recommended that the SCBs should devote more attention to the development of urban co-operative banks on sound and healthy lines.

Regional Rural Banks

Branch Expansion Programme

As mentioned in the last year's Report, the main thrust of the branch licencing policy for the period April, 1985 to March, 1990 (co-terminus with the Seventh Five Year Plan) is provision of banking facilities in rural areas deficient in such facilities taking into account the need, spatial gaps and financial viability of the proposed branches. Priority, however, will continue to be accorded to Regional Rural Banks in the allotment of identified centres in the districts covered by them.

As on April 30, 1987, 196 RRBs were established covering 349 districts of the country. The names of the sponsor banks and the number of RRBs opened by them upto the end of June 1987 are as under :

Sponsor Banks	No. of RRBs
1. State Bank of India	30
2. Central Bank of India	23
3. Bank of Baroda	19
4. Punjab National Bank	18
5. Bank of India	16
6. United Bank of India	11 each
7. United Commercial Bank	
8. Syndicate Bank	10
9. Canara Bank	8
10. Allahabad Bank	7
11. State Bank of Hyderabad	4 each
12. Dena Bank	
13. Indian Bank	
14. Union Bank of India	
15. State Bank of Bikaner & Jaipur	3 each
16. State Bank of Saurashtra	
17. Andhra Bank	
18. Bank of Maharashtra	
19. Indian Overseas Bank	
20. State bank of Mysore	2 each
21. The Jammu & Kashmir Bank Ltd.	
22. State Bank of Patiala	1 each
23. State Bank of Indore	
24. Corporation Bank	
25. New Bank of India	
26. Punjab and Sind Bank	
27. Vijaya Bank	
28. Bank of Rajasthan Ltd.	
29. The U.P. State Co-op. Bank Ltd.	

As at the end of December, 1986, RRBs had a network of 12,838 branches. U.P. had the largest number of branches (2,787) followed by Bihar (1,775), M.P. (1,440) and Andhra Pradesh (1,010). These four States alone accounted for about 55 per cent of the total branches. The number of branches varied between 700 and 1,000 in Karnataka, Orissa, Rajasthan and West Bengal and between 200 to 500 in Assam, Gujarat, Haryana, Jammu & Kashmir, Kerala and Maharashtra. The State-wise position of branches is shown in Table VII-32.

Table VII—32 : State-wise offices of regional rural banks

State/Union Territory	No. of RRBs as on 30.6.1987	No. of districts covered as on 30.6.1987	No. of branches as on 31.12.1986
Andhra Pradesh	16	22	1,010
Assam	5	12	322
Bihar	22	37	1,775
Gujarat	9	16	307
Haryana	4	9	220
Himachal Pradesh	2	4	92
Jammu & Kashmir	3	10	261
Karnataka	13	20	980
Kerala	2	5	262
Madhya Pradesh	24	44	1,440
Maharashtra	10	17	456
Manipur	1	8	23
Meghalaya	1	3	41
Nagaland	1	7	8
Orissa	9	13	778
Punjab	5	10	115
Rajasthan	14	27	962
Tamil Nadu	3	6	156
Tripura	1	3	77
Uttar Pradesh	40	54	2,787
West Bengal	9	15	718
Arunachal Pradesh	1	4	15
Mizoram	1	3	33
Total	**196**	**349**	**12,838**

Operations of RRBs

As at the end of December, 1986, the deposits and advances of 194 RRBs aggregating Rs. 1,715 crores and Rs. 1,785 crores (including direct and indirect advances) were substantially higher as compared with Rs. 1,444 crores and Rs. 1,540 crores respectively, at end-June, 1986. Direct advances for agriculture and allied activities, retail trade and self employed, etc., amounted to Rs. 1,748 crores (i.e., about 98% of the total). Details of the outstanding direct advances during the period under review are as follows :

Purpose	Amount in Rs. crores
Short-term (crop loans)	332
Term loans for agricultural activities	376
Allied activities	297
Rural artisan, village and cottage industries	108
Retail trade and self-employed etc.	476
Consumption loans	16
Other purposes	143
Total	1,748

Indirect advances amounted to Rs. 37 crores, of which, a sizeable portion was provided to the weaker sections. During the period January to December 1986, RRBs' advances under the Integrated Rural Development Programme (IRDP) formed 11.4 per cent of the total direct advances and amounted to Rs. 200 crores in 7,84,145 accounts as compared to Rs. 181 crores in 7,92,961 accounts during the comparable period of 1985.

Finance from NABARD

During the year 1986-87, NABARD sanctioned short-term (ST) limits aggregating Rs. 226.94 crores to 145 RRBs and non-schematic medium-term (MT) limits of Rs. 80.32 crores to 122 RRBs. The oustandings against these limits were Rs. 207.23 crores ST and Rs. 199.49 crores non-schematic MT as at the end of June, 1987. For the first time NABARD has sanctioned medium-term (conversion) loans of Rs. 8.01 crores to 14 RRBs. Under the National Oilseeds Development Programme of Government of India, 2 RRBs were sanctioned separate short-term limits amounting to Rs. 1.02 crores during the year under review. The RRBs also availed of long-term refinance from NABARD. As at the end of March 31, 1987, 2,058 schemes involving NABARD's commitment of Rs. 726.14 crores were sanctioned to RRBs and the drawals amounted to Rs. 609.63 crores as on that date, as compared to 1,447 schemes involving a commitment of Rs. 623.69 crores and drawal of Rs. 504.54 crores at the end of June 1986.

Refinance From Sponsor Banks

The amount of refinance availed of by RRBs from the sponsor banks amounted to Rs. 246.90 crores as at the end of December 1986 as against Rs. 208.48 crores as at the end of December 1985.

Study Group/Committees

A reference was made in the previous year's Report about the constitution of a Working Group by the Government of India under the Chairmanship of Shri S. M. Kelkar to review the working of RRBs as also to identify appropriate measures for strengthening their organisational structure and improving their overall capabilities. The Working Group submitted its report on June 10, 1986. The Group recommended the continuance of RRBs and emphasized greater involvement of sponsor banks in the functioning of RRBs. The recommendations of the Committee regarding refinance facilities from NABARD which were implemented are as described below .

Refinance Facilities from NABARD

1) with effect from March 1, 1987, involvement of the RRBs in ST and non-schematic MT loans should be 30 per cent and 20 per cent, respectively;

2) sponsor banks' involvement in refinancing in the case of both ST and non-schematic MT loans should be 20 per cent, that of NABARD would be 50 per cent for ST and 60 per cent for non-schematic MT loans;

3) interest rate charged on refinance by sponsor banks was reduced from 8.5 per cent to 7 per cent and;

4) restriction which required RRBs with a higher credit-deposit ratio to bring down the ratio to 100 per cent has been removed. RRBs are now eligible for schematic refinance on the same terms and conditions as applicable to commercial banks.

Other major recommendations of the Working Group accepted by the Government are :

i) Raising the authorised share capital of RRBs from Rs. 1 crore to Rs.5 crores and issued capital from Rs. 25 lakhs to Rs.1 crore with a view to improving their viability.

ii) Sponsor banks should, on behalf of RRBs invest in Government securities the deposits

kept by them in current account for SLR requirements, so as to give them higher rate of return on such deposits.

iii) While the restrictions on lendings by RRBs to non-target groups may continue, they should be allowed to provide credit to select institutions such as SC/ST Corporations, local bodies, Housing Boards etc. NABARD has, however, suggested that such loans should be given only to financially sound institutions and only for productive purposes. Further, the loans should be exclusively for financing activities within the jurisdiction of the concerned bank.

iv) For better supervision and control of branches it would be desirable to restrict the coverage of RRBs to 2 districts. At the same time it would also be advisable to merge small and uneconomic RRBs. Further, establishment of new RRBs should primarily be considered on the basis of genuine need to serve a neglected area, particularly, the tribal population, as also on the basis of well tested norms, so far applied and the prospects of viability.

WORKING OF VARIOUS SCHEMES

A brief review of various schemes in respect of which banks are directed to pay special attention is given below :

(a) Credit Authorisation Scheme

The Credit Authorisation Scheme (CAS) has been reviewed by the Reserve Bank from time to time and is progressively liberalised. A review made in June 1987 has shown that while the CAS has brought about a large measure of financial discipline, compliance therewith by many parties is still below expectations. With the objective of reducing delays in the sanction and disbursements of credit limits for meeting the working capital requirements of large borrowers and in order to provide suitable incentives to those who comply with the various requirements as well as to encourage other borrowers to move towards adherence to the required financial discipline, it has been decided that parties who broadly comply with the prescribed discipline should be treated differently from those who do not.

Accordingly, effective from July 1, 1987, in respect of such large borrowers who (i) comply with Second Method of Lending requiring a minimum current ratio of 1.33:1, (ii) submit regularly the prescribed quarterly statements to their banks on their level of operations and (iii) maintain levels of inventory/receivables within or at the prescribed norms/past levels, banks can hereafter release the *entire* amount of additional limits sanctioned by their Board of Directors without the Reserve Bank's prior authorisation. Secondly, in cases of borrowers who comply with the discipline at (i) and (ii) mentioned above but are not fully complying with inventory and receivables norms, banks will have the discretion of relaxing the norms up to 20 per cent if they consider that it is warranted. Such cases also need not be referred to the Reserve Bank for prior approval of enhanced credit limits. These decisions are expected to reduce the number of CAS cases to be referred to the Reserve Bank by about 35 per cent. Thirdly, where cases have still to be referred to the Reserve Bank, the existing limit for temporary accommodation by banks has been raised substantially. Banks may, hereafter, sanction *ad hoc* credit facilities to such borrowers for temporary periods up to three months, not exceeding 25 per cent of the existing packing credit limits and 10 per cent of the existing working capital (other than packing credit) limits, subject to an overall ceiling of Rs. 4 crores, as against Rs. 2 crores hitherto.

The Reserve Bank has also decided that it will hereafter, give its decision on all proposals received for its prior authorisation

within a period not exceeding one month from the date of receipt of the relative proposals. Concurrently, banks have also been advised to gear up their machinery for handling proposals for larger credit limits so that decisions thereon are taken without undue delay irrespective of whether the Reserve Bank's prior authorisation has to be sought or not. Post-scrutiny by the Reserve Bank of CAS cases decided by the banks will continue as hitherto.

Bill Finance

Certain changes in the Credit Authorisation Scheme (CAS) were effected as per recommendations made by the Working Group on Money Market (Chairman Shri N. Vaghul) for promoting bill financing. These are :

(i) In the case of borrowers who enjoy aggregate working capital facilities exceeding the cut-off point under the CAS , with effect from April 1, 1988, the limit sanctioned against book debts should not be more than 75 per cent of aggregate limits snactioned to such a borrower for financing his inland credit sales. The remaining credit requirement could be financed through demand usance bills. In the case of parties where the proportion of receivable financing is already less than 75 per cent, banks have been advised not to permit an increase in the proportion of receivable financing under the cash credit/overdraft facilities. This will come into effect from April 1, 1988.

(ii) Discretion to Banks to Sanction Ad-hoc Bill Limits

As an incentive to use the bill facility in the event of an increase in the scale of operations, in addition to the present powers to sanction additional limits temporarily as stated in the previous paragraph, separate additional inland bill limit is permitted to be provided by banks for a period not exceeding 3 months upto an amount equivalent to 10 per cent of the existing bill limit, subject to a ceiling of Rs. 1 crore which became effective from April 1, 1987. Subsequently, the ceiling has been raised to Rs. 2 crores from July 1, 1987.

(iii) Stipulation on Bill Acceptances to Credit Purchases

All parties subject to the CAS (both in the private and public sectors) are required to attain a ratio of bill acceptances to total inland credit purchases of 25 per cent by April 1, 1988. In cases where this ratio fell short of the stipulated level, banks may advise their constituents to progressively move towards the attainment of the stipulated ratio.

Working of Credit Authorisation Scheme

During the year 1986-87, the number of CAS parties covered under the Scheme declined from 843 as at the end of March, 1986 to 629 as at the end of March, 1987 mainly due to the raising of the cut-off point from Rs. 4 crores to Rs. 6 crores from April, 1986. Total limits in force (including term finance and sale of machinery on deferred payment basis) decreased from Rs. 21,671 crores to Rs. 21,137 crores (Table VII-33). Out of the 629 parties, 177 were public sector undertakings and their share in the total limits was 64.2 per cent. While working capital (including packing credit and bills) continue to claim a predominant share (93.3%) of the total limits in force, term finance and sale of machinery on deferred payment basis constituted 5.6 per cent and 1.1 per cent, respectively.

Occupation-wise, distribution of total working capital limits in force as on March 31, 1987 showed that the share of industry was the largest, i.e., 53.7 per cent. About one-half of it was accounted for by engineering, chemicals and chemical products and cotton textile followed by trade at 44.3 per cent (Table VII-34). The share of industry in the total working capital limits of public sector borrowers was only 34.0 per cent while that of trade was predominant at 64.3 per cent accounted for

Table VII—33 : Distribution of credit limits by type of credit

(Rupees crores)

Type of Credit	As on March 31					
	1985		1986		1987	
	Total	Of which : public sector units	Total	Of which : public sector units	Total	Of which : public sector units
	1	2	3	4	5	6
Working capital *	18,502	12,079	20,211	13,133	19,728	13,065
Of which :	(93.2)	(96.2)	(93.3)	(96.2)	(93.3)	(96.2)
(a) Bills purchased and discounted	1,049	289	1,095	324	989	322
	(5.3)	(2.3)	(5.1)	(2.4)	(4.7)	(2.4)
(b) Export finance	763	125	868	135	785	127
	(3.8)	(1.0)	(4.0)	(1.0)	(3.7)	(3.3)
Sales of machinery on deferred	251	57	270	58	232	55
payment basis	(1.3)	(0.5)	(1.2)	(0.4)	(1.1)	(0.4)
Term finance	1,091	422	1,190	458	1,177	460
	(5.5)	(3.4)	(5.5)	(3.4)	(5.6)	(3.4)
Total limits in force	**19,844**	**12,558**	**21,671**	**13,649**	**21,137**	**13,580**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**
No. of parties	803	188	843	202	629	177

* Includes cash credits and overdrafts, bills purchased and discounted and export finance.

Note : Figures in brackets indicate percentage to total limits in force.

Source: Industrial and Export Credit Department, R.B.I.

mostly by public sector food procurement (48.9 per cent).

Applications received for authorisation by the Reserve Bank increased from 730 in 1985-86 (April-March) to 749 in 1986-87. These included 204 applications from public sector borrowers as against 178 applications last year. Applications approved numbered 316 during 1986-87 including 117 from public sector borrowers. Authorisation for an aggregate amount of Rs. 5,146 crores including Rs. 4,509 crores for public sector borrowers was granted during the year (Table VII-35)

(b) Differential Rate of Interest

Since the inception of the Differential Rate of Interest (DRI) Scheme in 1972, public sector banks have made commendable progress in financing the weaker sections of the community as may be observed from Table VII-36. Provisional data indicate that as at the end of December, 1986, banks had extended advances amounting to Rs. 560.83 crores covering 47.97 lakh accounts as against Rs. 462.70 crores covering 43.18 lakh accounts as at end-December 1985. The average amount of loan per account also improved from Rs. 1,072 in December, 1985 to Rs. 1,169 in December, 1986. In terms of attainment of the target of at least 1 per cent of the outstanding advances as at the end of the previous year set for DRI Scheme, it may be noted that public sector banks not only exceeded the stipulated target as at end-December 1986 but also improved upon their performance as at the end of the previous year. The remarkable progress made by banks with respect to financing scheduled caste/scheduled tribe borrowers under the DRI scheme is also evident from the fact that while the number of borrowal accounts increased from 21.62 lakhs as at end-December, 1985 to 23.11 lakhs by end-December 1986, the amount outstanding went up sharply from Rs. 237 crores to Rs. 282 crores during the period. The share of advances to SC/ST

Table VII—34 : Occupation-wise distribution of total working capital limits in force (As on March 31, 1987)

(Rupees crores)

Industry	Total limits in force		Of which public sector	
	Amount	Percentage to total	Amount	Percentage to total
	1	2	3	4
I. Agriculture and Allied Activities	**119.75**	**0.6**	**21.77**	**0.2**
1. Agriculture	**15.45**	**0.1**	**15.45**	**0.1**
(i) Direct finance	6.50	0.1	6.50	0.1
(ii) Indirect finance	8.95		8.95	
(a) Distribution of fertilisers	8.95	0.1	8.95	0.1
(b) Others	—	—	—	—
2. Plantations	**104.30**	**0.5**	**6.32**	**0.1**
(i) Tea	104.30	0.5	6.32	0.1
(ii) Others	—	—	—	—
II. Industry	**10,585.28**	**53.7**	**4,449.14**	**34.0**
A. Mining & quarrying	**245.21**	**1.2**	**218.95**	**1.7**
(i) Coal mining	175.20	0.9	167.20	1.3
(ii) Iron ores	30.03	0.1	12.75	0.1
(iii) Others	39.98	0.2	39.00	0.3
B. Manufacturing	**9,975.17**	**50.6**	**3,931.09**	**30.1**
(i) Sugar	594.65	3.0	148.72	1.1
(ii) Edible oils and vanaspati	130.88	0.7	23.42	0.2
(iii) Food manufacturing and processing	8.60	0.1	—	—
(iv) Tobacco processing and tobacco product manufacturing	121.20	0.6	—	—
(v) Cotton textiles	1,162.92	5.9	279.49	2.1
(vi) Jute textiles	114.69	0.6	12.65	0.1
(vii) Silk and synthetic fibres	479.39	2.4	12.00	0.1
(viii) Wool and woollen textiles	126.74	0.6	59.98	0.5
(ix) Other textiles	7.40	0.1	—	—
(x) Paper and paper products	135.38	0.7	42.23	0.3
(xi) Leather and leather products	39.56	0.2	—	—
(xii) Rubber and rubber products	208.12	1.1	—	—
(xiii) Manufacturing of chemicals and chemical products	1,735.77	8.8	847.07	6.5
(a) Heavy industrial chemicals	228.44	1.2	80.32	0.6
(b) Fertilisers (production)	946.36	4.8	725.33	5.6
(c) Drugs and pharmaceuticals	207.73	1.0	28.60	0.2
(d) Plastic and plastic products	34.73	0.2	—	—
(e) Others	318.51	1.6	12.82	0.1
(xiv) Petroleum	690.16	3.5	690.16	5.3
(xv) Cement	158.52	0.8	16.00	0.1
(xvi) Basic metals and metal products	960.07	4.9	660.59	5.1
(a) Iron and steel	806.92	4.1	610.82	4.7
(b) Others	153.15	0.8	49.77	0.4
(xvii) Engineering (except transport equipment)	2,335.30	11.8	896.75	6.9
(a) Heavy engineering	1,442.92	7.3	777.37	6.0
(i) Machinery except electrical machinery	873.35	4.4	395.39	3.0
(ii) Electrical machinery	569.57	2.9	381.98	3.0
(b) Light engineering (including metal products)	892.38	4.5	119.38	0.9

Table VII—34 : Occupation-wise distribution of total working capital limits in force (As on March 31, 1987) (Concld.)
(Rupees crores)

Industry	Total limits in force	Of which public sector		
	Amount	Percentage to total	Amount	Percentage to total
	1	2	3	4
(xviii) Manufacture of transport equipment	759.51	3.8	210.53	1.6
(i) Railway equipment industry	62.61	0.3	53.85	0.4
(ii) Others	696.90	3.5	156.68	1.2
(xix) Manufacturing-others	206.31	1.0	31.50	0.2
C. Electricity generation and distribution	327.40	1.7	278.35	2.1
D. Construction companies	37.50	0.2	20.75	0.1
III. Trade	**8,735.82**	**44.3**	**8,396.15**	**64.3**
(i) Foodgrains	6,387.73	32.4	6,387.73	48.9
(ii) Fertilisers	858.10	4.3	830.10	6.3
(iii) Mineral oils	—	—	—	—
(iv) Raw cotton	140.00	0.7	140.00	1.1
(v) Raw jute	234.00	1.2	234.00	1.8
(vi) Others	1,115.99	5.7	804.32	6.2
IV Transport-PublicUtilities and Finance	**141.54**	**0.7**	**78.71**	**0.6**
(i) Transport and communications	65.42	0.3	51.07	0.4
(ii) Financial and development institutions	68.14	0.3	19.66	0.1
(iii) Hotels,restaurants and tourism	—	—	—	—
(iv) Municipalities and administrative bodies	7.98	0.1	7.98	0.1
V. All Others	**145.91**	**0.7**	**119.36**	**0.9**
Total	**19,728.30**	**100.0**	**13,065.13**	**100.0**

Note : Working capital includes cash credit / overdrafts, bills purchased and discounted and export finance.
Source: Industrial & Export Credit Department, RBI.

Table VII–35 : Particulars of applications received, approved, rejected and authorisations granted, etc. under Credit Authorisation Scheme (April-March)

Particulars	1984-85		1985-86		1986-87	
	Total	Of which: public sector	Total	Of which: public sector	Total	Of which: public sector
	1	2	3	4	5	6
Applications received @	653	130	730	178	749	204
Applications approved	391	94	322	98	316	117
Applications rejected	20	4	23	4	21	6
Reporting cases	337	74	304	78	234	63
Authorisation granted by RBI (Rupees crores)	3,977	3,486	4,455	3,877	5,146	4,509
Amount involved in applications rejected (Rupees crores)	92	39	111	25	123	60
Limits reported by banks (Rupees crores)*	– 1,362	– 1,449	– 2,747	– 2,822	– 4,376	– 4,420

@ Excluding applications received for extension of period, authorisations for letters of credit or deferred payment guarantees, restorations, conversion of limits, etc.

* Represent changes in limits made by banks.

Note: Figures in respect of applications received exclude applications received in Industrial Rehabilitation Division.

Source: Industrial and Export Credit Department, RBI.

Table VII–36 : Progress of lending under the DRI Scheme (Public sector banks)

As at the end of December	No. of borrowal Accounts (000s)	Amount outstanding (Rupees crores)	Percentage of DRI advances to total advances at the end of the previous year
1972	26	0.87	0.02
1975	465	20.99	0.31
1980	2510	193.56	1.04
1984	4272	441.38	1.22
1985	4318	462.70	1.10
1986*	4797	560.83	1.17

* Provisional

Source: Rural Planning and Credit Department, RBI.

borrowers in total DRI advances at 50.3 per cent as at end-December, 1986 surpassed the stipulated target of 40 per cent.

Task Force on DRI Scheme

The Government of India had set up a Task Force on DRI Scheme in April 1983 to go into the various provisions of the scheme and suggest modifications, if considered necessary, as also measures to improve recycling of funds. The report submitted by it has since been considered by the Union Finance Ministry and the following decisions have been communicated to the banks for implementation.

(i) The scheme as in the present form will continue at the interest rate of 4 per cent per annum as hitherto.

(ii) The benefits of the scheme will be available only to the borrowers within the prescribed eligibility criteria, who are not assisted under any of the subsidy-linked schemes

of Central/State Governments or State-owned corporations.

(iii) The ceiling of annual family income of borrowers for eligibility for assistance is raised to Rs. 6,400 in rural areas and Rs. 7,200 in urban and semi-urban areas as against the previous ceiling of Rs. 2,000 and Rs. 3,000, respectively.

(c) Self-Employment Scheme for Educated Unemployed Youth

The scheme which was introduced by the Government of India, in the year 1983-84 has been extended to cover 1986-87 and the remaining years of the Seventh Plan.

The number of beneficiaries to be assisted during the year 1986-87 continued to be 2.50 lakhs, the same as in the previous few years.

While during 1985-86 banks had sanctioned loans amounting to Rs. 429.99 crores to 2.21 lakh beneficiaries against the target of 2.50 lakh beneficiaries, in the year 1986-87, as per provisional data an aggregate amount of Rs. 455.13 crores has been sanctioned to 2.19 lakh beneficiaries.

Out of the total target set, proportion of industrial ventures to be sanctioned during the year was not to be less than 50% and that for business ventures not more than 30% of the cases sanctioned, though some relaxation in the norm has been made in respect of the hilly areas. Further, from the year 1986-87, ITI trained candidates are also eligible for assistance under the scheme for industrial service ventures. A sub-target of 30 per cent for SC/ST beneficiaries was set. The other modifications introduced in the scheme from 1986-87 are a ceiling on family income of beneficiaries of Rs. 10,000 per annum and enhancement of limit of loan per beneficiary for industrial ventures from Rs. 25,000 to Rs. 35,000 with a reduction from Rs. 25,000 to Rs. 15,000 for business ventures.

(d) Self-Employment Programme for the Urban Poor (SEPUP)

With effect from September, 1986 the Government of India introduced a new poverty alleviation programme for the urban poor. The scheme envisaged provision of self-employment opportunities to the urban poor and covers all cities/towns with a population exceeding 10,000 (1981 census) and not covered under IRDP. One beneficiary per 300 population would be assisted under the scheme and the programme would be implemented through select branches of public sector banks. Persons whose total family income was not more than Rs.600 per month were eligible for assistance and an assistance not exceeding Rs. 5,000 per family would be available to the selected beneficiaries at an interest rate of 10 per cent per annum. The Central Government would also provide a subsidy of 25 per cent of the loan amount.

(e) Advances to Minority Communities

In July, 1986, banks were advised to take certain steps to ensure adequate credit flow to certain identified minority communities, viz., Muslims, Christians, Sikhs, Neo-Buddhists and Zoroastrians. The steps included setting up of a separate cell in each bank, periodical review of the progress made in this regard in the DCC and SLBC meetings, adequate publicity to anti-poverty programmes wherever there is large concentration of minorities and particularly in the 40 identified districts listed as having concentration of minority communities and earmarking of separate offices by the Lead Bank in all the 40 identified districts to look after the problems regarding the credit flow to minority communities and to publicise among them the various programmes of bank credit and also to prepare suitable schemes for their benefit in collaboration with branch managers.

(f) Integrated Rural Development Programme

Banks sustained their efforts in providing finance under IRDP, which is a major poverty-

alleviation programme,to provide assistance to families below the poverty line so as to enable them to improve their income level and cross above the poverty line.

The two-pronged strategy adopted under the scheme during the Seventh Plan is : consolidation of the progress made during the Sixth Plan and provision of supplementary assistance to those who have not been able to cross the poverty line for no fault of theirs; and selection of new beneficiaries to be assisted in such a way that they are able to cross the poverty line with a single dose of assistance.

The Seventh Plan envisages a target of assisting 35 million families (including about 10 million of the Sixth Plan beneficiaries with supplemental assistance). Originally, a target of 3.2 million families was envisaged for 1986-87, i.e., the second year of the Seventh Plan, which was subsequently revised to 3.5 million families. Of this, 2.04 million were to be those already assisted under the programme and 1.46 million new beneficiaries. Against this, upto end-March, 1987, 3.74 million families had been assisted and term loans amounting to Rs. 700.73 crores disbursed by banks as compared with 3.06 lakh beneficiaries and term loans of Rs. 997.78 crores during 1985-86. Out of the total beneficiaries upto March, 1987, 1.68 million families constituting 45 per cent of the total number of beneficiaries belonged to SC/ST. Steps were also being taken to improve the coverage of women beneficiaries who formed only 15 per cent upto end-March, 1987. During the period, while the subsidy allocated was Rs. 543.83 crores, the subsidy utilised amounted to Rs. 604.37 crores (Table VII-37).

Table VII—37 : Progress in assistance provided by banks under IRDP

	VI Five Year Plan Period (1980-85)	VII Five Year Plan Period	
		Financial Year	
		1985-86	1986-87
1. Subsidy allocated@ (Rupees crores)	1,771.86	407.36	543.83
2. Subsidy utilised@ (Rupees crores)	1,650.27	441.10	604.37
3. Term loans disbursed (Rupees crores)	3,101.61	730.15	997.78
4. Number of SC/ST families assisted (in lakhs)	63.38	13.33	16.82
5. Total number of families assisted (in lakhs)	165.62	30.61	37.41
6. Target — Number of families to be assisted (in lakhs)	151.30	24.71	35.00

@ : Indicates share of Central and State Governments.

Source: Government of India, Ministry of Agriculture, Department of Rura Development.

Study Group on IRDP

The Study Group set up by the Reserve Bank in November, 1985 to examine the existing position and make recommendations for streamlining the arrangements for the flow of credit and supply of inputs and assets to the IRDP beneficiaries, referred to in last year's Report, submitted its final report on September 30, 1986.

In its interim report submitted in December, 1985, the Group had recommended disbursement of IRDP assistance in cash in three specific types of cases; assets of a standard type, make or brand name marketed by reputed suppliers; ISB sector schemes under which many sundry items are to be purchased and amount of assistance does not exceed Rs. 3,000; and for purchase of animals. The system was introduced in 22 selected blocks on an experimental basis from April 1, 1986 and was closely monitored by the Reserve Bank. The salient findings were that the new system had not been uniformly successful in all the blocks; location of the block, the active

involvement of the implementing agencies especially in post-disbursement follow-up and the level of awareness of the beneficiaries, had played a vital role in the proper utilisation of IRDP assistance in cash. Further, the scheme not only eliminated middlemen but also gave the borrowers the freedom to choose the assets thus making it difficult for the bankers to delay disbursement of loan on flimsy pretext. The disadvantages of the system were the difficulty in ensuring end-use of the funds by borrowers, tendency on the part of the borrowers to compromise on the quality of assets so that the surplus thus obtained could be utilised for consumption purposes, and the possibility of existing assets being shown as having been purchased with the cash assistance.

To consider improvements necessary in the existing procedure for disbursement of subsidy under IRDP, a small group was set up by the Government of India. The group recommended: (i) abolition of 15 days' notice to be given to the District Rural Development Agencies (DRDAs) for adjustment of subsidy; and (ii) as long as subsidy amount is available in the principal branch of the bank with which DRDA is maintaining the account the financing branch will not charge interest on subsidy portion of loan amount even if adjustment of subsidy is delayed due to non-transfer of funds from the principal branch to the financing branch. In the case of non-adjustment of subsidy due to non-availability of subsidy funds in the account of DRDA, the latter will bear interest charged by the branch on the subsidy portion. These recommendations were implemented in June, 1986. (Please refer to section on "Study Teams" in this chapter).

(g) Lead Bank Scheme

According to the guidelines issued by the Reserve Bank, the Lead Banks prepared and implemented the Annual Action Plans (AAPs) for 1986. As the guidelines for the fourth round of District Credit Plans (DCPs) were not finalised, the lead banks were advised by the Reserve Bank in October, 1986 to prepare AAPs for 1987 broadly on the basis of earlier guidelines. Accordingly, AAPs for 1987 have been prepared and launched in all the districts of the country. Subsequently, guidelines for the preparation of the fourth round of DCPs covering the three-year period from January, 1988 to December, 1990 as approved by the High Power Committee on Lead Bank Scheme were communicated to all Lead Banks in March, 1987.

Lead Banks for Newly Constituted Districts

During the year, three new districts, one each in Tamil Nadu, Bihar and Karnataka were carved out from the existing districts, lead responsibility for which was entrusted to banks as shown below :

State	Name of the district from which new district has been carved out	Name of Lead Bank for old district	Name of new district	Lead Bank for new district
1. Tamil Nadu	Tirunelveli	I.O.B.	Chidambaranar	S.B.I.
2. Bihar	Gaya	P.N.B.	Jehanabad	P.N.B.
3. Karnataka	Bangalore	Canara Bank	a) Bangalore (Rural)	Canara Bank
			b) Bangalore (Urban)	

As at the end of June, 1987, the Lead Bank Scheme covered 438 districts in the country.

(h) Export Credit

During 1986-87 (April-March), outstanding export credit of 50 scheduled commercial banks (which account for 95 per cent of gross bank credit) showed a remarkable increase of Rs. 734 crores to Rs. 3,143 crores as compared with an increase of Rs. 74 crores during 1985-86

Export credit formed 5.0 per cent of non-food gross bank credit as at the end of March, 1987 compared with 4.4 per cent a year ago.

Export Credit (Interest Subsidy) Scheme, 1968

During the year, the Reserve Bank disbursed interest subsidy amounting to Rs. 32 crores to commercial banks and eligible co-operative banks at the rate of 1.5 per cent per annum upto July 31, 1986 and at the rate of 3 per cent per annum from August 1, 1986 on the export credit extended by them to exporters. On behalf of the Ministry of External Affairs, the Reserve Bank also disbursed at different rates, special subsidy amounting to Rs. 48.93 lakhs in respect of certain special lines of credit extended to Bangladesh for its imports from India.

Duty Drawback Credit Scheme, 1976

During the financial year 1986-87, 20 banks were sanctioned limits aggregating Rs. 15.65 crores under this scheme. As at the end of March, 1987, refinance to the extent of Rs. 13.91 crores was availed of by the banks and the outstanding amount as on that date was Rs. 2.14 crores.

Interest Rates on Export Credit

Keeping in mind the urgent need to boost the country's exports, the lending rates on export credit—both pre—shipment and post—shipment—were reduced by 2.5 percentage points with effect from August 1, 1986. The revised rates are as indicated in the table.

	Existing rates	Revised rates from August 1, 1986
	(per cent per annum)	
Pre-shipment credit		
(i) Upto 180 days	12.0	9.5
(ii) Beyond 180 days and upto 270 days (in cases where the extension of period has been approved by RBI)	14.0	11.5
(iii) Against cash incentives, etc. covered by ECGC guarantee (upto 90 days)	12.0	9.5
Post-shipment credit		
(i) Demand bills-for transit period (as specified by FEDAI)	12.0	9.5
(ii) Usance bills — upto 180 days		
(iii) Cash incentives, duty drawback, etc. receivable from Government covered by guarantee of ECGC (upto 90 days)		
(iv) Undrawn balances (upto 90 days)		
(v) Against retention money (for supplies portion only) payable within one year from the date of shipment (upto 90 days)		

The rate of interest on deferred export credit for periods beyond one year (8.65 per cent) and the ceiling rate on export credit (i.e., not exceeding 16.5 per cent), however, remained unchanged. Subsequently, effective April 1, 1987 the ceiling rate on export credit was reduced to 14.00 - 15.50 per cent.

Interest subsidy payable to banks under the Export Credit (Interest Subsidy) Scheme, 1968 was also increased from 1.5 per cent to 3.0 per cent effective August 1, 1986 for the categories of export credit indicated above. There was no change in the rate of subsidy on deferred export credit given by banks for periods beyond one year. The interest rate on export refinance from the Reserve Bank has also been reduced from 10 per cent to 9 per cent with effect from August 1, 1986, as referred to earlier.

Housing Finance

The quantum of housing finance earmarked to be provided by the banking system in 1986 remained unchanged at Rs. 150 crores [including Rs. 10 crores in favour of the Housing Finance and Development Corporation (HFDC)]. In addition banks were advised to provide further funds to the extent of Rs. 10 crores to HFDC. Within the overall allocation limit of Rs. 150 crores, banks were allowed to extend term loans totalling Rs. 5 crores to earthquake victims in Himachal Pradesh, and

Rs. 10 crores for flood victims in Andhra Pradesh to enable the beneficiaries to undertake major repairs/reconstruction of damaged houses. In addition to the finance provided to State-level agencies and the Housing and Urban Development Corporation Ltd. (HUDCO) in the form of subscription to their guaranteed bonds and debentures, banks were allowed to extend under consortium arrangements indirect term loan assistance of Rs. 53.48 crores to the State-level agencies and Rs. 50 crores to HUDCO to enable it to meet a part of the cost of construction of housing projects for SCs/STs and economically weaker sections in different States. The total housing finance disbursed by commercial banks during 1986 was Rs. 186.21 crores.

The primary responsibility of the National Housing Bank, which is being set up as a statutory corporation, would be to promote and develop specialised housing finance institutions at regional and local levels which could mobilise additional savings and provide finance for acquisition of housing. It would also formulate policies relating to mobilisation of resources and extension of credit for housing, regulate the working of housing finance institutions, co-ordinate their activities as also those of other agencies in the housing field, and extend financial support to housing finance intermediaries. The legislative framework for the establishment of the National Housing Bank is being finalised.

High Level Group on National Housing Bank

In June, 1986, the Government of India, set up a High Level Group under the Chairmanship of Dr. C. Rangarajan, Deputy Governor, Reserve Bank, to examine the proposal contained in the Seventh Plan for establishing a National Housing Bank, to look into the manner in which funds could be allocated for housing including identification of measures needed for it, creation of housing finance institutions, etc. The Group recommended the creation of a network of specialised housing finance institutions with a National Housing Bank to be set up at the apex level with an initial share capital of Rs. 100 crores to be fully contributed by the Reserve Bank. Establishment of the National Housing Bank was announced by the Prime Minister as part of the budget speech on February 28, 1987.

Crop Insurance Scheme

As mentioned in the last year's Report, a comprehensive scheme of Crop Insurance which was introduced throughout the country from *kharif* season, 1985 covering major crops would continue to be implemented during the Seventh Plan period on existing terms and conditions. Banks have been advised that the working of the scheme should be reviewed, every quarter at the District Consultative Committee (DCC) and State Level Bankers' Committee (SLBC) meetings.

Further, the Government has also decided to adopt uniform loaning period for *kharif* and *rabi* seasons for the entire country for the purpose of crop insurance coverage. The loans granted from April, 1 to September, 30 would qualify for *kharif* insurance business and loans granted from October, 1 to March, 31 would qualify as *rabi* loans. (For details of the scheme refer to Ghapter III on 'Agricultural output' of this Report.)

Recovery of Direct Agricultural Advances

With a view to improving recovery position of agricultural advances, banks have been advised to launch recovery drives in association with the State Government officials and take effective measures like strengthening and gearing up the organisational structure at the controlling offices and field levels, adopting schematic approach to lending and toning up pre-lending appraisal system and post-lending supervision techniques involving, *inter alia*, constant contact with the beneficiaries.

Financial Assistance to Persons Affected by Natural Calamities, etc.

As mentioned in the last year's Report, banks

were issued revised guidelines in August, 1984 for providing relief and rehabilitation assistance to the people affected by natural calamities such as floods, droughts, cyclones, etc.

In July, 1986 banks were advised that the period for accepting loan applications from persons affected in the November 1984 disturbances in Delhi and other parts of the country following the assassination of the former Prime Minister Smt. Indira Gandhi stands extended upto June 30, 1987. Banks were also instructed to provide financial assistance to persons affected by communal riots in Ahmedabad and other centres of Gujarat in July, 1986 and at Meerut in April, 1987.

Similarly, in October, 1986 banks were advised to provide financial assistance to flood affected persons in Godavari delta of Andhra Pradesh.

In the light of representations received from various State Government agencies and banks that the guidelines issued in August, 1984 did not have provision for granting loans to the victims for house repairs/construction arising out of natural calamities, banks were issued fresh instructions in December 1986, in this regard.

Advances to Indigent Students Prosecuting Higher Studies within India

Banks have been advised that the annual family income limit in respect of advances to "indigent students" for the purpose of prosecuting higher studies in India has been raised from Rs. 6,000 to Rs. 12,000. Other provisions regarding the rate of interest to be charged for such type of advances, etc., however, remain unchanged.

Short-term Finance for Traditional Plantations

On a review it has been decided that the short-term finance provided by banks for traditional plantations (i.e., tea, coffee, rubber and spices) to small holders with land holdings of not more than 5 acres and who do not have their own processing units, may be classified as agricultural advances as part of priority sector lendings with effect from April 1, 1987. Such advances may also be reckoned as 'advances to weaker sections' in the priority sector.

OTHER BANKING DEVELOPMENTS

Investments in and Underwriting of Shares and Debentures

Scheduled commercial banks have been advised, on November 25, 1986, *inter alia*, to desist from subscribing directly to shares and debentures for the purpose of deployment of funds and to ensure that the shares and debentures devolving on the banks as a part of their underwriting obligations in any particular year do not exceed 1.5 per cent of their incremental deposits of the previous year. Banks have also been asked to strictly follow the guidelines contained in the circular while considering proposals from corporate bodies for underwriting the issues of and/or investment in shares and debentures. This stipulation was relaxed in June, 1987, whereby banks were advised to seek the approval of the Reserve Bank for holding any excess over this limit. While granting the approval, the Bank would, *inter alia*, ensure that the increase in the holdings of corporate shares and debentures of all banks together does not exceed the limit of 1.5 per cent of the incremental deposits of all banks.

Scheduled commercial banks have subsequently been advised on May 28, 1987 to ensure that the increase in the holdings of public sector bonds by them arising out of their underwriting or subscription should be kept within reasonable limits. Each bank is expected to endeavour to manage their investments of underwriting operations in such a manner that the aggregate amount of the bonds of public sector undertakings added to their own investment portfolio in any fiscal year does not exceed at the end of each year 1.5 per cent of their incremental deposits of the previous year. The limit of 1.5 per cent

indicated above relates to the additions to the bank's own investment portfolio at the end of the fiscal year and not to the amount underwritten or initially subscribed. This limit will be in addition to the limit in respect of shares and debentures of the corporate sector indicated earlier in November 1986. These guidelines relating to public sector bonds are effective from the fiscal year 1987-88 and do not affect investments in such bonds made by banks prior to April, 1987. In case any bank exceeds the limit of 1.5 per cent, it should seek approval of the Reserve Bank stating the circumstances for such excesses. In partial modification of the above directive, banks were advised in June, 1987 is to ensure that only a maximum of 15-20 per cent of their actual subscription to these bonds made prior to April, 1987 was retained as part of their investment portfolio over a period of time and any excess over this limit was to be disposed off in the next ten months or so through the secondary market.

Portfolio management on behalf of clients and Buy-back Arrangements entered into by banks with their clients

It was observed that some banks were accepting funds from depositors at rates above those stipulated in the directives on interest rates on deposits by treating them as a sharing of their advances/investment portfolios. Banks were advised that while legitimate portfolio management could be undertaken by them, acceptance of deposits at rates above those stipulated in the directives under the cover of portfolio management would be construed as a violation of the directives.

The following guidelines were also issued to banks on buy-back arrangements in Government and other approved securities.

Banks should not enter into buy-back arrangements in respect of their holdings of public sector bonds or corporate shares and debentures.

Buy-back Arrangements with (non-bank) Clients

i) The buy-back deals should exclusively be confined to Government and other approved securities and the re-purchase dates should be fixed after a minimum period of 30 days from the date of sale of the securities

ii) The purchase/sale prices should be in alignment with the proximate market rates prevalent on the date of the original transaction.

iii) No sale of securities under the arrangement should be effected by banks unless the same are actually held by them on their own investment portfolio either in the form of scrips on in Subsidiary General Ledger (SGL) account maintained with the Reserve Bank.

Inter-bank Buy-back Arrangements

Inter-bank buy-back arrangements may be undertaken by banks for short periods in Government and other approved securities without stipulating any minimum period. The net differential in sale and re-purchase prices of the securities together with the coupon rate of interest on the securities should not in aggregate exceed the prevailing ceiling on call money rate in the inter-bank market.

Operation of Rural Branches

The style of functioning of rural branches was reviewed by the Reserve Bank and it was felt that there was considerable scope for improving their performance. Banks were directed in August, 1986 to observe one day in a week as non-public business working day at the rural branches to be utilised by branch managers exclusively for visiting villages to meet present and potential customers, for mobilising deposits, monitoring the use of credit extended, recovering loans and for providing guidance to the borrowers.

Banks have also been advised to consider setting up of satellite/mobile branches in areas

where volume of business and other considerations do not warrant a regular branch.

Recovery of dues (Public Sector Banks and Financial Institutions) Bill 1985.

The draft bill on recovery of dues of public sector banks and financial institutions providing for setting up of Special Tribunals to exclusively adjudicate issues relating to bank loan recoveries is under consideration of the Government of India.

Customer Service

With a view to improving customer service in banks in the rural areas, it was decided that senior officers from Regional Managers to Chairmen and Managing Directors should visit once a month some of the rural branches and send a copy of their visit notes to the concerned branches for necessary follow-up action. Banks have been advised to afford immediate credit of outstation cheques upto Rs. 2,500 (of only one cheque at a time) subject to charging normal collection charges. Salary cheques upto Rs. 2,500 issued by Government/ Quasi-Government bodies have also been brought under the purview of the scheme.

Capital Base of Banks

Government of India contributed Rs. 400 crores in 1986 for allocation among 20 nationalised banks in keeping with the policy of augmenting the capital base of public sector banks. The amount so allocated was simultaneously invested in non-negotiable special securities bearing interest of 7.75 per cent.

Bills Rediscounting Scheme

Banks have been permitted to rediscount genuine trade bills of exchange held by them with the ECGC and IDBI, in addition to scheduled commercial banks, LIC, GIC and its subsidiaries, ICICI, UTI and IRBI.

Measures to enforce Financial Discipline on defaulting borrowers

Banks were advised not to consider applications for sanction of fresh term finance (including Deferred Payment Guarantee) for new projects, or expansion of existing units of companies which had persistently defaulted in payment in respect of term credit granted to them by the same banks/other banks/term-lending institutions without any justifiable reasons. Regarding working capital assistance, in the case of defaulting units whose managements were suspected to be indulging in malpractices like siphoning off of the concerns' funds, banks were to withhold fresh sanctions and release of funds and even freeze operations on the accounts if such an action was necessary for bringing round the management to comply with the required financial discipline or consider change of management wherever found necessary.

Co-ordination between Banks and Financial Institutions

Banks were not following satisfactorily guidelines issued for effective co-ordination between commercial banks and state-level financial institutions (SFCs, SIDCs, SIICs, etc.) as per the recommendation of Bhide Committee@. As a result, timely and adequate finance to industries was not ensured. Banks were, therefore, advised not only to scrupulously follow the comprehensive guidelines issued earlier but also to take certain specific measures for joint appraisal of projects, sanction and release of adequate working capital finance before the borrowing units commenced production, estimation of the working capital requirements for appraisal of projects in accordance with the norms adopted by banks, vesting of bank officials with adequate discretionary powers, etc., for bringing about greater co-ordination between commercial banks and financial institutions.

Treatment of Disputed Excise Duty

After reviewing the matter relating to treat-

@ Report of the Working Group on co-ordination between State Financial Corporations and Banks

ment of disputed excise duty and other statutory liabilities in connection with the assessment of working capital requirements, fresh guidelines were issued to scheduled commercial banks in June, 1987 stating that the disputed excise liability shown as a contingent liability or by way of notes to the balance sheet will *not* be treated as a current liability for calculating the permissible bank finance unless it has been collected or provided for in the accounts of the borrower.

Lending under Consortium Arrangements by Banks

Taking into account the deviations noticed in adhering to the guidelines issued by the Reserve Bank regarding lending by banks under consortium arrangements, fresh instructions to strengthen the arrangements were issued by the Bank in June, 1987. These fresh instructions, which have been made mandatory provide for automaticity about the choice of the lead bank under multiple financing arrangements and envisage a pivotal role to be played by the lead bank. These instructions cover the maximum number of banks in a consortium, the need to form a consortium where the aggregate fund-based limits granted to a borrower by any single bank exceeds Rs. 100 crores, appraisal of proposals by the lead bank itself exclusively or along with the next major financing bank, seeking Reserve Bank authorisation, where necessary, on approval by the Board of Directors of the lead banks without waiting for sanction by the other member banks, admission of new members based on majority opinion, vesting bank officials with larger discretionary powers in taking decisions, honouring of decisions within a specified time frame, simplified documentation, uniformity in terms and conditions, equitable sharing of business, income and risk relating to non-fund based facilities, etc. It has been emphasised that any violation of these instructions brought to the Bank's notice will be viewed seriously and that appropriate action will be taken against the defaulting banks. Banks have also been advised to endeavour to move towards the single window approach in disbursement, documentation, etc. and a Committee is being set up to frame operational guidelines for effective implementation of the concept.

Setting up of a Finance House

The Reserve Bank has, in principle, decided to set up a Finance House to deal in short-term money market instruments with the primary objective of imparting improved liquidity to such instruments. The Finance House would be set up jointly with public sector banks and financial institutions.

Leasing

As mentioned in the last year's Report, commercial banks can, with the prior approval of the Reserve Bank, set up a subsidiary with not less than 51 per cent of shareholding to transact equipment leasing business or to make portfolio investment in shares of a leasing company within certain specified limits. However, the aggregate investment of a bank in equipment leasing business, whether by way of subsidiary interest or portfolio investment or both, is restricted to a maximum of 10 per cent of its paid-up capital and reserves. During the year under review, the Reserve Bank approved three proposals, two of public sector banks and one of a private sector bank jointly with two other such banks, to set up subsidiaries to undertake equipment leasing, merchant banking, etc.

COMMITTEES AND WORKING GROUPS RELATING TO BANKING

Committee of Direction (COD)

As mentioned in the previous year's Report, a Sub-Committee of the COD was set up to formulate norms relating to the tyre industry and also to review the norms relating to 'other rubber products'. The report of this Sub-Committee and the one on 'chemicals, dyes and dye-stuff' have been received and are being examined.

Pursuant to the discussions held in April, 1986 with the representatives of certain units in the paper industry and a few major banks involved in financing of that industry, a Sub-Committee to review the norms for inventory/ receivables relating to this industry was set up by the Reserve Bank in September, 1986 and its report is awaited.

Working Group to Review the Norms for Consortium Advances

In accordance with the suggestion made by the National Finance and Credit Council (NFCC) in its first meeting in December, 1986, a Working Group to examine the present system and formulate norms relating to advances made both to healthy and sick units by banks in Consortium with or without participation of financial institutions, and to make appropriate recommendations from the point of view of speeding up the decision-making process and providing timely and adequate credit to borrowers, was set up by the Bank in January, 1987. Based on the first report of the Group, detailed instructions have been issued to banks in June, 1987. These envisage, *inter alia*, a major role to be played by the lead bank and the second largest financing bank (or two major banks under multiple financing arrangement). The instructions cover carrying out viability studies and formulation and implementation of rehabilitation packages within a specified time frame, adherence to commitments given thereunder, exchange of information between banks and financial institutions, carrying out joint reviews, adoption of a unified stand on recall of advances, vesting of bank officials with larger discretionary powers, upgradation of skills and training of staff, etc., for ensuring greater co-ordination between banks and financial institutions in the financing of sick and weak industrial units so that decisions on measures for their rehabilitation and implementation thereof are expedited.

Standing Committee on Co-ordination of Institutional Finance for Certain Industries

During the year under review, the Standing Committee on sugar industry met twice to discuss the various problems affecting the industry. On the basis of the recommendations of a Group constituted under the Chairmanship of IFCI to suggest broad measures for rehabilitation of sugar industry, banks were advised in October, 1986 to categorise the sugar mills financed by them into four categories, viz., viable, potentially viable, marginally viable and non-viable in pursuance of the norms evolved. On receipt of data on categorisation of sugar mills from the banks, a meeting of the commercial banks and financial institutions who are members of the Standing Committee was held in May, 1987 and on the basis of decisions taken there at, detailed instructions to commercial banks for working out rehabilitation packages and giving concessions to potentially/marginally viable and non-viable sugar mills were issued in July, 1987.

In the light of the recommendations of the Standing Committee for fertiliser industry, separate norms have been prescribed for the first time for the levels of finished goods and receivables for the busy season (extending from October to February - five months) and the slack or off-season (extending from March to September - seven months). Also for the first time, separate norms have been prescribed for single superphosphate and complex fertiliser manufacturing units. The revised norms were communicated to the banks in November, 1986.

In the seventh meeting of the Standing Committee for jute industry held in October, 1986, it was decided to constitute a sub-committee which would meet frequently to look into the progress of implementation of rehabilitation packages on a case-to-case basis and to report the position thereof to the Committee from time to time. While the Jute Commissioner would be the convenor of the sub-committee, other members are drawn from RBI, IFCI, IDBI, IRBI and the State Government.

The Standing Committee for the tea industry held its sixth meeting in September, 1986. The topics discussed included allotment to

tea estates of land rendered surplus under the Land Ceiling Acts in Assam and West Bengal, classification of small tea growers under priority sector, overdues of sick tea gardens, norms for financing tea industry, etc. There had been complaints that there was no uniformity among banks in the application of the prescribed norms, resulting in adoption of divergent assessment method by different banks and consequent difficulties to the borrowers. Therefore, a small sub-group comprising representatives of the Reserve Bank, commercial banks, the Tea Board and the tea industry, with the Bank as the convenor was formed to study the problem in its entirety and suggest such modifications as may be necessary. The sub-group, which met once in November, 1986, has submitted its report and the recommendations made are under consideration.

Standing Committee on Export Finance (SCEF)

During the period under review, the Standing Committee on Export Finance met twice in June, 1986 and January, 1987 and discussed various problems faced by the exporting community. Some of the important developments on the basis of decisions taken by the Committee are listed below.

a) The Committee, which was set up to study the structure of interest rates on export credit on the basis of decisions taken by the SCEF, has since submitted its Report to the Reserve Bank and its recommendations are being examined.

b) With a view to providing a fillip to exporters, the rate of interest for pre-shipment and post-shipment stages were reviewed and the lending rates of export credit reduced to 9.5 per cent with effect from August 1, 1986.

c) The term "reasonable period" within which shipment must take place to make the exporter eligible for concessional pre-shipment finance, was not clearly defined earlier. In consultation with the Government of India, it was decided that in cases where exports do not take place within 360 days (180 + 180) from the date of the pre-shipment advance, banks could charge interest not exceeding the ceiling rate for export credit from the very first day of the advance and banks were advised accordingly in March, 1987.

d) In the case of advances against demand bills it has now been decided that if the bills are realised before the expiry of the 'normal transit period' (NTP) as prescribed by the Foreign Exchange Dealers' Association of India (FEDAI), interest at the concessional rate shall be charged from the date of advance till the date of realisation of such bills, i.e., the date on which the proceeds get credited to the banks' NOSTRO accounts abroad.

e) With regard to the revision of the list of Group 'B' commodities eligible for export on deferred payment terms, the Government have conveyed their agreement to the revised list of Group 'B' items as finally approved in the meeting of the SCEF held in June, 1986. The Government have also empowered the SCEF to make any further revision in the Group 'B' list in future after taking all relevant factors into account.

All-India Export Advisory Committee (AIEAC)

The Committee met twice during the year 1986-87 and the various recommendations of the Committee have been brought to the notice of the Standing Committee on Export Finance for information/decision thereon.

In addition to the above, two special meetings - one with export organisations and the other with chiefs of a few banks were held on February 9 and April 21, 1987, respectively.

Working Group for Project Exports

During the year 1986-87 (April-March) the Working Group considered 134 proposals and cleared 113 of them. All proposals for consultancy services are considered by the Working Group irrespective of the value. In addition,

176 review meetings were held in respect of on-going projects.

During the quarter April-June, 1987, the Working Group considered 28 proposals and cleared 24 of them. In addition, 41 review meetings were held in respect of on-going projects.

DEPARTMENT OF FINANCIAL COMPANIES

Control over Non-Banking Companies

The primary objective of exercising control over deposit acceptance activities of non-banking companies is to regulate the growth of deposits outside the banking system as also to afford, to the extent possible, a degree of indirect protection to the depositors. The acceptance of deposits by non-banking financial and miscellaneous companies is regulated by the Reserve Bank and the control over the deposit acceptance activity of non-financial companies is vested in the Government of India (Department of Company Affairs). Both the Bank's Directions and the Companies (Acceptance of Deposits) Rules, framed by the Government, impose certain restrictions on the quantum and tenure of deposits, and ceiling on interest rates and rates of brokerage payable to brokers; they require certain type of companies to maintain liquid assets and all companies to submit returns/balance sheets, etc.

Companies (Acceptance of Deposits) Rules, 1975 - Amendment

As a follow up of the announcement made in Parliament, the Government of India (Department of Company Affairs) amended, in consultation with the Reserve Bank, the captioned Rules, reducing the ceiling on interest rate from 15 per cent to 14 per cent per annum payable on the deposits accepted and/or renewed by non-financial companies on or after 1st April, 1987. Accordingly, the Reserve Bank made similar amendments to the directions applicable to financial/miscellaneous non-banking companies.

a) Chit Funds Act, 1982

As stated in the last year's Report, the provisions of the Chit Funds Act, 1982 had come into force in 11 States/Union Territories, namely, Karnataka, West Bengal, Tamil Nadu, Himachal Pradesh, Sikkim, Orissa, Chandigarh, Lakshadweep, Dadra and Nagar Haveli, Andaman and Nicobar Islands and Goa, Daman and Diu. During the period under review, one more State and a Union Territory viz., Madhya Pradesh and Pondicherry, formulated rules and the Act became operative, thereby bringing the total number of States/Union Territories to 13 at the end of the period. Of the remaining States/Union Territories, the Reserve Bank's comments were furnished on the draft rules received from Maharashtra, Uttar Pradesh, Haryana, Manipur, Meghalaya, Delhi, Punjab, Rajasthan, Bihar for further action, while the matter was being actively pursued with other States/Union Territories.

b) Prize Chits and Money Circulation Schemes (Banning) Act, 1978

The above Act, which came into force in December 1978, seeks to prohibit the provision/conduct of Prize Chits, Savings/Benefit Schemes, etc. The provisions of the Act are being administered by State Governments/Union Territories. Against the verdict given by the Division Bench of the Calcutta High Court in April, 1986, the Reserve Bank, the Government of India and the State Governments of West Bengal and Madhya Pradesh went in appeal before the Supreme Court. The Supreme Court, in January, 1987, dismissed the appeals preferred by the Reserve Bank and others and held that the endowment certificate scheme of the Peerless General Finance and Investment Co. Ltd., is not hit by the provisions of the Prize Chits and Money Circulation Schemes (Banning) Act. The Supreme Court, however, observed that it is open to the Reserve Bank and the Union of India to take such steps as are open to them in law, to regulate schemes such as those run by Peerless to prevent exploitation of ignorant

depositors. In accordance with the observations of the Supreme Court, the Reserve Bank, in consultation with Government of India, issued a fresh set of directions known as the Residuary Non-Banking Companies (Reserve Bank) Directions, 1987 to companies conducting schemes such as those run by Peerless, and these directions came into force with effect from May 15, 1987.

Acceptance of Deposits by Unincorporated Bodies - Limitation

As a result of an active follow up by the Reserve Bank, 3 more States made necessary arrangements for the effective enforcement of the provisions of Chapter III-C of the Reserve Bank of India Act, 1934. Thus, the total number of States/Union Territories which issued notifications authorising suitable officers to take action under the said chapter stood at 11, viz., West Bengal,Uttar Pradesh, Kerala, Himachal Pradesh, Maharashtra, Madhya Pradesh, Gujarat, Andhra Pradesh, Karnataka, Delhi and Goa, Daman and Diu. Besides, the Kerala Government organised in August, 1986 two workshops for the benefit of its officials and the Bank provided faculty support. The Bank also extended similar support to the Government of Karnataka at a three-day workshop organised in February, 1987.

A Cell of the Bank's Department of Financial Companies was set up in March, 1987 at Trivandrum to deal with the activities of unincorporated deposit-taking bodies in Kerala and to take appropriate action against them. Further to the position stated in the last year's Report, the Bank filed complaints against three concerns in Kerala and Karnataka and the scrutiny of seized records in respect of two firms in Tamil Nadu was in progress. Subsequently, the Bank, with the help of State Police conducted raids in the office premises and residences of partners of two firms in Kerala in May,1987 and seized certain records relating to acceptance of deposits. As regards appeals/ writ petitions filed by certain concerns and pending in the Supreme Court, the Court passed interim orders staying penal action against the appellants/petitioners on the condition that the latter shall not accept any deposits until further order of the Court. The hearing of the cases is yet to take place.

Trends in Deposits with Non-banking Companies (1985-86)

During the year ended March, 1986, the outstandings of aggregate deposits (both regulated and exempted) with non-banking companies amounted to Rs. 18,072 crores compared with Rs. 16,140 crores at the end of March, 1985 (Table VII-38). Regulated deposits were of the order of Rs. 3,266 crores, while exempted deposits aggregated Rs. 14,806 crores registering increases of Rs. 451 crores and Rs. 1,480 crores, respectively, over the year 1985-86. The number of reporting companies also went up from 7,508 to 8,741 during this period with the corresponding increase in the number of deposit accounts from 124 lakhs to 159 lakhs. Status-wise classification of the 8,741 reporting companies showed that 2,880 were public limited companies with aggregate deposits of Rs. 16,785 crores, while 5,861 were private limited companies with aggregate deposits of Rs. 1,287 crores. Non-financial companies continued to dominate the scene with 2,680 companies accounting for deposits of Rs. 13,113 crores, while 6,061 financial companies held deposits of Rs. 4,960 crores. Aggregate deposits of Rs. 10,029 crores were held by 57 Government companies as at end-March, 1986 compared with 55 companies with deposits of Rs. 8,923 crores in the preceding year.

During the financial year 1985-86, the rate of growth of company deposits was lower at 16.2 per cent as compared with 18.1 per cent in the case of bank deposits. The aggregate deposits of Rs. 18,072 crores with the non-banking corporate sector (Government and non-Government) as on March 31, 1986 constituted 21.1 per cent of the total deposits of Rs. 85,704 crores with all scheduled commercial banks as on the same date.

Table VII – 38 : Deposit growth with the non-banking corporate sector

(Rupees crores)

Category	1984-85		1985-86*	
	No. of companies reporting	Amount	No. of companies reporting	Amount
Aggregate deposits	7,508	16,140	8,741	18,072
Of which :				
Regulated deposits		2,815		3,266
Exempted deposits		13,325		14,806
A. Deposits held by				
(i) Government Companies	55	8,923	57	10,029
	(0.7)	(55.3)	(0.7)	(55.5)
(ii) Public Limited Companies	2,516	5,617	2,823	6,756
	(33.5)	(34.8)	(32.3)	(37.4)
(iii) Private Limited Companies	4,937	1,600	5,861	1,287
B. Deposits held by :	(65.8)	(9.9)	(67.0)	(7.1)
(i) Financial Companies	4,134	3,914	4,995	4,270
	(55.1)	(24.3)	(57.1)	(23.6)
(ii) Non-Financial Companies	2,510	11,784	2,680	13,113
	(33.4)	(73.0)	(30.7)	(72.6)
(iii) Miscellaneous Non-Banking Companies	864	442	1,066	689
	(11.5)	(2.7)	(12.2)	(3.8)

Figures in brackets are percentages to total number of reporting companies/aggregate deposits as the case may be.
* Provisional.

Export Credit Guarantee Corporation of India Ltd.

During the financial year 1986-87, the Export Credit Guarantee Corporation of India (ECGC) issued 6,758 policies and guarantees (excluding long term) as against 5,280 in 1985-86. Including long term policies and long term guarantees, the number stood at 7,069 during 1986-87 as against 5,615 during 1985-86. The total number of policies and guarantees (excluding long term) in force at the end of March, 1987 at 9,551 were slightly lower compared with 9,698 at the end of March 1986; including long term policies and long term guarantees, they stood lower at 11,709 at the end of March, 1987 as against 11,876 at the end of March 1986. However, the value covered under insurance policies and other schemes during 1986-87 was higher at Rs. 2,241.43 crores as compared with Rs. 1,712.48 crores in 1985-86. Export finance (excluding long term) covered under financial guarantees was also higher at Rs. 10,164.88 crores as against Rs. 8,202.05 crores during 1985-86; including long term guarantees they stood at Rs. 10,296.71 crores during 1986-87 as against Rs. 8,391.18 crores during 1985-86. Scheme-wise details are furnished in Table VII-39. The premium earned during 1986-87, excluding that under Exchange Fluctuation Risk Cover Scheme, was Rs. 20.85 crores as against Rs. 19.75 crores in the previous year. Policies with maximum liability of Rs. 2.17 crores were issued under the Exchange Fluctuation Risk Cover Scheme during 1986-87 as against Rs. 3.28 crores in 1985-86. During 1986-87, total value of gross claims paid amounted to Rs. 23.35 crores and the value of claims recovered amounted to Rs. 1.56 crores, resulting in net claims paid of Rs. 21.79 crores.

Performance during the quarter April-June 1987

During April-June, 1987 ECGC of India Ltd., issued 1,442 policies and guarantees (excluding long term) as against 1,436 during 1986 (April-June); including long term policies and long term guarantees they stood at 1,517

Table VII—39 : ECGCI's guarantees and standard policies for exporters (April-March)

(Rupees crores)

Type	No. of Policies and Guarantees (April-March)				Bank Finance (April-March)		No. of Policies and Guarantees (April-June)				Bank Finance (guarantees) availed of (April - June)	
	Issued during		In force at the end of		Guarantee availed of		Issued during		In force at the end of June			
	1985-86	1986-87	1985-86	1986-87*	1985-86	1986-87**	1986	1987	1986	1987*	1986	1987
	1	2	3	4	5	6	7	8	9	10	11	12
Standard Policies	2939	4,207	7,220	7,133	—	—	948	836	6,914	7,322	—	—
Long Term Policies	54	74	655	646	—	—	17	23	662	666	—	—
Packing Credit Guarantees	619	740	600	690	5,918.74	7,159.31	130	162	650	718	1,112.42	2,118.95
Post-shipment Guarantee	752	721	675	673	2,212.13	2,924.52	156	209	654	719	414.06	780.00
Export Finance Guarantee	66	111	101	129	6.47	18.63	17	42	102	150	1.65	3.40
Export Production Finance Guarantee	7	10	4	5	6.03	5.43	2	2	5	6	1.17	0.30
Export Performance Guarantee (Short-Term)	849	881	1,034	848	29.53	31.23	174	164	1,045	913	3.64	9.33
Export Performance Guarantee (Long-Term)	281	237	1,523	1,512	189.13	131.83	67	52	1,506	1,542	25.29	26.31
Special Schemes (Transfer Guarantees, Buyer's Credit Insurance, Lines of Credit Insurance & Overseas Investment Insurance Schemes)	48	88	64	73	29.15	25.76	9	27	67	81	0.40	3.53
Total (excluding Long-Term Policies and Long Term Guarantees)	5,280	6,758	9,698	9,551	8,202.05	10,164.88	1,436	1,442	9,437	9,909	1,533.34	2,915.51
Total (including Long-Term Policies and Long-term guarantees)	**5,615**	**7,069**	**11,876**	**11,709**	**8,391.18**	**10,296.71**	**1,520**	**1,517**	**11,605**	**12,117**	**1,558.63**	**2,941.82**

Note: Figures are provisional.

* Policies and Guarantees in force as on 31st March, 1987.

** For short-term guarantees only.

Source: Export Credit Guarantee Corporation of India Ltd.

during 1987 (April-June) as against 1,520 during 1986 (April-June). Policies and guarantees (excluding long term) in force at the end of June, 1987 stood at 9,909 compared with 9,437 at the end of June, 1986; including long term policies and long term guarantees they stood at 12,117 at the end of June, 1987 as against 11,605 at the end of June 1986 (Table VII-39). The value covered under insurance policies and other schemes during 1987 (April-June) amounted to Rs. 675.02 crores (Rs. 528.86 crores in the first quarter of 1986) and export advances (excluding long term) covered under financial guarantees stood at Rs. 2,915.51 crores (Rs. 1,533.34 crores in the corresponding quarter of 1986); including long term guarantees the amount stood at Rs. 2,941.82 crores during 1987 (April-June) as against Rs. 1,558.63 crores during 1986 (April-June). The premium income earned during the period, April-June 1987 was Rs. 6.35 crores as against Rs. 2.98 crores in April-June 1986 (excluding premium earned under Exchange Fluctuation Risk Cover Scheme). No policy was issued under the Exchange Fluctuation Risk Cover Scheme during the period under review whereas 3 policies with maximum liability of Rs. 0.17 crore were issued during the quarter April-June 1986-87. Total value of gross claims paid amounted to Rs. 6.74 crores and value of claims recovered amounted to Rs. 0.26 crore with the result, net claims paid amounted to Rs. 6.48 crores.

Deposit Insurance and Credit Guarantee Corporation

The Deposit Insurance and Credit Guarantee Corporation (DICGC) made significant progress in fulfilling its twin objectives of giving insurance protection to small depositors in banks and providing guarantee support to credit extended by banks and other approved financial institutions to certain categories of small borrowers, particularly those belonging to the weaker and neglected sections of the society as well as to small-scale industrial units.

Deposit Insurance Function

During the financial year 1986-87, the number of banks participating in the insurance scheme went up from 1,842 in 1985-86 to 1,885; the number went up further to 1,887 by end-June, 1987, the latter comprising 83 commercial banks, 194 Regional Rural Banks and 1,610 co-operative banks. At the end of 1986, the deposit insurance scheme covered co-operative banks in fourteen States and three Union Territories. With effect from January 1, 1987, the scheme was extended to the co-operative banks in the State of Haryana. As regards co-operative banks in other States, there was no significant development since the last Report. The number of co-operative banks to be insured in the remaining States and Union Territories (excluding Haryana) is 69.

The limit of insurance cover and the rate of insurance premium remained unchanged at Rs. 30,000 per depositor per bank (in the same right and capacity) and at 4 paise per Rs. 100 per annum, respectively. Insured deposits of banks amounted to Rs. 62,878 crores at the end of June, 1986 and constituted 72.9 per cent of the total assessable deposits of Rs. 86,214 crores. Fully protected accounts numbered 2,320 lakhs at the end of June 1986 and formed 98.0 per cent of the total deposit accounts of 2,360 lakhs. The total amount of deposit insurance claims paid and provided for since inception of the Scheme upto the end of March 1987 in respect of 15 commercial banks and 16 co-operative banks aggregated Rs. 12.76 crores and Rs. 2.54 crores, respectively. The Corporation received from the commercial and co-operative banks Rs. 1.28 crores toward repayment.

In 1985, three commercial banks (viz. Miraj State Bank Ltd., Miraj, Lakshmi Commercial Bank Ltd., New Delhi and Bank of Cochin Ltd., Cochin) were amalgamated with Union Bank of India, Canara Bank and State Bank of India, respectively. The Corporation received a claim from State Bank of India, the transferee bank, in respect of Bank of Cochin Ltd., which was settled for Rs. 11.63 crores and paid. Of the remaining two banks, Canara Bank intimated the claim in respect of Lakshmi

Commercial Bank Ltd. A provision of Rs. 40 crores was made in the accounts in respect of this claim. The claim from Union Bank of India in respect of Miraj State Bank is still awaited. One more commercial bank, viz., Hindustan Commercial Bank was amalgamated with the Punjab National Bank with effect from December 19, 1986. The claim in this regard is awaited.

Credit Guarantee Schemes for small borrowers

At the end of March 1987, 262 banks and at end-June, 1987, 263 banks (comprising of 71 commercial banks and 192 regional rural banks) participated in the Corporation's Small Loans Guarantee Scheme, 1971. The number of financial corporations participating in the Small Loans (Financial Corporations) Guarantee Scheme, 1971 remained unchanged at 20, while the number of credit institutions participating in the Service Co-operative Societies Guarantee Scheme, 1971, increased to 175 at the end of March, 1987 (which remained the same at end-June, 1987) comprising 57 commercial banks, 81 regional rural banks and 37 co-operative banks. The participants in the Small Loans (Co-operative Bank) Guarantee Scheme, 1984 introduced by the Corporation with effect from July 1, 1984 increased from 41 at end-March, 1986 to 63 at end-March, 1987 and further to 66 at end-June, 1987.

The total amount of advances guaranteed under these Schemes during the year ended June, 1986, was higher at Rs. 10,446 crores compared with those of Rs. 8,923 crores in the previous year, indicating a rise of 17.1 per cent and more than fifty-fold increase since 1972 (Table VII-40). The Small Loans Guarantee Scheme, 1971 continued to account for the bulk of the total guaranteed advances (99.0 per cent). Advances to farmers and agriculturalists accounted for 57.6 per cent of the guaranteed advances to small borrowers followed by transport operators (16.2 per cent), retail traders (11.5 per cent), professional and self-employed persons (6.3 per cent), business enterprises (5.9 per cent), and the residual category of borrowers under the Differential Rate of Interest Scheme (2.5 per cent).

Guarantee claims numbering 7.78 lakhs were preferred during April, 1986 — March, 1987 for Rs. 178.19 crores. The claims received since inception of the schemes upto the end of March, 1987 numbered 21.39 lakhs for Rs. 484.35 crores and formed 4.6 per cent of the total guaranteed advances of Rs. 10,446 crores at the end of June, 1986. During the same period 6.34 lakhs claims for Rs. 173.54 crores were disposed off, the cumulative figures of claims scrutinised and disposed off since inception of the Schemes till March, 1987 being 19.02 lakh claims for Rs. 416.82 crores.

No claims were received so far under the Service Co-operative Societies Guarantee Scheme 1971 as well as Small Loans (Co-operative banks) Guarantee Schemes, 1984.

Credit Guarantee Schemes relating to Small-Scale Industries

The number of institutions which participated in the Corporation's Small Loans (SSI) Guarantee Scheme, 1981 rose from 457 in March, 1986 to 480 in March, 1987 (and to 486 in June 1987); they comprised 69 commercial banks, 152 Regional Rural Banks, 14 State Financial Corporations, 8 other state development agencies and 243 co-operative banks.

The total guaranteed advances to small-scale industries sector moved up from Rs. 5,844 crores to Rs. 7,497 crores during the year ended June, 1986 indicating a rise of 28.3 per cent. During 1986-87, 37,445 claims for Rs. 113.62 crores were received and 30,313 claims for Rs. 60.55 crores were disposed off. The total receipt and disposal of claims since inception of the Scheme till March, 1987, were 98,607 claims for Rs. 307.64 crores and 81,879 claims for Rs. 133.24 crores, respectively.

As regards Government's Guarantee Scheme for small-scale industries which was discon-

nued from March 31, 1981 (where the Corporation was acting as an agent for the discharge of residual functions), the Corporation in addition to taking over 30,826 claims for Rs. 98.18 crores as on April 1, 1981 received 46,928 claims for Rs. 96.57 crores till the end of March, 1986. The Corporation received during 1986-87, 4,847 claims for Rs. 17.06 crores and disposed off 5,989 claims for Rs. 36.20 crores during the same period. The Corporation disposed off 81,149 claims for Rs. 187.64 crores till March, 1987.

Other Developments

With a view to increasing the operational efficiency and speeding up of the settlement of ever increasing inflow of claims, the Corporation was constantly reviewing, streamlining and simplifying procedures. Towards this end, the Corporation computerised all non-industrial claims thus bringing down the time-lag between receipt and disposal of claims to 10 - 12 weeks. The computerisation of lower value SSI claims and the receipt of claims on magnetic tapes from credit institutions are other measures under active consideration of the Corporation for further reducing the time lag. An Expert Committee was also constituted to review in detail the various schemes being operated by the Corporation and to make recommendations for further improvements in the working of the Corporation.

Table VII—40 : Credit facilities guaranteed by Deposit Insurance and Credit Guarantee Corporation

(Rupees crores)

Scheme/Category of borrowers	As at the end of June						
	1972	1981	1982	1983	1984	1985	1986
	1	2	3	4	5	6	7
A. Small Loans Guarantee Scheme, 1971	**205.7**	**3,546.2**	**4,819.8**	**5,736.4**	**7,045.4**	**8,842.3**	**10,345.1**
Farmers and agriculturists	134.7	2,267.5	3,041.6	3,594.8	4,182.0	5,057.7	6,020.3
Transport operators	28.3	477.6	731.3	937.7	1,239.6	1,510.2	1,606.0
Retail traders	28.3	398.9	511.8	574.8	709.8	972.5	1,191.9
Professional and self-employed persons	9.1	165.7	199.1	240.8	326.9	484.9	656.6
Business enterprises	5.3	150.1	209.7	239.6	322.5	473.4	609.5
Residual category of borrowers under the DRI Scheme	—	86.6	126.2	148.7	264.5	343.6	260.8
B. Small Loans (Financial corporations) Guarantee Scheme, 1971	**2.6**	**10.9**	**18.6**	**35.6**	**52.7**	**69.2**	**85.2**
Transport operators	2.4	10.3	18.4	35.4	52.3	68.9	84.9
Business enterprises	0.2	0.6	0.2	0.2	0.4	0.3	0.3
C. Service Co-operative Societies Guarantee Scheme, 1971							
Service co-operative societies	**0.1**	**1.3**	**1.5**	**1.8**	**0.5**	**0.7**	**0.7**
D. Small Loans (co-operative banks) Guarantee Scheme, 1984	—	—	—	—	5.7@	10.8	15.0£
Total (A+B+C+D)	**208.4**	**3,558.4**	**4,839.9**	**5,773.8**	**7,104.3**	**8,923.0**	**10,446.0**
E. Small Loans (Small-scale industries) Guarantee Scheme, 1981							
All SSI units including artisans, village/ cottage industries etc.	—	**3,716.4***	**3,822.1**	**4,153.7**	**4,890.9**	**5,843.7**	**7,497.5**
Total (All Schemes)	**208.4**	**7,274.8**	**8,662.0**	**9,927.5**	**11,995.2**	**14,766.7**	**17,943.5**

— Nil or negligible. * As at the end of March 1981.

@ As at the end of December 1984.

£ The borrower-wise breakdown for 1986 is as follows: Transport operators Rs. 5.5 crores, Retail traders Rs. 5.5 crores, Professional and self-employed persons Rs. 1.9 crores, Business enterprises Rs. 2.1 crores.

Source: Deposit Insurance and Credit Guarantee Corporation.

RURAL CREDIT

Institutional Finance for Agriculture

The institutional framework for deployment of credit to rural sector in India comprises the Co-operatives, Scheduled Commercial Banks and Regional Rural Banks (RRBs). The State Governments also provide 'Taccavi' loans to farmers besides extending financial support to State Co-operative Banks (SCBs) and Land Development Banks (LDBs). In the field of co-operation, the Primary Agricultural Credit Societies (PACS) provide mainly short and medium-term loans and LDBs long-term loans to agriculture. The commercial banks including RRBs provide both short and term loans for agriculture and allied activities. The National Bank for Agriculture and Rural Development (NABARD) is the apex institution at the national level for agricultural credit and provides refinance assistance to the agencies mentioned earlier. The Reserve Bank of India as the Central Bank of the country plays a crucial role in this sphere by giving overall direction to rural credit and provides financial support to the NABARD for its operations.

Complete data on institutional finance to agriculture and allied activities are not available for 1985-86 and 1986-87. Data in respect of loans issued by the co-operatives for the years 1982-83 and 1983-84 are provisional and the data for the subsequent years i.e.,for the years 1984-85 to 1986-87 are estimates of the NABARD. Data upto 1984-85 are available in respect of all scheduled commercial banks. Data on outstanding advances of scheduled commercial banks are available upto end-June 1986. However, provisional data (aggregate) as at the end of March 1987 are available in respect of outstanding advances of public sector banks. Data regarding loans issued by RRBs are compiled by NABARD on calendar year basis from 1986. Table VII-41 and VII-42 present data on institutional finance to agriculture.

(a) Direct Finance

Direct finance disbursed for agriculture and allied activities by institutional agencies viz., co-operatives, scheduled commercial banks, RRBs and State Governments together aggregated Rs. 6,167 crores in 1984-85 as against Rs. 5,244 crores in 1983-84, registering an increase of Rs. 923 crores or 17.6 per cent over the year. As in the earlier years, co-operatives continued to account for a major portion of the credit disbursed during 1984-85 (Rs. 3,154 crores or 51.1 per cent) followed by commercial banks - Rs. 2,461 crores or 39.9 per cent, RRBs - Rs. 310 crores or 5 per cent and State Governments - Rs. 241 crores or 3.9 per cent. Credit disbursed by co-operatives is estimated to have increased to Rs. 3,755 crores in 1985-86 and further to Rs. 4,273 crores in 1986-87. Disbursements by scheduled commercial banks increased from Rs. 1,858 crores in 1983-84 to Rs. 2,461 crores in 1984-85. Loans issued by RRBs went up from Rs. 263 crores in 1983-84 to Rs. 310 crores in 1984-85 and further to Rs. 402 crores in 1985-86. Loans disbursed by State Governments increased steadily from Rs. 241 crores in 1984-85 to Rs. 354 crores in 1985-86 and is estimated to have increased further to Rs. 488 crores in 1986-87. Data on loan disbursements by scheduled commercial banks are not available for 1985-86 and 1986-87.

The total outstanding agricultural loans (direct finance) of co-operatives, scheduled commercial banks and RRBs which together amounted to Rs. 11,524 crores as at end-June 1984, increased to Rs. 13,673 crores by end-June 1985 and further to Rs. 15,884 crores by end-June 1986. The total outstanding loans of co-operatives are estimated to have increased from Rs. 6,367 crores at end-June 1985 to Rs. 6,896 crores by end-June 1986 and further to Rs. 7,592 crores by end-June 1987. Short-term loans by co-operatives are estimated to have increased from Rs. 2,836 crores in June 1985 to Rs. 2,998 crores in June 1986 and further to Rs. 3.284 crores in June 1987. The medium and long-term loans by PACS and LDBs which

Table VII—41 : Direct institutional finance for agriculture and allied activities

(Rupees crores)

Source of finance	Loans issued during the Year July-June					Loans outstanding as on June 30				
	1982-83	1983-84	1984-85	1985-86	1986-87	1983	1984	1985	1986	1987
I. Co-operatives[1]	**2,716.9P**	**2,938.0P**	**3,154.3RE**	**3,755.2E**	**4,273.0E**	**5,155.0P**	**5,734.5P**	**6,366.9E**	**6,895.9E**	**7,592.0E**
of which :										
(a) Short-term loans by PACS	1,908.1	2,157.8	2,323.3	2,879.1	3,339.0	2,225.2	2,554.3	2,835.9	2,997.5	3,284.0
	(37.4)	(41.0)	(45.0)	(52.2)	(58.0)	(88.8)	(96.0)	(105.0)	(114.5)	(125.0)
(b) Medium and long-term loans by PACS/LDBs[2]	808.8	780.2	831.0	876.1	934.0	2,929.8	3,180.2	3,531.0	3,898.4	4,308.0
	(425.8)	(438.7)	(461.3)	(557.2)	(613.0)	(2,047.4)	(2,236.4)	(2,386.4)	(2,660.0)	(2,927.0)
II. State Governments[3]	**187.8**	**185.2**	**241.4**	**353.6**	**488.3RE**	—	—	—	—	—
III. Scheduled Commercial Banks (excluding RRBs)	**1,224.7**	**1,858.2**	**2,461.0**	—	—	**4,143.0**	**5,279.9**	**6,612.9**	**8,116.5**	**9,058.2P[4]**
Of which :										
(a) Short-term loans	564.8	872.4	1,034.9	—	—	1,350.7	1,637.6	1,964.2	—	—
(b) Term loans	659.9	985.8	1,426.1	—	—	2,792.3	3,642.3	4,648.7	—	—
IV. Regional Rural Banks	**222.3**	**262.8**	**310.1**	**402.0P**	—	**381.9**	**509.4**	**693.4**	**871.1**	—
(a) Short-term loans	97.9	119.8	131.7	176.1	—	108.8	146.8	206.1	265.2	—
(b) Term loans	124.4	143.0	178.4	225.9	—	273.1	362.6	487.3	605.9	—
V. Total Direct Finance (I to IV)	**4,351.7**	**5,244.2**	**6,166.8**	—	—	**9,679.9**	**11,523.8**	**13,673.2**	**15,883.5**	—
Of which :										
(a) Short-term loans	2,758.6	3,335.2	3,731.3	—	—	3,684.7	4,338.7	5,006.2	—	—
(b) Medium and long-term loans	1,593.1	1,909.0	2,435.5	—	—	5,995.2	7,185.1	8,667.0	—	—

E = Estimates RE = Revised Estimates P = Provisional — = Not available

[1] Figures in brackets relate to short-term finance provided by RRBs and other commercial banks through PACS.

[2] Figures in brackets relate to long-term loans by LDBs.

[3] Taken as short-term loans and relate to financial year April-March.

[4] Data relate to public sector banks, as on March 31, 1987.

Source : (i) NABARD (ii) Reserve Bank of India (iii) Annual Budgets of State Governments.

Table VII – 42: Indirect institutional finance for agriculture and allied activities

(Rupees crores)

Source of finance	Loans issued during the year July-June					Loans outstanding as on June 30				
	1982-83	1983-84	1984-85	1985-86	1986-87	1983	1984	1985	1986	1987
I. Co-operatives[1]	**1,955.6**[E]	**2,400.0**[E]	**2993.0**[E]	**3,744.2**[E]	**4,803.0**[E]	**1,337.6**[E]	**1,700.0**[E]	**2,195.0**[E]	**2,885.5**[E]	**3,937.0**[E]
Of which :										
(a) State Co-operative Banks[2]	1,200.4	1,550.0	2,015.0	2,619.5	3,497.0	868.9	1,000.0	1,250.0	1,562.5	2,064.0
(b) Central Co-operative Banks[2]	755.2	850.0	978.0	1,124.7	1,306.0	468.7	700.0	945.0	1,323.0	1,873.0
II. Scheduled Commercial Banks (excluding RRBs)[3]	–	–	–	–	–	1,3 10.1	1,392.3	1,459.3	1,366.4	1,373.3[P5]
III. Regional Rural Banks	**8.4**	**9.1**	**8.0**	–	–	**23.1**	**27.1**	**30.3**	**33.4**	–
IV. Rural Electrification Corporation[4]	**251.8+**	**303.2**	**327.1**	**354.5**	**437.8+**	**1,292.7+**	**1,493.9**	**1,674.5**	**1,920.6**	**2,119.3+**
V. TOTAL INDIRECT FINANCE	–	–	–	–	–	**3,963.5**	**4,613.3**	**5,359.1**	**6,205.9**	–

– = Not available E = Estimates P = Provisional + = Financial year (April-March) data

1 Taken as short-term loans.

2 Loans issued include food procurement finance but these are not included in loans outstanding which mainly cover direct advances given to non-agricultural credit societies operating at apex, regional or primary level.

3 The outstandings are as on the last Friday of June ; break-up of these data into short and term loans are not available.

4 Taken as long-term loans.

5 Data relate to public sector banks as on March 31, 1987.

Source : (i) NABARD.
(ii) Reserve Bank of India.
(iii) Rural Electrification Corporation.

stood at Rs. 3,531 crores at end-June 1985 are also estimated to have gone up to Rs. 3,898 crores by end-June 1986 and further to Rs. 4,308 crores by end-June 1987. The amount of outstanding loans in respect of direct finance for agriculture and allied activities by scheduled commercial banks increased from Rs. 5,280 crores in June 1984 to Rs. 6,613 crores in June 1985 and further to Rs. 8,117 crores by end-June 1986. As per provisional data available in respect of public sector banks, the amount reached a level of Rs. 9,058 crores at end-March 1987 as against Rs. 7,420 crores in March 1986. The amount outstanding in respect of direct finance provided by RRBs also rose from Rs. 509 crores at end-June 1984 to Rs. 693 crores at end-June 1985 and further to Rs. 871 crores at end-June 1986 (Table VII-41).

(b) Indirect Finance

Data on annual disbursements of indirect finance to agriculture are available in respect of Rural Electrification Corporation (REC) and RRBs (upto 1984-85). In the case of scheduled commercial banks, data are not available in respect of disbursements but for outstanding amounts only. The purpose-wise details, etc., are given in Statement No.40 of Volume-II of the Report. As regards co-operatives, the NABARD's estimates are available upto 1986-87. These data are presented in Table VII-42. As per the NABARD's estimates, indirect finance to agriculture by co-operatives increased from Rs. 3,744 crores in 1985-86 to Rs. 4,803 crores in 1986-87, a major portion of which (72.8 per cent) was disbursed by the SCBs. The outstanding amount is estimated to have increased from Rs. 2,886 crores in June 1986 to Rs. 3,937 crores in June 1987. Loans disbursed by RRBs during the years 1982-83 to 1984-85 were about Rs. 8 to Rs. 9 crores per annum. The outstanding loans of RRBs at end-June 1986 stood at Rs. 33 crores as compared with Rs. 30 crores at end-June 1985. The amount outstanding in respect of indirect finance provided by the scheduled commercial banks declined from Rs. 1,459 crores in June 1985 to Rs. 1,366 crores in June 1986. As per provisional figures available in respect of public sector banks, the amount reached Rs. 1,373 crores at end-March 1987 as against Rs. 1,283 crores at end March 1986. The loans disbursed by the Rural Electrification Corporation (REC) went up from Rs. 355 crores in 1985-86 (July-June) to Rs. 438 crores in 1986-87 (April-March). The loans outstanding also increased from Rs. 1,921 crores in June 1986 to Rs. 2,119 crores in March 1987. The total indirect loans outstanding in respect of agriculture and allied activities increased from Rs. 5,359 crores at end-June 1985 to Rs.6,206 crores at end-June 1986. The details of financial assistance provided by the NABARD, co-operatives, scheduled commercial banks, RRBs, REC and operations of other institutions ralated to rural credit are discussed in the following paragraphs.

NABARD AND RURAL CREDIT

Sources and uses of funds

Resources of NABARD

The financial resources of the NABARD were augmented during 1986-87 (July-June) by borrowing from Government of India and RBI, contributions from RBI, market borrowings through issue of bonds, etc. The limit under the General Line of Credit sanctioned under Section 17(4E)of the RBI Act, 1934 for financing NABARD's short-term lending operations during the year was raised from Rs. 1,300 crores to Rs. 1,400 crores. The aggregate net resources mobilised by the NABARD during 1986-87 (July-June) amounted to Rs. 887 crores as against Rs. 762 crores during 1985-86 (July-June) as indicated overleaf .

During 1986-87 (July-June), the Reserve Bank contributed Rs. 350 crores to NRC(LTO) Fund and Rs. 10 crores to NRC (Stabilisation) Fund from its profits for the year 1985-86 and the NABARD contributed Rs. 250 crores and Rs. 10 crores to the above funds, respectively, from its profits for the year 1986-87. The net borrowings from RBI, under the General Line of Credit during the year 1986-87 (July-June),

Table VII-43: Resources (Net) mobilised by NABARD (July-June)

(Rs. crores)

Resources	1985-86	1986-87
Reserves and Surplus	41	43
NRC (LTO) Fund	490	600
NRC (Stabilisation) Fund	35	20
Deposits	46	(–) 8
Bonds and Debentures	25	40
Borrowings from GOI	(–) 6	106
Borrowings from RBI	99	89
Other Liabilities	32	(–) 3
Total	**762**	**887**

amounted to Rs. 89 crores as against Rs. 99 crores during 1985-86. The net borrowings from the Government of India during the year 1986-87 amounted to Rs. 106 crores as against a net repayment of Rs. 6 crores during the year 1985-86.

Progress of Externally Aided Projects

A mention was made in the Report for 1985-86 about the negotiations by the NABARD with the World Bank on NABARD Credit Project-I (NCP-I). The World Bank sanctioned this Project for a period of three years from 1st July, 1986, with a loan assistance of US $ 375 million to be utilised for refinancing schematic lendings for agriculture and allied activities (US $ 340 million), pilot project (US $ 25 million), Training (US $ 6.50 million) and Agricultural Credit Review (US $ 3.50 million). By complying with the covenants of the Loan Agreement on NCP-I, the first tranche of US $ 100 million has since been drawn under the NABARD's refinancing programme. The other components of the Project are also being implemented.

The NABARD has been associated with the implementation of 42 projects with external aid. The number of projects assisted by the World Bank Group, International Fund for Agricultural Development and Kreditanstalt Fur Wiederaufbau (KFW) of Federal Republic of Germany was 39, 2 and 1, respectively. The total credit to be routed through NABARD for the projects sanctioned by the World Bank Group and different International Aid Agencies including bilateral assistance aggregated US $ 2622.1 million as on June 30, 1987, as against US $ 2531.0 million a year before. Of the 42 projects mentioned above, 34 have been completed by the end of June 1987. Apart from NABARD Credit Project-I, the projects now under implementation include 2 Multi-State projects and 5 State specific projects.

Credit Policy Measures

Sanction of Separate Short-term Credit Limit for Oilseeds Development

In view of the crucial importance of oilseeds in the economy, the NABARD provided its support to the schemes undertaken by the National Oilseeds Development Project (NODP) of the Government of India and towards this end took a policy decision in April 1986 to sanction a separate line of assured production credit in identified NODP areas to SCBs on behalf of CCBs irrespective of their eligibility due to high overdues.

Security Norms for Advances in respect of Approved Agricultural Purposes

In order to bring the lending norms being followed by co-operatives on par with those in vogue in commercial banks, it has been decided to modify, with immediate effect, the security norms in respect of advances made by co-operatives covering medium-term loans for agricultural purposes and all term loan advances made under special programmes more particularly IRDP. The modified instruction issued by the NABARD would ensure uniformity in the lending norms being followed by commercial banks, RRBs and co-operatives.

NABARD's Assistance for Agriculture

The NABARD as an apex refinancing agency in the field of rural credit provides refinance assistance to the eligible co-operatives and commercial banks for different purposes and durations. It provides short-term credit for periods not exceeding 18 months to SCBs/RRBs for seasonal agricultural operations (crop loans), marketing of crops, purchase and distribution of fertilisers and working capital requirements of co-operative sugar factories. It also provides medium-term credit (18 months to 7 years) to SCBs/RRBs for approved agricultural purposes, purchase of shares of processing societies and conversion of short-term crop loans into medium-term loans in areas affected by natural calamities.

Long-term credit for a period of 25 years is provided by the NABARD to SCBs, LDBs, RRBs and commercial banks for investment in agriculture under schematic lending. Long-term loans (for periods not exceeding 20 years) are provided to State Governments to enable them to contribute to the share capital of the co-operative credit institutions. The details of financial assistance provided by the NABARD to co-operatives and State Governments as well as the rates of interest are presented in Table VII-44. The credit facilities are reviewed in the following paragraphs.

Credit Limits

Short-term

During 1986-87 (July-June), short-term credit limits aggregating Rs. 1,425 crores were sanctioned by the NABARD for financing seasonal agricultural operations as against Rs. 1,309 crores during the previous year. The sanction accorded during 1986-87 include Rs. 41 crores under National Oilseeds Development Project (NODP). The drawals against these limits during 1986-87 (July-June) were Rs. 1,756 crores as compared to Rs. 1,698 crores in 1985-86. Total repayments during 1986-87 (July-June) were Rs. 1,647 crores as compared to Rs. 1,594 crores in 1985-86 (July-June). The outstandings against the limits stood at Rs. 660 crores as on June 30, 1987 as compared with Rs. 551 crores as on June 30, 1986. The NABARD continued to sanction separate credit limits for financing ***Kharif*** and ***rabi*** crops to the States. The details of financial accommodation provided by the NABARD for agriculture and other purposes like marketing of crops, distribution of fertilisers, etc. are given in Table VII-44.

Medium-term

During the calendar year 1986, credit limits for medium-term agricultural purposes sanctioned to SCBs and drawals made by them amounted to Rs. 22 crores and Rs. 14 crores, respectively, as against Rs. 24 crores and Rs. 13 crores, respectively, in the preceding year. The amount outstanding at end-December 1986 was Rs. 34 crores as compared to Rs. 35 crores a year ago. Credit limits sanctioned to the SCBs on behalf of CCBs and drawals made by them during the year are shown in Table VII-44. As mentioned in the last year's Report, limits sanctioned for medium-term agricultural purposes in recent years are lower than those in the earlier years,as a separate refinance facility for these purposes (like purchase of drought work animals and animal-driven carts, sheep breeding, development of piggery, minor irrigation, installation of gobar gas plants, etc.) is available under IRDP.

Conversion Loans

An aggregate credit limit of Rs. 192 crores was sanctioned by the NABARD during 1986-87(July-June) as against Rs. 117 crores during 1985-86 from the NRC (Stabilisation) Fund to enable SCBs/CCBs to convert short-term agricultural loans (including rephasement and reschedulement of loans) granted to farmers into medium-term loans in the event of widespread crop failure as a result of drought, floods or other natural calamities. The drawals against these limits during 1986-87 (July-June) amounted to Rs. 120 crores as against Rs. 88 crores during 1985-86 (July-June). The amount

outstanding at the end of June 1987 stood at Rs. 168 crores as compared with Rs. 142 crores at end-June 1986.

Long-term

During the financial year 1986-87 (April-March), long-term credit limits amounting to Rs. 14 crores were sanctioned to State Governments for contribution to the share capital of co-operative credit institutions as against Rs. 6 crores sanctioned during 1985-86. The drawals against these limits during 1986-87 stood at Rs. 12 crores as compared to about Rs. 7 crores in 1985-86. The amount outstanding against these loans declined to Rs. 95 crores by the end of March 1987 from Rs. 101 crores a year ago.

Important Policy Changes

Short-term Credit

a) Limits for Seasonal Agricultural Operations

As a measure to assist the CCBs which are weak and are under rehabilitation, it was decided to sanction short-term (ST) credit limits on behalf of such CCBs for financing seasonal agricultural operations (SAO) even if their overdues exceeded 60 per cent but were not more than 65 per cent of the total demand, provided a time-bound rehabilitation programme had been drawn up and was under implementation to the satisfaction of the NABARD.

b) Marketing of crops

With a view to helping CCBs which have been classified as 'weak' and are under rehabilitation, the NABARD has decided to sanction credit limits for marketing of crops to such banks even if their overdues as on June 30, 1985 exceeded 60 per cent but were not more than 65 per cent of the total demand for the year 1984-85, provided a time-bound rehabilitation programme has been drawn up and is being implemented to the satisfaction of the NABARD. Further, the NABARD has also agreed to consider on merit, request for sanction of marketing credit limits to SCBs in the North-Eastern region functioning as central financing agencies and CCBs operating in that region, even if their overdues exceeded 60 per cent of the demand.

c) National Oilseeds Development Project (NODP)

The drawals by State Co-operative Banks (SCBs) on behalf of Central Co-operative Banks (CCBs) for financing cultivation of oilseeds in areas covered under NODP were permitted subject to the availability of non-overdue cover (NODC) in respect of NODP loans and separate monthly NODC statements were required to be forwarded by CCBs to SCBs and by the latter to NABARD within the stipulated time. In view of the difficulties expressed by the banks in resorting to separate NODC, it has been decided that such of those CCBs which are not in a position to furnish separate NODC position in respect of NODP lendings would be permitted drawals on the basis of total non-overdue cover subject to the condition that total drawals under the separate credit limits sanctioned for financing cultivation of oilseeds covered under NODP would not exceed the total disbursements made for NODP during the year.

The relaxation will be subject to a review by the end of the year 1987-88.

d) Pilot Project Districts

The NABARD has launched a 15-Point Programme for the development of 30 PACS and all LAMPS in 15 selected pilot project districts. In order to assist the CCBs in these districts to achieve the objectives of the scheme, it has been decided to sanction short-term credit limits for Seasonal Agricultural Operations (SAO) to CCBs functioning in the pilot project districts, even if their overdues exceeded 60 per cent but were not more than 65 per cent of the demand. The above relaxation is a one-time measure and banks would

Table VII—44 : NABARD' Credit to the Co-operatives and State Governments during 1985-86 and 1986-87 (Rupees crores)

Section of the NABARD Act, 1981	Term-wise/Purpose-wise Finance	Period for which limits are sanctioned	1985-86				1986-87 (Provisional)			
			Limits sanctioned	Drawals	Repayments	Outstandings	Limits sanctioned	Drawals	Repayments	Outstandings
1	2	3	4	5	6	7	8	9	10	11
	I. Short-term	**Total**	**1,672**	**2,219**	**2,107**	**747**	**1,781**	**2,468**	**2,425**	**790**
21(1)(i)/2(i)	(i) (a) Seasonal agricultural operations	July-								
21(1)(i)/3(a)	(at 3% below Bank Rate from March 1978)@	June	1,309	1,698	1,594	551	1,425	1,756	1,647	660
	(b) Out of which for National Oilseeds	July-								
	Development Project	June	—	—	—	—	41	17	4	13
21(1)(i)/3(b)	(ii) Marketing of crops other than cotton & kapas (at Bank Rate from June 1978)									
21(1)(i)/3(b)	(iii) Marketing of cotton and kapas including monopoly procurement of cotton (at Bank Rate from June 1978)	July-June	40	67	67	—	42	—	—	—
21(1)(ii)/3(b)	(iv) Purchase and distribution of fertilisers (at 1% above Bank Rate from June 1978)	January-December	29	48	40	24	36	45	52	17
21(1)(v)/3(a)	(v) Production and marketing of handloom products (at 2½% below Bank Rate from March 1978)	April-March	244	362	367	159	256	640	697	102
21(1)(v)/3(a)	(vi) financing of other cottage and small-scale industries (at 2½% below Bank Rate from March 1987)£	April-March	7	5	5	5	11	10	6	9
21(1)(iv)/21(4)	(vii) Purchase and sale of yarn (at Bank Rate)	April-March	11	33	29	6	10	16	20	2
21(1)(iii)/21(3)(a) & 3(b)	(viii) Against pledge of sugar (at 5% above Bank Rate)	July-June	30	5	5	—	—	—	—	—
21(1)(iii)/21(2)(i)	(ix) Against pledge of securities earmarked under Agricultural credit Stabilisation Fund for meeting SCB share in M.T. Conversion loans (Bank Rate)	July-June	2	1	—	2	1	1	3	—
21(1)(iii)/21(3)(a)	(x) Collection and Marketing of minor forest produce (Bank Rate)	July-June	—	—	—	—	—	—	—	—

Table VII–44 : NABARD Credit to Co-operatives and State Governments during 1985-86 and 1986-87 *(Concld.)*

(Rupees crores)

1	2	3	4	5	6	7	8	9	10	11
24	**II. Medium-term**	**Total**	**142**	**102**	**83**	**177**	**215**	**134**	**109**	**202**
	(i) Agricultural purpose (at 3% below Bank Rate)	January-December	24	13	16	35	22	14	15	34
	(ii) Purchase of shares in Co-operative processing societies/sugar factories (Bank Rate)	January-December	1	1	1	—	1	—	—	—
22	(iii) Conversion of short-term loans into medium-term loans in scarcity affected areas including rephasement & reschedulement (at 3% below Bank Rate from January 1979)	July-June	117	88	66	142	192	120	94	168
27	**III. Long-term**	**Total**	**6**	**7**	**15**	**101**	**14**	**12**	**18**	**95**
	Loans to State Governments for contribution to share capital of co-operative credit institutions (at 6% per annum)	April-March	6	7	15	101	14	12	18	95
	Total Credit		**1,820**	**2,328**	**2,205**	**1,025**	**2,010**	**2,614**	**2,552**	**1,087**

— = Nil or Negligible.

£ = Includes financing of individual rural artisans through PACS.

@ = Includes limit sanctioned and operations for NODP which is separately indicated at (b)

Source : NABARD.

have to bring down the level of overdues by 5 percentage points during the next year.

Medium-term Credit

a) Assessment of Crop Yields in the Event of Natural Calamities for Conversion of Short-term Production Loans into Medium-term Loans

The recommendations of the Working Group up set up by the Department of Agriculture and Co-operation, Government of India for evolving a scientific method for conversion of short-term production loans into medium-term loans have been accepted by the Government. In the context of the recommendations of the Working Group relating to declaration of 'annewari', it has been decided by the NABARD that requests received from SCBs for conversion of short-term loans into medium-term loans on account of damage to crops due to natural calamities representing current demand, would be entertained only if the NABARD is satisfied that all the recommendations of the Working Group have been accepted by the concerned State Government and that the 'annewari' is declared on the basis of the modified system recommended by the Group.

b) Minimum Involvement of Internal Lendable Resources of SCBs and CCBs in Agricultural Lending

As mentioned in the last year'sReport, the SCBs and CCBs are required to involve a minimum percentage of their internal lendable resources in short-term agricultural lendings following the acceptance of the recommendations of the Study Group on Norms for Involvement of Resources by State and Central Co-operative Banks in Agricultural Lending (Bhave Group). The NABARD has since decided that the involvement of SCBs and CCBs in medium-term (conversion) loans should also be reckoned for the purpose of complying with the minimum involvement-stipulation.

c) Working Capital Requirements of Societies for Procurement of 'Janata Cloth'

Under the New Textile Policy announced by the Government of India in June 1985, targets for production of 'Janata Cloth' for each State were allotted. As the scheme is intended mainly to benefit the weaker sections of the society, it has been decided that the apex/regional weavers' co-operative societies may be allowed to show as cover for their borrowing the subsidy/claims in respect of procurement of 'Janata Cloth' subject to certain terms and conditions.

SCBs have been permitted to retain a margin of 2 per cent instead of 1.5 per cent on their advances to the apex/regional weavers' societies for trading in yarn, over the NABARD' present refinance rate of 10 per cent per annum by suitably raising the ultimate lending rate.

Long-term Credit

Loans to State Governments from NRC (LTO) Fund for Contribution to the Share Capital of Co-operative Credit Institutions

With a view to enabling the co-operative credit institutions to have adequate borrowing power for achieving the lending targets, the ceilings for grant of loans to the State Governments for contribution to the share capital of co-operative institutions from out of the NRC (LTO) Fund have been revised upwards as indicated overleaf .

Further, in order to encourage financing of rural artisan members of PACS, an additional share capital contribution to the extent of 5 per cent of the increase in the loans issued to rural artisan members during the previous year would be granted within the overall ceiling.

The NABARD, in consultation with the RBI, decided to discontinue sanctioning of loans to State Governments out of the NRC (LTO) Fund for contributing to the share capital of PCBs from the financial year 1986-87.

(Rupees lakhs)

Co-operative credit institutions	Existing ceiling	Revised ceiling
(1) CCBs	50.00	100.00
(2) PACS	0.50	1.00
(3) FSS	0.50	1.50
	0.50*(Addl.)	0.50*
(4) LAMPS (covering population upto 10,000)	0.50	1.00
(5) LAMPS (covering a whole block)	1.00	1.50
(6) Small-sized agricultural credit societies in tribal areas other than LAMPS	0.50	1.00
(7) SCBs/CLDBs/PLDBs/	No ceiling fixed. Loans for contribution will be on merit of each case.	

* Sanction of additional loans will depend upon the credit and non-credit business.

In order to provide an incentive, the quantum of State Governments' token contributions to the share capital of good working DCCBs has been raised from Rs. 1 lakh to Rs. 5 lakhs. State Governments are from the financial year 1987-88 also permitted to contribute Rs. 5 lakhs as token contribution to the share capital of good working PLDBs/ branches of SLDBs.

With a view to allowing suitable relaxations to PLDBs functioning in notified tribal areas it has been decided that such PLDBs would be considered eligible for share capital contribution, provided that their overdues to demand do not exceed 35 per cent.

PACS which satisfy the eligibility criteria would be eligible for share capital contribution of Rs. 25,000 instead of Rs. 15,000 and those undertaking, in addition to agricultural credit, activities like issue of consumption loans, non-credit business, financing of rural artisans, craftsmen, etc., would be eligible for contribution upto Rs. 50,000 instead of Rs. 25,000 depending upon the business turn over within the overall ceiling of Rs. 1 lakh.

Lending Programme and Resources of SLDBs

The major sources of funds of the SLDBs are the special development debentures and ordinary debentures. The ordinary debentures issued by the SLDBs are treated as trustee securities and are fully guaranteed by the concerned State Government - both in regard to repayment of principal and payment of interest. Further, the debentures are approved securities under the Reserve Bank of India Act, 1934. The ordinary debentures programme of the SLDBs is finalised by the NABARD.

The total lending programme of the SLDBs for the year 1986-87 (July-June) was fixed at Rs. 593 crores as compared to Rs. 566 crores for 1985-86. The resources for the programme were mainly to be raised by floatation of special development debentures (Rs. 500 crores) sub-

Table VII-45 : Resources of SLDBs (July—June)

(Rupees crores)

Item	1985-86 (Achievements)	1986-87 (Target)	1987-88 (Target)
Lending Programme / Resources	**566**	**593**	**695**
a) Special development debentures	471	500	600
b) Internal resources	0.40	1	—
c) Ordinary debentures (Target) Out of (c)	95	92	95
(i) Actual floatations	89	57	—
(i) Subscription for ordinary debentures received from Central and State Governments	10	8	—
(ii) LIC	35	—	—
(iii) SBI Group	15	15	—
(iv) Commercial banks	10	10	—
(v) Mutual Support/ self-help	19	24	—
Total amount raised (a+b+c (i))	560	558	—

Source : NABARD.

scribed by NABARD, Government of India and State Governments and issue of ordinary debentures (Rs. 92 crores). The ordinary debentures programme had, however, to be pruned down to Rs. 57 crores due to lack of support from LIC. As a result, the total amount raised by SLDBs during 1986-87 stood lower at Rs. 558 crores as against the target of Rs. 593 crores. The support availed of from the institutional investors under the ordinary debentures programme for the year 1985-86 and 1986-87 together with targets for 1987-88 is indicated in Table VII-45.

Issue of Long-term Loans by LDBs for Purchase of Shares in Co-operative Sugar Factories - Enhancement of Limits

Taking into account the substantial increase in the block capital cost of sugar factories and the difficulties faced by them in raising adequate equity from cane-grower members, the existing ceilings on issue of such loans by LDBs have been enhanced by the NABARD with effect from March 20, 1987 as under :

Ceiling per borrower

	Existing	Revised
i) Developed areas	Rs. 2,250/-	Rs. 3,750/-
ii) Industrially less developed/backward areas.	Rs. 2,700/-	Rs. 4,500/-

Rehabilitation Programme of SLDBs

As indicated in the previous year's Report, the implementation of rehabilitation programme in respect of weak SLDBs in Bihar, Gujarat, Karnataka, Maharashtra, Madhya Pradesh and Tamil Nadu was in progress. The World Bank identified four more SLDBs as weak viz., Jammu & Kashmir, Rajasthan, Tripura and West Bengal under the NABARD Credit Project-I. As per the agreement, the NABARD has to review in detail the outstanding recommendations of the Organisation and Management (O & M) studies on these SLDBs and prepare a programme for each of them with a specific time schedule. Accordingly, the recommendations in respect of these SLDBs were critically examined and the implementation thereof within a time schedule was followed up vigorously during 1986-87.

10-Point Action Programme for Strengthening LDB Structure

With a view to improving the financial viability and operational efficiency of the weak primary units in LDBs, the NABARD announced in 1986, a 10-Point Action Programme for rehabilitation of weak PLDBs/branches of SLDBs whose overdues exceeded 60 per cent of the demand as on June 30, 1985. The Action Programme lays stress on investigation of overdues, strengthening of organisation and management, review of loan policies and procedures and strengthening of resources. The programme also envisages financial assistance from NABARD for the appointment of technical staff and subsidy from NABARD for the creation of a rehabilitation cell at SLDB level. Preparation and implementation of the programme commenced during the current year.

Out of the 1,784 PLDBs/branches of SLDBs in the country as on 30th June, 1985, 539 PLDBs/branches of SLDBs in 16 States were, *prima facie,* eligible for being covered under the rehabilitation programme as their overdues exceeded 60 per cent of the demand. Of the 539 PLDBs/branches of SLDBs, 219 PLDBs/branches of SLDBs were not taken up for rehabilitation as they were reported to be either incurring losses continuously for the past 5 years or were not considered capable of attaining viability within a period of next 3-5 years. For effective implementation of the programme, it was decided to take up around 200 PLDBs/branches of SLDBs in 14 States for rehabilitation during 1986-87.

The PLDBs/branches considered non-viable will have to be either amalgamated or liquidated or where the State Governments are not agreeable to take action in this manner

due to socio-economic compulsions, they will have to take full responsibility of nursing these units. Comprehensive rehabilitation programmes have been formulated by 11 States viz., Gujarat, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal.

Refinance Assistance to SLDBs for Financing Individual Artisans, Craftsmen, Handicraftsmen and Small Entrepreneurs

In addition to NABARD's refinance facility to SLDBs for extending financial assistance to the individual artisan members of PACS which have been identified for functional coordination, it has been decided that SLDBs, subject to the provision of the State act/rules/bye-laws, be made eligible to avail of the NABARD's refinance facility. Refinance facilities have been extended to SLDBs for directly financing individual artisans, craftsmen, handicraftsmen and small entrepreneurs by way of composite loans upto Rs. 30,000 each. NABARD's refinance is at an interest rate of 6.5 per cent per annum while the interest to the ultimate beneficiary is at 10 per cent per annum.

NABARD's Long-term Refinance Assistance under Various Schemes

During 1986-87 (July-June), the NABARD sanctioned 10,099 schemes involving refinance commitments of Rs. 1,483 crores as against 7,964 schemes with refinance commitments of Rs. 1,464 crores during the corresponding period of the previous year. Disbursements by the NABARD during the period amounted to Rs. 1,334 crores as against Rs. 1,192 crores during 1985-86 (July-June). As at the end of June 1987, the cumulative number of schemes sanctioned by the NABARD stood at 52,620, the commitments at Rs. 10,749 crores and the disbursements at Rs. 7,953 crores (Table VII-46).

Minor irrigation continued to remain the single largest item both in regard to the number of schemes sanctioned and commitments made. During 1986-87 (July-June), the NABARD sanctioned 3,045 schemes for minor irrigation involving commitments of Rs. 483 crores and 7,054 schemes for diversified purposes (i.e. other than minor irrigation) involving commitments of Rs. 1,000 crores (Table VII-46).

Agency-wise, the share of commercial banks (including RRBs), SLDBs and SCBs in the NABARD's total disbursements stood at Rs. 836 crores (63 per cent), Rs. 433 crores (32 per cent) and Rs. 65 crores (5 per cent), respectively, during 1986-87 (July-June) (Table-VII-47).

Region-wise, the shares of Northern, North-Eastern and Eastern regions in total disbursements rose from 21.0 per cent, 1.8 per cent and 12.4 per cent, respectively, in 1985-86 (July-June) to 21.4 per cent. 2.0 per cent and 14.0 per cent, respectively, in 1986-87 (July-June). The shares of the Central and Western regions, however, declined from their respective shares of 21.5 per cent and 14.7 per cent during 1985-86 (July-June) to 20.3 per cent and 13.7 per cent, respectively, during 1986-87 (July-June). The share of the Southern region remained unchanged at 28.6 per cent (Table VII-48).

The NABARD continued to pursue the policy of development and promotion of agricultural investments in the less developed and/or under-banked States. The disbursements in these States stood at Rs. 563 crores during 1986-87 (July-June) which formed 42.2 per cent of the total disbursements at all-India level as against Rs. 502 crores (42.1 per cent) during the corresponding period of the previous year. On a cumulative basis, total disbursements in these States upto the end of June 1987 amounted to Rs. 3,273 crores (Table VII-49).

Table VII-46 : Purpose-wise Sanctions and Disbursements of Refinance Assistance by NABARD during 1985-86 and 1986-87 (July-June)

(Rupees crores)

Purpose	1985-86			1986-87			Cumulative position as on June 30, 1987@		
	No. of Schemes sanctioned	Commit-ments	Disburse-ments	No. of Schemes sanctioned	Commit-ments	Disburse-ments	No. of Schemes sanctioned	Commit-ments	Disburse-ments*
1	2	3	4	5	6	7	8	9	10
Minor Irrigation	2,589	517	385	3,045	483	460	18,960	4,633	3,384
Land Development/CAD	148	29	27	244	52	26	1,864	411	246
Farm Mechanisation	1,325	205	200	1,483	151	192	8,867	1,520	1,429
Plantation/Horticulture	698	99	63	798	110	68	5,012	770	361
Poultry/Sheep breeding/Piggery	631	46	26	727	55	32	3,685	239	150
Fisheries	191	22	13	335	36	18	1,995	214	104
Dairy Development	558	57	29	719	86	48	3,900	333	189
Storage/Market Yards	237	31	19	114	36	26	1,817	267	210
Others	1,587	458	430	2,634	474	464	6,520	2,362	1,880
Total	**7,964**	**1,464**	**1,192**	**10,099**	**1,483**	**1,334**	**52,620**	**10,749**	**7,953**

* Excludes short-term finance.
@ Cumulative position includes adjustments.
Source : NABARD.

Table VII-47 : Agency-wise Sanctions and Disbursments of Refinance Assistance by NABARD during 1985-86 and 1986-87 (July-June)

(Rupees crores)

Agency	Number of Schemes*		Financial Assistance		NABARD's Commitments		Disbursements by NABARD		Cumulative Position as on June 30, 1986£			
	1985-86	1986-87	1985-86	1986-87	1985-86	1986-87	1985-86	1986-87	No. of Schemes	Financial Assist-ance by Agencies	NABARD's Commit-ments	Disburse-ments by NABARD@
	1	2	3	4	5	6	7	8	9	10	11	12
State Land Development Banks	2,000	2,427	543	573	495	520	337	433	14,425	4,648	4,111	3,021
Scheduled Commercial Banks (including RRBs)	5,763	7,368	1,220	1,158	926	894	819	836	37,034	8,124	6,276	4,671
State Co-operative Banks	201	304	51	81	43	69	36	65	1,161	417	362	261
Total	**7,964**	**10,099**	**1,814**	**1,812**	**1,464**	**1,483**	**1,192**	**1,334**	**52,620**	**13,189**	**10,749**	**7,953**

@ Excludes short-term finance.

* Excludes IRDP Plans.

£ Cumulative position includes adjustments.

Source : NABARD.

Integrated Rural Development Programme

The Integrated Rural Development Programme (IRDP) is a major instrument of the Government strategy to alleviate poverty since the Sixth Plan. Its objective is to provide assistance to the target group viz., scheduled castes, scheduled tribes, agricultural labour, rural artisans, marginal and small farmers to enable them to improve their income and eventually cross the poverty line. This is done by providing productive assets to the identified families. The assets which could be in the primary, secondary or tertiary sectors are acquired by financial assistance which comprises subsidy and bank loans. The extent of subsidy is 25 per cent for small farmers, 33 1/3 per cent for marginal farmers, agricultural labourers, artisans and 50 per cent for tribal families. An individual family may receive subsidy upto Rs. 3,000 in normal areas, Rs. 4,000 in areas where Drought Prone Area Programme was implemented and Rs. 5,000 when the family is tribal. For minor irrigation projects under the programme, there are no monetary ceilings on subsidy (though percentage ceilings apply) for old as well as new families. The programme is a centrally sponsored one on 50:50 Centre/State share basis.

The programme is being implemented through District Rural Development Agencies (DRDA). At the State level, a Coordination Committee headed by the Chief Secretary of the State Government monitors the overall aspects of the implementation of the programme. The strategy adopted during the Seventh Plan is two-fold: first, the progress made during the Sixth Plan should be consolidated and those who have not been able to cross the poverty line for no fault of theirs needs to be given supplementary assistance, while the second part of the strategy is to take up new beneficiaries who are to be assisted in such a way that they are able to cross the poverty line with a single dose of assistance.

Identification of families is done on the basis of annual consolidated income not exceeding Rs. 4,800 though the poverty line is taken as income not exceeding Rs. 6,400 per annum. During the Sixth Plan the total expenditure under IRDP was Rs. 1,661 crores and credit of the order of Rs. 3,102 crores was provided through the banking system which has resulted in a total investment of Rs. 4,763 crores covering 16.6 million beneficiaries. Of these, 6.5 million were scheduled castes and scheduled tribes. The per capita investment was of the order of Rs. 2,876. The Seventh Plan envisages a target of assisting 20 million families. This includes about 10 million families of the Sixth Plan beneficiaries who may not have actually crossed the poverty line. The families would be given on an average supplementary assistance of Rs. 500 per household. The scheme envisages to cover women beneficiaries to the extent of 30 per cent of the total.

During the year 1986-87 (till end-February 1987), 2.84 million families received assistance under the scheme. Out of this, 1.25 million families constituted 44 per cent of the total. Annual data since 1982-83 are given in the table below:-

Progress of Integrated Rural Development Programme

Item	Unit	1982-83	1983-84	1984-85	1985-86	1986-87 (Upto February, 1987)
1	2	3	4	5	6	7
1. Central allocation	Rs. crores	204.48	207.72	207.72	205.93	277.31
2. Central Releases	"	176.17	194.23	206.96	207.10	278.80
3. Total expenditure including State's share	"	159.59	406.09	472.20	441.10	482.01
4. Term credit disbursed	"	713.98	773.51	857.48	730.15	700.73
5. No. of families assisted	in lakhs	34.55	36.85	39.82	30.61	28.45
6. No. of SC/ST families assisted	"	14.06	15.37	17.38	13.23	12.46

Source : Ministry of Agriculture.

Table VII—48 :Region-wise disbursements of refinance assistance by NABARD (July-June)

(Rupees crores)

Region	1984-85	1985-86	1986-87
- 1	2	3	4
Northern	241 (22.7)	250 21.0)	286 (21.4)
North-Eastern	14 (1.3)	22 (1.8)	26 (2.0)
Eastern	126 (11.9)	148 (12.4)	187 (14.0)
Central	238 (22.5)	256 (21.5)	271 (20.0)
Western	153 (14.4)	175 (14.7)	183 (13.7)
Southern	289 (27.2)	341 (28.6)	381 (28.6)
Total	**1,061 (100.0)**	**1,192 (100.0)**	**1,334 (100.0)**

Northern Region : Chandigarh, Delhi, Haryana, Himachal Pradesh, Jammu & Kashmir, Punjab and Rajasthan.
North-Eastern Region: Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and Arunachal Pradesh.
Eastern Region : Sikkim, Bihar, Orissa, West Bengal, and Andaman & Nicobar Islands.
Central Region : Madhya Pradesh and Uttar Pradesh.
Western Region : Goa, Daman & Diu, Dadra & Nagar Haveli, Gujarat and Maharashtra.
Southern Region : Andhra Pradesh, Karnataka, Kerala, Pondicherry and Tamil Nadu.

Note : Figures in brackets are percentages to total.
Source : NABARD.

Refinance under Integrated Rural Development Programme (IRDP)

During 1986-87 (July-June), the NABARD's refinance assistance under IRDP amounted to Rs. 379 crores. The share of Commercial Banks (45 per cent) and RRBs (44 per cent) in total disbursements under IRDP were almost the same during the period, with SCB s (8 per cent and SLDBs (3 per cent). The Industry, Service and Business (ISB) component of the IRDP accounted for Rs. 197 crores (52 per cent)of the total disbursements under IRDP during 1986-87 (July-June) as against Rs. 141 crores (38 per cent) during the corresponding period of the previous year (Table VII-50).

Refinance Facilities - Policy Changes

Collection and Marketing of Minor Forest Produce

With a view to providing necessary support for procurement and marketing of minor forest produce, which is essential for the economic development of Adivasis and Scheduled Tribes, the scope of refinance facility available from the NABARD for collection and marketing of minor forest produce has been enlarged to cover all types of minor forest produce which are fast moving and where operations are conducted on a commercial basis. The items, however, should not be perishable in nature and should have ready marketability. The items covered under the minor forest produce are hill brooms, tamarind, shikkakai, tendu (beedi) leaves, siali leaves, marking nuts, gum, arrow-root, medicinal herbs and roots, etc. In addition, financial assistance for production activities undertaken by the Adivasis and Scheduled Tribes for raising crops on their land as also marketing thereof would be eligible for refinance from the NABARD.

Table VII-49 : Disbursements of refinance assistance by NABARD to less developed and/or under-banked states during 1985-86 and 1986-87 (July-June)

(Schematic Lending)

(Rupees crores)

States/Union Territories	1985-86	1986-87
1	2	3
1. Uttar Pradesh	169	181
2. Madhya Pradesh	88	90
3. Bihar	74	88
4. Rajasthan	64	65
5. Orissa	34	43
6. Jammu & Kashmir	7	8
7. West Bengal	40	56
8. Assam & Other North-Eastern States	22	26
9. Himachal Pradesh	3	6
10. Andaman & Nicobar Islands	—	—
11. Sikkim	—	—
Disbursements (1 to 11)	**502**	**563**
	(42.0)	**(42.2)**
Total Disbursements (All-India)	**1,192**	**1,334**

Note : Figures in brackets indicate percentage to total disbursements.
Source: NABARD

Table VII–50 : NABARD's refinance assistance for IRDP

(July-June)

(Rupees crores)

Type of Agency	Disbursements during 1984-85	Disbursements during 1985-86	Disbursements during 1986-87	Disbursements upto end-June 1987
1	2	3	4	5
SLDBs	13	9	10	68
	(—)	(—)	(—)	(—)
Commercial Banks	191	214	172	846
(Excluding RRBs)	(50)	(71)	(87)	(233)
RRBs	122	135	165	577
	(53)	(67)	(99)	(528)
SCBs	28	18	32	150
	(4)	(3)	(11)	(21)
Total	**354**	**376**	**379**	**1,641**
	(107)	**(141)**	**(197)**	**(512)**

Note : Figures in brackets indicate disbursements for ISB component.
Source: NABARD.

Refinance Facility for Loans for Purchase of Dual Fuel Engines and Composite Loans for Installation of Bio-gas Plants & Dual Fuel Engines

The NABARD has decided to extend refinance facilities to scheduled commercial banks, SCBs and SLDBs in respect of schemes for providing (i) loans for purchase of dual fuel engines to farmers who have already set up bio-gas plants of the required capacity, and (ii) composite loans for setting up bio-gas plants of the required size and purchase of dual fuel engines, mainly for minor irrigation purposes, with a view to conserving the conventional sources of energy. Refinance is also extended for purchase of a low pressure portable balloon for transporting bio-gas from the plant to the engine installed near the well wherever the bio-gas plant is away from the well. Refinance from NABARD will be provided to the extent of 95 per cent of loans disbursed by SLDBs and 90 per cent of loans disbursed by other eligible institutions. The rate of interest on NABARD's refinance would be 6.5 per cent and financing banks should charge 10 per cent to the ultimate borrower. The period of repayment should be limited to 9 years.

Refinance for Wasteland Development

The NABARD has been providing 100 per cent refinance for the scheme of wasteland development through setting up of nurseries for raising fodder, fuelwood and timber trees. The scheme, which was introduced on a pilot basis in 19 districts during 1985, has been extended to all blocks throughout the country.

NABARD's refinance will also be available for the Tree Patta Scheme of the Government of India formulated during the current year. The scheme will be implemented by the State Governments with a view to involving the village communities in the massive programme of social forestry and to achieve the objective of bringing 5 million hectares of wasteland under fuelwood and fodder by making it a people's programme. Under the scheme, the patta/permit holder would not have any ownership right whatsoever on the landsallotted to them, but would be entitled to use products of the trees planted by them on such lands. The earmarked land should be used for raising fuelwood, fodder and fruit trees but not for any other purposes. The permit holders may avail of bank loans for raising the trees against hypothecation of trees covered under the tree patta/permit by depositing the same with the bank. The validity of the permit will be continuous with the silvicultural life of the trees, and in any case not less than the period of term loans which may not exceed 15 years. Transfer of the patta during the currency of the term loan can be done only with the consent of the financing institution.

Strengthening and Future Development of Co-operative Structure

Reorganisation of PACS

The policy of reorganisation of PACS into strong and viable units was in vogue. The process of reorganisation has already been completed in all the States except Gujarat, Jammu & Kashmir and Maharashtra. The number of PACS, has increased from 91,749 as at the end of June 1985 to 92,430 at end-June 1986.

Inspite of reorganisation of PACS in most of the States, a large number of societies continue to have low borrowing membership, low business turnover and high level of overdues resulting in accumulation of losses. Thus many of them continue to be non-viable. The minimum level of loan business of Rs.2 lakhs which was considered adequate for viability in 1976 does not hold good in the present context due to a variety of reasons viz., revision of rates of interest and escalation in wage level and other overheads.

To have a fresh look at the norms of viability for PACS prescribed by RBI a decade ago, the NABARD has recently undertaken studies in selected areas. The findings of the study

prima-facie revealed that there is an urgent need for upward revision of the viability norms for PACS. The NABARD proposes to wait for the recommendation of Senior Expert Group appointed under the terms of NABARD Credit Project-I which has been entrusted to examine this aspect.

Based on the recommendations of the CRAFICARD, the NABARD had circulated detailed guidelines to all the State Governments stressing the need for a time bound programme for improving the contents of services rendered by PACS such as assuming the character of rural banking institutions by providing not only diversified credit facilities to their members but also extending facilities for marketing of produce, distribution of inputs and mobilising rural deposits. The State Governments were advised to select 10 to 15 societies in each district subject to 10 per cent of the profit making societies in the State aggregating 5,000 for the whole country for their intensive development by 1982-83 and gradually extend the scheme to all the societies by the end of the Sixth Five Year Plan (1985). As at the end of June 1987, as many as 4,826 societies in 18 States/Union Territories have been selected for intensive development. Data collected in respect of 275 societies, on a pilot basis, from thirteen States revealed that while the selected PACS in the States of Haryana, Karnataka, Kerala and Madhya Pradesh had maintained the steady pace of their development in membership drive, deposit mobilisation, increase in loaning business and non-credit activities, in other States like Himachal Pradesh, Rajasthan and Tamil Nadu, the PACS had achieved considerable progress.

Co-operative Banks in the North-Eastern Region

The working of SCBs in the States of Manipur, Tripura and Meghalaya has been seriously affected by heavy overdues. These banks were permitted to block the overdues over 3 years for the purpose of providing them with refinance facilities from the NABARD. All the SCBs in the North-East have also been permitted to draw refinance from NABARD, irrespective of their level of overdues. A study was also conducted to review the organisational and financial aspects of the Meghalaya Apex Bank, the findings of which are awaited.

Rehabilitation of CCBs/SCBs

As on June 30, 1986, 173 CCBs were brought under the programme of rehabilitation. The largest number of weak banks were in Bihar (34) followed by Uttar Pradesh and West Bengal (16 each). The programme of rehabilitation also covers 8 SCBs in the areas served by two-tier co-operative credit structure viz., Assam, Chandigarh, Delhi, Goa, Jammu & Kashmir, Manipur, Nagaland and Tripura.

NABARD's Assistance for Non-Agricultural Sector

The NABARD, besides providing credit for agriculture and allied activities, also provides financial assistance to the non-farm sector with a view to promoting integrated rural development and securing prosperity of rural areas. Financial assistance is thus provided to small-scale industries, cottage and village industries, industrial co-operative societies, etc., for meeting their working capital and block capital requirements. The short-term credit is provided for the purpose of financing production and marketing activities of co-operative sugar mills, handloom weavers' societies and 22 broad groups of recognised cottage and small-scale industries, industrial co-operative societies and weavers and rural artisan members of the village level co-operatives. Medium-term finance is also provided for meeting their investment capital needs. The changes in refinance assistance provided by the NABARD to this sector are reviewed in the following paragraphs.

Industrial Co-operatives

Refinance for Acquisition of Powerlooms

With a view to assisting the powerloom

weavers and the societies organised by them to acquire their own looms so as to generate productive employment, the NABARD has extended term loan refinance facilities through co-operative banks to members of primary handloom/powerloom weavers' societies as also to primary powerloom weavers' societies themselves for acquisition of powerlooms. The maximum number of looms which may be acquired by an individual under the scheme will be limited to four and the quantum of loan will be limited to Rs. 25,000 per loom or the actual cost, whichever is less. In the case of societies, while the cost of investment will be limited to Rs. 25,000 per loom or the actual cost, whichever is less, there will be no ceiling on number of looms provided the total investment in plant and machinery does not exceed the SSI limits.

Revision of per Loom Scale of Finance for Silk on Handlooms

The NABARD has revised, with effect from March 13, 1987, the per loom scale of finance for silk variety of cloth produced on handlooms by newly organised societies or societies to be reactivised from Rs. 6,000/– to Rs. 10,000/–

Separate Scale of Finance for Kullu Variety of Shawls

The NABARD has fixed separate per loom scale of finance at Rs. 7,000/- in respect of special variety of woollen shawls(Kullu variety), produced on handlooms in Himachal Pradesh with effect from July 30, 1986.

Term Loan Refinance Facilities for Financing of Industrial Co-operative Societies

In modification of the earlier decision to fix a ceiling on loans to Industrial Co-operative Societies (upto Rs. 5 lakhs), the NABARD will now consider on the merits of each case, term loan refinance proposals in excess of Rs. 5 lakhs, provided their investment in plant and machinery does not exceed the SSI limits.

Term Loan Refinance Facilities for Industrial Co-operative Societies - Enlargement of Scope

Term loan refinance proposal from SCBs in respect of industrial co-operatives which exceed the hitherto stipulated limit of Rs. 5 lakhs will now be considered by the NABARD provided the investment in plant and machinery of the unit does not exceed the SSI limit. Apart from investment in plant and machinery, workshed, godown, showroom and delivery van/truck have also been made eligible items of investment by industrial co-operatives under the facility.

Non-farm Activities

Refinance Assistance to Commercial Banks for Financing, Cottage, Tiny and Village Industries

All Registered Institutions (RIs) registered under the Societies Registration Act, 1860 have been made eligible for NABARD's refinance facility through commercial banks irrespective of recognition by KVIC/KVIB. Term loan refinance proposals in respect of RIs which exceed the hitherto stipulated limit of Rs. 5 lakhs will now be considered by the NABARD, provided the investment in plant and machinery for the unit does not exceed the SSI limit. The RIs may integrate working capital requirements of one cycle with the term loan. Apart from plant and machinery, workshed, godown, showroom and delivery van/truck have also been made eligible items of investment under this facility. In order to encourage the banks to increase their lendings under the scheme, suitable modifications have been made as indicated below :

i) The ceiling/limit of loan amount eligible for refinance in respect of bank loans to individuals/proprietary/partnerhsip firms has been enhanced to Rs. 5 lakhs instead of between Rs. 1 lakh and Rs. 2 lakhs;

ii) Apart from the list of 22 broad groups of cottage and village industries approved by

RBI/NABARD, any industrial activity approved by the Development Commissioner (SSI), Government of India in the SSI sector has also been made eligible for refinance assistance under NABARD's scheme for non-farm sector;

iii) Activities to be undertaken by the artisans and craftsmen on cluster basis may be assisted at any location irrespective of the population criterion of 50,000. Furthermore, units and projects which have been specifically set up for providing support exclusively to the cottage/village units in rural areas will also be made eligible for refinance assistance under Automatic Refinance Facility Scheme regardless of their location.

Soft Loan Assistance towards Margin Money to Cottage and Village Industrial Units in Rural Areas-Scheduled Commercial Banks

Hitherto, the soft loan assistance for margin money was available only to individuals/proprietary/partnership concerns. This has now been extended to group of individuals, Government/quasi-Government agencies, promotional agencies, development corporations, registered and charitable institutions and voluntary organisations availing of refinance assistance under the General Refinance Scheme for setting up production units as well as infrastructural and promotional support projects for establishment of raw material supply centres, marketing centres, common facility units, etc.

Relaxation in respect of Maximum Size of Bio-gas Plants to be Financed by RRBs

The NABARD's refinance facility to RRBs was available for their advances for installation of bio-gas plants only upto a maximum size of 3 cubic metres to the beneficiaries in the target group. The NABARD has since decided to permit RRBs to finance beneficiaries belonging to the target groups for bio-gas plants of above 3 cubic metres also.

Norms for assessment of working capital requirements of COIRFED

The norms for assessment of working capital requirements of the Kerala State Co-operative Coir Marketing Federation Ltd., (COIRFED) have been revised from 40% to 50% of the anticipated sales of the Federation.

Refinance facilities for development of Sericulture-Mulberry sector

It has been decided to provide working capital requirements for one operating cycle as well as the cost of connected equipments, installation expenses, etc. as additional components along with the term loan refinance facilities extended to all eligible institutions for providing block capital loans for acquisition of improved charkas, cottage basins, twisting machines, etc.

Delinking of overdue norms from eligibility criteria for refinance assistance of NABARD to commercial banks/co-operative banks for financing non-farm sector

NABARD has earlier in January 1986 delinked the overdue norms from eligibility criteria for its refinance assistance to commercial banks for financing non-farm sector for a period of 3 years ending June 1988. However, based on the practical difficulties expressed by the commercial banks in maintaining DCB register for the purpose, it has been decided to delink, on permanent basis the overdue norms from eligibility for availing of NABARD's refinance for the above purpose. Similar exemption was also extended to SCBs/DCCBs and SLDBs.

Extension of NABARD's refinance scheme under Automatic Refinance Facility to small scale service units

NABARD has decided to liberalise its Automatic Refinance Facility for cottage, tiny and village industries and make it also applicable to service-oriented industries which do

not have investment in fixed assets exceeding Rs. 2 lakhs and are situated in rural areas and towns with population of one lakh or less. Illustratively, 'Small Scale Service Oriented establishments/activities' would include pump-set (electrical/diesel) repairs/electrical wiring/repairings, automobile/scooter/motor cycle/tractor repairs, repairs/maintenance of consumer durables, laundry, zeroxing, grinding, etc. For small borrowers, the commercial banks, RRBs, SLDBs and SCBs/DCCBs could sanction a composite loan of Rs. 30,000/- while for bigger borrowers, the Commercial Banks and SCBs can sanction a loan upto Rs. 5 lakhs which would be eligible for refinance provided the activity is not of purely a trading or business nature and there exists sufficient scope for the industry in the area.

In case of RRBs, composite loans for small scale establishments owned by tribals, maximum composite loan of Rs. 5,000/- to a single individual and Rs. 30,000/- in the case of group loans may be sanctioned.

Refinance Assistance under Automatic Refinance Facility in respect of composite loans for Non-farm sector artisan members of PACS/LAMPS, FSS/Primary Level Societies

In order to remove the several practical difficulties involved in providing credit assistance for block capital and working capital separately to individual rural artisans through PACS, NABARD has, effective from June 29, 1987 extended refinance on an automatic basis to SCBs on behalf of DCCBs (and also to SCBs operating under the two-tier credit system) to enable the latter to provide composite loans upto Rs. 30,000/- each to individuals/rural artisan members of PACS/LAMPS/FSS/Primary Industrial Societies (including block Level Village Artisan (Baluteders) Multi-purpose Co-operative Societies (BLVAMPS) - in Maharashtra) subject to certain safeguards and conditions.

The composite loan is extended for undertaking any of the 22 broad groups of cottage, and small scale industries including agro-processing and handicrafts activities and activities approved by the Development Commissioner (SSI), Government of India in the Small Scale Industries. The extent of refinance is 100 per cent. The ultimate borrower is charged an interest of 10 per cent per annum, the repayment period is 3-10 years.

Refinance Assistance to State/District Central Co-operative Banks for Financing directly to Small, Cottage and Village Industries

During the year, the NABARD has extended its refinance facilities to the SCBs on behalf of DCCBs and also to SCBs operating under the two-tier credit system, to finance individual artisans, craftsmen, handi-craftsmen and other small entrepreneurs/units, for undertaking activities covered by 22 broad groups of cottage, tiny and village industries and also any industrial activity approved by the Development Commissioner (SSI), Government of India in SSI sector. The package of refinance facilities is indicated below :

Package of Refinance Facilities (Per cent per annum)

Scheme	Interest on NABARD's refinance	Interest charged to beneficiaries
1. Composite Loan Scheme for financing individual artisans upto Rs. 30,000 each	6.5	10.0
2. General Refinance Scheme (GRS) for term/integrated loans upto Rs. 5 lakhs each for entrepreneurs for setting up small, tiny, cottage and village industries.	8.0	12.5
3. Scheme for Project Formulation and Consultancy Assistance upto Rs. 10,000 each to beneficiaries under GRS for engaging the services of a consultant.	6.5	10.0

Enhancement of the Loan Limit for Construction of Worksheds

In modification of earlier instructions, the NABARD has now enhanced the loan limit for construction of worksheds in respect of scheduled commercial banks and RRBs. The minimum amount is Rs. 3,000 and the maximum ceiling is fixed at 25 per cent of the composite loan sanctioned to individual rural artisans under the automatic refinance scheme. The scheme for co-operative banks for rural artisan members of primary level societies for construction of worksheds has also been modified so that the loan for construction of worksheds should not be more than 25 per cent of the aggregate loan comprising working capital loan limit and block capital loan issued to a single rural artisan, with a minimum and maximum of Rs. 3,000 and Rs. 7,500, respectively.

Increase in Extent of Refinance to All Banks for Financing Non-Farm Activities

With a view to increasing the credit flow to rural non-farm sector, the NABARD has extended, with effect from July 1986, 100 per cent refinance facility to banks as against the previous level of 90 per cent for their advances for the non-farm sector activities under its refinance scheme (except for bio-gas plants, ISB component of IRDP and SC/ST, Action Plan outside IRDP).

Other Developments

Credit Authorisation Scheme

The responsibility of administering the Credit Authorisation Scheme (CAS) of the Reserve Bank as applicable to co-operative banks continues with the NABARD. During 1986-87 (July-June), credit authorisations granted for block capital finance amounted to Rs. 25.0 crores as against Rs. 59.0 crores in 1985-86 (July-June). During the same period, authorisations for working capital finance were granted for a total amount of Rs. 1,254.0 crores as compared to Rs. 1,239.0 crores in 1985-86. During the year 1986-87, the following instructions regarding sanction of working capital limits to co-operative sugar factories were issued under CAS.

(i) The SCBs were permitted to sanction without prior authorisation from the NABARD, working capital limits against pledge of stocks of sugar to co-operative sugar factories for the 1986-87 sugarcane crushing season to the extent of 115 per cent of the maximum amount availed of by them during the previous season (excluding temporary excess drawings). The NABARD's prior authorisation continued to be obligatory in case any of the sugar factories required additional pledge limits beyond those specified above. No separate/clean hypothecation limits could be sanctioned to sugar factories without prior authorisation. The CCBs were required to obtain, as hitherto, prior authorisation from the NABARD for sanction of working capital limits to co-operative sugar factories in excess of the limits of Rs. 150 lakhs.

(ii) As in the past, the bulk of the authorisations granted for block and working capital finance was in favour of co-operative sugar factories. Hitherto, co-operative processing or marketing-cum-processing and consumer stores societies only were within the purview of the CAS. However, from July 1986 onwards all types of non-credit co-operative societies have been brought within the ambit of CAS.

(iii) The NABARD, in consultation with RBI, revised and realigned, from February 1987, the prescribed limit (cut-off point) for sanction of working capital finance to any type of non-credit co-operative societies. The cut-off points are now Rs. 4 crores for Scheduled SCBs, Rs. 3 crores for Non-Scheduled SCBs and Rs. 1.50 crores for SCBs in States and Union Territories functioning as central financing agencies as well as the CCBs.

(iv) As indicated in the previous year's Report, limits for State level federation/agencies to be granted by SCBs/CCBs for purchase

and distribution of chemical fertilisers now require to be authorised by the NABARD, except where RBI makes the necessary credit arrangements or stocking is done by primary/district level co-operative societies on 'Cash and Carry' basis.

Pilot Project for Strengthening Credit Delivery System

Encouraged by the results in the first three districts, the pilot project for strengthening credit delivery system was extended to 12 more districts with effect from July 1, 1986, making the total number of districts as 15 (including earlier three districts viz., Hoshangabad (Madhya Pradesh), Aurangabad (Maharashtra) and Sabarkantha (Gujarat) instead of proposed 20 districts under Phase-I. The extension Phase-II of the pilot project covering 5 more districts has been deferred to January 1988 since the participating banks were not in a position to provide additional staff due to various constraints.

At the instance of the World Bank, a mid-term evaluation was conducted in respect of three districts viz., Hoshangabad, Sabarkantha and Aurangabad and it was found that the project has contributed to increased volume of lending, modest diversification in loaning, larger deposit mobilisation and improved recovery performance. During the two years of implementation the participating banks which include LDBs and CCBs have shown encouraging trends in recovery, loan business and deposit mobilisation

With a view to enabling the PACS and LAMPS to strengthen their operational efficiency in terms of manpower, financial resources, procedural formalities and intensive training of the staff, the NABARD has launched, from July 1, 1986, a 15-point development programme as a part of the pilot project. The programme aims at intensive development of 30 selected PACS and all LAMPS in each of the pilot project districts in the country. The programme will benefit farmers belonging to SCs/STs engaged in collection of minor forest produce. The NABARD would make available financial assistance for the salary of one additional secretary to be posted in each of the societies and also assistance is to be provided for provision of safe and counter for PACS and for construction of godown for provision of equipment for grading, etc. to LAMPS on a grant-in-aid/loan basis. The NABARD would also give loans to State Governments to enable them to contribute to the share capital of PACS in order to strengthen their capital base.

Licensing of Co-operative Banks

During 1986-87 (July-June), licences to carry on/commence banking business under Section 22(2) of the Banking Regulation Act, 1949 (as applicable to co-operative societies) were issued by the Reserve Bank to 384 PCBs. The total number of licensed co-operative banks as at end-June 1987 went up to 889 (comprising 8 SCBs, 36 CCBs and 845 PCBs) from 504 a year ago. During 1986-87 (July-June), licences were issued to 4 SCBs and 13 PCBs for opening new offices (under Section 23 of the Banking Regulation Act, 1949) as against 6 SCBs and 59 PCBs during 1985-86 (Table VII-51).

Inspection of Banks

During 1986-87 inspections of 7 SLDBs, 178 CCBs, 86 RRBs and 30 other institutions were conducted by the NABARD.

Comprehensive Crop Insurance Scheme

As discussed in the last year's Report, the Comprehensive Crop Insurance Scheme was introduced in the country from 1985 ***Kharif*** season. The scheme has been implemented in 16 States and 4 Union Territories during ***Kharif*** 1986 season. The scheme covered 37.7 lakh farmers and a cultivating area of 74.8 lakh hectares. The crop loans insured aggregated Rs. 828.0 crores and the premium collected amounted to Rs. 14.6 crores as at end-January 1987 (For details see Chapter - III on Agricultural Output).

Table VII—51 : Licences issued to co-operative banks during 1984-85, 1985-86 and 1986-87 (July-June)

	1984-85				1985-86				1986-87			
	SCBs	CCBs	PCBs	Total	SCBs	CCBs	PCBs	Total	SCBs	CCBs	PCBs	Total
	1	2	3	4	5	6	7	8	9	10	11	12
Licences issued to carry on/commence banking business	—	—	35	35	—	—	33	33	—	1	384	385
No. of licensed banks at the end of the year	8	35	428	471	8	35	461	504	8	36	845	889
Licences issued for opening new offices	5 (7)	—	200	205	6 (21)	—	59	65	4 (13)	—	13	17

Notes : Figures in brackets indicate the number of branches for which licences were issued.
— = Nil
Source: Reserve Bank of India.

The Government of India has advised its decision to the banks not to cover crop loans granted to farmers against the security of gold ornaments and jewellery under the scheme.

Minor Irrigation - Installation of Complete Pumping System

The Government of India and the NABARD are keen on increasing the efficiency of agricultural pumpsets installed by farmers for minor irrigation purpose and also to conserve scarce energy resources. One of the ways to achieve this objective is to make an arrangement for supply and erection of an efficient and complete pumping system. ISI specified Standard IS: 10804-85 for selection of complete pumping system which shall form the basis for such installations. A proposal to undertake this work through bank loans in the States of Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Uttar Pradesh and West Bengal has been approved by the NABARD and is under implementation in these States.

Rainfed Farming

The NABARD has revised its approach towards financing rainfed farming projects. As per the new approach, rainfed farming projects should be formulated in districts which nave mean annual rainfall between 750 mm and 1000 mm and where the moisture availability for growing crops for a period of atleast 150 days is fairly certain. The projects are to be formulated in 20 identified districts spread over the States of Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan and Tamil Nadu.

Research and Development Fund

During 1986-87 (July-June) financial assistance was sanctioned by the NABARD from its Research and Development (R&D) Fund to 9 more RRBs for setting up/strengthening their Technical, Monitoring and Evaluation (TME) Cell, bringing the total number of RRBs assisted from the Fund to 39 as on June 30, 1987. During the period, two more SLDBs were sanctioned financial assistance from the Fund for the same purpose. The total number of SLDBs and SCBs for whom financial assistance had been sanctioned from the R & D Fund were 13 and 2, respectively, as on June 30, 1987. During the period, a sum of Rs. 13.24 lakhs was disbursed to RRBs, SLDBs and SCBs for setting up/strengthening their TME Cells.

In addition, the NABARD sanctioned financial assistance from its R & D Fund to various institutions for undertaking research studies, organising seminars/conferences/symposia

etc., on subjects of relevance to NABARD. During the period, 5 such research proposals were approved and 17 seminars were assisted from the Fund. The total financial assistance provided to various research institutions and for conducting seminars/conferences/ symposia, etc., during the period stood at Rs. 33.41 lakhs. The total number of research proposals approved from the R & D Fund as on June 30, 1987 stood at 48. The total financial assistance disbursed from R & D Fund of NABARD during the year 1986-87 (July-June) for all the above purposes stood at Rs. 46.65 lakhs.

Farmers' Service Societies (FSS)

The scheme of setting up Farmers' Service Societies (FSS) to cater to the credit and non-credit requirements of farmers at a single platform is in operation since 1973-74. As on June 30, 1986 there were, 2,537 such societies. Of these, as many as 2,063 societies (or 81.3 per cent) were in four States viz., Uttar Pradesh (1,049), Assam (699), Karnataka (214) and Bihar (101). The membership as at the end of June 1986 was 60.49 lakhs, of which Scheduled Castes and Scheduled Tribes constituted 20.9 per cent. The paid-up capital of FSS stood at Rs. 52.33 crores, of which Rs. 11.29 crores were contributed by State Governments. The FSS had issued loans of Rs. 173.79 crores to 13.36 lakh borrowers during 1985-86. Their overdues at Rs. 111.96 crores formed 46.6 per cent of their outstanding loans at Rs. 240.17 crores at the end of June 1986.

Large-sized Adivasi Multi-purpose Societies (LAMPS)

The large-sized Multi-purpose Societies operate mainly in backward regions viz., hilly and tribal areas. As on June 30, 1986, the number of LAMPS stood at 2,961 with Madhya Pradesh (1,053), Bihar (474), Maharashtra (275), Rajasthan (268) and Orissa (223) together accounting for 77.4 per cent of the total. These societies had a total membership of 43.18 lakhs of which Scheduled Caste and Scheduled Tribes accounted for 6.72 lakhs and 26.25 lakhs, respectively.

The paid-up capital of LAMPS stood at Rs. 49.76 crores, the Government's contribution being Rs. 18.07 crores. The overdues of LAMPS at Rs. 85.78 crores formed 53.1 per cent of their outstanding loans at the end of June 1986.

Massive National Programme of Assistance to Small and Marginal Farmers

The Government of India has extended the above scheme for assisting small and marginal farmers in increasing agricultural production for implementation during the Seventh Five Year Plan with the central share of Rs. 500 crores. The NABARD will continue to provide refinance support to the programme.

Commercial Banks and Rural Credit

Commercial banks have been providing credit to the rural sector, on an increasing scale since the nationalisation of 14 major commercial banks in 1969. As at the end of March 1987, the share of the public sector banks' priority sector advances in the total credit stood at 44.0 per cent as against the national target of 40.0 per cent which was to be achieved by March 1985.

The data (provisional) on outstanding advances of public sector banks to priority sectors as at end-March 1986 and 1987 are given below:

Outstanding advances of public sector banks

(Rupees crores)

	March 1986	March 1987
i) Outstanding advances to priority sectors	20,853	24,552
Percentage to total credit	42.0	44.0
ii) Outstanding direct advances to agriculture	7,420	9,058
Percentage to total credit	15.0	16.2
iii) Outstanding advances to weaker sections	5,098	6,119
Percentage to priority sector advances	24.4	24.9
Percentage to total credit	10.3	11.0

The banks have already reached the stipulated sub-targets of 16.0 per cent in respect of direct finance to agriculture and 10.0 per cent of the total advances to the weaker sections required to be achieved by March, 1987 and March 1985, respectively.

Disbursement of Credit for Agriculture and Allied Activities

Data on direct finance disbursed by scheduled commercial banks (excluding RRBs) for agriculture and allied activities are available upto 1984-85. During 1984-85 (July-June), credit disbursed for agriculture and allied activities amounted to Rs. 2,461 crores, recording an appreciable increase of Rs. 603 crores or 32.5 per cent over the amount disbursed during 1983-84 (Rs. 1,858 crores). As in the previous year, a major portion of the credit (Rs. 1,556 crores or 63.2 per cent) was disbursed by the nationalised banks during 1984-85. The State Bank of India Group accounted for Rs. 807 crores (32.8 per cent) and foreign and other scheduled commercial banks for Rs. 98 crores (4.0 per cent) (Table VII-52).

Table VII—52 : Disbursement of Credit for Agriculture and Allied Activities by Scheduled Commercial Banks during 1983-84 and 1984-85 (July-June)

(Rupees crores)

Category of Banks	1983-84	1984-85
Nationalised Banks	1,130 (60.8)	1,556 (63.2)
State Bank of India Group	655 (35.3)	807 (32.8)
Foreign and other Scheduled Commercial Banks	73 (3.9)	98 (4.0)
Total	1,858 (100.0)	2,461 (100.0)

Note : Figures in brackets indicate the share of each category of banks to the total loans disbursed.

Source : Data collected by RBI under Special Return-1.

Purpose-wise Disbursements

During 1984-85 (July-June), short-term loans aggregating Rs.1,035 crores were disbursed by scheduled commercial banks (excluding RRBs) which formed 42.0 per cent of the total loans disbursed during the year (Rs.2,461 crores). Disbursement of term loans for agriculture and loans for allied activities amounted to Rs. 904 crores (36.7 per cent) and Rs. 523 crores (21.3 per cent), respectively. Among term loans for agriculture, tractors, agricultural implements and machinery accounted for bulk of the loans disbursed (47.3 per cent). The share of minor irrigation schemes was 23.5 per cent. As regards allied agricultural activities, nearly 46.3 per cent of the credit was disbursed for dairying.Poultry farming, piggery and bee-keeping accounted for 13.9 per cent and fisheries for 7.8 per cent (Table VII-53).

Region-wise Disbursements

Region-wise, Southern region continued to account for the bulk of the credit disbursed (Table VII-53). However, its share in the total credit disbursements declined marginally from 52 per cent in 1983-84 to 50.2 per cent in 1984-85. The shares of Eastern region and Central region increased from 5.4 per cent and 10.1 per cent, respectively, in 1983-84 to 7.5 per cent and 11.6 per cent, respectively, in 1984-85. The share of North-Eastern region remained constant at 0.7 per cent; while the share of Northern region declined from 18.2 per cent in 1983-84 to 16.4 per cent in 1984-85, the share of Western region declined marginally by 0.1 per cent to 13.6 per cent.

Central/State Governments and Co-operative Credit

The Government of India also formulates several Central Sector and Centrally Sponsored Schemes to provide financial assistance to co-operatives for specified/identified purposes, especially in the co-operatively underdeveloped States. The progress under these schemes during 1986-87 is reviewed below :

Risk Fund for Consumption Credit

Risk Fund assistance for consumption credit has been in operation as a non-plan scheme

Table VII—53: Purpose-wise/region-wise distribution of credit by scheduled commercial banks during 1984-85 (July-June)

(Rs. lakhs)

Purposes	Northern Region	North-Eastern Region	Eastern Region	Central Region	Western Region	Southern Region	Total
I. Short-term loans (including crop loans)	**9,137**	**456**	**4,842**	**5,754**	**10,244**	**73,055**	**1,03,486**
	(8.8)	(0.4)	(4.7)	(5.6)	(9.9)	(70.6)	(100.0)
	(22.6)	(28.1)	(26.3)	(20.2)	(30.5)	(59.1)	(42.0)
II. Term loans (A+B)	**31,262**	**1,167**	**13,588**	**22,710**	**23,340**	**50,546**	**1,42,612**
	(21.9)	(0.8)	(9.5)	(15.9)	(16.4)	(35.4)	(100.0)
	(77.4)	(71.9)	(73.7)	(79.8)	(69.5)	(40.9)	(58.0)
A) Loans for Agriculture	24,228	578	6,019	17,251	13,506	28,770	90,352
(i) Minor Irrigation Schemes	5,010	10	1,892	4,795	4,013	5,522	21,241
(ii) Reclamation and Land Development Schemes	397	29	254	242	251	1,277	2,450
(iii) Tractors and Agricultural Implements and Machinery	16,372	141	2,211	9,325	5,827	8,889	42,764
(iv) Plantations	83	193	283	106	403	2,770	3,837
(v) Other term loans	2,367	206	1,379	2,783	3,013	10,313	20,060
B) Loans for Allied Activities	7,034	590	7,569	5,459	9,834	21,776	52,260
(i) Dairying	3,958	190	2,794	3,197	4,743	9,332	24,214
(ii) Poultry Farming, Piggery and Bee-keeping	1,022	115	661	434	1,324	3,719	7,276
(iii) Fisheries	36	149	1,292	148	865	1,581	4,072
(iv) Others	2,018	135	2,821	1,679	2,901	7,144	16,698
Grand Total (I + II)	**40,399**	**1,623**	**18,429**	**28,463**	**33,583**	**1,23,601**	**2,46,099**
Region-wise Shares (Percentage)	(16.4)	(0.7)	(7.5)	(11.6)	(13.6)	(50.2)	(100.0)
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Notes : 1. Due to rounding off of figures, the constituent items may not add up to the totals shown.
2. Figures in the first brackets indicate the share of each region to the total loan disbursed under the main categories i.e., short-term loans & term loans.
3. Figures in the second bracket indicate share of each category of loans disbursed to the grand total.

Source: Data collected by RBI under Special Return-I.

since 1977-78, covering all the States and Union Territories. The scheme permits commercial banks, co-operative banks and RRBs to provide consumption credit to weaker sections in rural areas, viz., cultivators with land holdings upto 0.5 acres whether as owners or tenants, landless labourers, rural artisans and other people of meagre means like carpenters, barbers, washermen, etc. Under the scheme, the State Government contributes the entire amount of Risk Fund assistance (i.e., 10 per cent of the total consumption loans disbursed) and later claims 50 per cent of the assistance as reimbursement from the Government of India.

During 1986-87 (April-March), the Government of India released a sum of Rs. 6.24 lakhs under the scheme to five States viz., Andhra Pradesh, Madhya Pradesh, Orissa, Punjab and Uttar Pradesh. An amount of Rs. 4.65 lakhs was released during the previous year to 4 States viz., Madhya Pradesh, Maharashtra, Orissa and Uttar Pradesh. For the year 1987-88, the Government has made budgetary provision of Rs. 11 lakhs.

Agricultural Credit Stabilisation Fund

The objective of the Agricultural Credit Stabilisation Fund is to build up a stabilisation fund at the level of SCBs and enhance their capacity to convert short-term loans into medium-term loans in areas affected by natural

calamities where crop loss is declared to be more than 50 per cent. The Credit Stabilisation Fund of the SCBs is built up out of the net profits (to the extent of 15 per cent) of the banks and by the transfer of the dividend over 3 per cent on the share capital held by the State Governments in the banks. Since these contributions were not adequate to build up the funds, the Government of India introduced a scheme of assistance to the fund in 1966-67. The optimum level of funds to be maintained is determined by the RBI/NABARD from time to time on the basis of amount of loans outstanding and likely conversions. The Government of India's assistance is towards gaps in the optimum level of the funds maintained by the SCBs. Under the scheme, the Central Government assistance is provided according to the approved pattern by way of 75 per cent as grants and 25 per cent as loans. The amount released to various State Governments during 1986-87 (April-March) aggregated Rs. 5.0 crores as compared to Rs. 1.6 crores in 1985-86. The total amount released since the inception of the scheme has reached Rs. 132.6 crores till end-March 1987. The scheme is proposed to be continued during 1987-88 with an outlay of Rs. 2.0 crores.

Assistance to Co-operative Credit Institutions in Co-operatively Underdeveloped States

This Central Sector Scheme has been in operation since the beginning of the Fifth Plan with the objective of rectifying regional imbalances in co-operative development programme, particularly in the sphere of agricultural credit. The growth rate in disbursement of agricultural credit based on per hectare of gross-cropped area was less than the All-India average in the States of Assam, Bihar, Manipur, Meghalaya, Nagaland, Orissa, Rajasthan, Tripura and West Bengal and hence these States were classified as co-operatively underdeveloped. The major problem is the blocking up of the resources of the co-operative banks due to heavy overdues. Under the Scheme, assistance is provided to DCCBs to meet the deficit in the non-overdue cover for obtaining credit limits from the NABARD for their lending programme. The scheme was subsequently extended to cover tribal areas, where there is concentration of Scheduled Castes to the extent of 20 per cent or more, districts/blocks selected for Special Rice Production Programme and National Oilseeds Development Projects. A sum of Rs. 4.75 crores was released to various State Governments during 1986-87 under the Scheme. The budgetary provision for the year 1987-88 is Rs. 3.50 crores.

Other Institutions in the field of Rural Credit

National Co-operative Development Corporation

The National Co-operative Development Corporation (NCDC) was set up in March 1963 to promote various economic programmes in the co-operative sector and to provide financial assistance in the form of loan and subsidy to the co-operatives under the schematic pattern of assistance evolved for different schemes. During the financial year 1986-87, the NCDC continued its activities in planning and promotion of programmes through co-operative societies for the production, processing, marketing, storage, export and import of agricultural produce, food-stuffs and certain other commodities. Besides, it continued to implement programmes basically intended to benefit the weaker sections of the society, namely, scheduled castes and tribes. The programmes include poultry, fisheries, minor forest produce, handlooms, coir, sericulture, dairy farming and strengthening of distribution system of consumer articles in rural areas through co-operatives. Further, in its capacity as an on-lending agency for implementing projects aided by IDA/EEC, the NCDC have been successfully implementing NCDC-I, II and III (IDA) projects and a EEC project, NCDC-IV project and a project to be funded by EEC are also being finalised by the Corporation. As mentioned in the last year's Report, the NCDC has prepared a scheme for Integrated Co-operative Development Projects in selected districts for area development through co-operatives in agricultural, allied and non-farm sectors. The NCDC proposes to cover

50 selected districts under this scheme during the Seventh Plan period.

The total financial assistance provided by the Corporation during 1986-87 amounted to Rs. 149 crores which was higher by Rs. 28 crores or 23.1 per cent than the assistance provided last year (Rs. 121 crores). While the Central Sector Schemes accounted for Rs. 65 crores (43.6 per cent of the total assistance) as against Rs. 61 crores (50.4 per cent) during 1985-86, the share of Corporation Sponsored Schemes was Rs. 84 crores (56.4 per cent) as against Rs. 60 crores (49.6 per cent) in the previous year (Table VII-54).

Table VII–54 : NCDC's financial assistance (disbursements) during 1984-85 to 1986-87 (April-March)

(Rupees crores)

Schemes/ Purposes	Amount disbursed		
	1984-85	1985-86	1986-87
1	2	3	4
I. Central Schemes	**70**	**61**	**65**
(a) Co-operative storage programme with international aid	34	32	47
(b) Co-operative marketing, processing and Storage programmes in underdeveloped states/Union Territories	8	7	9
(c) Margin money assistance to village societies for distribution of consumer articles in rural areas	5	3	2
(d) Finance for co-operative sugar factories, co-operative spinning mills, NAFED, etc.	23	19	7
II. Corporation Sponsored Schemes	**59**	**60**	**84**
(a) Storage	23	19	27
(b) Agro-processing	17	13	22
(c) Weaker Sections	8	11	10
(d) Agricultural Marketing	3	9	8
(e) Rural Consumer activity	4	4	2
(f) Agro-services and promotional and developmental programmes	4	4	14*
III. Total (I + II)	**129**	**121**	**149**

* Include Rs. 11 crores for distribution of fertilisers under NCDC – IFFCO Scheme.

Source : National Co-operative Development Corporation.

State-wise, seven states, viz., Uttar Pradesh (19.5 per cent), Madhya Pradesh (14.8 per cent), Maharashtra (11.9 per cent), Andhra Pradesh (6.9 per cent), Karnataka (6.7 per cent), Rajasthan (4.3 per cent) and Assam (4.0 per cent) accounted for more than two-thirds of the assistance provided during the year (Rs. 149 crores). Total financial assistance provided by NCDC to the State Governments and other agencies since its inception aggregated Rs. 1,113 crores of which Rs. 712 crores were outstanding at the end of March 1986.

Distribution of essential consumer goods being an important element in the development of PACS as service co-operatives, the NCDC has adopted a project approach for distribution of consumer articles in rural areas through these societies. The co-operatives have a total of around 53,000 retail outlets in rural areas for distribution of consumer goods. As at the end of March 1987, the NCDC has sanctioned an assistance of Rs. 81 crores for the purpose.

Central Warehousing Corporation (CWC)

The total number of warehouses managed by the Central Warehousing Corporation (CWC) during the year 1986-87 (April-March) increased to 445 from 430 in 1985-86. The total warehousing capacity increased to 59.2 lakh tonnes from 54.6 lakh tonnes. At end-March 1987, the owned, hired and plinth capacity of the Corporation increased to 39.4 lakh tonnes, 18.4 lakh tonnes and 1.4 lakh tonnes, respectively, from 36.1 lakh tonnes, 17.4 lakh tonnes and 1.1 lakh tonnes, respectively, at end-March 1986 (Table VII-55).

Table VII—55 : Warehousing Corporation—Position as at the end of 1984-85, 1985-86 and 1986-87 (April-March)

(Capacity in lakh tonnes)

Agency / Year	Number of warehouses	Owned	Hired	Plinth	Total
1	2	3	4	5	6
I. Central Warehousing Corporation					
1984-85	408	31.8	16.2	0.7	48.7
1985-86	430	36.1	17.4	1.1	54.6
1986-87	445	39.4	18.4	1.4	59.2
II. State Warehousing Corporations					
1984-85	1,609	39.5	28.1	—	67.6
1985-86	1,279	44.5	34.6	—	79.1
1986-87	1,313*	52.0	31.2	3.8	87.0

* Provisional

Source : Central Warehousing Corporation.

A target of 20 lakh tonnes with an outlay of Rs. 126.5 crores was fixed for the Seventh Five Year Plan. However, the target was later on reduced to 15 lakh tonnes by the Planning Commission, as the entire construction is to be taken up by CWC through internal generation of funds. For the year 1987-88, centres for about 3.0 lakh tonnes capacity have been identified for construction.

State Warehousing Corporation

During the year 1986-87, the number of warehouses managed by the State Warehousing Corporations (SWC) increased by 34 from 1,279 to 1,313 and total warehousing capacity increased by 7.9 lakh tonnes from 79.1 lakh tonnes to 87.0 lakh tonnes (Table VII-55).

Rural Electrification Corporation

Since its inception in 1969, the Rural Electrification Corporation(REC) has made rapid progress in electrification of rural and backward areas. Besides, energisation of pumpsets in collaboration with the State Electricity Boards with a view to exploiting fully the irrigation potential and decentralised distribution of power are the other areas which have been engaging the attention of the Corporation.

The financial assistance sanctioned by the Corporation during 1986-87 (April-March) amounted Rs. 678 crores which was more than double the sanctioned amount during 1985-86 (Rs. 331 crores). Disbursements during 1986-87 were to the tune of Rs. 440 crores as against Rs. 381 crores in the previous year (Table VII-56).

During the year 1986-87 (April-March), the Corporation sanctioned 2,168 new schemes covering 28,148 villages as against 1,454 schemes covering 14,007 villages during 1985-

Table VII—56 : Schemes sanctioned and loans disbursed by Rural Electrification Corporation (April-March)

(Rupees Crores)

Items	1984-85	1985-86	1986-87	Cumulative position as at end-March 1987
1	2	3	4	5
1. No. of schemes sanctioned	1,802	1,454	2,168	13,422
	(156)	(27)	(121)	(921)
2. No. of villages covered	28,792	14,007	28,148	3,64,115
	(6,802)	(636)	(4,972)	(46,928)
3. Total cost of schemes	726	610	1,093	5,571
	(9)	(1)	(10)	(54)
4. Amount sanctioned	515	331	678	4,033
	(9)	(1)	(10)	(54)
5. Amount disbursed	290	381	440	2,732
	(4)	(4)	(6)	(40)

Note : Figures in brackets are in respect of Harijan Basti schemes included in the respective totals.
Source : Rural Electrification Corporation.

86. The cumulative number of Schemes sanctioned and villages covered as at end-March 1987, reached 13,422 and 3,64,115, respectively. The cumulative financial assistance sanctioned and disbursed by the REC upto the end of March 1987 amounted to Rs. 4,033 crores and Rs. 2,732 crores, respectively (Table VII-57).

During 1986-87 (April-March), the REC sanctioned 121 schemes for *Harijan Bastis* involving financial assistance of Rs. 10 crores as against 27 schemes with financial assistance of Re. 1 crore last year. Disbursements during the year amounted to Rs. 6 crores as against Rs.4 crores during the preceding year. As at the end of March 1987, the Corporation had approved 921 schemes for *Harijan Bastis* covering 46,928 villages. Cumulative financial assistance sanctioned by the Corporation till end-March 1987, amounted to Rs. 54 crores for *Harijan Basti* schemes.

Agricultural Finance Corporation

During 1985-86 (April-March), the Agricultural Finance Corporation (AFC) undertook activities relating to a wide variety of projects/ studies on agriculture and rural development in different parts of the country. Preparation of comprehensive model block development plans, projects for Wasteland Development, Integrated Sericulture Development Projects, monitoring and evaluation studies and international assignments were the main areas of activities of the Corporation during the year under review. During the year 1986-87 (April-March), the Corporation handled 117 assignments including 10 international assignments as against 89 assignments handled during 1985-86 (July-June). Several assignments were taken up by the Corporation aiming at the development of backward classes/tribals in different parts of the country. Important among them are preparation of plan for integrated development of backward classes in six blocks of Maharashtra and preparation of integrated tribal development projects in Midnapur and Jalpaiguri districts in West Bengal. The Corporation continued the monitoring and evaluation of the activities of the different State Scheduled Caste Development Corporations through its cell located at New Delhi.

Emphasis was laid by AFC on those activities which helped the weaker sections to cross the poverty line and achieve a state of viability. For projects on Wasteland Development,

Table VII – 57 : State-wise data on schemes sanctioned and loans disbursed by REC
(Cumulative position) as at the end of March 1986 and 1987

(Rupees crores)

States	No. of Schemes sanctioned		Villages including HBs covered		Loan amount sanctioned*		Amount disbursed*	
	1986	1987	1986	1987	1986	1987	1986	1987
1	2	3	4	5	6	7	8	9
Andhra Pradesh	1084	1410	19 778	21684	271.1	328.6	182.4	228.9
Assam	243	265	15718	16639	162.2	174.4	111.4	124.8
Bihar	908	985	42134	44721	259.2	285.8	181.6	211.8
Gujarat	506	620	9812	10131	126.8	161.6	102.2	119.3
Haryana	359	407	5917	5917	78.3	89.0	58.6	72.0
Himachal Pradesh	194	216	10964	10969	99.8	115.2	60.2	72.7
Jammu & Kashmir	149	175	5467	5442.	53.6	71.0	42.6	47.3
Karnataka	579	626	11312	13488	125.1	144.1	95.8	118.3
Kerala	230	356	327	362	55.9	72.8	37.2	48.2
Madhya Pradesh	1598	1995	59117	63208	485.4	600.2	308.0	370.9
Maharashtra	951	1082	17948	18183	230.2	260.2	173.5	196.9
Manipur	24	2[illegible]	875	942	14.1	16.1	6.6	9.1
Meghalaya	56	62	1977	2120	26.3	30.5	21.9	24.5
Nagaland	28	31	574	601	18.0	19.2	14.3	17.3
Orissa	570	631	31529	31412	187.9	206.8	128.8	145.0
Punjab	507	590	4385	4360	146.6	175.2	114.7	136.9
Rajasthan	907	1012	24911	26240	225.7	249.4	161.2	179.2
Sikkim	19	25	184	242	10.9	14.0	8.0	11.0
Tamil Nadu	647	773	1277	1277	124.9	154.9	94.5	113.2
Tripura	66	74	2532	2730	25.6	30.6	16.3	19.1
Uttar Pradesh	1174	1476	52097	59584	462.8	617.9	238.3	303.5
West Bengal	455	584	20843	23838	165.4	215.7	135.1	162.5
TOTAL	**11254**	**13422**	**339678**	**364115**	**3355.7**	**4033.2**	**2293.5**	**2732.4**

* Due to rounding of figures, the constituent items may not add up to the totals shown.
Source : Rural Electrification Corporation.

member banks have assigned 14 blocks in 14 districts of 6 States with the supplementary assistance by NABARD and National Wasteland Development Board. In order to generate employment opportunities, the Corporation took up preparation of the Integrated Sericulture Development Projects in Tamil Nadu, West Bengal and Assam at the instance of State Sericulture Departments and Central Silk Board. Innovative projects for Tassar Silk production in Bihar and Andhra Pradesh were also prepared on pilot basis for the Central Social Welfare Board. During the year, the Corporation handled 11 monitoring evaluation studies relating to different aspects of agriculture and rural development in different parts of the country. During the year, responding to the call of the Government of India and the Reserve Bank, the Corporation stepped up its efforts towards the development of the Eastern and North-Eastern States.

The Corporation is also endeavouring to expand its role in international consultancy. During 1986-87 (April-March), the Corporation handled ten international assignments, important among them being Agricultural Marketing Project in Malawi, Appraisal of Forestry project in Bhutan, Livestock Development project in Sri Lanka, Agricultural Credit Project - Training facility and Hill Fruit Development Project in Nepal. In addition, services of experts/ consultants were provided to 9 missions mounted by the multilateral funding agencies

like Asian Development Bank, World Bank, IFAD, FAO/Investment Centre, Agricultural Projects Service Centre (Nepal) and private firms.

The consultancy fee earned by the Corporation in respect of international assignments amounted to US $ 1,30,963 in 1986-87 (April-March) as against US $ 56,798 in 1985-86 (July-June).

Study Teams/Committees/Working Groups

Committee on Agricultural Productivity in Eastern India

A number of steps have been initiated to implement the recommendations of the above committee. Some of the major decisions in this respect are the following :

i) The existing stipulation of providing fresh finance by PACS to small/marginal farmer defaulters whose defaults do not exceed 10 per cent of their eligibility under short-term agricultural loans, has been further liberalised by enhancing it to 20 per cent for the next three years.

ii) Banks have been advised to extend concessions to borrowers of term loans affected by genuine hardship due to personal circumstances and who have been regular in repayment during the previous 3 years by way of postponement/rescheduling of instalments of loans and waivers of penalty measures.

iii) The Registrars of co-operative societies have been advised to make necessary arrangements for introduction of cash credit system in lieu of short-term agricultural loans on a trial basis in selected Primary Agricultural Credit Societies in each of the 4 Eastern States of Bihar, Orissa, Eastern U.P.and West Bengal.

iv) The security norms for loaning by co-operative banks have been brought on par with those of commercial banks for term loans to avoid ambiguity.

Evaluation Studies on IRDP

The concurrent evaluation studies on IRDP carried out at the instance of Government of India revealed among others that(i) in more than 60 per cent of the cases, the repayment schedule of IRDP loans fixed by the bank branches were for periods of less than 3 years and (ii) the average delay between forwarding of applications to the bank and actual assistance at the bank branch level of IRDP applications was about 100 days and was much higher than the average in several States.

Based on their findings, participating banks have been advised to take immediate steps for adherence by their branches to the instructions issued on the repayment period and to furnish to the NABARD a certificate to that effect. They have been advised to ensure disposal of loan applications within the prescribed time of a fortnight. Participating banks in IRD Programme were advised that the second loan under IRDP may be granted by a nearby branch of the same bank which gave the initial loan or by any other bank provided the borrower has utilised the first loan satisfactorily and has also repaid the loan in full. In case the first loan was provided by a co-operative bank which is not in a position to give the second one, a branch of commercial bank or RRB may advance the second/subsequent loan. The co-operative bank in such cases should issue a 'no objection certificate' and certify in writing the eligibility of the selected borrowers for the second dose of assistance.

Annexure I

Interest rate structure effective from 1st April 1987

Rate of interest per cent per annum

Category of advances	Prior to April 1, 1987	Effective April 1, 1987
1	2	3
I. Public procurement and Distribution Agencies		
1. FCI, State Governments/ agencies acting as agencies of FCI for procurement of foodgrains (wheat, paddy/rice and coarse foodgrains) under the full price support scheme of the Government of India, where the sales are at fixed prices through Government approved outlets.	14.00	14.00
2. (i) Advances to Central and State Government agencies entrusted with procurement/distribution of specified essential consumer commodities for sale at fixed prices through Government approved outlets, the commodities being pulses, edible oils, kerosene, salt and sugar.	15.00	15.00
(ii) Advances to Central and State Government agencies entrusted with the procurement of pulses and oilseeds at support prices fixed by the Central Government.	15.00	15.00
3. (i) Advances to Central and State Government agencies entrusted with the procurement and distribution of essential consumer commodities other than those specified in category 2 above.	16.50	15.50
(ii) Advances to Central and State Government agencies entrusted with the procurement of cash crops where there is an element of price support.	16.50	15.50
(iii) Advances to Central and State Government agencies entrusted with the procurement and distribution of fertilizers, pesticides and seeds.	16.50	15.50
4. Advances to Central and State Government agencies entrusted with the procurement and distribution of commodities for sale on a commercial basis.	Not exceeding 17.50	16.50
II. Lending Rate for Commodities coming within the purview of Selective Credit Control		
Loans/ advances / cash credit / overdrafts against commodities subject to selective credit control	17.50	16.50
III. Exports		
1. *Pre-shipment credit*		
a) (i) Upto 180 days	9.50	9.50
(ii) Beyond 180 days, and in all, upto 270 days (with the prior approval of the Reserve Bank of India)	11.50	11.50
b) Against cash incentives, etc., covered by ECGC guarantee — upto 90 days	9.50	9.50
2. *Post-shipment credit*		
(i) Demand bills — for transit period (as specified by FEDAI)	9.50	9.50
(ii) Usance bills — upto 180 days comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable	9.50	9.50
(iii) Cash incentives, duty draw-back etc. receivable from Government covered by ECGC guarantee (upto 90 days)	9.50	9.50

1	2	3
(iv) Undrawn balances (upto 90 days)	9.50	9.50
(v) Against retention money (for supplies portion only) payable within one year from the date of shipment (upto 90 days)	9.50	9.50
3. *Deferred credit*		
Deferred credit for period beyond one year	8.65	8.65
4. *Duty Draw-back Credit Scheme, 1976*		
Against duty draw-back as provisionally certified by the Customs Authorities (upto 90 days)	Free of interest	Free of interest
5. *Export credit not otherwise specified*	Not exceeding 16.50	14.00 to 15.50
IV. Agriculture		
A. Short-term loans to farmers : £		
(a) Upto Rs. 5,000/-	11.50	11.50
(b) Over Rs. 5,000/- and upto Rs. 10,000/-.	12.50	12.50
(c) Over Rs. 10,000/- and upto Rs. 25,000/-	Not exceeding 14.00	12.50 to 14.00
(d) Over Rs. 25,000/-	Not exceeding 16.50	14.00 to 15.50
B. Advances to units engaged in both production and distribution of seeds	14.00	14.00
C. Advances for distribution of fertilisers :		
(a) upto Rs. 5,000/-	11.50	11.50
(b) Over Rs. 5,000/- and upto Rs. 25,000/-	Not exceeding 14.00	11.50 to 14.00
(c) Over Rs. 25,000/-	Not exceeding 16.50	14.00 to 15.50
V. Small-Scale Industry		
1. Composite loans upto Rs. 25,000/-		
(a) Backward areas	10.00	10.00
(b) Other areas	12.00	12.00
2. Short-term advances with limits :		
(a) Upto and inclusive of Rs 2 lakhs	Not exceeding 14.00	12.50 to 14.00
(b) Over Rs. 2 lakhs and upto Rs. 25 lakhs	Not exceeding 16.50	14.00 to 15.50
(c) Over Rs. 25 lakhs	Not exceeding 17.50	16.50
3. Advances to State-level Corporations for assisting artisans, village and cottage industries (for the purpose of purchase and supply of inputs to and/or the marketing of the outputs of the beneficiaries)	12.50	12.50
4. Advances to State-sponsored scheduled castes/ scheduled tribes development corporations (for the purpose of purchase and supply of inputs to and/or the marketing of the outputs of the beneficiaries)	12.50	12.50
VI. Other categories		
1. *Retail trade advances :*		
(a) Limits upto and inlcusive of Rs. 5,000/-	12.50	12.50
(b) Over Rs. 5,000/- and upto Rs. 25,000/-	Not exceeding 15.00	12.50 to 15.00
(c) Over Rs. 25,000/-	Not exceeding 17.50	15.00 to 16.50
2. *Educational advances :*		
(a) Indigent students for purpose of higher education in in India	Not less than Bank rate	Not less than Bank rate
(b) Other educational advances	14.00 — 16.50	14.00 to 15.50
3. Priority sector not otherwise specified	Not exceeding 16.50	14.00 to 15.50
4. All other advances	Not exceeding 17.50	16.50

1	2	3
5. Interest Rate on discounting of bills of exchange for categories of borrowers subject to the maximum interest rate of 16.5 per cent.	—	15.50
VII. Term Loans		
1. *Small-Scale Industry :*		
Units in		
(i) Backward areas	12.50	12.50**
(ii) Other areas	13.50	13.50
2. *Agriculture :* $		
(i) Minor irrigation land development	10.00	10.00
(ii) Other purposes		
(a) Small farmers	10.00	10.00
(b) Other farmers	12.50	12.50
(iii) Advances by way of term loans for purchase of equipment based on new and renewable sources of energy for agricultural purposes, irrespective of whether the borrower / farmer is "small farmer" or other wise.	10.00	10.00
3. *Housing :*		
(i) SC/ST upto and inclusive of Rs. 5,000/-	4.00	4.00
(ii) Others upto and inclusive of Rs. 5,000/-	12.50	12.50
(iii) Over Rs. 5,000/- and upto Rs. 50,000/-	13.50	13.50
(iv) Over Rs. 50,000/-	15.00	15.00
4. *Road Transport Operators :*		
(i) Upto two vehicles	12.50	12.50££
(ii) Three or more vehicles	15.00	15.00££
5. *All other term loans*	15.00	15.00
*** **VIII. Advances to professionals and self-employed persons belonging to Scheduled Castes/ Scheduled Tribes @**		
(a) Advances by way of loans other than term loans	14.00	14.00
(b) Advances by way of term loans	13.50	13.50
*** **IX. Advances to professionals and self-employed women@**		
(a) Advances by way of loans other than term loans	14.00	14.00
(b) Advances by way of term loans	13.50	13.50
X. DRI advances	4.00	4.00
		10.00
XI. Loans to IRDP beneficiaries	10.00	
XII. Loans under Self-Employment Programme for Urban Poor	—	10.00
XIII. Loans under scheme for providing self-employment to educated unemployed youth		
(a) Backward districts	10.00	10.00
(b) Other districts	12.00	12.00
XIV. Financial assistance to physically handicapped persons other than those covered under the DRI Schemes for purchase of artificial limbs and aids subject to maximum of Rs. 2,500/- in each case.	Not exceeding 15.00	Interest rate same as charged for production loan but not exceeding 15.00

Notes :

£ : In the case of advances through PACS/FSS/LAMPS, the rate to the ultimate borrowers should be the same as charged by co-operatives in the area and in any case not exceeding the rates indicated under item IVA. The rate to be charged by the banks to PACs/ FSSs/ LAMPs should be atleast 2.5 percentage points lower than the rate indicated under item IVA for the respective category.

$: These rates are also applicable to the loans to the ultimate borrowers where the loans are routed through PACS/ LAMPS/ FSS. The rates to be charged by the banks to the PACS/ LAMPS/ FSS should be lower than the rates to the ultimate borrowers by 1.5 percentage points.

** : This rate of interest is applicable for new units set up in backward areas. For expansion/ diversification of existing s mall-scale units, the rate of 13.50 percent should be applied.

££ : Small transport operators owning a fleet not exceeding 6 vehicles come within the purview of priority sector. The rate on short term finance should be within the range of 14.00 to 15.50 per cent. It should, however, be ensured that the rates should not be less than the rates prescribed for term loans as indicated under item VII (4).

@ : The expression 'professionals and self-employed persons' shall be understood on the lines clarified in paragraph 6 of Annexure I to the Reserve Bank of India's advice to commercial banks set out in RPCD Circular No. PS.BC.-21/C. 682-83 dated February 7, 1983.

*** : For advance to professionals and self-employed persons and small business not specifically covered under items VIII and IX the rate should be, term loan — 15 per cent, and short term finance — 15.00 to 15.50 per cent.

ANNEXURE-II
SELECTIVE CREDIT CONTROL

SUMMARY OF PROVISIONS OF DIRECTIVES APPLICABLE TO SCHEDULED COMMERCIAL BANKS ON ADVANCES AGAINST SELECTED COMMODITIES

(Position as on July 15, 1987)

A. PULSES AND OTHER FOODGRAINS(viz., Jowar, Bajra, Maize, Barley, Ragi, Gram and all other foodgrains except Wheat and Paddy / Rice)

Rate of Interest : 16.50% per annum for all loans/advances/cash credits/overdrafts

Minimum margin	Level of Credit	Exemption from minimum margin, level of credit and rate of interest
1	2.	3
I. Pulses (1) 30% on advances against stocks of pulses to processing units/mills. (2) 45% on advances against stocks of pulses to parties other than processing units/mills. (3) 30% on advances against warehouse receipts covering stocks of pulses. **II. Other foodgrains** (viz. jowar, bajra, maize, barley, ragi, gram and all other foodgrains except wheat and paddy/rice) (1) 30% on advances against stocks of other foodgrains to processing units/mills. (2) 45% on advances to parties other than processing units/mills. (3) 30% on advances against warehouse receipts covering stocks of other foodgrains.	In respect of each party, 100% of the peak level of credit maintained by the party in any of the 3 years (November-October) viz., 1982-83, 1983-84 and 1984-85. **Commodities** Other foodgrains except paddy, rice and wheat but including coarse grains and pulses. **Exemption** Advances against foodgrains to foodgrains processing units.	**A. States** Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. **B. Public Procurement, Storage and Distribution Agencies** (i) Advances to the Food Corporation of India and State Governments. (ii) Advances to Co-operative Marketing Federations, Central or State Warehousing Corporations and such other agencies duly appointed as agents for the purpose of food procurement/ distribution by the Food Corporation of India/ Central or State Governments to the extent of the stock held by them as such agents. (iii) Advances against rationed foodgrains granted to wholesale and retail dealers appointed/licensed by Government and/or operating under statutory rationing / fair price distribution system in all the States and Union Territories. (iv) Advances to Central and State Government Agencies entrusted with the procurement of pulses at support prices fixed by the Government of India.

1	2	3
		C. Others (i) Advances against the security of maize and barley to manufacturing units (i.e. industrial users). (ii) Advances against the security of, or by way of purchase of, demand documentary bills drawn in connection with the movement of other foodgrains. (iii) Advances against high-yelding/hybrid seeds produced under contract with the National Seeds Corporation Ltd., Delhi, or a State Government or which bear the certification of the said Corporation or as the case may be, the concerned State Government or of any certification agancies authorised under the Seeds Act, 1966 and seeds notified under Section 5 of the said Act. (iv) Khadi and Village Industries Commission and its associate institutions. (v) Advances granted to Wholesale Consumers' Co-operative Stores and State and National Federations of Consumers' Co-operatives. (vi) Advances upto an aggregate limit of Rs. 1 lakh per borrower are exempt from all provisions of the Selective Credit Control subject to the condition that the borrower deals with one bank only. **D. Exports** Pre-shipment credit granted to exporters against the security of other foodgrains on the basis of firm export orders/irrevocable letters of credit and post-shipment credit given in the form of purchase, negotiation or discounting of export bills or advances thereagainst in respect of export of other foodgrains.

Notes :

(i) Usance bills arising out of sale of commodities covered under Selective Credit Control should not be discounted by banks. Banks should not open inland L/Cs providing a clause therein which would enable other banks to discount usance bills under the L/Cs.

(ii) No bank shall advance against the security of any of the foodgrains where a ban on trading has been imposed in respect of that foodgrain except to wholesale or retail traders who are authorised by the State Government to deal in that foodgrain and to processing units to the extent to which and the manner in which such processing is allowed by the respective State Governments.

(iii) Warehouse receipts are those issued by Central/State Warehousing Corporations or rural godowns set up under a Government Scheme and godowns set up by Regulated Market Yards.

(iv) States and categories of advances indicated in column 3 above, though exempted from rate of interest, minimum margin and level of credit prescribed, will continue to be governed by other instructions issued prohibiting banks from discounting usance bills, allowing book debts and clean credit facilities, etc. In case of advances mentioned at item C(vi) in column 3 above, however, these instructions will not be applicable.

(v) Where credit limits have been sanctioned against the security of more than one commodity and/or against any other type of security (i.e., composite credit limits), the credit limit against each commodity shall be segregated and the restrictions contained in the directive shall be made applicable to each such segregated limit.

B. INDIGENOUS OILSEEDS (VIZ., GROUNDNUT, RAPESEED/MUSTARDSEED, COTTONSEED, CASTORSEED AND LINSEED) AND ALL IMPORTED OILSEEDS

Rate of Interest : 16.50% per annum for all loans/advances/cash credits/overdrafts

Minimum Margin	Level of Credit	Exemption from minimum margin, level of credit and rate of interest
1.	2.	3.
Indigenous Oilseeds (viz. groundnut, rapeseed/ mustardseed, cottonseed, castorseed and linseed) and all imported oilseeds. (i) 45% on advances to processing units/mills. (ii) 60% on advances to parties other than processing unit/mills. (iii) 45% on advances against warehouse receipts representing stocks of oilseeds. **Exemption** (i) Advances against all imported oilseeds for a period not exceeding 8 weeks after arrival of the goods in India. (ii) Advances to state level oilseeds growers' co-operative federations under the National Dairy Development Board's Oilseeds Project, against stocks of oilseeds purchased from grower members.	In respect of each party, separate ceiling for each of (i) groundnut, (ii) Cottonseed, (iii) Linseed and castorseed together; 100% of the peak level of credit maintained by the party in any of the 3 years (November-October), viz., 1982-83, 1983-84 and 1984-85. **Exemption** 1) Advances against imported oilseeds. 2) Advances to state level oilseeds growers' co-operative federations under the National Dairy Development Board's Oilseeds Project, against stock of oilseeds purchased from grower members.	**A. States** Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. **B. Public Procurement, Storage and Distribution Agencies** (i) Advances to the Food Corporation of India and the State Trading Corporation against stocks of oilseeds. (ii) Wholesale and retail dealers appointed/ licensed by the Government and/or operating under statutory rationing/fair price distribution system in all the States and Union Territories to the extent of the quantum meant for public distribution. (iii) Advances to Central and State Government/Agencies entrusted with the procurement of oilseeds at support prices fixed by the Government of India. **C. Exports** (i) Credit limits in favour of exporters, against oilseeds, all varieties of cakes in respect of oilseeds meant for exports and extractions of oilseeds in respect of specific firm export contracts and/or against export bills.

1	2	3
		(ii) Packing credit advance to exporters of HPS groundnut against the security of groundnut to the extent of the value of raw materials required (which should be reasonably assessed) for selecting HPS groundnut covered by the export order even though the value of raw materials exceed the value of the relative export order, provided that such advances to the extent of the value of the residual groundnut shall be adjusted, either by the sale proceeds of the residual groundnut or in cash, as soon as the selection of the HPS groundnut is completed, within 15 days from the date of such advances and the balance in the packing credit account shall be adjusted by the proceeds of the relative export bill.
		D. Others
		(i) Khadi and Village Industries Commission and its associate institutions.
		(ii) Advances upto an aggregate limit of Rs. Rs. 1 lakh per borrower are exempt from all provisions of the Selective Credit Control subject to the condition that the borrower deals with one bank only.
		(iii) Advances granted by way of purchase of demand documentary bills drawn in connection with the movement of commodities covered by the directive.
		(iv) Advances to the Wholesale Consumers' Co-operative Stores and the State and National Federations of Consumers' Co-operatives.

1	2	3
		(v) Advances against high yielding and hybrid seeds used for growing oilseeds under contract with National Seeds Corporation Ltd., Delhi, or a State Government or which bear the certification of the said Corporation or as the case may be, the concerned State Government or of any certification agencies authorised under Seeds Act, 1966 and seeds notified under Section 5 of the said Act.

Notes :

(i) Banks should refrain from granting additional limits against oilseeds to parties other than Government and Government supported organisations; even in the case of such organisations, a strict scrutiny on drawals should be maintained.

(ii) Usance bills arising out of the sale of commodities covered under Selective Credit Control should not be discounted by banks. Banks should not open inland L/Cs providing a clause therein which would enable other banks to discount usance bills under the L/Cs.

(iii) No bank shall issue, either to a Court or to Government, or any other person, a guarantee on behalf of, or on account of, any importers guaranteeing payment of customs duty and/or import duty, or other levies, payable in respect of import of essential commodities without taking, as security for issue of such guarantees, a cash margin *equivalent to at least one half of the amount payable* under the guarantee. The term "essential commodities" shall mean such commodities as may be specified by the Reserve Bank of India from time to time.

(iv) Warehouse receipts are those issued by Central/State Warehousing Corporations or rural godowns set up under a Government Scheme and godowns set up by Regulated Market Yards.

(v) States and categories of advances indicated in column 3 above, though exempted from rate of interest, minimum margin and level of credit prescribed, will continue to be governed by other instructions issued prohibiting banks from discounting usance bills, allowing book debts and clean credit facilities, etc. In case of advances mentioned at item D(ii) in column 3 above, however, these instructions will not be applicable.

(vi) Where credit limits have been sanctioned against the security of more than one commodity and/or against any other type of security (i.e., composite credit limit), the credit limit against each commodity shall be segregated and the restrictions contained in the directive shall be made applicable to each such segregated limits.

C. VEGETABLE OILS (INDIGENOUS OILS, VIZ., GROUNDNUT OIL, RAPESEED OIL/MUSTARD OIL, COTTONSEED OIL, CASTOR OIL, LINSEED OIL AND VANASPATI AND ALL IMPORTED OILS)

Rate of Interest : 16.50% per annum for all loans/advances/cash credits/overdrafts

Minimum Margin	Level of Credit	Exemptions from minimum margin, Level of Credit and Rate of Interest.
1	2	3
Indigenous and imported oils (i) 45% registered oil mills and vanaspati manufacturers. (ii) 75% other than (i) above. (iii) 60% against warehouse receipts representing stocks of oils. **Exemptions** (i) Advances to consumers' co-operatives in respect of stocks held under the Centrally Sponsored Scheme for the distribution of essential consumer articles. (ii) Advances against all imported vegetable oils for a period not exceeding 4 weeks after arrival of the goods in India. (iii) Advances granted to vanaspati manufacturers against the security of imported oils used as raw materials by them in the manufacture of vanaspati. (iv) Advances to state level oilseeds growers' co-operative federations under the National Dairy Development Board's Oilseeds Project, against stocks of oils extracted of oilseeds purchased from grower members. (v) Advances to vanaspati manufacturers against cottonseed oil.	In respect of each party, 100% of level of credit maintained by the party in any of the 3 years (November- October) viz., 1982-83, 1983-84 and 1984-85. **Exemptions** (i) Advances to consumers' co-operatives in respect of stocks held under the Centrally Sponsored Scheme for distribution of essential consumer articles. (ii) Advances against all imported vegetable oils. (iii) Advances to state level oilseeds growers' co-operative federations under the National Dairy Development Board's Oilseeds Project, against stocks of oils extracted of oilseeds purchased from grower members.	**A. States** Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. **B. Public Procurement, Storage and Distribution Agencies** (i) Advances to the Food Corporation of India and the State Trading Corporation against the stocks of vegetable oils and vanaspati. (ii) Wholesale and retail dealers appointed/ licensed by Government and/or operating under statutory rationing/fair price distribution system in all the States and Union Territories to the extent of the quantum meant for public distribution. **C. Exports** (i) Packing credit advances to the exporters of deoiled and/or defatted cakes against the security of oilseeds and/or other raw material to the extent of the value of raw material required for producing cakes covered by the export order, even though the value of the raw material exceeds the value of the relative export order. *Provided* (i) Such advances to the extent of the value of by-product oil shall be adjusted by the sale proceeds of the by-product oil or in cash as soon as the oil is extracted but within a period not exceeding 30 days from the date of advance and the balance in the packing credit account shall be adjusted by the

1	2	3
		proceeds of the relative export bills and advances, if any, against the by-product oil granted in a separate account are exempted for a period of 30 days from the date of such advances. (ii) Pre-shipment credit granted to exporters against the security of vegetable oils on the basis of firm export orders/irrevocable letters of credit and post-shipment credit given in the form of purchase, negotiation or discounting of export bills or advances thereagainst in respect of export of vegetable oils.
		D. Others (i) Advances by way of purchase of demand documentary bills drawn in connection with the movement of vegetable oils and vanaspati. (ii) Khadi & Village Industries Commission and its associate institutions. (iii) Advances upto an aggregate limit of Rs. 1 lakh per borrower from all provisions of the Selective Credit Controls subject to the condition that the borrower should deal with only one bank. (iv) Advances against stocks of oil processed from linseed oil and castor oil for use as industrial raw material by factories. (v) Advances against receivables arising out of sale of vegetable oils (including vanaspati) delivered to Army Purchase Organisation and against stocks of vanaspati held by vanaspati manufacturers for being delivered to the Army Purchase Organisation in the Ministry of Food and Agriculture, Government of India, New Delhi and with the prior approval of the Reserve Bank of India; other agencies designated for the

1	2	3
		purpose by the Central and State Governments, in pursuance of contracts entered into or to be entered into with the said Organisation by the said manufacturers. (vi) Advances to Wholesale Consumers' Co-operative Stores and State and National Federations of Consumers' Co-operatives.
	Banks should not establish letters of credit on more than 45 days' D/A basis for import of edible oils, as far as possible. In case banks establish letters of credit on more than 45 days' D/A basis, they should stipulate that, after 30 days from the date of arrival of the goods in the port, the importer will deposit with them an amount equivalent to the margin amount which he would have provided under the directives had he availed himself of advances against the commodity. Banks should refrain from granting additional limits against vegetable oils to parties other than Government and Government-supported Organisations; even in the case of such organisations a strict scrutiny on drawals should be maintained.	

Notes:

(i) Usance bills arising out of sale of commodities covered under Selective Credit Control should not be discounted by banks. Banks should not open inland L/Cs providing a clause therein which would enable other banks to discount usance bills under the L/Cs.

(ii) No bank shall issue, either to a Court or to Government, or any other persons, a guarantee on behalf of, or on account of, any importers guaranteeing payment of customs duty and/or import duty or other levies, payable in respect of import of essential commodities without taking, as security for issue of such guarantees, a cash margin *equivalent to at least one half of the amount payable* under the guarantee. The term "essential commodities" shall mean such commodities as may be specified by the Reserve Bank of India from time to time.

(iii) States and categories of advances indicated in column 3 above, though are exempted from rate of interest, minimum margin and level of credit prescribed, will continue to be governed by other instructions issued, prohibiting banks from discounting usance bills, allowing book debts and clean credit facilities. In case of advances mentioned at item D(iii) in column 3 above, however, these instructions will not be applicable.

(iv) Where credit limits have been sanctioned against the security of more than one commodity and/or against any other type of security (i.e. composite credit limits), the credit limit against each commodity shall be segregated and the restrictions contained in the directive shall be made applicable to each such segregated limit.

D. SUGAR, GUR AND KHANDSARI

Rate of Interest : 16.50% per annum for all loans/advances/cash credits/overdrafts

Minimum Margin	Exemption from Minimum Margin and Rate of Interest
1	2

(1) Advances against sugar

(a) To sugar factories

(i) Nil against buffer stock stipulated by the Government.

(ii) 60% on advances to parties manufacturing sugar in respect of such stocks as have been released for sale by the Government and have left the factory or mill premises and on which excise duty has been paid.

(iii) 17.5% on advances to parties manufacturing sugar other than those referred to 1(a)(i) & (ii) above.

(b) 60% to parties other than sugar factories.

(c) 45% on advances against warehouse receipts covering stocks of sugar.

(2) Advances against Gur and Khandsari

(i) 30% on advances to manufacturing units.

(ii) 60% on advances to others.

(iii) 45% on advances against warehouse receipts covering stocks of gur and khandsari.

Exemption

Advances to Consumers' Co-operatives in respect of stocks held under Schemes of public distribution organised by Government.

A. Public Procurement, Storage and Distribution Agencies

(i) Advances to Food Corporation of India.

(ii) Advances against sugar granted to wholesale and retail dealers appointed/licensed by Government and/or operating under statutory rationing/fair price distribution system in all the States and Union Territories to the extent of quantum of sugar allotted to them by the Government.

B. Exports

Advances granted in respect of stocks of sugar pledged / hypothecated with banks which are intended for export out of India.

C. Others

(i) Advances granted by way of purchase of demand documentary bills drawn in connection with movement of commodities.

(ii) Advances granted to industrial users such as confectioneries, bakeries. biscuit manufacturers, etc.,against stocks of sugar, gur and ***khandsari*** pledged/hypothecated with banks.

(iii) Khadi and Village Industries Commission and its associate institutions.

(iv) Advances upto an aggregate limit of Rs. 1 lakh per borrower from all provisions of the Selective Credit Control subject to the condition that borrower should deal with only one bank.

(v) Advances to wholesale consumers' co-operative stores or State and National Federation of Consumer Co-operatives.

Notes :

(i) Stocks of levy sugar shall be valued at the levy price fixed by Government and the free sale sugar (including buffer stocks) at the average of the price realised in the preceding three months (moving average), or the current market price, whichever is lower. The prices for this purpose shall be exclusive of excise duty.

(ii) Usance bills arising out of sale of commodities covered under Selective Credit Control should not be discounted by banks. Banks should not open inland L/Cs providing a clause therein which would enable other banks to discount usance bills under the L/C.

(iii) No bank shall issue, either to a Court or to Government, or any other persons, a guarantee on behalf of, or on account of, any importers guaranteeing payment of customs duty and/or import duty or other levies, payable in respect of import of essential commodities without taking, as security for issue of such guarantees, a cash margin *equivalent to at least one half of the amount payable* under the guarantee. The term, essential commodities, shall mean such commodities as may be specified by the Reserve Bank of India from time to time.

(iv) Categories of advances indicated in column 2 above, though are exempted from rate of interest and minimum margin prescribed,will continue to be governed by other instructions issued prohibiting banks from discounting usance bills, allowing book debts and clean credit facilities,etc. In case of advances mentioned at item C(iv) in column 2 above, however, these instructions will not be applicable.

(v) Where credit limits have been sanctioned against the security of more than one commodity and/or against any other typeof security (i.e., composite credit limits), the credit limit against each commodity shall be segregated and the restrictions contained in the directive shall be made applicable to each such segregated limit.

Chapter VIII

Fiscal Developments

This chapter reviews the combined budgetary position of the Central and State Governments followed by a separate analysis of their budgetary operations. The finances of Railways, Department of Posts, Department of Telecommunications and public debt and other liabilities of the Government are also discussed

1. COMBINED BUDGETARY POSITION OF CENTRAL AND STATE GOVERNMENTS : 1986-87 and 1987-88

1986-87

The Central budget for 1986-87 was presented against the background of an expected 5 per cent growth in Gross National Product (GNP) in real terms, a moderate rate of inflation in 1985-86 and distinct improvement in the functioning of the infrastructure sectors.

According to the revised estimates for 1986-87, the combined budgetary deficit of the Central and State Governments was significantly higher at Rs. 9,230 crores as against Rs. 3,249 crores in 1985-86[1] (Table VIII-1). The Centre's deficit touched a record level of Rs. 8,285 crores which was higher by Rs. 3,348 crores than the deficit of the previous year. The aggregate deficit of States was placed at Rs. 945 crores as against a surplus of Rs. 1,688 crores in the previous year. The net RBI credit to Government (Central and States) increased by Rs. 3,164 crores. The net RBI credit to the Central Government at Rs. 7,090 crores was higher by Rs. 900 crores than that in 1985-86. States had a net credit balance of Rs. 516 crores at the end of 1986-87 as against a debit balance of Rs. 1,748 crores at the end of the previous year.

The combined aggregate receipts of the Central and State Governments in 1986-87 totalled Rs. 92,171 crores as against Rs. 81,221 crores in the previous year (+ Rs. 10,950 crores, + 13.5 per cent)[2] (Table VIII-2). Revenue receipts at Rs. 63,776 crores showed a rise of

* Figures in this chapter relate to the fiscal year (April-March)

1. Budgetary deficit or surplus is measured (A) in the case of Central Government by (i) net increase/decrease in outstanding treasury bills and (ii) withdrawals from/additions to cash balances and (B) in the case of States by the State Budget figures of (i) net increase/decrease in RBI credit in the form of ways and means advances (repayable in 90 days) and overdrafts (repayable within 7 working days), (ii) decline in/addition to cash balances and (iii) net sales/purchases of securities held by States in their Cash Balance Investment Account. According to the books of the RBI, the combined deficit for 1986-87 amounted to Rs. 7,261.4 crores comprising Rs. 6,493.8 crores on the Centre's account and Rs. 767.6 crores on account of 22 States keeping accounts with the RBI. Data on receipts and disbursements conforming to this figure are not available.
2. All references to 1986-87 and 1985-86 relate to revised estimates and accounts, respectively, unless otherwise stated. The variations of the revised estimates of 1986-87 over the accounts figures of 1985-86 are given in brackets. The absolute variation is given first followed by the percentage change.

Table VIII-1 : Combined Receipts and Disbursements of Central and State Governments

(Rs. crores)

Items	1985-86 (Accounts)	1986-87 (Revised Estimates)		1987-88 (Budget Estimates)+	
	Amount	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year
1	2	3	4	5	6
I. Total Disbursements	**84470**	**101401**	**+ 20.0**	**106424**	**+ 5.0**
Of which :					
1. Developmental (a+b+c)	55032	64789	+ 17.7	64922	+ 0.2
(a) Revenue	32621	38305	+ 17.4	39966	+ 4.3
(b) Capital	12310	14003	+ 13.8	13301	− 5.0
(c) Loans	10101	12481	+ 23.6	11655	− 6.6
2. Non-Developmental (a+b+c)	27332	34116	+ 24.8	39522	+ 15.8
(a) Revenue	25984	32020	+ 23.2	34744	+ 8.5
(b) Capital	1116	1564	+ 40.1	4280	+ 173.7
(c) Loans	232	532	+ 129.3	498	− 6.4
II. Total Receipts (A + B)	**81221**	**92171**	**+ 13.5**	**100216**	**+ 8.7**
A. Revenue Receipts	54097	63776	+ 17.9	69282	+ 8.6
Of which :					
Tax Receipts (a+b+c)	42991	49469	+ 15.1	56457	+ 14.1
(a) Taxes on Commodities and Services	35412	40930	+ 15.6	47280	+ 15.5
(b) Taxes on Income and Property	7047	7989	+ 13.4	8568	+ 7.2
(c) Taxes of Union Territories (without legislature)	532	550	+ 3.4	609	+ 10.7
B. Capital Receipts	27124	28395	+ 4.7	30934	+ 8.9
Of which :					
(i) Market Borrowings (Gross)	6971	7793	+ 11.8	8746	+ 12.2
(ii) Market Borrowings (Net)	5894	6450	+ 9.4	7630	+ 18.3
(iii) Small Savings (Net)	4292	4900	+ 14.2	5400	+ 10.2
(iv) State Provident Funds (Net)	1172	1335	+ 13.9	1441	+ 7.9
III. Overall Surplus (+) or Deficit (−) (II−I)	**− 3249**	**− 9230**		**− 6208**	
Financing of Surplus (+) or Deficit (−)					
(i) Increase (+) or Decrease (−) in cash balances of Centre and States	− 457	− 1128		− 519	
(ii) Increase (−) or Decrease (+) in Treasury Bills of Centre	− 4934	− 7850		− 5688	
(iii) Withdrawals from (−) or additions to (+) Cash Balance Investment Accounts of States (Net)	+ 989	− 155		− 3	
(iv) Increase (−) or Decrease (+) in Ways and Means Advances and Overdrafts from the RBI to States (Net)	+ 1153	− 97		+ 2	

\+ Including effects of budget proposals and excluding post-budget tax concessions.

Note Data relate to 23Statesexcluding Arunachal Pradesh and Goa. Figures for Jammu and Kashmir and Nagaland for 1985-86 relate to Revised Estimates.

Source: Budgets of Central and State Governments.

Rs. 9,679 crores (+ 17.9 per cent) over those in 1985-86. Capital receipts at Rs. 28,395 crores registered a rise of Rs. 1,271 crores (+ 4.7 per cent) over 1985-86. Of the total rise of Rs. 10,950 crores, Rs. 9,679 crores or 88.4 per cent was on account of revenue receipts and the remaining Rs. 1,271 crores was due to capital receipts. The ratio of aggregate receipts (revenue plus capital) to Gross Domestic Product (GDP) at current market prices was 34.1 per cent in 1986-87 as compared with 33.3 per cent in the previous year.

The tax revenue estimated at Rs. 49,469 crores was higher as compared with Rs. 42,991 crores in the previous year (+ Rs. 6,478 crores, + 15.1 per cent) and accounted for 77.6 per cent of total revenue receipts as against 79.5 per cent in the earlier year. Tax receipts formed 18.3 per cent of the GDP at current market prices in 1986-87 as compared with 17.7 per cent in 1985-86. The major portion of the increase, viz., Rs. 5,518 crores (+ 82.7 per cent) came from taxes on commodities and services which moved up by 15.6 per cent over the previous year. The taxes on income and property at Rs. 7,989 crores rose by Rs. 942 crores registering a rise of 13.4 per cent over the last year.

The aggregate capital receipts also rose from Rs. 27,124 crores in 1985-86 to Rs. 28,395 crores in 1986-87 (+ Rs. 1,271 crores, + 4.7 per cent). Market borrowings (net) at Rs. 6,450

Table VIII-2 : Trends in Budgetary Deficits and Net RBI Credit to Government

(Rs. crores)

Year	Budgetary Surplus (+) or Deficit (−)(a)			Net RBI Credit to Governments (b)		
	Centre	States	Total	Centre	States	Total
1	2	3	4	5	6	7
1971-72	− 519	− 289	− 808	583	287	870
1972-73	− 869	− 7	− 876	1,211	− 386	825
1973-74	− 328	− 226	− 554	630	134	764
1974-75	− 721	− 31	− 752	528	134	662
1975-76	− 366	75	− 291	− 288	91	− 197
1976-77	− 131	50	− 81	816	22	838
1977-78	− 933	− 229	− 1,162	− 260	142	− 118
1978-79	− 1,506	1,010	− 496	2,191	− 419	1,772
1979-80	− 2,433	− 187	− 2,620	2,650	339	2,989
1980-81	− 2,577	− 897+	− 3,474	3,551	487	4,038
1981-82	− 1,392	− 1,020+	− 2,412	3,207	789	3,996
1982-83	− 1,656	− 820	− 2,476	3,368	− 860*	2,508*
1983-84	− 1,417	− 551++	− 1,968	3,949	38	3,987
1984-85	− 3,745	− 1,438†	− 5,183	6,055	1,371	7,426
1985-86	− 4,937	1688	− 3,249	6,190	− 1748	4,442
1986-87 (Revised Estimates)	− 8,285	− 945	− 9,230	7,090	516	7,606

(a) For definition, see foot note No. 1 of this chapter.

(b) Comprising net changes in (i) RBI holdings of treasury bills, other Government securities, rupee coins in Issue Department, loans and advances to State Governments and (ii) Government's balances with the RBI so that an increase in cash balances will imply a decline in RBI credit to Government and vice-versa. Data refer to full fiscal year (i.e. from April 1 to March 31) and take into account adjustments made at the time of final closure of Government Accounts.

\+ Figures for Sikkim and Assam relate to Revised Esitmates.

++ Figures for Jammu and Kashmir relate to Revised Estimates.

* These disregard changes in components of sources on July 12, 1982,following the reclassification of aggregates necessitated by the establishment of NABARD.

† Figures for Jammu and Kashmir and Nagaland relate to Revised Estimates.

Source: Central and State Budget Documents for budgetary data.

crores were higher by Rs. 556 crores (+ 9.4 per cent). The collections from Small Savings were Rs. 4,900 crores (+ Rs. 608 crores, + 14.2 per cent).

The combined aggregate disbursements of the Centre and States at Rs. 1,01,401 crores were higher by Rs. 16,931 crores (+ 20.0 per cent) over 1985-86. Developmental expenditure at Rs. 64,789 crores was higher by Rs. 9,757 crores or 17.7 per cent over the year and accounted for 63.9 per cent of total disbursements as against 65.1 per cent in the previous year. Non-developmental expenditure was Rs. 34,116 crores registering a rise of Rs. 6,784 crores or 24.8 per cent over the year and accounted for 33.6 per cent of total disbursements during 1986-87 as against 32.4 per cent in the previous year.

1987-88

The Central Government's budget for 1987-88 was presented by the Prime Minister and Minister of Finance to the Lok Sabha on February 28, 1987 against the background of an expected growth rate of real national income around 5 per cent, moderate rate of inflation and a lower trade deficit. Despite drought in several parts of the country for the third consecutive year, the overall foodgrains production is around 150 million tonnes. The growth rate of industrial output according to the revised index (base=1980-81) is placed between 7-8 per cent. The infrastructure industries particularly coal, power and railways have shown an improved performance. On the other hand, there were some developments which neutralised the effect of buoyancy in revenue, resulting in a severe strain on Centre's resources. The implementation of the recommendations of the Fourth Pay Commission created additional liability on the Centre. The step up in expenditure on defence and larger assistance to several States affected by drought and flood raised further Centre's expenditure.

For the fiscal year 1987-88, the combined deficit of the Centre and States, after taking credit of the yield from Additional Resources Mobilisation (ARM) measures, is anticipated to be lower at Rs. 6,208 crores as against Rs. 9,230 crores in 1986-87. The combined aggregate receipts of the Centre and States are estimated higher at Rs. 1,00,216 crores (+ Rs. 8,045 crores, + 8.7 per cent)[3]. Revenue receipts are anticipated at Rs. 69,282 crores which would be higher (+ Rs. 5,506 crores, + 8.6 per cent) over 1986-87. Within revenue receipts, tax receipts budgeted at Rs. 56,457 crores are expected to show a rise of 14.1 per cent over the preceding year's level of Rs. 49,469 crores. Capital receipts at Rs. 30,934 crores would be higher by Rs. 2,539 crores or 8.9 per cent over the previous year. Market borrowings (net) would rise by Rs. 1,180 crores to Rs. 7,630 crores. The collections from small savings are expected at Rs. 5,400 crores (+ Rs. 500 crores, + 10.2 per cent).

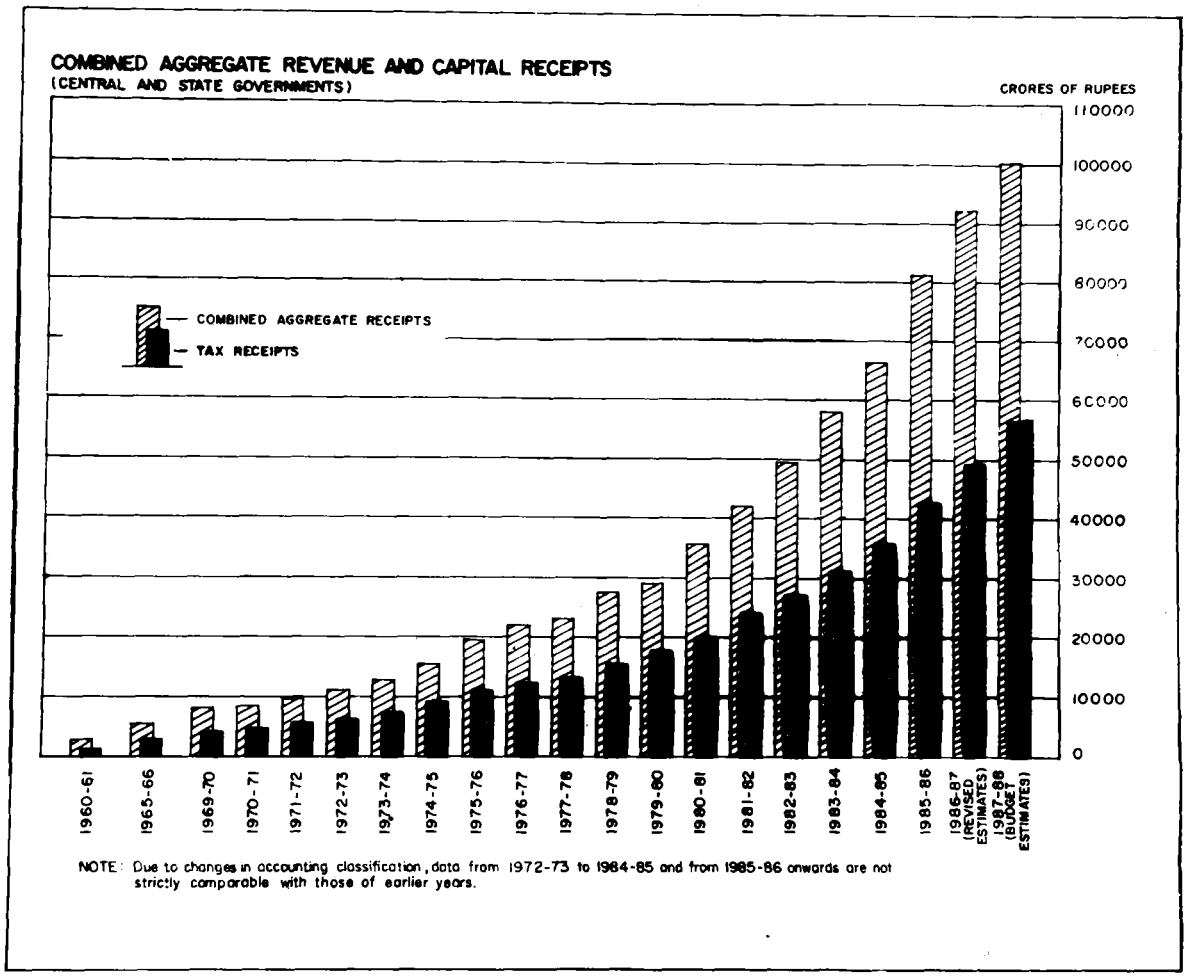
The combined aggregate disbursements are estimated higher at Rs. 1,06,424 crores (+ Rs. 5,023 crores, + 5.0 per cent). Developmental expenditure at Rs. 64,922 crores is budgeted to register a marginal rise of Rs. 133 crores or 0.2 per cent and would form 61.0 per cent of total disbursements as against 63.9 per cent in the previous year. Non-developmental expenditure, on the other hand, is anticipated to rise by Rs. 5,406 crores or 15.8 per cent to Rs. 39,522 crores and would account for 37.1 per cent of total disbursements as against 33.6 per cent in the preceding year.

BUDGETARY OPERATIONS OF THE CENTRAL GOVERNMENT

Central Finance : 1986-87[4]

3. The variation of the budget estimates of 1987-88 over the revised estimates of 1986-87 are given in brackets. The absolute variation is given first followed by the percentage change.

4. In this Section all references to 1986-87 are based on the revised estimates unless stated otherwise. The figures within brackets relate to variations over the accounts figures of 1985-86. The absolute variation is given first followed by the percentage change.



According to the revised estimates for 1986-87 budgetary deficit of the Central Government was higher at Rs. 8,285 crores as against Rs. 3,703 crores anticipated in the budget estimates and Rs. 4,937 crores in 1985-86. The higher budgetary deficit despite an increase in aggregate receipts by Rs. 7,374 crores was due mainly to substantial increase in non-Plan expenditure (Rs. 7,691 crores) particularly on defence, interest payments and wage bill arising from the implementation of the recommendations of the Fourth Pay Commission, loan of Rs. 1,200 crores to the Food Corporation of India and assistance to States affected by natural calamities.

The total receipts for 1986-87 were higher at Rs. 53,343 crores (+ Rs. 7,374 crores, + 16.0 per cent). Revenue receipts aggregated Rs. 35,153 crores as against Rs. 29,206 crores in the previous year (+ Rs. 5,947 crores, + 20.4 per cent). Of this rise, Rs. 3,027 crores were due to spurt in tax revenue and Rs. 2,920 crores on account of non-tax revenue. The increase in tax revenue was on account of higher collection under Customs Duties (+ Rs. 1,974 crores), Excise Duties (+ Rs. 721 crores) and Corporation Tax (+ Rs. 465 crores). The main contributory factors for the rise in non-tax revenue were: Interest Receipts (+ Rs. 919 crores), Economic Services (+ Rs. 1,892

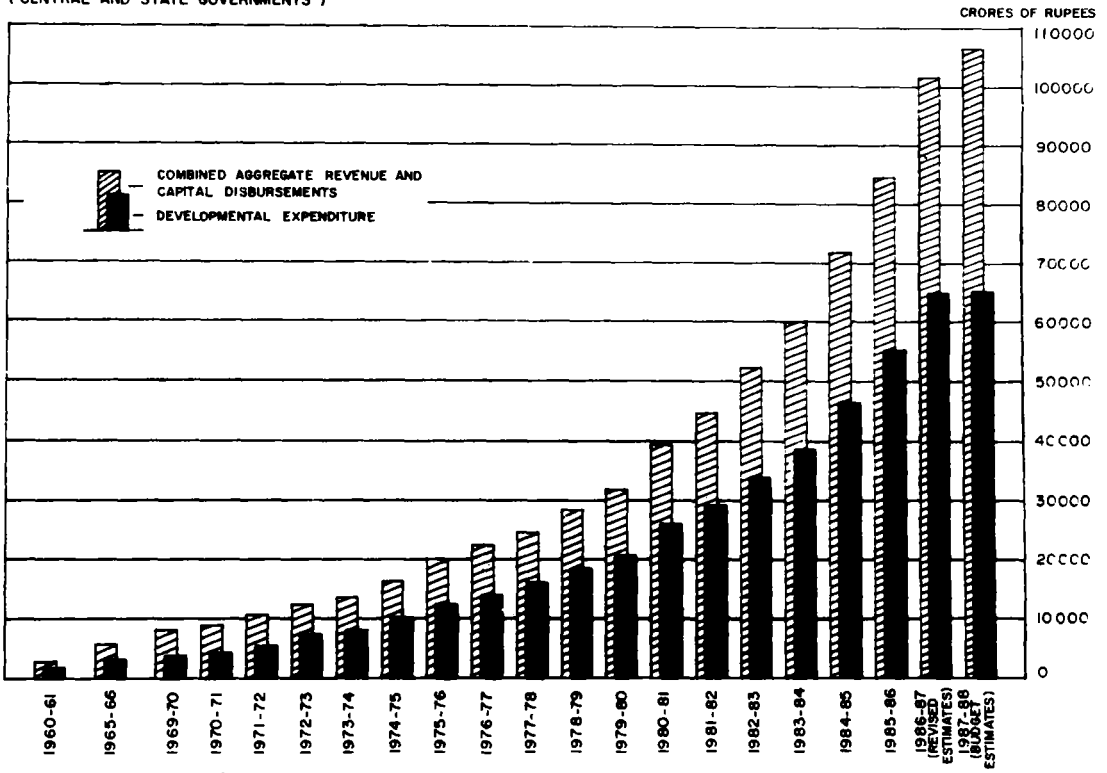
crores) and Social Services (+ Rs. 375 crores). However, the higher receipts were offset partly by a decline under the head 'Fiscal Services' (— Rs. 272 crores) and 'Dividends and Profits' (— Rs. 54 crores). Besides these, the retrospective revision of rates of royalty on production of crude and the transfer of surplus oil funds from Oil Pool Account amounting to Rs.1,300 crores also contributed to the rise in non-tax revenue.

Capital receipts aggregated Rs. 18,190 crores (+ Rs. 1,427 crores, + 8.5 per cent). The major increases were: Market Loans (+ Rs. 416 crores),External Loans (+Rs. 420 crores), Small Savings (+ Rs. 711 crores) and Recoveries of Loans and Advances (+ Rs. 883 crores). However, higher receipts were offset partly by decline in other capital receipts (— Rs. 2,301 crores).

Total disbursements during 1986-87 were significantly higher at Rs. 61,628 crores as against Rs. 50,906 crores in the preceding year (+ Rs. 10,722 crores, + 21.1 per cent). Revenue expenditure amounted to Rs. 42,386 crores as compared with Rs. 34,771 crores in the previous year (+ Rs. 7,615 crores, + 21.9 per cent). Capital disbursements at Rs. 19,242 crores were also higher by Rs. 3,107 crores (+ 19.3 per cent).

The rise in revenue expenditure was contributed both by developmental expenditure (+ Rs. 2,818 crores) and non-developmental

COMBINED AGGREGATE REVENUE AND CAPITAL DISBURSEMENTS
(CENTRAL AND STATE GOVERNMENTS)



NOTE: 1. Developmental expenditure consists of developmental outlay under Revenue and Capital Accounts and Loans and Advances for developmental purposes to the rest of the economy. The data from 1972-73 to 1984-85 and from 1985-86 onwards are not strictly comparable with those for earlier years due to changes in accounting classification.

2. Aggregate Disbursements for 1980-81 exclude accounting adjustments relating to the write-off of Rs.938 crores of loans advanced to States in pursuance of Seventh Finance Commission's recommendations and includes contra-entries relating to notional receipt / expenditure of Rs.588 crores on account of subscription payable to International Monetary Fund in the form of securities and Special Drawing Rights.

expenditure (+ Rs. 4,797 crores). Under developmental revenue expenditure the important items accounting for the rise were: Social Services (+ Rs. 431 crores), Economic Services (+ Rs. 1,430 crores) and Grants-in-aid to State and Union Territory Governments (+ Rs. 846 crores). Under non-developmental expenditure, the important items accounting for the rise as mentioned earlier were: Interest Payments (+ Rs. 2,047 crores), Defence Expenditure (+ Rs. 1,946 crores), Administrative Services (+ Rs. 327 crores) and Currency, Coinage and Mint and other General Services (+ Rs. 313 crores.).

The increase in capital disbursements was due to developmental capital outlay (+ Rs. 755 crores), non-developmental capital outlay (+ Rs. 305 crores) and Loans and Advances (+ Rs. 2,047 crores). A major part of the rise under developmental capital outlay was contributed by Economic Services (+ Rs. 369 crores) and Social Services (+ Rs. 210 crores). Similarly, rise in Loans and Advances was due to increase in other loans and advances which at Rs. 5,713 crores were higher by Rs. 2,007 crores over the preceding year. Loans to States and Union Territories at Rs. 4,497 crores were higher by only Rs. 41 crores over the previous year.

Pattern of Expenditure and Receipts for 1987-88 — Budget Estimates

In order to maintain the tempo of Plan and to accelerate the programmes which have an impact on alleviation of poverty in the rural areas, the outlay for the Central Plan for 1987-88 is further stepped up to Rs. 24,622 crores from Rs. 22,300 crores in 1986-87. Including the proposed outlay for 1987-88, the total outlay during the first three years of the Seventh Five Year Plan would account for 63 per cent of the Seventh Plan outlay in real terms (at 1984-85 prices). The total Plan outlay of States and Union Territories has been fixed at Rs. 19,537 crores representing an increase of 17 per cent over the previous year. Taken together, the Plan outlays of Centre, States and Union Territories would amount to Rs. 44,159 crores constituting an increase of Rs. 5,107 crores (+13.1 per cent) over the approved Plan outlay of Rs. 39,052 crores for 1986-87. High priority has been given to programmes relating to education, rural poverty alleviation programmes such as National Rural Employment Programme, the Rural Landless Employment Guarantee Programme and the Integrated Rural Development Programme, telecommunications, coal, power, steel and information and broadcasting. The Central budgetary support for Annual Plans 1987-88 for the Centre, States and Union Territories taken together would aggregate Rs. 23,677 crores as against Rs. 22,932 crores in the previous year.

Total disbursements of the Central Government in 1987-88 are budgeted higher by Rs. 2,828 crores (+ 4.6 per cent) to Rs. 64,456 crores. Aggregate receipts inclusive of net additional resources mobilisation of Rs. 322 crores for the Centre are expected to reach a level of Rs. 58,768 crores as compared with the revised estimates of Rs. 53,343 crores in 1986-87 (+ Rs. 5,425 crores, + 10.2 per cent)[5]. As a result, the budgetary deficit would be Rs 5,688 crores[6] as compared with Rs. 8,285 crores in the previous year

The major portion of rise in aggregate disbursements is accounted for by the higher revenue expenditure anticipated at Rs. 44,944 crores as compared with Rs. 42,386 crores in the previous year (+Rs.2,558 crores, + 6.0 per cent). Capital disbursements also budgeted at Rs. 19,512 crores would be higher by Rs. 270 crores (+1.4 per cent). The non-developmental expenditure estimated at Rs. 30,099 crores is

5. The figures in brackets relate to variations over the revised estimates of 1986-87. The absolute variation is followed by percentage change.

6. The Prime Minister and Minister of Finance announced some post-budget concessions which are expected to cause revenue loss of Rs. 70 crores in 1987-88. This loss of revenue is expected to be covered by higher realisation of revenue from existing taxes and, therefore, will not increase the budgetary deficit.

higher than that of Rs. 26,374 crores in 1986-87 (+Rs. 3,725 crores, + 14.1 per cent) while developmental expenditure would decline from Rs. 35,254 crores in 1986-87 to Rs. 34,357 crores in 1987-88 (– Rs. 897 crores, –2.6 per cent). Consequently, developmental expenditure as a proportion to aggregate disbursements would come down to 53.3 per cent from 57.2 per cent in 1986-87. Correspondingly, the share of non-developmental expenditure is anticipated to move up from 42.8 per cent in 1986-87 to 46.7 per cent in 1987-88.

Of the total increase of Rs. 2,558 crores in revenue expenditure, Rs. 1,429 crores (55.9 per cent) is under the developmental expenditure and remaining Rs. 1,129 crores (44.1 per cent) is under the non-developmental expenditure. The items accounting for rise in developmental expenditure are: (i) Grants-in-aid to States and Union Territories for developmental purposes (+ Rs. 937 crores), (ii) Social Services (+ Rs. 316 crores), (iii) Economic Services (+ Rs. 146 crores) and (iv) Expenditure of Union Territories (+ Rs. 33 crores). The main items accounting for rise in non-developmental expenditure on revenue account are: (i) Interest Payments (+ Rs. 1,100 crores), (ii) Currency, Coinage, Mint and Other General Services (+ Rs. 116 crores) and (iii) Grants-in-aid for non-developmental purposes to States and Union Territories (+ Rs. 76 crores). This is partly offset by a decline in provision for (i) Defence (net) (– Rs. 432 crores) and (ii) Postal Services (– Rs. 202 crores).

Within capital disbursements, while developmental capital outlay budgeted at Rs. 6,278 crores is lower as against Rs. 7,710 crores in the previous year (– Rs. 1,432 crores, – 8.6 per cent), non-developmental capital outlay expected at Rs. 4,035 crores would be higher as compared with Rs. 1,323 crores in the previous year (+Rs. 2,712 crores, 205.2 per cent). Under the developmental capital outlay, main items accounting for decline are: (i) Social Services (– Rs. 99 crores) and (ii) Economic Services (– Rs. 1,218 crores). Within non-developmental capital outlay, important item for which increased provision has been made is Defence (+ Rs. 2,751 crores). Loans and Advances to States and Union Territories and others budgeted at Rs. 9,199 crores are lower than the level of Rs. 10,210 crores in the previous year (– Rs. 1,011 crores, – 9.9 per cent).

Of the total rise of Rs. 5,425 crores in aggregate receipts, Rs. 3,049 crores are estimated on the revenue account and balance of Rs. 2,376 crores would be from capital receipts. Revenue receipts are projected at Rs. 38,202 crores as compared with Rs. 35,153 crores in 1986-87. Tax receipts are envisaged at Rs. 27,711 crores showing a rise of Rs. 3,504 crores which would partly be offset by a decline in non-tax revenue by Rs. 455 crores or 4.2 per cent to Rs. 10,491 crores. The major portion (+ Rs. 3,167 crores) of the rise in tax revenue would be contributed by Taxes on Commodities and Services which are expected to reach a level of Rs. 22,725 crores as compared with Rs. 19,558 crores in the previous year. Excise Duties (net) and Customs Duties (net) would be higher by Rs. 1,800 crores and Rs. 1,367 crores, respectively. The projected increase in receipts from Commodities and Services is partly due to transfer of Rs. 1,700 crores of surplus oil funds from Oil Pool Account to tax revenue (Customs Duties Rs. 800 crores and Union Excise Duties Rs. 900 crores). These funds were treated as non-tax revenue in 1986-87. Under non-tax revenue, major decline is expected under Economic Services (–Rs. 1,571 crores) which would be offset partly by an increase in receipts from (i) Interest Receipts (+ Rs. 757 crores), (ii) receipts from Dividends and Profits (+ Rs. 59 crores) and (iii) Fiscal Services (+ Rs. 317 crores).

Capital receipts are anticipated higher at Rs. 20,566 crores as compared with Rs. 18,190 crores in the preceding year. The contributory items for the rise are . (i) Internal Market Borrowings (net)(+Rs. 1,000 crores), (ii) External Loans (net)(+Rs. 753 crores), (iii) Small Savings (+ Rs. 100 crores), (iv) Recoveries of Loans and Advances (+ Rs. 419 crores) and (v) Special Deposits of non-Government Provident Funds (+ Rs. 200 crores).

Economic and Functional Classification of the Central Government Budget

The economic transactions of Government have far reaching implications for the working of the economy. In order to understand their impact, there is a need to have an economic classification of the budgetary transactions. There is also need for a functional classification of the budget particularly after the advent of economic planning to analyse how much the Centre is allocating to different functions in accordance with the priorities laid down in the Plan. Accordingly, the Central Government has been bringing out an economic-cum-functional classification of its transactions from 1967-68 onwards.

In the following paragraphs an analysis is made of the economic and functional classification of the Central Government expenditure during 1986-87 and the proposed allocation for 1987-88.

1986-87
Economic Classification

The total expenditure of the Centre during 1986-87 aggregated at Rs. 64,426 crores showing a rise of Rs. 11,314 crores (21.3 per cent) over the previous year's expenditure of Rs. 53,112 crores (Table VIII-3). Final outlays representing the Centre's direct demand for goods and services for consumption and capital formation at Rs. 20,334 crores were higher by Rs. 4,566 crores (29.0 per cent) over the previous year and constituted 31.6 per cent of the total expenditure as compared to 29.7 per cent in the previous year. Financial resources provided to the rest of the economy by way of transfer payments, financial investments and loans to the rest of the economy at Rs. 44,092 crores were also higher by Rs. 6,748 crores (18.1 per cent) over the preceding year and accounted for 68.4 per cent of total expenditure as compared with 70.3 per cent in the previous year. Within Final Outlays, both consumption expenditure (i.e. expenditure on wages and salaries and commodities and services) at Rs. 14,429 crores and gross capital formation at Rs. 5,905 crores were higher by Rs. 3,219 crores (28.7 per cent) and Rs. 1,347 crores (29.6 per cent), respectively, over the previous year. The increase in consumption expenditure was shared both by wages and salaries (+ Rs. 1,361 crores) and commodities and services (+ Rs. 1,858 crores). Within gross capital formation, gross fixed capital formation at Rs. 5,801 crores accounted for a rise of Rs. 1,349 crores which was marginally offset by a decline of Rs. 2 crores in expenditure on works stores to Rs. 104 crores.

The increase of Rs. 6,748 crores in financial resources provided to the rest of the economy was on account of both transfer of capital formation as also for purposes other than capital formation. Transfers meant for capital formation at Rs. 18,532 crores were higher by Rs. 1,613 crores (+9.5 per cent) while for purposes other than capital formation at Rs. 25,560 crores were higher by Rs. 5,135 crores (25.1 per cent) than those in the previous year. Total financial resources provided to States and Union Territories were Rs. 15,011 crores in 1986-87 in comparison with Rs. 14,425 crores transferred in the previous year recording a rise of Rs. 586 crores (4.1 per cent). Transfers to other sectors (other than States and Union Territories) at Rs. 29,081 crores were higher by Rs. 6,162 crores (26.9 per cent) over those in 1985-86. The items accounting for rise were : i) interest payments (+ Rs. 1,833 crores), ii) other loans (+ Rs. 1,587 crores), iii) other current transfers (+ Rs. 801 crores), iv) grants (+ Rs. 426 crores), v) loans for capital formation (+ Rs. 309 crores) and vi) capital transfers (+ Rs. 187 crores).

Aggregate expenditure on capital formation both direct and indirect in 1986-87 was Rs. 24,438 crores showing a rise of Rs. 2,961 crores (13.8 per cent) over the previous year. It constituted 37.9 per cent of total expenditure during the year as compared with 40.4 per cent in the previous year. While the increase

Table VIII–3 : Economic Classification of Total Budgetary Expenditure of the Central Government

(Rs. crores)

Items	1985-86 (Accounts)	Per cent variation over the previous year	1986-87 (Budget Estimates)	Per cent variation over the previous year	1986-87 (Revised Estimates)	Per cent variation over the previous year	1987-88 (Budget Estimates)	Per cent variation over the previous year
	1	2	3	4	5	6	7	8
I. Total Expenditure (A+B)	**53,112**	**+ 21.0**	**58,033**	**+ 9.3**	**64,426**	**+ 21.3**	**67,640**	**+ 5.0**
	(100.0)		**(100.0)**		**(100.0)**		**(100.0)**	
A. Final Outlays (a+b)	**15,768**	**+ 16.4**	**18,328**	**+ 16.2**	**20,334**	**+ 29.0**	**23,257**	**+ 14.4**
	(29.7)	(	**(31.6)**		**(31.6)**		**(34.4)**	
a) Consumption Expenditure	11,210	+ 18.9	12,438	+ 11.0	14,429	+ 28.7	17,121	+ 18.7
	(21.1)		(21.4)		(22.4)		(25.3)	
b) Gross Capital Formation	4,558	+ 10.6	5,890	+ 29.2	5,905	+ 29.6	6,136	+ 3.9
	(8.6)		(10.2)		(9.2)		(9.1)	
B. Financial Resources Provided to the Rest of the Economy (a+b)	**37,344**	**+ 23.1**	**39,705**	**+ 6.3**	**44,092**	**+ 18.1**	**44,383**	**+ 0.7**
	(70.3)		**(68.4)**		**(68.4)**		**(65.6)**	
a) For Capital Formation (i + ii)	16,919	+ 26.0	17,708	+ 4.7	18,532	+ 9.5	18,616	+ 0.5
	(31.8)		(30.5)		(28.8)		(27.5)	
(i) To States and Union Territories	10,053	+ 39.7	10,579	+ 5.2	10,900	+ 8.4	11,775	+ 8.0
	(8.9)		(18.2)		(16.9)		(17.4)	
(ii) To Others*	6,866	+ 10.2	7,129	+ 3.8	7,632	+ 11.2	6,841	− 10.4
	(12.9)		(12.3)		(11.9)		(10.1)	
b) For purposes other than Capital Formation (i + ii)	20,425	+ 20.9	21,997	+ 7.7	25,560	+ 25.1	25,767	+ 0.8
	(38.5)		(37.9)		(39.6)		(38.1)	
(i) To States and Union Territories	4,372	+ 26.0	4,439	+ 1.5	4,111	− 6.0	4,874	+ 18.6
	(8.2)		(7.6)		(6.3)		(7.2)	
(ii) To Others*	16,053	+ 9.5	17,558	+ 9.4	21,449	+ 33.6	20,893	− 2.6
	(30.3)		(30.3)		(33.3)		(30.9)	
II. Total Expenditure for Capital Formation	**21,477**	**+ 22.4**	**23,598**	**+ 9.9**	**24,438**	**+ 13.8**	**24,752**	**+ 1.3**
	(40.4)		**(40.7)**		**(37.9)**		**(36.6)**	
III. Total Expenditure for purposes other than Capital Formation	**31,635**	**+ 20.2**	**34,435**	**+ 8.9**	**39,988**	**+ 26.4**	**42,888**	**+ 7.3**
	(59.6)		**(59.3)**		**(62.1)**		**(63.4)**	

Note Figures in brackets represent percentages to total.

* Comprises non-departmental commercial undertakings, local authorities, foreign governments, etc.

Sources : Economic and Functional Classification of the Central Government Budget, 1986-87 amd 1987-88.

in direct capital formation was Rs. 1,347 crores (29.6 per cent), that in assistance provided for the same purpose to the rest of the economy was Rs. 1,613 crores (9.5 per cent). Total expenditure for the purposes other than capital formation at Rs. 39,988 crores was higher by Rs. 8,353 crores (26.4 per cent) as compared with Rs. 31,635 crores in the previous year.

Functional Classification

Developmental expenditure of the Central Government at Rs. 36,394 crores during 1986-87 showed a rise of Rs. 5,542 crores (18.0 per cent) over the preceding year. It constituted 56.5 per cent of total expenditure in comparison with 58.1 per cent in the preceding year (Table VIII-4). The expenditure on Social Services increased by Rs. 1,214 crores (31.3 per cent) as compared with a rise of Rs. 720 crores (22.8 per cent) in the previous year. Expenditure on Economic Services at Rs. Rs. 31,298 crores was higher by Rs. 4,328 crores (16.0 per cent) as compared with the expenditure of Rs. 26,970 crores in 1985-86 showing a rise of 16.7 per cent over 1984-85.

Non-developmental expenditure of the Central Government at Rs. 28,032 crores during 1986-87 recorded a rise of Rs. 5,772 crores (25.9 per cent) over the preceding year. It constituted 43.5 per cent of the total expenditure as against 41.9 per cent in the previous year. Expenditure on General Services which includes civil and defence expenditure and non-Plan grants and loans to States and Union territories for natural calamities was Rs. 14,399 crores recording a rise of Rs. 3,626 crores (33.7 per cent) over

Table VIII—4 : Functional Classification of the Central Government's Total Expenditure

(Rupees crores)

Items	1985-86 (Accounts)		1986-87 (Budget Estimates)		1986-87 (Revised Estimates)		1987-88 (Budget Estimates)	
	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year
1	2	3	4	5	6	7	8	9
Total Expenditure (A+B)	**53,112**	**+ 21.0**	**58,033**	**+ 9.3**	**64,426**	**+ 21.3**	**67,640**	**+ 5.0**
	(100.0)		**(100.0)**		**(100.0)**		**(100.0)**	
A. Developmental Expenditure (i+ ii)	**30,852**	**+ 17.4**	**33,587**	**+ 8.9**	**36,394**	**+ 18.0**	**36,325**	**− 0.2**
	(58.1)		**(57.9)**		**(56.5)**		**(53.7)**	
(i) Social Services	3,882	+ 22.8	4,651	+ 19.8	5,096	+ 31.3	5,701	+ 11.9
	(7.3)		(8.0)		(7.9)		(8.4)	
(ii) Economic Services*	26,970	+ 16.7	28,936	+ 7.3	31,298	+ 16.0	30,624	− 2.2
	(50.8)		(49.9)		(48.6)		(45.3)	
B. Non-Developmental Expenditure (i+ii)	**22,260**	**+ 26.5**	**24,446**	**+ 9.8**	**28,032**	**+ 25.9**	**31,315**	**+ 11.7**
	(41.9)		**(42.1)**		**(43.5)**		**(46.3)**	
(i) General Services	10,773	+ 20.1	12,082	+ 12.2	14,399	+ 33.7	16,747	+ 16.3
	(20.3)		(20.8)		(22.3)		(24.8)	
(ii) Unallocable	11,487	+ 33.0	12,364	+ 7.6	13,633	+ 18.7	14,568	+ 6.9
	(21.6)		(21.3)		(21.2)		(21.5)	

Note Figures in brackets are percentages to total expenditure.

* Include block grants and loans.

Sources: Economic and Functional Classification of the Central Government Budget, 1986-87 and 1987-88.

the previous year (Rs. 10,773 crores). It had registered a rise of 20.1 per cent in 1985-86 over 1984-85.

Of the total rise of Rs. 3,626 crores in General Services expenditure, defence expenditure at Rs. 10,154 crores alone accounted for a rise of Rs. 2,192 crores (60.5 per cent) while consumption expenditure other than defence at Rs. 2,732 crores and non-consumption expenditure at Rs. 1,513 crores accounted for a rise of Rs. 716 crores (19.7 per cent) and Rs. 718 crores (19.8 per cent), respectively. The unallocable expenditure at Rs. 13,633 crores was also higher by Rs. 2,146 crores (18.7 per cent) as compared with Rs. 11,487 crores in the previous year when it had registered a rise of 33.0 per cent. The unallocable items include statutory grants-in-aid to States, non-Plan grants to Union Territories, food and other consumer subsidies, interest on public debt, pensions and aid to foreign countries. Increased provision for interest payments (Rs. 1,833 crores) and subsidies (Rs. 227 crores) were major items accounting for the rise in 'unallocable' expenditure.

The provision of Rs. 24,194 crores for capital formation for developmental purposes in 1986-87 accounted for 66.5 per cent in total developmental expenditure as compared with Rs. 21,302 crores in the previous year constituting 69.0 per cent of the developmental expenditure. The provision for capital formation for non-developmental purposes comprising general services and unallocable was Rs. 244 crores as compared with Rs. 175 crores in the preceding year (Table VIII-5).

Table VIII—5 : Provision for Capital Formation

(Rupees crores)

Items	1985-86 (Accounts)	1986-87 (Budget Estimates)	1986-87 (Revised Estimates)	1987-88 (Budget Estimates)	Per cent variation	
					Col. 3 over Col. 1	Col. 4 over Col. 3
	1	2	3	4	5	6
I. Total provision for Capital Formation (A+B)	**21,477**	**23,598**	**24,438**	**24,752**	**+ 13.8**	**1.3**
A. Developmental (1 to 3)	**21,302**	**23,289**	**24,194**	**24,350**	**+ 13.6**	**+ 0.6**
1. Social Services	1,481	1,813	1,981	1,806	+ 33.8	− 8.8
2. Economic Services (a to d)	14,959	16,363	16,941	16,754	+ 13.2	− 1.1
a) Agriculture	1,207	1,462	1,594	1,669	+ 32.1	+ 4.7
b) Industry	6,691	6,857	7,437	6,734	+ 11.1	− 9.5
c) Transport and Communication	3,726	4,530	4,506	4,620	+ 20.9	+ 2.5
d) Other Economic Services	3,335	3,514	3,404	3,731	+ 2.1	+ 9.6
3. Block Grants and Loans	4,862	5,113	5,272	5,790	+ 8.4	+ 9.8
B. Non-Developmental (1 + 2)	**175**	**309**	**244**	**402**	**+ 39.4**	**+ 64.8**
1. General Services	175	309	244	402	+ 39.4	+ 64.8
2. Unallocable	—	—	—	—	—	—
II. Total Developmental Expenditure	**30,852**	**33,587**	**36,394**	**36,325**	**+ 18.0**	**− 0.2**
III. Total Expenditure	**53,112**	**58,033**	**64,426**	**67,640**	**+ 21.3**	**+ 5.0**
IV. IA as per cent of II	**69.0**	**69.3**	**66.5**	**67.0**		
V. I as per cent of III	**40.4**	**40.7**	**37.9**	**36.6**		

Source : Economic and Functional Classification of the Central Government Budget, 1986-87 and 1987-88.

1987-88
Economic Classification

The aggregate expenditure of the Central Government during 1987-88 is anticipated to rise by Rs. 3,214 crores (5.0 per cent) to Rs. 67,640 crores against an increase of Rs. Rs. 11,314 crores (21.3 per cent) in the previous year* (Table VIII—3).

Final outlays at Rs. 23,257 crores are budgeted higher by Rs. 2,923 crores (14.4 per cent) and their share in total expenditure would increase from 31.6 per cent in 1986-87 to 34.4 per cent. Of the proposed increase in the final outlays the share of consumption expenditure which is budgeted at Rs. 17,121 crores shows a rise of Rs. 2,692 crores (18.7 per cent) and would be higher at 25.3 per cent compared to 22.4 per cent in the preceding year. While Central Government's direct expenditure on gross capital formation budgeted at Rs. 6,136 crores would be higher by Rs. 231 crores (3.9 per cent) compared to an increase of 29.6 per cent in 1986-87, its share in final outlays at 9.1 per cent would be marginally lower. Of the rise of Rs. 2,692 crores in consumption expenditure, Rs. 638 crores would be accounted for by wages and salaries while the remaining amount of Rs. 2,054 crores would be on commodities and services. The increase of Rs. 231 crores in the gross capital formation was due to increase in the gross fixed capital formation which at Rs. 6,006 crores showed a rise of Rs. 205 crores and the remaining amount of Rs. 26 crores was on account of changes in inventories.

The financial resources provided to the rest of the economy are estimated at Rs. 44,383 crores which show a marginal rise of Rs. 291 crores (0.7 per cent) over 1986-87. As a result, its proportion in total expenditure would decline from 68.4 per cent in 1986-87 to 65.6 per cent in 1987-88. The increase of Rs. 291 crores in the financial resources provided to the rest of the economy was shared both by outlays for capital formation which at Rs. 18,616 crores would be higher by Rs. 84 crores and the remaining amount of Rs. 207 crores on account of the resources provided for the purposes other than capital formation which are anticipated at Rs. 25,767 crores. The total transfer of resources to States and Union Territories is budgeted at Rs. 16,649 crores — a rise of Rs. 1,638 crores as against a rise of Rs. 586 crores in the preceding year. The provision made for transfer of resources to 'Others' is Rs. 27,734 crores envisaging a decline of Rs. 1,347 crores or 4.6 per cent as against a rise of Rs. 6,162 crores or 26.9 per cent in the preceding year. The decline in transfer payments for 'others' was on account of 'other loans' (Rs. 1,739 crores), investment in shares (Rs. 1,244 crores) and subscriptions to the International Financial Organisations (Rs. 261 crores). It would be partly offset by a rise in transfer payments due to interest payments (Rs. 856 crores), grants (Rs. 461 crores) and loans for capital formation (Rs. 447 crores.)

The total provision for capital formation at Rs. 24,752 crores is anticipated to show a rise of Rs. 314 crores (1.3 per cent) and would constitute 36.6 per cent of the total expenditure as against a rise of Rs. 2,961 crores (13.8 per cent) in the previous year forming 37.9 per cent of the total expenditure. Expenditure for purposes other than capital formation is budgeted at Rs. 42,888 crores envisaging a rise of Rs. 2,900 crores (7.3 per cent) in comparison with a rise of Rs. 8,353 crores (26.4 per cent) in the previous year. It would form 63.4 per cent of total expenditure in 1987-88 as against 62.1 per cent in the previous year.

Functional Classification

Developmental expenditure comprising broadly expenditure on Economic and Social Services at Rs. 36,325 crores in 1987-88 is

* The data for 1987-88 are budget estimates and for 1986-87 and 1985-86 revised estimates and accounts, respectively.

anticipated to show a decline of Rs. 69 crores (0.2 per cent) against a rise of Rs. 5,542 crores (18.0 per cent) in the previous year. Its share in total expenditure is anticipated to fall to 53.7 per cent from 56.5 per cent in 1986-87. Expenditure on Economic Services at Rs. 30,624 crores is lower by Rs. 674 crores (2.2 per cent) which is offset to a large extent by a rise in expenditure on Social Services at Rs. 5,701 crores by Rs. 605 crores (11.9 per cent). The expenditure on Economic Services and Social Services would constitute 45.3 per cent and 8.4 per cent of total expenditure in contrast to 48.6 per cent and 7.9 per cent, respectively, in the previous year.

Non-developmental expenditure at Rs. 31,315 crores is expected to grow by Rs. 3,283 crores (11.7 per cent) at a lower rate as compared with Rs. 28,032 crores in the preceding year when it registered a rise of Rs. 5,772 crores (25.9 per cent) over 1985-86. The non-developmental expenditure would form 46.3 per cent of total expenditure as against 43.5 per cent in the previous year. Of the rise of Rs. 3,283 crores in non-developmental expenditure, expenditure on General Services budgeted at Rs. 16,747 crores would account for an increase of Rs. 2,348 crores (71.5 per cent) and remaining Rs. 935 crores (28.5 per cent) on account of the unallocable expenditure which is envisaged at Rs. 14,568 crores. The rise in expenditure in General Services is anticipated on account of higher allocations for Defence Services (Rs. 2,367 crores)and consumption expenditure other than defence (Rs. 64 crores) which would be partly offset by a decline in non-consumption expenditure by Rs. 83 crores. The growth in unallocable expenditure would be due to increased provisions for interest payments (Rs. 856 crores) and grants to States and Union Territories (Rs. 201 crores). The expenditure on General Services and Unallocable would constitute 24.8 per cent and 21.5 per cent of total expenditure as against 22.3 per cent and 21.2 per cent, respectively, in the preceding year.

Total provision for capital formation amounting to Rs. 24,752 crores is expected to rise by Rs. 314 crores (1.3 per cent) over the preceding year. At this level, the allocation is much lower than the increase of Rs. 2,961 crores (13.8 per cent) recorded in the previous year. Within developmental expenditure, the amount allotted for capital formation is Rs. 24,350 crores, showing a rise of Rs. 156 crores (0.6 per cent) over the preceding year. The provision for capital formation for non-developmental purposes is estimated at Rs. 402 crores recording a rise of Rs. 158 crores over the previous year. The proportion of expenditure on capital formation for developmental purposes to total developmental expenditure is expected to be marginally higher by 0.5 percentage point to 67.0 per cent in 1987-88. The provision for capital formation under Block Grants and Loans at Rs. 5,790 crores envisages a rise of Rs. 518 crores (9.8 per cent) while allocation for this under Social Services and Economic Services at Rs. 1,806 crores and Rs. 16,754 crores would be lower by Rs. 175 crores (8.8 per cent) and Rs. 187 crores (1.1 per cent), respectively, over the previous year.

Budget Proposals : 1987-88

The broad direction and strategy of the 1987-88 budget proposals is to continue further the process of fiscal reforms on the lines set out in the Long-Term Fiscal Policy. The primary thrust of direct tax proposals is to provide incentives to promote investment, to support housing and strengthen some welfare measures alongwith some proposals to enhance revenue. In the sphere of indirect taxation, the tariff regime for capital goods is restructured and rationalised. MODVAT is extended to cover all categories of the Excise Tariff except those relating to textiles, tobacco and petroleum sectors. Excise and Customs Duties for certain industries are adjusted to stimulate growth and provide relief to some industries. Measures have been also proposed for providing incentives for export promotion and import substitution.

The salient features of the tax proposals contained in the budget are briefly summarised. (Post-budget modifications are not taken into account).

A. Direct Taxes

1) Income Tax

a) Tax on Income other than Corporate Income

There is no change in the rate structure for personal income tax.

b) Tax on purchase of foreign exchange for travel

In order to conserve foreign exchange and to raise revenue, a tax of 15 per cent on foreign exchange released in India for foreign travel is proposed. The revenue yield from this is expected to be Rs. 60 crores.

c) New Savings Scheme

For encouraging savings, new savings scheme based on the net saving principle eligible for deduction from the taxable income is being formulated. The net contribution to the scheme will be, for the present, in addition to existing tax concessions available to approved financial savings under Section 80 C of the Income-tax Act.

d) Concession for investment in housing

A fiscal incentive to the extent of Rs. 10,000 in a year towards the cost of any new residential property will qualify for deduction under Section 80 C within the existing limit of Rs. 40,000.

e) Tax on expenditure in expensive hotels

A new tax at the rate of 10 per cent on expenditure in expensive hotels is proposed. This tax will, however, not apply to payments made in foreign exchange.

2) Capital Gains Tax

There is no change in the rates of tax on capital gains. Capital gains arising from the sale of a residential house are exempt in case of an individual acquiring another house. This concession is now extended to Hindu Undivided Families. For getting the benefit of concessional rate of tax under the long-term capital gains, the holding period of shares is being reduced from 36 months to 12 months.

3) Corporation Tax

a) No change has been proposed in the rate of income tax on corporate income.

b) With effect from 1-4-1987 a liberalised set of depreciation rules will be allowed. Depreciation will be allowed in respect of blocks of assets instead of the present system linked to individual assets. There will be only three rates of depreciation for plant and machinery, namely, 100 per cent, 50 per cent and 33-1/3 per cent.

c) Section 80 VVA inserted in 1983 in respect of 'Zero-tax' companies is withdrawn. Instead, a provision whereby every company will have to pay a corporate tax on at least 30 per cent of its book profit is being introduced. In other words, a domestic widely held company will pay at least 15 per cent of the book profit. This will yield a revenue of Rs. 75 crores.

d) Investment in shares of new companies

The existing provision of allowing deduction in respect of investment in equity shares of certain categories of companies under Section 80 CC is extended upto March 31, 1990 and the holding period of these shares qualifying for deduction is also reduced from 5 years to 3 years.

B. Indirect Taxes

a) Excise Duty

MODVAT which was introduced in the last budget and covered 38 chapters of Excise Tariff is now extended to all the remaining chapters of the Excise Tariff except those relating to textiles, tobacco and petroleum sectors. Keeping in view the nature of products, the duty on the final product is not increased in majority of the items. This will reduce the effective duty on a large number of items. A number of important procedural changes are also introduced to simplify the operations of MODVAT.

b) Capital Goods Industry

To provide special support to capital goods industries, import duty for capital goods are proposed to be raised. Some rationalisation of import duty is proposed to prevent misuse of existing concessional rate of imports available for new project. The existing two tariff rates for import of machinery, i.e., 101 per cent for import of general machinery and a concessional rate of 55 per cent when machinery is imported for new project discriminate against modernisation of existing units and favours sickness and also provides strong encouragement for unnecessary imports. To correct these anamolies these two rates are equalised at 85 per cent. Further, to encourage upgradation of technology in specified capital goods sectors, duties on import of special steel, capital goods for modernisation of foundries and caustic soda plants are reduced.

c) Electronic Industry

Budget proposals contain several measures to provide relief and rationalisation in respect of electronic industry. These proposals will have a revenue gain of Rs. 40 crores in Excise Duty and loss of Rs. 59.30 crores in Customs Duty resulting in a net loss of revenue of Rs. 19.30 crores to the exchequer.

d) Automobiles Industry

Excise Duty on fuel-efficient motor vehicles with engine capacity not exceeding 1000 c.c. is proposed to be raised from 20 per cent to 25 per cent. With a view to encouraging indigenisation the list of components eligible for concessional Customs Duty of 50 per cent required for manufacture of components for fuel-efficient trucks, cars and two wheelers is being enlarged.

e) Cement Industry

It proposed to provide a rebate of Excise Duty at the rate of Rs. 50/- per metric tonne in respect of portland cement manufactured by units commencing production of such cement on or after 1-4-1986. The rebate will be available for a period of 3 years from 1-3-1987. The levy quota in respect of such units is also reduced from the existing 30 per cent to 15 per cent provided the aggregate production of these units is not less than 30 per cent of the licensed capacity.

f) Relief for common man

Number of items of common use namely, plastics, cheap footwear, janta soaps, cloth produced by NTC mills, fluorescent tubes, biogas appliances such as stoves, hot plates and lights, specified life-saving equipments and drug and items like note books, letter-pads, blotting pads, registers, account books, file covers and hand processed fabrics are either fully exempted from Excise Duty or will attract lower rates.

g) Cigarettes

The existing scheme of Excise Duty on cigarettes is based on the printed retail prices. It is proposed to move over to a new scheme of specific excise duty based on the length of the cigarette. This scheme apart from being a major simplification and rationalisation measure, would also yield an additional revenue of Rs. 200 crores.

h) Yarn

The duty on viscose staple fibre and viscose filament yarn is also being raised to give an additional revenue of Rs. 29 crores. Apart from these measures, there are a number of proposals for certain industries to stimulate their growth and also to raise revenue.

The budget proposals would yield an additional revenue of Rs. 531.73 crores from Customs Duties and Rs. 431.80 crores from Excise Duties. The concessions and relief aggregate Rs. 464.81 crores on the Customs side and Rs. 130 crores on the Excise side. The net additional revenue from Customs Duties would be Rs. 66.92 crores and that from Excise Duties Rs. 301.80 crores. Of the additional revenue from Excise Duties, the Centre's share would be Rs. 109.48 crores and that of States' Rs. 192.32 crores. The proposed tax measures both direct and indirect taken together with reliefs are estimated to yield net additional revenue of Rs. 514 crores, comprising Rs. 145 crores from direct tax proposals and Rs. 369 crores from indirect tax proposals. The Centre's share would be Rs. 322 crores and the States' share Rs. 192 crores (Table VIII—6).

Table VIII-6 : Additional Resource Mobilisation by the Centre during 1987-88

(Rs. crores)

Items	Centre's Share	States' Share	Total
1	2	3	4
I. Taxes (a + b)	**322***	**192***	**514***
(a) Direct Taxes (i + ii)	145	—	145
(i) Corporation Tax	85	—	85
(ii) Foreign Travel Tax	60	—	60
(b) Indirect Taxes (i + ii)	177	192	369
(i) Customs Duties	67	—	67
(ii) Union Excise Duties	110	192	302
II. Revision in Railway Fares and Freight	—	—	—
III. Total (I + II)	**322**	**192**	**514**

* Excludes post-budget tax concessions.

Source: Budget documents of Government of India_1987-88.

Other Measures

1. A new financial structure will be created to provide funds for housing. At the apex level, a new National Housing Bank will be set up by the Reserve Bank of India with an equity capital of Rs. 100 crores. This bank will promote housing institutions at both local and regional levels.

2. The Central Government has again earmarked Rs. 125 crores in 1987-88 for the Indira Awaas Yojana under which one million houses are to be built up for the scheduled castes and scheduled tribes during the Seventh Plan. The States would be free to utilise amounts allotted to them under this programme as seed capital for launching Indira Awaas Yojana Societies for housing loans for the scheduled castes and scheduled tribes.

3. Last year, the Unit Trust of India had set up a Mutual Fund for investment in equity to attract small investors. In order to widen their choice, the State Bank of India will set up a similar Mutual Fund.

4. The Government will appoint a National Commission on Rural Labour to look into the working conditions of this vulnerable section and the implementation of social legislation for their protection.

Ninth Finance Commission

In pursuance of the provisions of article 280 of the Constitution of India and of the Finance Commission (Miscellaneous Provisions) Act 1951, the Government of India has constituted the Ninth Finance Commission on June 17, 1987 with Shri N.K.P. Salve as the Chairman of the Commission and four other members. The Finance Commission has been asked *inter alia* to recommend the distribution of taxes and duties between the Union and the States and *inter-se* amongst the States as also the principles which should govern the grants-in-aid of the revenues of the States and the amounts to be paid to those States in need of assistance under article 275 of the Constitution. While making its recommendations, the Commission has been asked to adopt a normative approach in assessing the receipts and expenditure on the revenue account of the States and the Centre keeping in view the special problems of each State and the special requirements of the Centre such as defence, debt servicing and other committed expenditure. It would also look into the feasibility of providing adequate incentives for better resource mobilisation and financial discipline so as to have a closer linkage between expenditure and revenue decision after taking into account the need for speed, efficiency and effectiveness of Government functioning and of delivery systems for Government programmes and simultaneously keep in view the objective of not only balancing the receipts and expenditure on revenue account of both the States and the Centre but also generate surpluses for capital investments.

The Commission is asked to suggest changes, if any to be made in principles governing the distribution among the States, of (i) the net proceeds of the additional excise duties in replacement of sales tax levied and collected on items of textiles, sugar and tobacco and (ii) the grants-in-aid made available to the States in lieu of the railway passenger fares tax. In making its recommendations, the population figures of 1971 would be adopted in all cases where population is regarded as a factor for determination of taxes and duties and grants-in-aid.

It may make an assessment of the debts position of States as on the 31st day of March 1989 with special reference to investment in infrastructure and suggest corrective measures connected therewith.

In pursuance with the commitment in the Long-Term Fiscal Policy, the Commission would examine the feasibility of the merger of additional excise duties in lieu of sales tax with basic excise duties and evolve a formula for allocating a part of the duties for distribution among the States in lieu of Sales tax. It will also review the policy and arrangements in regard to the financing of relief expenditure and examine *inter alia* the feasibility of establishing a National Insurance Fund to which the State Governments may contribute a percentage of their revenue receipts.

The Government has asked the Commission to make two reports, the first covering a period of one year commencing on the 1st day of April 1989, by June 30, 1988 and the second report covering a period of five years commencing on the 1st day of April 1990 by June 30, 1989.

II. BUDGETARY OPERATIONS OF STATE GOVERNMENTS @

Revised Estimates : 1986-87

The Budget Estimates for 1986-87 had anticipated an overall deficit of Rs. 291 crores. According to Revised Estimates for the year[7], the deficit has widened to Rs. 945 crores as against a surplus of Rs. 1,688 crores[8] in 1985-86. The deterioration in the State finances in 1986-87 had taken place despite improvement in revenue receipts, due to sharp rise in disbursements. Aggregate receipts at Rs. 51,445 crores in 1986-87 increased by Rs. 4,888 crores (10.5 per cent) over the level in 1985-86 while

total disbursements recorded a rise of Rs. 7,522 crores (16.8 per cent) to Rs. 52,390 crores (Table VIII-7).

Receipts

The increase in aggregate receipts in 1986-87 was contributed entirely by revenue receipts which was partly offset by decline in capital receipts. Revenue receipts registered a rise of Rs. 5,112 crores or 15.3 per cent to Rs. 38,536 crores as compared with Rs. 33,424 crores in 1985-86. Capital receipts declined by Rs. 223 crores or 1.7 per cent from Rs. 13,133 crores in 1985-86 to Rs. 12,910 crores in 1986-87. The revenue receipts accounted for 74.9 per cent of aggregate receipts in 1986-87 as against 71.8 per cent in the previous year. The rise in revenue receipts was contributed by both tax and non-tax receipts. Tax receipts at Rs. 25,261 crores recorded a rise of 15.8 per cent over 1985-86. Non-tax receipts at Rs. 13,274 crores were higher by 14.3 per cent over those in 1985-86. The share of tax receipts in revenue receipts improved marginally to 65.6 per cent in 1986-87 from 65.2 per cent in 1985-86, while that of non-tax receipts declined to 34.4 per cent from 34.7 per cent. States' own tax revenue rose by Rs. 2,201 crores or 15.1 per cent from Rs.14,551 crores in 1985-86 to Rs. 16,752 crores in 1986-87. States' share in Central taxes at Rs. 8,509 crores registered a rise of Rs. 1,249 crores (17.2 per cent) over 1985-86. States' own tax receipts contributed 32.6 per cent of aggregate receipts in 1986-87 as against 31.3 per cent in 1985-86. Under the States' own tax receipts Sales tax alone contributed a rise of Rs. 1,264 crores or 57.4 per cent of total rise in States' own tax receipts. Besides Sales tax, other taxes which showed improvement in receipts were State Excise Duties (+ Rs. 386 crores), Taxes on Vehicles (+ Rs. 172 crores), Taxes and Duties on Electricity (+ Rs. 151 crores), Stamps and Registration Fees (+ Rs. 127 crores), Taxes on Goods and Passengers (+ Rs. 72 crores), Land Revenue (+ Rs. 67 crores), Taxes on Professions, Trades, Callings and Employment (+ Rs. 16 crores) and other Taxes and Duties (+ Rs. 20 crores). On the other hand collections from Agricultural Income Tax and Entertainment Tax were lower by Rs. 48 crores and Rs. 29 crores, respectively, than those in 1985-86. Of the increase of Rs. 1,249 crores in States' share in Central taxes, Union Excise Duties contributed Rs. 791 crores while States' share in Income Tax rose by Rs. 466 crores over 1985-86. The States' share in Estate Duty declined by Rs. 7 crores to Rs. 12 crores in 1986-87. While the proportion of States' own taxes to total tax revenue declined marginally from 66.7 per cent in 1985-86 to 66.3 per cent in 1986-87, that of share in Central taxes increased to 33.7 per cent from 33.3 per cent during the same period. During 1986-87, non-tax revenue of States increased from Rs. 11,613 crores in 1985-86 to Rs. 13,274 crores registering a growth rate of 14.3 per cent. Grants from the Centre increased from Rs. 6,323 crores in 1985-86 to Rs. 7,359 crores recording a rise of Rs. 1,036 crores (16.4 per cent). Other non-tax revenue receipts at Rs. 5,916 crores were higher by Rs. 625 crores (11.8 per cent) over that in 1985-86 (Rs. 5,291 crores). The growth in grants was higher at 16.4 per cent while the States' own non-tax revenue rose by 11.8 per cent.

---

7. The comparisons are between revised estimates of 1986-87 and the accounts figures of 1985-86, unless otherwise stated.

   Overall surplus or deficit for the year is computed by deducting aggregate disbursements from aggregate receipts. Aggregate receipts include (i) Revenue Receipts and (ii) Capital Receipts excluding Ways and Means Advances (WMA) and overdrafts from Reserve Bank of India (RBI) and (iii) net receipts under Public Accounts excluding withdrawal from Cash Balance Investment Account and Cash Balances. Total disbursements include (i) Revenue Expenditure and Capital Disbursements excluding repayments of WMA and overdrafts from RBI. Additions to Cash Balance Investment Account and Cash Balances are also excluded.

8. The surplus for 1985-86 is arrived at after excluding the medium-term loans of Rs. 1,628 crores given to 17 States to clear 90 per cent of their overdrafts outstanding with RBI as on January 28, 1985.

@ Data relate to 23 States. Data for Arunachal Pradesh and Goa are not available.

Last year grants and other non-tax receipts had increased by 32.8 per cent and 16.3 per cent, respectively, over the levels in 1984-85.

Capital Receipts

Total capital receipts declined by Rs. 223 crores or 1.7 per cent to Rs. 12,910 crores in 1986-87 from Rs. 13,133 crores[9] in 1985-86 The capital receipts were lower due to decline in loans from the Centre (gross) by Rs. 555 crores (by 6.6 per cent) to Rs. 7,813 crores in 1986-87. States' own capital receipts on the other hand increased by 6.9 per cent from Rs. 4,765 crores in 1985-86 to Rs. 5,096 crores in 1986-87. Market borrowings (gross), as per the budget documents, amounted to Rs. 1,443 crores in 1986-87 as compared with Rs. 1,428 crores in the previous year. As per the Reserve Bank of India records gross market borrowings of 22 States aggregated Rs. 1,446 crores and Rs. 1,414 crores in 1986-87 and 1985-86, respectively. *Net* market borrowings according to RBI records, amounted to Rs. 1,163 crores as against Rs. 973 crores in 1985-86. Although the States' share in gross market borrowings (Centre as well as States) declined to 18.5 per cent in 1986-87 from 19.7 per cent in 1985-86, in net terms their share was higher at 18.0 per cent compared to 16.0 per cent. Recovery of loans and advances granted by States improved from Rs. 809 crores in 1985-86 to Rs. 1,142 crores in 1986-87.

Transfer of Resources from the Centre

Total resources (in the form of States' share in Central taxes and duties, grants and loans) transferred from the Centre to the States had recorded a sharp rise of Rs. 5,425 crores (32.8 per cent) to Rs. 21,951 crores in 1985-86 due to full effect given to the recommendations of the Eighth Finance Commission. These transfers increased further in 1986-87 by Rs. 1,730 crores (by 7.9 per cent) to Rs.23,681 crores. Of the total amount of Rs. 23,681 crores transferred, Rs. 8,509 crores (36.0 per cent) represented States' share in Central taxes and duties, Rs. 7, 359 crores (31.0 per cent) as grants and the balance of Rs. 7,813 crores (33.0 per cent) came as loans from the Centre. Of the total increase of Rs. 1,730 crores in resources transferred, share in Central taxes and grants accounted for Rs. 1,249 crores and Rs. 1,036 crores respectively, which were partly offset by decline of Rs. 555 crores in loans. The resources transferred from the Centre (gross) formed 46.0 per cent of aggregate receipts in 1986-87 as compared with 47.1 per cent in 1985-86. After providing for interest payments on loans from the Centre (Rs. 2,664 crores) and repayment of loan instalment (Rs. 2,898 crores), the net transfers totalled Rs. 18,119 crores as against Rs. 17,551 crores in the previous year. The proportion of net resources transferred to States' aggregate receipts (adjusted to loans from the Centre on net basis) declined to 37.3 per cent in 1986-87 from 39.9 per cent in 1985-86. Net transfer of resources accounted for 38.7 per cent of disbursements (excluding repayment of loans and interest charges on loans from Centre) in 1986-87 against 43.4 per cent in 1985-86.

Plan loans (gross) rose from Rs. 3,729 crores in 1985-86 to Rs. 4,006 crores in 1986-87 while non-Plan loans (including ways and means advances from the Centre) declined to Rs. 3,806 crores from Rs. 4,639 crores during the same period. The States' share in small savings declined by Rs. 396 crores to Rs. 2,538 crores in 1986-87 from Rs. 2,934 crores in 1985-86. Loans for relief for natural calamities doubled from Rs. 74 crores in 1985-86 to Rs. 148 crores in 1986-87. Loans for State Plan Schemes and Centrally Sponsored Schemes increased from Rs. 3,569 crores and Rs. 99 crores in 1985-86 to Rs. 3,839 crores and Rs. 120 crores, respectively, in 1986-87, while those for Central Plan Schemes declined to Rs. 47 crores in 1986-87 from Rs. 61 crores in the previous year.

9. The capital receipts in 1985-86 exclude the medium term loans of Rs. 1,628 crores given by the Centre to 17 States to clear 90 per cent of their outstanding overdrafts with RBI as on January 28; 1985.

Of the total grants from the Centre, Plan grants showed a substantial rise of 20.6 per cent to Rs. 5,814 crores in 1986-87, while non-Plan grants registered a marginal increase of Rs. 44 crores to Rs. 1,544 crores from Rs. 1,500 crores. Of the latter, statutory grants rose to Rs. 742 crores in 1986-87 from Rs. 627 crores in 1985-86, while grants for relief on account of natural calamities declined to Rs. 149 crores from Rs. 332 crores. Grants for State Plan Schemes and Centrally Sponsored Schemes increased to Rs. 3,197 crores and Rs. 2,007 crores, respectively, in 1986-87 from Rs. 2,744 crores and Rs. 1,274 crores in the previous year, while those for Central Plan Schemes declined to Rs. 610 crores from Rs. 805 crores in 1985-86.

Disbursements

Aggregate disbursements in 1986-87 at Rs. 52,390 crores, registered a rise of Rs. 7,521 crores (16.8 per cent) over the previous year. Last year aggregate disbursements had increased by 12.9 per cent. Developmental and non-developmental expenditure formed 71 per cent and 22 per cent of total disbursements, respectively. The remaining 7 per cent represented repayment of loans, discharge of internal debt, etc. Developmental expenditure at Rs. 37,095 crores in 1986-87 registered a growth rate of 16.9 per cent as against a rise of 13.5 per cent in the previous year. The non-developmental expenditure increased substantially from Rs. 9,620 crores in 1985-86 to Rs. 11,581 crores registering an increase of 20.4 per cent as compared with 15.4 per cent in the last year. Under developmental expenditure, expenditure on 'Economic Services' and 'Social Services' amounted to Rs. 19,996 crores and Rs. 17,099 crores, respectively, in 1986-87 as compared with Rs. 17,265 crores and Rs. 14,465 crores in 1985-86. Among other disbursements while repayment of loans to the Centre rose by 11.0 per cent to Rs. 2,898 crores in 1986-87, 'discharge of internal debt ' declined by 21.5 per cent to Rs. 395 crores from Rs. 503 crores in 1985-86. Other expenditure increased to Rs. 422 crores in 1986-87 from Rs. 405 crores in the previous year. The ratio of repayment of loans to aggregate receipt in 1986-87 worked out at 5.6 per cent, the same as in 1985-86. Repayment of market loans were lower at Rs. 294 crores in 1986-87 as against Rs. 418 crores in 1985-86.

Budget Estimates : 1987-88

The combined budgetary position of States, at 1986-87 rates of taxation, reveals a deficit of Rs. 1,545 crores as compared with a budgeted deficit of Rs. 672 crores in the preceding year for which the revised estimates has placed the deficit at Rs. 945 crores. During 1987-88 States have proposed Additional Resource Mobilisation measures which are expected to yield Rs. 833 crores[10]. Taking into account this and also the States' share of Rs. 192 crores[11] in the Centre's new tax proposals in 1987-88 budget, the overall deficit of the States is estimated to narrow down to Rs. 520 crores (Table VIII-7).

State-wise Position

An analysis of the State-wise budgets shows that at 1986-87 rates of taxation 17 States would show deficit budgets, while 5 States, viz., Haryana, Mizoram, Nagaland, Tripura and West Bengal would have surplus budgets. Orissa presented a balanced budget (Table VIII-8). The overall deficit range from Rs. 1.2 crores in Sikkim to Rs. 260.8 crores in Andhra Pradesh. Of the 17 States presenting deficit budgets, 11 States have proposed new measures

10. The post budget taxation/concession measures proposed by all the States have not been included.

11. The States' share of Rs. 192 crores referred to is according to the original proposals of the Union Budget. It does not take into account the post-budget modifications.

Table VIII-7 : Overall Budgetary Position of State Governments

(Rupees crores)

Items	1985-86@ (Accounts)	1986-87 (Budget Estimates)	Percentage variation over the previous year (Col. 3 over Col. 2)	1986-87 (Revised Estimates)	Percentage variation over the previous year (Col. 5 over Col. 2)	1987-88 (Budget Estimates)	Percentage variation over the previous year (Col. 7 over Col. 5)
1	2	3	4	5	6	7	8
I. Aggregate Receipts (A + B)	**46,557.1**	**48,438.1**	**+ 4.0**	**51,445.4**	**+ 10.5**	**56,309.3**	**+ 9.5**
		(48,057.1)	**(+ 3.2)**			**(55,283.9)**	**(+ 7.5)**
A. Revenue Receipts (1 + 2)	**33,424.1**	**36,669.2**	**+ 9.7**	**38,535.7**	**+ 15.3**	**42,776.7**	**+ 11.0**
		(36,288.2)	**(+ 8.6)**			**(41,751.3)**	**(+ 8.3)**
1. Tax Receipts (a + b)	21,810.8	24,197.8	+ 10.9	25,261.3	+ 15.8	28,746.8	+ 13.8
		(23,847.6)	(+ 9.3)			(27,815.4)	(+ 10.1)
(a) States' Taxes	14,550.9	16,378.7	+ 12.6	16,752.0	+ 15.1	19,465.8	+ 16.2
		(16,036.8)	(+ 10.2)			(18,726.7)	(+ 11.8)
(b) Share in Central Taxes	7,259.9	7,819.1	+ 7.7	8,509.3	+ 17.2	9,281.0	+ 9.1
		(7,810.8)	(+ 7.6)			(9,088.7)	(+ 6.8)
2. Non-Tax Receipts (c + d)	11,613.3	12,471.4	+ 7.4	13,274.4	+ 14.3	14,029.9	+ 5.7
		(12,440.6)	(+ 7.1)			(13,935.9)	(+ 5.0)
(c) Grants from the Centre	6,322.6	6,646.7	+ 5.1	7,358.7	+ 16.4	7,506.5	+ 2.0
(d) Other Non-tax Receipts	5,290.6	5,824.7	+ 10.1	5,915.7	+ 11.8	6,523.4	+ 10.3
		(5,793.9)	(+ 9.5)			(6,429.4)	(+ 8.7)
B. Capital Receipts (1 + 2)	**13,133.0**	**11,768.9**	**− 10.4**	**12,909.7**	**− 1.7**	**13,532.6**	**+ 4.8**
1. States' Capital Receipts	4,764.7	4,482.7	− 5.9	5,096.3	+ 7.0	5,307.4	+ 4.1
of which :							
(a) Market Borrowings (Gross)	1,428.3	1,421.7	− 0.5	1,443.1	+ 1.0	1,624.7	+ 12.6
(b) Recovery of Loans and Advances	808.6	811.6	+ 0.4	1,141.7	+ 41.2	886.2	− 22.4
2. Loans from the Centre	8,368.3	7,286.2	− 12.9	7,813.4	− 6.6	8,225.2	+ 5.3
II. Aggregate Disbursements (A to E)	**44,868.8**	**48,728.6**	**+ 8.6**	**52,390.5**	**+ 16.8**	**56,829.2**	**+ 8.5**
A. Developmental Expenditure † (1+2)	**31,729.6**	**33,530.8**	**+ 5.7**	**37,094.6**	**+ 16.9**	**39,073.3**	**+ 5.3**
1. Social Services	14,464.5	15,469.6	+ 6.9	17,098.8	+ 18.2	17,874.7	+ 4.5
of which :							
Expenditure on natural calamities	744.1	185.0	− 75.1	571.0	− 23.3	300.3	− 47.4
2.. Economic Services	17,265.1	18,061.2	+ 4.6	19,995.8	+ 15.8	21,198.6	+ 6.0

(Contd.)

Table VIII—7 : Overall Budgetary Position of State Governments *(Concld.)*

(Rupees crores)

Item	1985-86@ (Accounts)	1986-87 (Budget Estimates)	Percentage variation over the previous year (Col. 3 over Col. 2)	1986-87 (Revised Estimates)	Percentage variation over the previous year (Col. 5 over Col. 2)	1987-88 (Budget Estimates)	Percentage variation over the previous year (Col. 7 over Col. 5)
1	2	3	4	5	6	7	8
B. Non-Developmental Expenditure †	**9,620.5**	**11,769.8**	**+ 22.3**	**11,580.9**	**+ 20.4**	**14,018.9**	**+ 21.1**
C. Repayments of Loans to the Centre	**2,610.9**	**2,666.5**	**+ 2.1**	**2,897.8**	**+ 11.0**	**2,927.8**	**+ 1.0**
D. Discharge of Internal Debt	**503.2**	**394.8**	**− 21.5**	**394.9**	**− 21.5**	**408.5**	**+ 3.4**
of which :							
Market Loans	418.1	295.7	− 29.3	293.3	− 29.8	294.2	+ 0.3
E. Others *	**404.6**	**366.7**	**− 9.4**	**422.3**	**+ 4.4**	**400.7**	**− 5.1**
III. Overall Surplus (+) / Deficit (−)(I − II)	**+ 1,688.3**	**− 290.5**		**− 945.1**		**− 519.9**	
		(− 671.5)				**(− 1,545.3)**	

* : Comprise compensation and assignments to local bodies,reserve with finance department and remittances (net).

@ : Figures for Jammu and Kashmir and Nagaland relate to revised estimates.

† : Comprise expenditure on revenue and capital accounts and loans and advances extended by States.

Notes : 1. Budget estimates for 1987-88 include the estimated net yield of Rs. 833.1 crores from additional resource mobilisation measures proposed by the States and the States' share of Rs. 192.3 crores in the Centre's additional taxation proposed in the Central Budget for 1987-88.

2. Budget estimates for 1986-87 include the estimated net yield of Rs. 372.7 crores from additional resource mobilisation measures introduced through the State Budgets and the States' share of Rs. 8.3 crores in the Centre's additional taxation announced in the Central Budget for 1986-87.

3. Aggregate receipts in 1985-86 (Accounts) exclude the medium-term loans of Rs. 1,628.0 crores given to 17 States to clear 90% of their overdrafts outstanding with the Reserve Bank of India as on January 28, 1985.

4. Data relates to 23 States out of 25 States i.e. excluding Arunachal Pradesh and Goa.

Table VIII—8 : Aggregate Receipts/Disbursements and Overall Surplus (+) or Deficit (−) of State Governments : State-wise Details

(Rupees crores)

States	1985-86 (Accounts)			1986-87 (Budget Estimates)			1986-87 (Revised Estimates)			1987-88 (Budget Estimates)			
	Aggregate Receipts	Aggregate Disbursements	Overall Surplus(+) /Deficit(−)	Aggregate Receipts	Aggregate Disbursements	Overall Surplus(+) /Deficit(−)	Aggregate Receipts	Aggregate Disbursements	Overall Surplus(+) /Deficit(−)	Aggregate Receipts	Aggregate Disbursements	Overall Surplus (+) /Deficit(−)	Overall Surplus (+) /Deficit(−) adjusted by ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Andhra Pradesh	3536.3	3404.0	+ 132.3	3930.4	4067.4	− 137.0	4185.1	4377.9	− 192.8	4583.5	4844.3	− 260.8	**− 246.3**
2. Assam	1281.6	1226.9	+ 54.7	1589.1	1615.5	− 26.4	1694.8	1727.9	− 33.1	1777.2	1797.1	− 19.9	**− 9.4**
3. Bihar	3335.0	2987.1	+ 347.9	3258.5	3170.3	+ 88.2	3458.0	3359.9	+ 98.1	3820.4	3829.7	− 9.3	**+ 10.0**
4. Gujarat	2614.6	2644.1	− 29.5	2946.6	2990.8	− 44.2	3230.8	3270.7	− 39.9	3354.6	3502.8	− 148.2	**− 14.3**
5. Haryana	1321.4	1284.9	+ 36.5	1534.6	1361.0	− 26.4	1540.9	1590.9	− 50.0	1625.8	1615.2	+ 10:6	**+ 14.0**
6. Himachal Pradesh	643.2	593.3	+ 49.9	590.9	591.9	− 1.0	660.8	657.8	+ 3.0	654.2	658.9	− 4.7	**− 2.2**
7. Jammu and Kashmir	930.6	901.6	+ 29.0	952.3	952.5	− 0.2	1002.2	1001.2	+ 1.0	1101.0	1119.8	− 18.8	**+ 3.4**
8. Karnataka	2980.6	2899.1	+ 81.5	3151.1	3153.7	− 2.6	3086.0	3196.3	− 110.3	3429.4	3687.5	− 258.1	**− 102.8**
9. Kerala	2089.3	1959.3	+ 130.0	1917.4	1948.6	− 31.2	1923.3	2085.0	− 161.7	2087.1	2213.7	− 126.6	**− 17.3**
10. Madhya Pradesh	3100.8	2968.8	+ 132.0	3500.2	3513.0	− 12.8	3512.8	3505.2	+ 7.6	3844.9	4019.8	− 174.9	**− 55.7**
11. Maharashtra	5756.2	5755.0	+ 1.2	6049.9	5969.7	+ 80.2	6376.6	6380.5	− 3.9	6945.4	7042.8	− 97.4	**+ 5.4**
12. Manipur	285.9	248.1	+ 37.8	254.3	248.6	+ 5.7	263.3	281.2	− 17.9	278.5	302.3	− 23.8	**− 22.5**
13. Meghalaya	197.3	182.2	+ 15.1	243.6	243.7	− 0.1	236.9	245.2	− 8.3	267.8	274.2	− 6.4	**− 5.1**
14. Mizoram	164.2	177.4	− 13.2	165.5	165.5	−	209.9	203.2	+ 6.7	203.6	195.0	+ 8.6	**+ 8.6**
15. Nagaland	307.6	272.3	+ 35.3	320.6	296.9	+ 23.7	353.6	344.3	+ 9.3	359.7	353.9	+ 5.8	**+ 7.2**
16. Orissa	1473.6	1426.8	+ 46.8	1689.6	1705.8	− 16.2	1764.8	1832.2	− 67.4	2029.3	2029.3	−	**+ 7.7**
17. Punjab	2026.3	1936.7	+ 89.6	1828.9	1871.9	− 43.0	1812.3	1894.9	− 82.6	2188.2	2228.2	− 40.0	**+ 4.8**

(Contd.)

Table VIII-8 : Aggregate Receipts/Disbursements and Overall Surplus (+) or Deficit (−) of State Governments : State-wise Details *(Concld.)*

(Rupees crores)

States	1985-86 (Accounts)			1986-87(Budget Estimates)			1986-87 (Revised Estimates)			1987-88 (Budget Estimates)			Overall Surplus(+) Deficit (−) adjusted by ARM
	Aggregate Receipts	Aggregate Disbursements	Overall Surplus(+) /Deficit(−)	Aggregate Receipts	Aggregate Disbursements	Overall Surplus(+) /Deficit(−)	Aggregate Receipts	Aggregate Disbursements	Overall Surplus(+) /Deficit(−)	Aggregate Receipts	Aggregate Disbursements	Overall Surplus(+) Deficit(−)	
	1	2	3	4	5	6	7	8	9	10	11	12	13
18. Rajasthan	2185.8	2159.6	+ 26.2	2272.5	2328.1	− 55.6	2595.6	2685.0	− 89.4	2573.0	2707.0	− 134.0	− **86.3**
19. Sikkim	121.9	121.3	+ 0.6	113.4	114.5	− 1.1	122.3	120.4	+ 1.9	124.0	125.2	− 1.2	− **0.9**
20. Tamil Nadu	3397.7	3304.4	+ 93.3	3152.6	3176.6	− 24.0	3444.0	3447.2	− 3.2	3447.1	3627.7	− 180.6	− **92.0**
21. Tripura	284.8	266.3	+ 18.5	319.8	314.8	+ 5.0	320.2	319.1	+ 1.1	364.2	362.6	+ 1.6	+ **3.2**
22. Uttar Pradesh	5402.1	5161.0	+ 241.1	5461.0	5548.8	− 87.8	6195.3	6250.9	− 55.6	6457.1	6528.9	− 71.8	− **41.9**
23. West Bengal	3120.3	2988.6	+ 131.7	3395.3	3379.0	+ 16.3	3455.9	3613.6	− 157.7	3767.9	3763.3	+ 4.6	+ **112.5**
Total	**46557.1**	**44868.8**	**+ 1688.3**	**48438.1**	**48728.6**	**− 290.5**	**51445.4**	**52390.5**	**− 945.1**	**55283.9**	**56829.2**	**− 1545.3**	**− 519.9**

Notes :

1. Aggregate disbursements include remittances (net).
2. Figures for individual States for 1986-87 (Budget Estimates) include the estimated net yield of Rs. 372.7 crores from additional resource mobilisation measures introduced through the State Budgets and the States' share of Rs. 8.3 crores net of concessions in the Centre's additional taxation announced in the Central Budget for 1986-87.
3. Figures for individual States for 1987-88 (Budget Estimates) reflect the effect of their budget proposals (Rs. 833.1 crores) and also take into account the estimated States' share of Rs. 192.3 crores in the Centre's additional taxation proposed in the Central Budget for 1987-88.
4. Aggregate receipts in 1985-86 (Accounts) exclude the medium-term loans of Rs. 1628.0 crores given to 17 States to clear 90% of their overdrafts outstanding with the Reserve Bank of India as on January 28, 1985.
5. Figures for 1985-86 (Accounts) in respect of Jammu and Kashmir and Nagaland relate to revised estimates.

to cover the budgetary deficit and 6 States have left their deficits uncovered. West Bengal which has presented a surplus budget has also proposed ARM. Even after taking into account yield from ARM and States' share in Centre's new tax proposals as many as 13 States would show deficit of Rs. 696.7 crores which is partly offset by the surpluses of Rs. 176.8 crores anticipated in 10 States. Of the 13 States having deficit budgets, 5 States, viz., Andhra Pradesh (Rs. 246.3 crores), Karnataka (Rs. 102.8 crores), Madhya Pradesh (Rs. 55.7 crores), Rajasthan (Rs. 86.3 crores) and Tamil Nadu (Rs. 92.0 crores) account for 83 per cent of the total deficit. Some States expect to cover the budgetary gaps by economy in expenditure, buoyancy in tax collections and improvement in tax administration, higher market borrowings, larger transfer of resources from the Centre particularly expectations of substantial collections from "Indira Vikas Patras".

Receipts

The aggregate receipts after taking into account the additional mobilisation of resources, in 1987-88, are estimated at Rs. 56,309 crores recording a rise of Rs. 4,864 crores or 9.5 per cent against a rise of Rs. 4,888 crores or 10.5 per cent in the previous year. Revenue receipts, at 1986-87 rates of taxation would rise from Rs. 38,536 crores in 1986-87 to Rs. 41,751 crores in 1987-88 recording a rise of 8.3 per cent. Including the yield from new measures proposed in the budgets, the total revenue receipts would go up to Rs. 42,777 crores which would be higher by 11.0 per cent over 1986-87 as compared with a rise of 15.3 per cent achieved in 1986-87 over 1985-86. Capital receipts are anticipated to rise by 4.8 per cent to Rs. 13,533 crores from Rs. 12,910 crores in the previous year. The share of revenue receipts in aggregate receipts would go up marginally to 76.0 per cent in 1987-88 from 74.9 per cent last year while that of capital receipts would come down to 24.0 per cent from 25.1 per cent in 1986-87.

Revenue Receipts

Under revenue receipts, tax receipts including ARM estimated at Rs. 28,747 crores would go up by Rs. 3,486 crores or by 13.8 per cent as compared with a rise of 15.8 per cent achieved in 1986-87 over the preceding year. The increase in tax receipts would be contributed both by higher collections from States' tax receipts (+ Rs 2,714 crores) and rise in States' share in Central taxes (+ Rs. 772 crores). States' own tax receipts, inclusive of ARM, are anticipated to go up to Rs. 19,466 crores in 1987-88 from Rs. 16,752 crores in 1986-87, registering an increase of Rs. 2,714 crores (or 16.2 per cent) against an increase of Rs. 2,201 crores (15.1 per cent) in the previous year. States' share in Central taxes (including States' share in Centre's new tax proposals) estimated at Rs. 9,281 crores would show a lower growth rate of 9.1 per cent than the growth rate of 17.2 per cent registered in the previous year. The share of States' own taxes in tax receipts would go up to 67.7 per cent in 1987-88 from 66.3 per cent in 1986-87 while the proportion of States' share in Central taxes would decline to 32.3 per cent from 33.7 per cent. The States' own taxes would contribute 77.9 per cent of the rise in tax receipts in 1987-88 in contrast to 63.8 per cent in 1986-87 while the States' share in Central taxes would contribute 22.1 per cent to the increase in tax receipts in 1987-88 as against 36.2 per cent in the previous year. The comparative position of different taxes in States' own taxes is indicated over leaf.

Non-tax receipts in 1987-88 are anticipated higher at Rs. 14,030 crores as against Rs. 13,274 crores in the previous year. However, the growth rate would decelerate to 5.7 per cent in 1987-88 from 14.3 per cent in 1986-87. Grants from the Centre are budgeted to show a marginal rise of 2.0 per cent as compared with that of 16.4 per cent in 1986-87. Other non-tax receipts anticipated at Rs. 6,523 crores would also show a lower growth rate of 10.3 per cent than that of 11.8 per cent in the previous year.

States' own Tax Receipts

(Rupees crores)

Taxes	1986-87 (Revised Estimates)		1987-88 (Budget Estimates)	
	Amount	Increase/ Decrease over 1985-86 (%)	Amount	Increase/ Decrease over 1986-87 (%)
1	2	3	4	5
1. Sales Tax	9693	(+) 15.0	11557	(+) 19.2
2. State Excise Duties	2438	(+) 18.8	2563	(+) 5.1
3. Land Revenue	420	(+) 19.0	482	(+) 14.8
4. Taxes on Vehicles	998	(+) 20.8	1279	(+) 28.2
5. Tax on Passengers and Goods	624	(+) 13.0	732	(+) 17.3
6. Taxes and Duties on Electricity	784	(+) 23.8	850	(+) 8.4
7. Stamps and Registration Fees	980	(+) 14.9	1104	(+) 12.7
8. Agricultural Income Tax	79	(−) 37.8	91	(+) 15.2
9. Entertainment Tax	279	(−) 9.4	353	(+) 26.5
10. Others @	457	(+) 9.1	455	(−) 0.4
Total	**16752**	**(+) 15.1**	**19466**	**(+) 16.2**

@ Includes Taxes on Professions, Trades, Callings and Employment and Urban immovable property and other taxes.

Capital Receipts

Aggregate capital receipts of the States at Rs. 13,533 crores in 1987-88 would show an increase of 4.8 per cent in contrast to a decline of 1.7 per cent in 1986-87. The anticipated increase in capital receipts is attributable to both loans from the Centre and States' own capital receipts. Gross Loans from the Centre are anticipated at Rs. 8,225 crores in 1987-88 as against Rs. 7,813 crores in 1986-87 recording a rise of 5.3 per cent. States' own capital receipts are expected to increase to Rs. 5,307 crores in 1987-88 from Rs. 5,096 crores in 1986-87, registering a rise of 4.1 per cent. Net capital receipts of States after meeting the repayment liabilities of Central as well as market loans are estimated at Rs. 10,311 crores as compared with Rs. 9,719 crores in 1986-87. Under the States' own capital receipts gross market borrowings which had shown a nominal rise last year are expected to increase by 12.6 per cent to Rs. 1,625 crores in 1987-88. Net market borrowings i.e. after adjusting the repayments estimated at Rs. 1,331 crores would show a rise of Rs. 181 crores (15.7 per cent) over those in 1986-87. The recovery of loans and advances made by the States are estimated lower at Rs. 886 crores as against Rs. 1,142 crores in the last year. Loans from the Centre, on a net basis i.e. after providing for the repayment of loan instalments and interest payments are estimated to be Rs. 2,281 crores as against Rs. 2,251 crores in 1986-87.

Disbursements

Aggregate disbursements in 1987-88 estimated at Rs. 56,829 crores would show a modest increase of 8.5 per cent over 1986-87. In the previous year, aggregate disbursements had risen by 16.8 per cent over 1985-86. States' developmental expenditure estimated at Rs. 39,073 crores would show a rise of 5.3 per cent over 1986-87 as against a rise of 16.9 per cent in 1986-87. On the other hand, non-developmental expenditure at Rs. 14,019 crores would rise by 21.1 per cent over 1986-87. Developmental and non-developmental expenditures constitute 68.8 per cent and 24.7 per cent, respectively, of total disbursements, against 70.8 per cent and 22.1 per cent in 1986-87. Under developmental expenditure

Social Services and Economic Services which had risen by 18.2 per cent and 15.8 per cent, respectively, in 1986-87 over the levels in 1985-86, are expected to show a lower growth of 4.5 per cent and 6.0 per cent in 1987-88. State Governments have made a provision of Rs.300 crores for meeting expenditure on natural calamities as against the expenditure of Rs. 571 crore in 1986-87.

Repayment of loans to the Centre which had risen by 11 per cent last year, are estimated to rise by 1.0 per cent in 1987-88. Discharge of internal debt is budgeted to increase by 3.4 per cent over 1986-87; it had declined by 21.5 per cent last year. The repayment of market loans are anticipated to rise by Rs. 1 crore to Rs. 294 crores in 1987-88.

Net transfer of resources from the Centre to the States in 1987-88 by way of share in Central taxes, grants and loans (net of repayment of loans and interest) at Rs. 19,069 crores would be higher by 5.2 per cent as against an increase of 3.2 per cent to Rs. 18,119 crores in 1986-87. Net transfer of resources would account for 35.7 per cent of aggregate receipts (including Central loans on net basis) and 37.5 per cent of total disbursements (excluding repayment of loan instalments and payment of interest on loans from the Centre). These proportions were 37.3 per cent and 38.7 per cent, respectively, in the previous year.

Table VIII–9 : Estimated additional yield from Budget Proposals

(Rupees crores)

States	Net additional yield 1987-88
1. Assam	4.15
2. Gujarat	125.00
3. Jammu and Kashmir	18.84
4. Karnataka	145.54
5. Kerala	102.15
6. Madhya Pradesh	105.00
7. Maharashtra	86.00
8. Meghalaya	0.25
9. Punjab	39.90
10. Rajasthan	39.00
11. Tamil Nadu	75.00
12. West Bengal	92.25
Total	**833.08**
By Major Heads	
1. Agricultural Income Tax	2.00
2. Taxes on Professions, Trades, Callings and Employment.	0.30
3. Stamps and Registration Fees	21.25
4. Land Revenue	60.00
5. Sales Tax	417.65
6. State Excise	61.70
7. Taxes on Vehicles	132.64
8. Tax on Passengers and Goods	13.99
9. Electricity Duties	2.20
10. Entertainment Tax	2.25
11. Other Taxes and Duties	25.10
12. Non-Tax Revenue	94.00
Total	**833.08**
States' share in Centre's additional taxation/tax concessions	
1. Income Tax	–
2. Union Excise Duty	192.32
Total	**192.32**

Additional Resource Mobilisation

State Governments have stepped up efforts to raise more resources through ARM to finance increased Plan outlays. Measures for ARM have been proposed by 12 out of 23 States, which are expected to yield an additional amount of Rs. 833 crores in 1987-88. Last year 10 States had proposed new measures to raise Rs. 372 crores. The bulk of ARM is expected from tax revenues (Rs. 739 crores) and the balance from non-tax revenues (Rs. 94 crores). Under tax revenue the major portion would be raised from Sales tax (Rs. 418 crores or 56.6 per cent of additional tax revenue) followed by Taxes on Vehicles (Rs. 133 crores or 18.0 per cent). State Excise (Rs. 62 crores or 8.4 per cent), Land Revenue (Rs. 60 crores or 8.1 per cent), Stamps and Registration Fees (Rs. 21 crores or 2.8 per cent) and others (Rs. 45 crores or 6.1 per cent). The highest resource mobilisation effort is by Karnataka (Rs. 145 crores)

followed by Gujarat (Rs. 125 crores), Madhya Pradesh (Rs. 105 crores), Kerala (Rs. 102 crores), West Bengal (Rs. 92 crores), Maharashtra (Rs. 86 crores), Tamil Nadu (Rs. 75 crores), Punjab (Rs. 40 crores), Rajasthan (Rs. 39 crores), Jammu and Kashmir (Rs. 19 crores) and Assam (Rs. 4 crores). Meghalaya has also proposed to raise Rs. 25 lakhs (Table VIII-9).

Ways and Means Advances from RBI

In order to regulate overdrafts of States from the RBI, the Government of India and the Reserve Bank of India had evolved a Scheme which came into effect from October 1, 1985. Under the Scheme, the State Governments are not allowed to have overdrafts for more than 7 continuous working days. The State Governments have abided by the Scheme and no State Government was in overdraft position for more than 7 continuous working days during 1986-87.

With a view to assisting the State Governments to tide over their seasonal imbalances in revenues and expenditures, the RBI enhanced the limits of Ways and Means Advances with effect from October 1, 1986. Under the Scheme it was decided to effect a basic increase of 20 per cent in the existing limits of Normal Ways and Means Advances. Further, as the cash flow problem faced by the State Governments is reported to be more severe in the first half of the financial year than in the second half, an additional 10 per cent rise was sanctioned for the former period. In other words, an increase of 30 per cent for the first six months of the financial year, i.e., April-September and 20 per cent for the period October-March over the existing Normal Ways and Means limits of Rs. 520 crores was sactioned for 20 State Governments banking with the RBI. Accordingly, 23 State Governments have now normal Ways and Means limits of Rs. 691.60 crores* for April-September and Rs. 638.40 crores for October-March as against the limits of Rs. 520 crores for 20 States before October 1, 1986. There has been no change in the Special Ways and Means Advance limit and in the minimum cash balances to be maintained by the State Governments with the RBI. The States have limits of Rs. 266 crores for Special Ways and Means Advances.

States' Plan Outlay

Tables VIII-10 and VIII-11 show the Plan Outlays of States and Union Territories and States' outlay by Heads of Developments, respectively. The Planning Commission has stepped up the Plan Outlay for 1987-88 for 24 States from Rs. 15,382 crores in 1986-87 to Rs. 18,255 crores registering a rise of 18.7 per cent. The increase in Plan Outlay for individual States ranges from 8.4 per cent for Tamil Nadu to 31.0 per cent in the case of Uttar Pradesh. According to Central Budget for 1987-88, the Centre's Plan assistance to States also has been stepped up by 22 per cent to Rs. 7,992 crores in 1987-88 from Rs. 6,548 crores in 1986-87 (BE). With the proposed outlay of 1987-88 the total outlay for the first three years of the Seventh Five-Year Plan would account for 60 per cent of the total outlay envisaged in the Plan. Sectoral allocation of outlay shows that highest priority has been accorded to development of energy. An allocation of Rs. 5,106 crores to power would account for 28.0 per cent of the total. It registers a rise of 17.3 per cent over the previous year's outlay. The outlay on Irrigation, Flood Control and Power together account for 47.5 per cent in the total outlay followed by Agriculture and Allied Services (7.9 per cent), Transport and Communications (7.2 per cent), Industry and Minerals (4.9 per cent) and others (32.4 per cent).

* Including the limits of three newly formed States i.e. Arunachal Pradesh, Goa and Mizoram, which have also appointed RBI as their banker taking the total number of States banking with RBI to 23.

Table VIII—10 : Plan Outlay of States and Union Territories

(Rupees crores)

States/Union Territories	Actual Expenditure for 4th Plan (1969-70 to 1973-74)	Actual Expenditure for 5th Plan (1974-75 to 1978-79)	Actual Expenditure for 6th Plan (1980-81 to 1984-85)	7th Plan Approved Outlay (1985-86 to 1989-90)	1985-86 (Actual Expenditure)	1986-87 (Approved Outlay)	1986-87 (Revised Approved Outlay)	1987-88 (Approved Outlay)	Percentage Variation over the previous year (col. 9 over col. 8)
1	2	3	4	5	6	7	8	9	10
1. Andhra Pradesh	426	1449	3221	5200	943	1000	1000	1200	+ 20.0
2. Assam	198	433	1280	2100	401	500	500	575	+ 15.0
3. Bihar	479	1185	2949	5100	932	1150	1277	1500	+ 17.5
4. Gujarat	545	1374	3880	6000	825	950	950	1160	+ 22.1
5. Haryana	358	671	1569	2900	423	525	525	585	+ 11.4
6. Himachal Pradesh	113	236	669	1050	192	205	215	235	+ 9.3
7. Jammu and Kashmir	162	376	919	1400	274	315	338	375	+ 10.9
8. Karnataka	374	1039	2665	3500	638	765	766	870	+ 13.6
9. Kerala	333	661	1645	2100	366	390*	390	440	+ 12.8
10. Madhya Pradesh	476	1396	3865	7000	1010	1381	1377	1570	+ 14.0
11. Maharashtra	1005	2612	6521	10500	1747	2100	1925	2320	+ 20.5
12. Manipur	31	93	243	430	70	87	87*	105	+ 20.7
13. Meghalaya	36	99	260	440	74	91	91	110	+ 20.9
14. Nagaland	39	97	230	400	64	78	78	94	+ 20.5
15. Orissa	249	640	1562	2700	446	600	605	750	+ 24.0
16. Punjab	428	940	1892	3285	468	575	575	750@	+ 30.4
17. Rajasthan	309	872	2135	3000	428	525	530	645	+ 21.7
18. Sikkim	—	41	148	230	42	50	51	57	+ 11.8
19. Tamil Nadu	552*	1143	3584	5750	999	1153	1153	1250	+ 8.4
20. Tripura	35	75	293	440	94	105	105*	122	+ 16.2
21. Uttar Pradesh	1163	2909	6519	10447	1710	2030	1908	2500	+ 31.0
22. West Bengal	364	1230	2433	4125	700	776	786	862	+ 9.7
23. Arunachal Pradesh					72		90	110	+ 22.2
24. Mizoram					48		59	70	+ 18.6
A. Total (All States)	**7675**	**19571**	**48482 $**	**78097**	**12966**	**15351**	**15381**	**18255**	**+ 18.7**
B. Hill Areas including Western Ghats	—	170*	557£	870	168 ††	189	189	204	+ 7.9
C. Tribal Area	—	167	485	756	140 ††	155	155	169	+ 8.7
D. Total Union Territories	278	655	2008	3768	574	872	736	785	+ 6.7
E. North-Eastern Council	—	91	385	675	114 †	145	145@	165@@	+ 13.8
F. Border Area	—	—	—	200	—	40	30	42	+ 40.0
G. Other Area Development Programmes	—	—	—	58	**	—	**	**	
Grand Total	**7953**	**20654**	**51917**	**84424**	**13959**	**16752**	**16637**	**19620**	**+ 17.9**

£ Relates to release of Fund.
* The same amount as outlay released as actual expenditure is not known.
** Included under (A)
@ Includes Rs. 20 crores for LIC Loans.
@@ Includes Rs. 25 crores for LIC Loans.
† Includes Rs. 10 crores for LIC Loans. Actual expenditure not available; revised estimates repeated.
†† Actual expenditure's figures are not available; revised estimates repeated.
$ Subsequent revisions not included.

Source : Planning Commission, Government of India.

Table VIII-11 : States' Plan Outlay by Heads of Developments

(Rupees crores)

Sectors	Actual Expenditure for 6th Plan (1980-81 to 1984-85)	7th Plan (Approved Outlay) (1985-86 to 1989-90)	1985-86 (Actual Expenditure)	1986-87 (Revised Approved Outlay)	1987-88 (Approved Outlay)	Variation over the previous year (Col. 6 over Col. 5)
1	2	3	4	5	6	7
1. Agriculture and Allied Services including Co-operation (i + ii)	3,867 (7.9)	10,468 (13.4)	1,062 (8.2)	1,337 (8.7)	1,441 (7.9)	+ 104 (+ 7.7)
(i) Agriculture and Allied Services	3,245 (6.6)	9,598 (12.3)	926 (7.1)	1,163 7.6	1,262 (6.9)	+ 99 (+ 8.5)
(ii) Co-operation	622 (1.3)	870 (1.1)	136 (1.1)	174 (1.1)	179 (1.0)	+ 5 (+ 2.9)
2. Irrigation, Flood Control and Power (i + ii)	23,525 (48.1)	38,736 (49.6)	5,950 (45.9)	7,018 (45.6)	8,671 (47.5)	+ 1,653 (+ 23.5)
(i) Power	13,125 (26.8)	22,786 (29.2)	3,309 (25.5)	3,980 (25.9)	5,106 (28.0)	+ 1,126 (+ 28.3)
(ii) Irrigation and Flood Control	10,400 (21.3)	15,950 (20.4)	2,641 (20.4)	3,038 (19.7)	3,565 (19.5)	+ 527 (+ 17.3)
3. Industry and Minerals (i + ii)	2,612 (5.4)	3,776 (4.8)	752 (5.8)	844 (5.5)	900 (4.9)	+ 56 (+ 6.6)
(i) Village and Small Industries	946 (2.0)	1,378 (1.8)	257 (2.0)	275 (1.8)	296 (1.6)	+ 21 (+ 7.6)
(ii) Medium and Large Scale Industries and Mining	1,666 (3.4)	2,398 (3.0)	496 (3.8)	569 (3.7)	604 (3.3)	+ 35 (+ 6.1)
4. Transport and Communications	4,198 (8.6)	5,781 (7.4)	1,029 (7.9)	1,138 (7.4)	1,320 (7.2)	+ 182 (+ 16.0)
5. Others	14,653 (30.0)	19,336 (24.8)	4,173 (32.2)	5,044 (32.8)	5,923 (32.5)	+ 879 (+ 17.4)
TOTAL (1 to 5)	**48,855 (100.0)**	**78,097 (100.0)**	**12,966 (100.0)**	**15,381 (100.0)**	**18,255 (100.0)**	**+ 2,874 (+ 18.7)**

Note : Figures in brackets in column 2 to 6 are percentages to total while those in column 7 indicate percentage variation over the previous year i.e. column 6 over column 5.

Source: Planning Commission, Government of India.

III. RAILWAY FINANCES

Highlights

The Railway Budget for 1987-88 envisages a net surplus of Rs. 69.0 crores compared to that of Rs. 11.0 crores in the revised estimates for 1986-87. The net surplus for 1987-88 has been arrived at after providing for (i) a full payment of Rs. 652 crores to the General Revenues (Rs. 570 crores in 1986-87), (ii) an enhanced provision to the Depreciation Reserve Fund and the Pension Fund by Rs. 100 crores each. The Budget does not propose any change in passenger fares and freight tariffs. On the other hand some concessions in fares and freights have been announced which would benefit the needy and the deserving sections of the society.

Revised Estimates : 1986-87

According to the revised estimates for 1986-87, total receipts of the Railways are placed at Rs. 7,683.0 crores as compared with the budget estimates of Rs. 6,996.7 crores and the actual receipts of Rs. 6,590.7 crores in 1985-86 registering a rise of Rs. 686.3 crores (9.8

per cent) over budget estimates and Rs. 1,092.3 crores (16.6 per cent) over 1985-86 (Table VIII-12). Passenger earnings at Rs. 1,945 crores would be higher by Rs. 69.0 crores (3.7 per cent) over the budget estimates and Rs. 225.3 crores (13.1 per cent) over 1985-86 while goods earnings at Rs. 5,102.0 crores would be significantly higher by Rs. 476.0 crores (10.3 per cent) over the budget estimates and Rs. 725.6 crores (16.6 per cent) over the 1985-86. 'Other Coaching Earnings','Sundry Other Earnings' and 'Other Miscellaneous Receipts' at Rs. 319.0 crores, Rs. 137.0 crores and Rs. 180.0 crores, are anticipated to be higher by Rs. 116.0 crores, Rs. 23.0 crores and Rs. 2.3 crores, respectively, over the budget estimates. The improvement in receipts was due partly to revision in freight rates effective from December 1, 1986 and partly to improvement in freight traffic. The Railway Minister revised the taper of class for all commodities with effect from December 1, 1986. It was estimated that this revision would bring an additional revenue of Rs. 320 crores in the last four months of 1986-87. It is expected that the Railways would be carrying 300 million tonnes of originating traffic including 272 million tonnes of revenue earning traffic which would surpass the budgeted target of 294 million tonnes including 267 million tonnes of revenue earning traffic. The rise in revenue earning freight traffic of the Railways would have been much higher in 1986-87 but for shortfall in offerings from the coal sector (-3.0 million tonnes) and the steel sector (-2.5 million tonnes). On the other hand Railways carried more foodgrains (+ 5.5 million tonnes),

Table VIII-12 : Financial Results of Railways

(Rupees crores)

Items	1985-86 (Actuals)	1986-87 (Budget Estimates)	1986-87 (Revised Estimates)	1987-88 (Budget Estimates)	Variation Col. 4 over Col.3 Amount	Col. 4 over Col.3 Percentage	Col.5 over Col. 4 Amount	Col.5 over Col. 4 Percentage
1	2	3	4	5	6	7	8	9
I. Total Receipts (a+b)	**6,590.7**	**6,996.7**	**7,683.0**	**8,417.6**	**686.3**	**+ 9.8**	**734.6**	**+ 9.6**
a) Gross Traffic Receipts	**6,428.1**	**6,819.0**	**7,503.0**	**8,179.0**	**684.0**	**+ 10.0**	**676.0**	**+ 9.0**
b) Total Miscellaneous Receipts	**162.6**	**177.7**	**180.0**	**238.6**	**2.3**	**+ 1.3**	**58.6**	**+ 32.6**
II. Total Expenditure (a+b)	**5,904.8**	**6,337.7**	**7,102.0**	**7,696.6**	**764.3**	**+ 12.1**	**594.6**	**+ 8.4**
a) Total Working Expenses	**5,823.1**	**6,230.0**	**6,992.0**	**7,550.0**	**762.0**	**+ 12.2**	**558.0**	**+ 8.0**
b) Total Miscellaneous Expenditure	**81.7**	**107.7**	**110.0**	**146.6**	**2.3**	**+ 2.1**	**36.6**	**+ 33.3**
III. Ratio of Total Expenditure to Total Receipts (in percentage)	89.6	90.6	92.4	91.4				
IV. Net Revenue (I − II)	685.9	659.0	581.0	721.0	− 78.0	− 11.8	140.0	+ 24.1
V. Capital-at-Charge*	9,078.1	10,374.1	10,402.9	11,543.8	28.8	+ 0.3	1,140.9	+ 11.0
VI. Net Revenue as percentage of Capital-at-Charge*	7.6	6.4	5.6	6.2				
VII. Payment to General Revenues @	507.1	590.0	570.0	652.0	− 20.0	− 3.4	82.0	+ 14.4
VIII. Surplus (+)/ Deficit (−) (IV−VII)	**+ 178.8**	**+ 69.0**	**+ 11.0**	**+ 69.0**	**− 58.0**		**+ 58.0**	
IX. Appropriation to (+) or Withdrawals from (−) Funds :								
a) Development Fund	+ 62.1	+ 69.0	+ 11.0	+ 69.0	− 58.0		+ 58.0	
b) Revenue Reserve Fund	—	—	—		—		—	
c) Deferred Dividend Liability Account	+ 116.7**	—	—	—	—		—	

* : Excludes Capital outlay on Metropolitan Transport Projects.

@ : Includes dividend to General Revenues, Payment in lieu of passenger fare tax and contribution to Railway Safety Works Fund.

** : Payment towards Deferred Dividend Liability consists of Rs. 40.7 crores in respect of period prior to 1978-79 and Rs. 76.0 crores in respect of period after 1978-79.

Source: Explanatory Memorandum on the Railway Budget, 1987-88.

Iron ore for export (+ 1.5 million tonnes) and 'Others' which includes transport of petroleum products (+ 3.5 million tonnes) than the targeted loading of these commodities.

Expenditure : 1986-87

The total expenditure of the Railways, as per the revised estimates for 1986-87 is placed at Rs. 7,102.0 crores as compared with the budget estimates of Rs. 6,337.7 crores showing a rise of Rs. 764.3 crores (12.1 per cent). The post-budget rise in the total expenditure was mainly due to sharp rise in wage bill to the tune of Rs. 563 crores on account of implementation of the Fourth Pay Commission's recommendations (which alone accounts for Rs. 462 crores), additional DA and Productivity Linked Bonus.

As a result of sharp rise in ordinary working expenses, the operating ratio increased to 93.5 per cent as against 91.3 per cent envisaged in the budget estimates and 90.6 per cent in 1985-86. The net revenue which was anticipated at Rs. 659 crores in the budget estimates declined to Rs. 581 crores.

The net surplus declined to Rs. 11.0 crores from the budgeted surplus of Rs. 69.0 crores after meeting the full payment liability of Rs. 570.0 crores to General Revenues.

Performance of Railways in 1986-87

Efforts made in 1985-86 to improve the working of the Railways were further intensified in 1986-87 which reflected in better financial performance of Railways. As mentioned earlier, Railways are expected to carry 300 million tonnes of originating traffic surpassing the target of 294 million tonnes envisaged in the budget. During the first 9 months of 1986-87 the Railways carried 220 million tonnes which was nearly 13 million tonnes higher than in the corresponding period of 1985-86. Further, the higher tonnage was carried on a longer lead with the result that the overall transport output measured in terms of Net Tonne Kilometres which is the real index of transport efforts has further recorded an increase of about 10 billion by December 1986 over the corresponding period of last year, an improvement of 6.7 per cent. The general efficiency indicator i.e., Net Tonne KMs per wagon per day (BG) touched an all time high of 1321 in the 9 months of 1986-87 compared to 1255 recorded in the corresponding period of 1985-86 and 1296 for the whole of 1985-86. The Railways has achieved this improvement without sizeable increase in rolling stocks. Similarly, Railways achieved considerable improvement in passenger traffic both suburban and non-suburban without any appreciable increase in coaching fleet.

Developmental Expenditure : 1986-87

The initial Annual Plan outlay for Railways for 1986-87 was fixed at Rs. 2,650 crores which was subsequently raised to Rs. 2,675 crores with an increase of Rs. 25 crores in the budgetary support to meet part of the contribution to the equity capital of the newly constituted Indian Railways Finance Corporation (IRFC). In 1986-87, this Corporation has floated bonds of Rs. 250 crores to finance part of the Annual Plan. An important feature in the financing of the Railways investment in the Seventh Five-Year Plan has been a considerably higher resource generation by Railways themselves. This contribution which stood at 25 per cent in the Fifth Plan was raised to 42 per cent in the Sixth Plan. This has well gone above 50 per cent in 1985-86 and above 58 per cent in 1986-87 after taking into account the bonds floated in the market by the Indian Railways Finance Corporation (IRFC). Under the Annual Plan for 1986-87, the emphasis was given on modernisation, upgradation of technology and track renewals. The investments on rolling stock (Rs. 939

crores) and track renewals (Rs. 693 crores) accounted for 35.1 per cent and 25.9 per cent of total Plan outlay, respectively. Electrification was also given a high priority and investment of Rs. 198 crores on it would account for 7.4 per cent of total Plan outlay (Table VIII-13).

Table VIII – 13 : Developmental Expenditure of Railways

(Rupees crores)

Items	1985-86 (Actuals)	1986-87 (Budget Esti-mates)	1986-87 (Revised Esti-mates)	1987-88 (Budget Esti-mates)	Variation Col. 4 over Col. 3 Amount	Col. 4 over Col. 3 Percen-tage	Col. 5 over Col. 4 Amount	Col. 5 over Col. 4 Percen-tage
1	2	3	4	5	6	7	8	9
1. Rolling stock	607.7	893.4	938.9	651.4	+ 45.5	+ 5.1	– 287.5	– 30.6
2. Traffic Facilities*	184.8	266.4	243.9	303.9	– 22.5	– 8.4	+ 60.0	+ 24.6
3. Track Renewals	611.6	710.6	693.4	803.4	– 17.2	– 2.4	+ 110.0	+ 15.9
4. Electrification	175.5	207.4	198.2	223.4	– 9.2	– 4.4	+ 25.2	+ 12.7
5. New Lines	79.4	100.0	116.5	146.5	+ 16.5	+ 16.5	+ 30.0	+ 25.8
6. Signalling and Telecommunication Works	52.0	62.0	75.4	81.3	+ 13.4	+ 21.6	+ 5.9	+ 7.8
7. Staff Quarters	16.3	25.0	26.9	25.0	+ 1.9	+ 7.6	– 1.9	– 7.1
8. Plant and Machinery	52.3	65.0	59.7	70.0	– 5.3	– 8.2	+ 10.3	+ 17.3
9. Workshop including production Units	94.7	214.0	171.5	187.2	– 42.5	– 19.9	+ 15.7	+ 9.2
10. Computerisation	–	44.0	51.6	55.0	+ 7.6	+ 17.3	+ 3.4	+ 6.6
11. Others (Adjusted to Credits or Recoveries)	67.3	62.6	99.4	132.9	+ 36.8	+ 58.8	+ 33.5	+ 33.7
Of which : Metropolitan Transport Projects	85.1	90.0	90.0	90.0	–	–	–	–
Total (1 to 11)	**1,941.6**	**2,650.4**	**2,675.4**	**2,680.0**	**+ 25.0**	**+ 0.9**	**+ 4.6**	**+ 0.2**

* Includes restoration of dismantled lines, gauge conversion, doubling, yard remodelling, etc.

Source : Explanatory Memorandum on the Railway Budget, 1987-88.

Financial Effect of Social Obligations

Indian Railways constitute a public utility and have a social obligation to transport essential commodities and raw materials at rates which do not fully cover the cost of transport. Also, relief supplies to the areas effected by natural calamities are carried free of charge. The Railways also sustain losses in the running of suburban and short-distance passenger services and on certain branch lines.

In 1986-87, the financial cost on account of social obligations is estimated to rise by Rs. 167.6 crores or 14.7 per cent to Rs. 1,307.5 crores. The loss accounted for by coaching services (suburban and non-suburban passenger traffic, parcels, luggage, etc.) is Rs. 1,201.2 crores recording a rise of Rs. 244.6 crores over the previous year. On the other hand, the loss on account of low-rated freight like coal, charcoal, foodgrains, firewood, etc. is lower at Rs. 106.3 crores as against Rs. 183.3 crores in the previous year. (Table VIII - 14).

Table VIII – 14 : Financial Effect of Social Obligations on Indian Railways

(Rupees crores)

Items	1984-85 (Actuals)	1985-86 (Actuals)	1986-87 (Estimates)	Variation Col. 3 over Col. 2 Amount	Variation Col. 3 over Col. 2 Percentage	Variation Col. 4 over Col. 3 Amount	Variation Col. 4 over Col. 3 Percentage
1	2	3	4	5	6	7	8
1. Loss on Coaching Services (Suburban and Non-suburban passenger traffic, parcels, luggage, etc.)	895.3	956.6	1,201.2	+ 61.3	+ 6.8	+ 244.6	+ 25.6
2. Loss on low-rated freight like Foodgrains, Fodder, Charcoal, Firewood, Fruits and Vegetables, etc.	173.6	183.3	106.3	+ 9.7	+ 5.6	− 77.0	− 42.0
3. Loss on frieght concessions on relief measures	–	–	–	–	–	–	–
4. Total (1 + 2 + 3)	1,068.9	1,139.9	1,307.5	+ 71.0	+ 6.6	+ 167.6	+ 14.7
5. Total receipts	5,469.1	6,590.7	7,683.0*	+1121.6	+ 20.5	+1092.3	+16.6
6. Total expenditure	5,199.0	5,904.8	7,102.0*	+705.8	+ 13.6	+ 1197.2	+ 20.3
7. Percentage of item (4) to item (5)	19.5	17.3	17.0				
8. Percentage of item (4) to item (6)	20.6	19.3	18.4				

* Revised Estimates – Negligible

Source: 1. Indian Railways Year Book 1984-85 and 1985-86.
2. Explanatory Memorandum on the Railway Budget, 1987-88.

Budget Estimates : 1987-88

The Railway Budget for 1987-88 assumes that the Railways would carry an originating traffic of 313 million tonnes* as compared with 300 million tonnes in 1986-87. The estimated revenue earning traffic at 287 million tonnes for 1987-88 would be higher by 15 million tonnes than 272 million tonnes in 1986-87. It is also expected that the average lead of traffic would further go up from 687 kilometers in 1986-87 to 712 kilometres in 1987-88. Thus, the total freight transport output would go up to 223 billion net tonne kilometres from 206 billion net tonne kilometres in 1986-87. Other traffic including coaching traffic in terms of passengers, luggage and parcels is anticipated to go up by about 3 per cent over the 1986-87 year's level. A large portion of rise of revenue earning goods traffic is anticipated in the coal sector (+ 9 million tonnes) followed by cement and steel sectors (+ 6.5 million tonnes).

Receipts : 1987-88

The total receipts of Railways during 1987-88 are estimated to be Rs. 8,417.6 crores recording an increase of Rs. 734.6 crores (+ 9.6 per cent) over the revised estimates of 1986-87. The receipts from goods traffic which are projected at Rs. 5,819.0 crores would show a rise of Rs. 717 crores (+ 14.1 per cent) over the 1986-87 (RE). The increase in receipts from goods traffic is based on the assumption that the Railways would carry an additional revenue earning traffic of 15 million tonnes over the level of 272 million tonnes likely to be achieved in 1986-87. Besides this, the full effect of revision of taper of class rates of all commodities effected from December 1, 1986 is reflected in the budget estimates. Passenger and miscellaneous earnings are expected to go up by Rs. 28.0 crores and Rs. 58.6 crores to Rs. 1,973.0 crores and Rs. 238.6 crores, respectively. On the other hand, 'Other Coaching Earnings' and 'Sundry Other Earnings' at Rs. 271.0 crores and Rs. 116.0 crores are anticipated to decline by Rs. 48.0 crores and Rs. 21.0 crores, respectively, as compared with revised estimates of 1986-87.

* The Planning Commission while revising the Annual Plan outlay of Railways for 1987-88, revised the target for originating freight traffic to 316 million tonnes.

Expenditure : 1987-88

Total expenditure of Railways during 1987-88 at Rs. 7,696.6 crores would be higher by Rs. 594.6 crores (+ 8.4 per cent) over the revised estimates of Rs. 7,102.0 crores for 1986-87. The total working expenses estimated at Rs. 7,550.0 crores would be higher by Rs. 558.0 crores (+ 8.0 per cent) over the revised estimates of 1986-87. Of the total rise of Rs. 594.6 crores, Rs. 194.8 crores is accounted for by higher expenditure proposed on 'Repairs and Maintenance' followed by 'Appropriation to Depreciation Reserve Fund and Pension Fund' (Rs. 100 crores each).

The net revenue of Railways in 1987-88, is thus expected to go up by Rs. 140.0 crores (24.1 per cent) to Rs. 721.0 crores. After providing for Rs. 652.0 crores as full payment of dividend to General Revenues in 1987-88, there would be a surplus of Rs. 69.0 crores as compared with a surplus of Rs. 11.0 crores in 1986-87 (RE) (Table VIII-12). The ratio of total expenditure to total receipts is expected to decline by 1.0 percentage point to 91.4 per cent after a sharp rise from 89.6 per cent in 1985-86 to 92.4 per cent in 1986-87. The return on capital (i.e., net revenue as percentage of capital-at-charge) before the payment to General Revenues is expected to increase to 6.2 per cent from 5.6 per cent in 1986-87. The total indebtedness of the Railways to the General Revenues under the Development Fund and Deferred Dividend Liability Fund together is estimated higher at Rs. 918.3 crores in 1987-88 against Rs. 868.0 crores in 1986-87.

Developmental Expenditure - 1987-88

According to the Railway Budget, the Railways are allocated a Plan outlay of Rs. 2,980 crores for 1987-88 as compared with Rs. 2,675 crores in 1986-87. The Plan outlay for 1987-88 would be financed to the extent of Rs. 1,252 crores from the budgetary support of the Central Government and remaining Rs. 1,728 crores from the Railways own internal resources including borrowing of Rs. 300 crores from the market. The Railways would thus finance 58 per cent of their Plan outlay from their own internal resources.

Subsequently, the Planning Commission has revised the Plan outlay for Railways to Rs. 3,400 crores for 1987-88. It is expected that the enhanced Plan outlay would be financed by larger borrowings from the market. Railways would raise Rs. 720 crores in 1987-88 by issue of bonds in the domestic capital market instead of Rs. 300 crores as proposed in the budget. The funds raised would be utilised for replacing aged rolling stocks, renewal of tracks, etc.

In the annual Plan outlay the Railways have accorded top priority to modernisation and rehabilitation of the systems. Apart from renewing the aged tracks great importance has also been given to electrification programmes. During 1987-88, Rs. 1,678 crores (63 per cent) will be spent on rolling stocks, track renewals and electrification of projects. In the first two years of the Seventh Five-Year Plan,Railways had spent about 70 per cent of total Plan outlay on these three items of developments. The major developmental items of expenditure are : rolling stocks (Rs. 651.4 crores), track renewals (Rs. 803.4 crores), electrification (Rs. 223.4 crores), traffic facilities (Rs. 303.9 crores), workshops including production units (Rs. 187.2 crores) and new lines (Rs. 146.5 crores) (Table VIII-13). The Railways would acquire 19000 wagons (in terms of four wheelers) as against 20000 units in 1986-87. About 670 route KMs are expected to be energised in 1987-88 as compared with the likely achievement of 560 route KMs in 1986-87. About 53 KMs of new lines are expected to be completed in 1987-88 as compared with 70 KMs in 1986-87.

The Railways have given top priority to renewal of aged tracks. It is expected that with the increased outlay of Rs. 803.4 crores in 1987-88, the Railways would be able to complete the work of track renewals on 4200 track KMs as compared with 3800 track KMs

in 1986-87. According to Railway Minister there is backlog of 20000 KMs of track renewals. The Railways had been able to undertake only 4000 KMs track renewals in the first two years of the Seventh Five-Year Plan. This has, however, been wiped off with additional 2000 KMs track which becomes due for renewal every year. In order to wipe out the backlog of track renewals the Railways are negotiating a loan of $ 350 million from the World Bank.

Budget Proposals : 1987-88

The 1987-88 Railway Budget does not contain proposals for increase in passenger fares and freight and parcel rates. On the other hand, it has provided some concessions to help some of the needy and deserving sections of society.

(i) The 25 per cent concession in second class fare allowed to groups of youth in 1986-87 is being extended by one more year to 1987-88.

(ii) The 50 per cent concession in first and second classes for the deaf and dumb would be extended to season ticket fares also as in the case of the blind, the orthopaedically handicapped and the mentally retarded.

(iii) The concession in freight on the movement of fodder would be raised from 8 per cent to 25 per cent.

(iv) A 33 per cent concession would be given on the fares of special trains for Kisan tours, for a total trip length of at least 1000 kilometres sponsored by the Central or State Governments.

(v) A 75 per cent concession would be given in second class fares to all war widows as a token of gratitude for the Brave, who gave their lives in defence of the nation.

IV. FINANCES OF DEPARTMENT OF POSTS AND DEPARTMENT OF TELE-COMMUNICATIONS

The finances of the Department of Posts (DP) and the Department of Telecommunications (DT) are reviewed in the following paragraphs.

A. Department of Posts (DP) (Revised Estimates 1986-87) [12]

The working of the Department of Posts (DP) showed further deterioration in 1986-87 and the loss increased to Rs. 335.0 crores as against that of Rs. 223.6 crores envisaged in the budget estimates and of Rs. 163.6 crores in 1985-86. The deterioration was caused mainly due to sharp rise of Rs. 124.4 crores (14.2 per cent) in working expenses over the budget estimates. Due to large losses, the Department was not able to pay any dividend to General Revenues or any contribution towards Capital expenditure. In order to meet the rising cost of Postal services, the tariff rates of certain Postal services such as fees for registration, parcels, money orders, acknowledgement and commission on Indian Postal Order were revised with effect from January 1, 1987, which are expected to bring an additional revenue of Rs. 43 crores during January-March 1987 and Rs. 173 crores in a full year.

According to revised estimates for 1986-87 the revenue receipts of the Department of Posts amounted to Rs. 563.0 crores which showed a marginal rise of Rs. 13.0 crores over the budget estimates of 1986-87 and Rs. 86.2 crores (18.1 per cent) over 1985-86. The total working expenses were placed at Rs. 999.9 crores showing an increase of Rs. 124.4 crores (14.2 per cent) over budget estimates and Rs. 271.7 crores (37.3 per cent) over 1985-86. The major portion of the increase in expenditure was on account of 'Operational Expenses' forming nearly 75 per cent of the total working

12. The percentage variations of 1986-87 over 1985-86 given in brackets are based on the revised estimates of the former and the actuals of the latter.

expenses which increased from Rs. 520.2 crores in 1985-86 to Rs.747.4 crores, recording a rise of Rs. 227.2 crores (43.7 per cent). The increase in working expenses in 1986-87 was due largely to implementation of Fourth Pay Commission's recommendations. The increases in other items of expenditure were : Agency Services Rs. 6.4 crores, (26.8 per cent), General Administration Rs. 10.8 crores (20.1 per cent), Pension Rs. 18.3 crores (37.3 per cent) and Accounts and Audit Rs. 6.2 crores (39.0 per cent). After taking into account the credits to working expenses of Rs. 101.9 crores, net working expenses amounted to Rs. 898.0 crores witnessing a sharp increase by Rs. 257.6 crores (40.2 per cent) over the previous year (Table VIII-15).

During 1986-87,Capital outlay of DP amounted to Rs. 36.3 crores which was higher by Rs. 1 crore over the previous year. The entire amount of the outlay was related to Plan expenditure only. The outlay was financed to the extent of Rs. 32.5 crores from the General Revenues and the balance of Rs. 3.8 crores from Depreciation on Historical costs transferred from Revenues (Table VIII-16).

Table VIII—15 : Financial Working of Department of Posts*

(Rupees crores)

Item	1984-85 (Actuals)	1985-86 (Actuals)	1986-87 (Budget Estimates)	1986-87 (Revised Estimates)	1987-88 (Budget Estimates)
1	2	3	4	5	6
1. Revenue Receipts	**444.4**	**476.8**	**550.0**	**563.0**	**744.0**
2. Working Expenses	**636.1**	**728.2**	**875.5**	**999.9**	**990.0**
Of which :					
(i) Operation	463.0	520.2	628.8	747.4	718.1
(ii) Agency Services	24.9	23.9	29.6	30.3	31.6
(iii) General Administration	46.4	53.8	61.1	64.6	66.2
(iv) Engineering	11.4	11.3	13.6	13.2	14.3
(v) Pension	37.1	49.1	57.0	67.4	78.2
(vi) Accounts and Audit	14.9	15.9	20.8	22.1	22.8
(vii) Stationery and Printing	28.7	43.2	52.6	43.0	46.0
(viii) Depreciation	2.2	3.0	3.7	3.3	3.7
(ix) Others	7.5	7.8	8.3	8.6	9.1
3. Credits to Working Expenses	67.4	87.8	101.9	101.9	113.0
4. Net Working Expenses (2 − 3)	568.7	640.4	773.6	898.0	877.0
5. Net Receipts (1 − 4)	− 124.3	− 163.6	− 223.6	− 335.0	− 133.0
6. Dividend to General Revenues	11.8	—	—	—	—
7. Surplus (+)/Deficit(−) before making contributions towards Capital Expenditure (5−6)	**− 136.1**	**− 163.6**	**− 223.6**	**− 335.0**	**− 133.0**
8. Contributions towards Capital Expenditure	—	—	—	—	—
9. Surplus (+)/Deficit (−) after making contributions towards Capital Expenditure (7−8)	**− 136.1**	**− 163.6**	**− 223.6**	**− 335.0**	**− 133.0**
10. Appropriations to (+) withdrawals from (−)£					
(a) Revenue Reserve Fund	− 136.1	—	—	—	—
(b) Capital Reserve Fund	—	—	—	—	—

* The erstwhile combined Posts and Telegraphs Department has been bifurcated into Department of Posts and Department of Telecommunications with effect from 31.12.1984.

£ Consequent on the constitution of two distinct departments, viz., Department of Posts and Department of Telecommunications —

(i) the deficit in the working result of Department of Posts is borne by General Revenues of the Central Government from the year 1985-86.

(ii) the surplus transferred to P & T Revenue Reserve Fund and Capital Reserve Fund and withdrawals from Capital Reserve Fund from 1985-86 entirely relate to Telecommunications.

Sources: (i) Explanatory Memorandum on the Budget of the Central Government.

(ii) Government of India Detailed Demand for Grants of Department of Posts for 1987-88.

Table VIII-16 : Capital Outlay of Department of Posts*

(Rupees crores)

Item	1984-85 (Actuals)			1985-86 (Actuals)			1986-87 (Budget Estimates)			1986-87 (Revised Estimates)			1987-88 (Budget Estimates)		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Expenditure	**35.0**	**—**	**35.0**	**35.3**	**—**	**35.3**	**36.3**	**—**	**36.3**	**36.3**	**—**	**36.3**	**37.0**	**—**	**37.0**
2. Financed from :															
(i) Receipts and Recoveries on (a+b)	—	0.1	0.1	—	Neg.	Neg.	—	—	—	—	—	—	—	—	—
(a) Capital Account	—	0.1	0.1	—	Neg.	Neg.	—	—	—	—	—	—	—	—	—
(b) Under Stores Suspense	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(ii) Capital Reserve Fund£	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Depreciation on Historical costs transferred from Revenue	—	2.8	2.8	—	3.4	3.4	—	3.7	3.7	—	3.8	3.8	—	4.2	4.2
(iv) Contribution towards Capital Expenditure from Revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Capital advanced from the General Revenues	35.0	− 2.9	32.1	35.3	− 3.4	31.9	36.3	− 3.7	32.6	36.3	− 3.8	32.5	37.0	− 4.2	32.8
Total (i to v)	**35.0**	**—**	**35.0**	**35.3**	**—**	**35.3**	**36.3**	**—**	**36.3**	**36.3**	**—**	**36.3**	**37.0**	**—**	**37.0**

* The erstwhile combined Posts and Telegraphs Department has been bifurcated into Department of Posts and Department of Telecommunications with effect from 31.12.1984.

£ Consequent on the constitution of two distinct departments, viz; Department of Posts and Department of Telecommunications, the surplus transferred to P & T Revenue Reserve Fund and Capital Reserve Fund and withdrawals from the Capital Reserve Fund from 1985-86 entirely relate to Telecommunications.

Neg. Negligible.

Source: (i) Explanatory Memorandum on the Budget of the Central Government.

(ii) Government of India Detailed Demand for Grants of Department of Posts for 1987-88.

Budget Estimates (1987-88)

The budget estimates for 1987-88 show a deficit of Rs. 133.0 crores as compared to a deficit of Rs. 335.0 crores in 1986-87. The total revenue receipts of DP are placed at Rs. 744.0 crores recording an increase of Rs. 181.0 crores (32.1 per cent) whereas the total working expenses are expected to decline by Rs. 9.9 crores to Rs. 990.0 crores. The 'Operational Expenses' at Rs. 718.1 crores are budgeted lower by Rs. 29.3 crores than those of Rs. 747.4 crores in 1986-87. After adjusting the credit for working expenses, the net working expenses are estimated to decline to Rs. 877.0 crores.

The capital outlay for 1987-88 is estimated at Rs. 37.0 crores which would be financed from capital advanced from the General Revenues to the extent of Rs. 32.8 crores and the balance of Rs. 4.2 crores from Depreciation on Historical costs transferred from Revenue.

Department of Telecommunications (DT)
Revised Estimates 1986-87 [13]

The finances of Department of Telecommunications showed deterioration in 1986-87. According to revised estimates for 1986-87, the surplus is placed at Rs. 71.0 crores as against that of Rs. 273.8 crores envisaged in the budget estimates and a surplus of Rs. 197.0 crores in 1985-86. The deterioration was caused by a decline in revenue receipts and a sharp rise in working expenses. The total revenue receipts of DT declined from Rs. 1,309 crores in 1985-86 to Rs.1,287 crores in 1986-87. Total working expenses placed at Rs. 1,093.0 crores showed a rise of Rs. 72.6 crores (7.1 per cent) over 1985-86. As a result the net receipts declined by Rs. 83.1 crores (22.6 per cent) to Rs. 284.0 crores as against Rs. 367.1 crores in 1985-86. After providing for a dividend of Rs. 213.0 crores to General Revenues the net surplus amounted to Rs. 71.0 crores as compared with Rs. 197.0 crores in 1985-86 (Table VIII-17).

The total working expenses of DT were placed at Rs. 1093.0 crores recording a rise of Rs. 72.6 crores (7.1 per cent) over 1985-86. The major portion of the increase in expenses was mainly on account of 'Operational Expenses' which amounted to Rs. 276.3 crores (+ Rs. 44.6 crores, + 19.2 per cent) followed by General Administration (+ Rs. 15.8 crores, + 18.5 per cent), Pension (+ Rs. 2.0 crores, + 4.2 per cent), Accounts and Audit (+ Rs. 1.4 crores, + 15.9 per cent). After adjusting credits to working expenses the net working expenses stood at Rs. 1,003.0 crores (+ Rs. 60.8 crores, + 6.5 per cent). There was no contribution towards capital expenditure. Out of total surplus of Rs. 71.0 crores, Rs. 70.9 crores was appropirated to the Capital Reserve Fund and the balance of Rs. 0.1 crore to the Revenue Reserve Fund.

For 1986-87 the Capital outlay of DT was placed at Rs. 889.2 crores which was lower by Rs. 58.6 crores (– 6.2 per cent) than that of Rs.947.8 crores in 1985-86. The outlay on Telecommunications services amounted to Rs. 754.2 crores (84.8 per cent) and the balance of Rs. 135.0 crores (15.2 per cent) on 'Stores and Manufacture Suspense'. The Capital outlay in 1986-87 was financed to the extent of Rs. 595.0 crores or 66.9 per cent from internal resources and the remaining Rs. 294.2 crores or 33.1 percent from the budgetary support from the General Revenues. In order to augment resources, 'Mahanagar Telephone Nigam' raised Rs. 210.0 crores through floatation of bonds in the domestic capital markets (Table VIII-18).

Budget Estimates 1987-88 [14]

The budget estimates of DT for 1987-88 anticipates a surplus of Rs.307.0 crores as compared with that of Rs. 71.0 crores in 1986-87.

---

13. Absolute and percentage variations in the brackets relate to 1986-87 (RE) over 1985-86 (Actuals).

14. Absolute and percentage variations in brackets relate to 1987-88 budget estimates over 1986-87 revised estimates.

Table VIII—17 : Financial Working of Department of Telecommunications*

(Rupees crores)

Item	1984-85 (Actuals)	1985-86 (Actuals)	1986-87 (Budget Estimates)	1986-87 (Revised Estimates)	1987-88 (Budget Estimates)
1	2	3	4	5	6
1. Revenue Receipts	**1,191.3**	**1,309.3**	**1,370.0**	**1,287.0**	**1,709.0**
2. Working Expenses	**871.7**	**1,020.4**	**999.5**	**1,093.0**	**1,265.0**
Of which :					
(i) Operaton	212.5	231.7	234.5	276.3	304.1
(ii) General Administration	75.3	85.5	85.3	101.3	110.8
(iii) Engineering	375.6	440.8	393.9	439.6	502.1
(iv) Pension	36.3	48.0	48.5	50.0	55.0
(v) Accounts and Audit	7.8	8.8	9.2	10.2	11.4
(vi) Stationery and Printing	7.3	13.0	10.3	12.2	13.4
(vii) Stores and Factories	₤₤	22.5	23.5	26.5	26.2
(viii) Depreciation	132.2	160.5	191.2	160.0	190.5
(ix) Others	24.7	9.5	3.1	16.9	51.5
3. Credits to Working Expenses	60.8	78.2	95.0	90.0	100.0
4. Net Working Expenses (2 − 3)	810.9	942.2	904.5	1,003.0	1,165.0
5. Net Receipts (1 − 4)	380.4	367.1	465.5	284.0	544.0
6. Dividend to General Revenues	123.1	170.1	191.7	213.0	237.0
7. Surplus(+)/Deficit(−) before making contribution towards Capital Expenditure (5 − 6)	**+ 257.3**	**+ 197.0**	**+ 273.8**	**+ 71.0**	**+ 307.0**
8. Contribution towards Capital Expenditure	—	—	—	—	—
9. Surplus(+)/Deficit(−) after making contributions towards Capital Expenditure (7 − 8)	**+ 257.3**	**+ 197.0**	**+ 273.8**	**+ 71.0**	**+ 307.0**
10. Appropriation to (+) withdrawals from (−) ₤					
(a) Revenue Reserve Fund	+ 136.3	Neg.	+ 0.3	+ 0.1	+ 0.1
(b) Capital Reserve Fund	+ 121.0	+ 197.0	+ 273.5	+ 70.9	+ 306.9

* The erstwhile combined Posts and Telegraphs Department has been bifurcated into the Department of Posts and Department of Telecommunications with effect from 31.12.1984.

₤ Consequent on the constitution of two distinct departments, viz; Department of Posts and Department of Telecommunications, the surplus transferred to P & T Revenue Reserve Fund and Capital Reserve Fund and withdrawals from Capital Reserve Fund from 1985-86 entirely relate to Telecommunications.

₤₤ Figures are not available separately.

Neg. Negligible

Sources: 1) Explanatory Memorandum on the Budget of the Central Government.
2) Government of India Detailed Demand for Grants of Department of Telecommunications for 1987-88.
3) Government of India Receipts Budget, 1987-88.

Revenue receipts are estimated to rise by Rs. 422.0 crores (+32.8 per cent) to Rs. 1,709.0 crores. Total working expenses are budgeted at Rs. 1,265.0 crores showing a rise Rs. 172.0 crores (15.7 per cent). The increase in total working expenses would be mainly due to larger expenditure in 'Engineering' (+ Rs. 62.5 crores, + 14.2 per cent), 'Depreciation' (+ Rs. 30.5 crores, + 19.1 per cent) and 'Operation' (+ Rs. 27.8 crores, + 10.1 per cent). After adjusting for the credit of Rs. 100.0 crores to the working expenses, the net working expenses are estimated to go up from Rs. 1,003.0 crores in 1986-87 to Rs. 1,165.0 crores in 1987-88 (+ Rs. 162.0 crores, + 16.2 per cent). The net revenue receipts will be substantially higher at Rs. 544.0 crores than those of Rs. 284.0 crores during 1986-87. No provision has been made for contribution towards capital expenditure. The payment of dividend to the General Revenues has been stepped-up from Rs. 213.0 crores in 1986-87 to Rs. 237 crores in 1987-88.

Table VIII—18 : Capital Outlay of the Department of Telecommunications*

(Rupees crores)

Item	1984-85 (Actuals)			1985-86 (Actuals)			1986-87 (Budget Estimates)			1986-87 (Revised Estimates)			1987-88 (Budget Estimates)		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Expenditure (a+b)	**724.7**	**135.9**	**860.6**	**850.5**	**97.3**	**947.8**	**782.0**	**135.0**	**917.0**	**754.2**	**135.0**	**889.2**	**824.1**	**135.0**	**959.1**
(a) Telecommunications Services	724.7	—	724.7	850.5	—	850.5	782.0	—	782.0	754.2	—	754.2	824.1	—	824.1
(b) Under Stores and Manufacture Suspense	—	135.9	135.9	—	97.3	97.3	—	135.0	135.0	—	135.0	135.0	—	135.0	135.0
2. Financed from :															
(i) Receipts and Recoveries on (a+b+c)	0.9	55.3	56.2	0.5	82.0	82.5	280.7	118.0	398.7	210.7	118.0	328.7	214.8	117.0	331.8
(a) Capital Account	0.9	—	0.9	0.5	—	0.5	0.7	—	0.7	0.7	—	0.7	0.8	—	0.8
(b) Under Stores Suspense	—	55.3	55.3	—	82.0	82.0	—	118.0	118.0	—	118.0	118.0	—	117.0	117.0
(c) Deposits of Mahanagar Telephone Nigam	—	—	—	—	—	—	280.0	—	280.0	210.0	—	210.0	214.0	—	214.0
(ii) Advance Rentals Received under O.Y.T. Schemes and other Schemes	35.2	—	35.2	42.6	—	42.6	30.0	—	30.0	23.0	—	23.0	25.0	—	25.0
(iii) Deposit received under Telex Deposit Scheme	13.9	—	13.9	8.8	—	8.8	3.0	—	3.0	3.0	—	3.0	2.0	—	2 0
(iv) Capital Reserve Fund £	48.2	80.6	128.8	190.6	15.3	205.9	265.0	17.0	282.0	63.3	17.0	80.3	298.5	18.0	316.5
(v) Depreciation on Historical costs transferred from Revenue	133.,6	—	133.6	160.9	—	160.9	191.3	—	191.3	160.0	—	160.0	191.0	—	191.0
(vi) Contribution towards Capital Expenditure from Revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(vii) Capital advanced from the General Revenues	492.9	—	492.9	447.1	—	447.1	,12.0	—	12.0	294.2	—	294.2	92.8	—	92.8
Total (1 to vii)	**724.7**	**135.9**	**860.6**	**850.5**	**97.3**	**947.8**	**782.0**	**135.0**	**917.0**	**754.2**	**135.0**	**889.2**	**824.1**	**135.0**	**959.1**

* The erstwhile combined Posts and Telegraphs Department has been bifurcated into Department of Posts and Department of Telecommunications with effect from 31.12.1984.

£ Consequent on the constitution of two distinct departments, viz; Department of Posts and Department of Telecommunications, the surplus transferred to P & T Revenue Reserve Fund and Capital Reserve Fund and withdrawals from Capital Reserve Fund from 1985-86 entirely relate to Telecommunications.

Sources: 1) Explanatory Memorandum on the Budget of the Central Government.
2) Government of India Detailed Demand for Grants of Department of Telecommunications for 1987-88.
3) Government of India Expenditure Budget, Vol. II, 1987-88.

The net surplus after payment of dividend to General Revenues would be higher at Rs. 307.0 crores as against Rs. 71.0 crores in the previous year. Out of the total surplus, Rs. 306.9 crores would be appropriated to Capital Reserve Fund and Rs. 0.1 crore to Revenue Reserve Fund.

During 1987-88 the total Capital outlay of DT at Rs. 959.1 crores comprising Plan expenditure (under Telecommunications services) amounting to Rs. 824.1 crores and non-Plan expenditure (under Stores and Manufacture Suspense) of Rs. 135.0 crores is budgeted to rise by Rs. 69.9 crores over the previous year. The capital expenditure would be financed to the extent of Rs. 92.8 crores or 9.7 per cent from the budgetary support from the General Revenues and the remaining Rs. 866.3 crores or 90.3 per cent from the internal and extra budgetary resources. The Telecommunications Department is expected to raise Rs. 300 crores through issue of bonds in the domestic capital markets.

V. PUBLIC DEBT AND OTHER LIABILITIES

A. Central Government

The outstanding aggregate liabilities (including the amount of Rs. 300 crores due from Pakistan on account of pre-partition debt) of the Central Government comprising public debt and other liabilities amounted to Rs.1,64,257 crores at end-March 1987 registering a rise of Rs. 26,644 crores (+ 19.4 per cent) as against an increase of Rs. 24,172 crores (+ 21.3 per cent) in the previous year (end-March 1986)[15]. These are estimated to reach a level of Rs. 1,90,890 crores at end-March 1988 showing an increase of Rs. 26,633 crores (+ 16.2 percent) over end-March 1987 (Table VIII-19)[16]. As a proportion of Gross Domestic Product (GDP) at current market prices the aggregate outstanding liabilities constituted nearly 61 per cent in 1986-87 as compared with around 57 per cent a year earlier. Five years back i.e.,in 1982 this ratio was only 46.2 per cent (Table VIII—19).

The share of public debt in the aggregate liabilities declined marginally from 64.8 per cent to 64.2 per cent at the end of March 1987. This share is expected to decline further to 63.5 per cent at end-March 1988. Internal debt formed 80.8 per cent of the public debt at end-March 1987 as against 79.6 per cent in the previous year. It is expected to go up to 81.0 per cent at end-March 1988.

Public Debt

The outstanding public debt constituting internal debt and external debt (including loans from IMF Trust Fund) stood at Rs. 1,05,427 crores recording a rise of Rs. 16,235 crores (+ 18.2 per cent) in 1986-87 as against that of Rs. 14,018 crores (+ 18.6 per cent) in 1985-86. It is budgeted to reach the level of Rs. 1,21,150 crores at end-March 1988 registering a rise of Rs. 15,723 crores (+ 14.9 per cent) over 1986-87. The outstanding public debt constituted 39.1 per cent of GDP at current market prices in 1986-87 as against 36.6 per cent in 1985-86.

External Debt

At the end of March 1987 the external debt of the Government of India (including loans from IMF Trust Fund) stood at Rs. 20,213 crores registering an increase of Rs. 2,060 crores (+ 11.3 per cent) over 1985-86. In the preceding year, the external debt had risen by Rs. 1,516 crores (+ 9.1 per cent). As indicated in the budget, the debt is expected to reach the level of Rs. 22,999 crores at the end of

15. The figures for 1986-87 and 1985-86 relate to revised and accounts data, respectively, unless stated otherwise.

16. The figures for 1987-88 relate to budget estimates unless stated otherwise.

Table VIII–19 : Public Debt and Other Liabilities of Government of India

(Rupees crores)

Item	As at the end of March						
	1982	1983	1984	1985	1986	1987 (Revised Estimates)	1988 (Budget Estimates)
1	2	3	4	5	6	7	8
A. Public Debt (1 + 2)	**47,981**	**60,621**	**65,383**	**75,174**	**89,192**	**1,05,427**	**1,21,150**
	(32.5)	**(36.7)**	**(33.7)**	**(35.1)**	**(36.6)**	**(39.1)**	
1. Internal Debt (i to vi)	35,653	46,939	50,263	58,537	71,039	85,214	98,151
(i) Current Market Loans	18,461	22,232	26,270	30,366	35,241	40,540	46,840
(ii) Others ‡	309	429	520	551	545	486	422
(iii) Special Bearer Bonds	964	964	964	964	964	964	964
(iv) Treasury Bills	10,273	17,431	15,756	19,452	26,014	33,864	39,874
(v) Special floating and and other loans +	1,536	1,673	2,183	2,554	3,088	4,225	5,106
(vi) Special Securities issued to RBI	4,110	4,210	4,570	4,650	5,187	5,135	4,945
2. External Debt	12,328	13,682	15,120	16,637	18,153	20,213	22,999
Of which :							
Loans from IMF Trust Fund	538	538	538	538	471	307	158
B. Other Liabilities (a to d)	**20,205**	**25,251**	**29,878**	**38,267**	**48,421**	**58,830**	**69,740**
	(13.7)	**(14.7)**	**(15.4)**	**(17.9)**	**(19.9)**	**(21.8)**	
(a) Small Savings	9,375	11,098	13,506	17,157	21,449	26,349	31,749
(b) Provident Funds (i + ii)	2,924	3,420	3,747	4,159	4,628	5,203	5,838
(i) State Provident Fund	2,670	3,060	3,260	3,607	4,000	4,435	4,915
(ii) Public Provident Fund	254	360	487	552	628	768	923
(c) Other Accounts*	4,279	5,369	6,621	8,389	10,781	13,885	17,030
(d) Reserve Funds and Deposits (i+ii)**	3,627	4,364	6,004	8,562	11,563	13,393	15,123
(i) Bearing Interest	1,905	2,464	4,273	6,198	8,704	10,608	12,143
(ii) Not Bearing Interest	1,722	1,900	1,731	2,364	2,859	2,786	2,979
C. Aggregate Liabilities (A + B)	**68,186**	**84,872**	**95,261**	**1,13,441**	**1,37,613**	**1,64,257**	**1,90,890**
	(46.2)	**(51.4)**	**(49.1)**	**(52.9)**	**(56.5)**	**(61.0)**	
D. Amount due from Pakistan on account of Pre-partition debt	**300**	**300**	**300**	**300**	**300**	**300**	**300**
E. Aggregate Liabilities (C – D) (Net of pre-partition debt)	**67,886**	**84,572**	**94,961**	**1,13,141**	**1,37,313**	**1,63,957**	**1,90,590**

‡ Comprises balance of expired loans, compensation and other bonds such as National Rural Development Bonds and Capital Investment Bonds. Annuity certificates are excluded from here and shown under small savings.

\+ These represent mainly non-negotiable non-interest bearing securities issued to International Financial Institutions like the International Monetary Fund, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development and Asian Development Bank.

* Includes mainly Postal Insurance and Life Annuity Fund, Hindu Family Annuity Fund, borrowings against compulsory Deposits and Income-tax Annuity Deposits, Special Deposits of Non-Government Provident fund.

** Includes depreciation and Reserve Funds of Railways and Department of Posts and Department of Telecommunications, deposits of Local Funds, departmental and judicial deposits, civil deposits, etc.

Note Figures in brackets represent percentages to CSO estimates of Gross Domestic Product at current market prices. However, for 1987 such percentages have been worked out on the basis of Reserve Bank of India estimates of Gross Domestic Product at current market prices.

Source: Finance Accounts of the Union Government for end – March 1982 to 1985 and Government of India Receipts Budget 1987-88 for end-March 1986, 1987 and 1988.

March 1988, recording a rise of Rs. 2,786 crores (+ 13.8 per cent). The share of external debt to GDP at current market prices formed 7.5 per cent at end-March 1987 which is the same as it was a year ago. The outstanding loans from IMF Trust Fund which were extended to the Government of India in August 1980 to tide over balance of payment difficulties were placed at Rs. 307 crores at end-March 1987 after providing for the repayment of Rs. 164 crores during the year. Taking into account the budgeted repayment of Rs. 169 crores during 1987-88 the outstanding would come down to Rs. 138 crores at end-March 1988.

The budget for 1987-88 provides receipts of Rs. 3,823 crores from external loans as against Rs. 2,946 crores in 1986-87. After taking into account the repayments of Rs. 1,037 crores of loans falling due, the net receipts from external loans are placed at Rs. 2,786 crores during 1987-88 as compared with Rs. 2,706 crores in 1986-87. Net external loans, i.e. after providing for repayments and an amount of Rs. 734 crores for the interest payments on these loans, are placed at Rs. 2,052 crores in 1987-88 as against Rs. 1,401 crores in 1986-87.

Internal Debt

Internal debt of the Government of India comprising mainly current market loans, treasury bills, special securities issued to RBI and special floating and other loans stood at Rs. 85,214 crores at end-March 1987 registering a rise of Rs. 14,175 crores (+ 20.0 per cent) over the previous year. It is expected that the internal debt would touch the level of Rs. 98,151 crores at the end of March 1988, which would be higher by Rs. 12,937 crores (+ 15.2 per cent) over 1986-87. As a proportion of the aggregate liabilities of the Central Government, the internal debt constituted 51.9 per cent in 1986-87 as against 51.6 per cent in 1985-86. It is, however, expected to come down to 51.4 per cent of the aggregate liabilities of the Central Government at end-March 1988.

During 1986-87 all constituents of outstanding internal debt witnessed increases except 'Special Bearer Bonds', Special Securities issued to RBI and 'Others' comprising mainly balances of expired loans, compensation bonds, Capital Investment Bonds and National Rural Development Bonds. 'Special Bearer Bonds' remained unchanged at Rs. 964 crores as the sale of these bonds was discontinued from January 9, 1982, while 'Others' registered a decline due to the provision for repayment of the outstanding amount of National Rural Development Bonds during 1986-87.

Current market loans and treasury bills combined together account for more than 90 per cent of the increase in outstanding internal debt. As a proportion of GDP at current market prices, internal debt constituted 29.2 per cent and 31.6 per cent at end-March 1986 and 1987, 1987, respectively.

Market Borrowings : 1986-87[17]

During the fiscal year 1986-87, the Central Government entered the market seven times including once for placing the amount of Rs. 350 crores initially in favour of Reserve Bank of India and borrowed a gross amount of Rs. 6,350.3 crores as envisaged in the Central budget for 1986-87. After providing for a repayment of Rs. 1,050.4 crores of maturing loans during the year (including the 3 per cent conversion loan, which fell due for repayment on September 16, 1986), the net receipts from market borrowings amounted to Rs. 5,299.9 crores (Table VIII-20). The net borrowings were higher by Rs. 198.8 crores (3.9 per cent) over the previous year. Of the total gross market borrowings of Rs. 6,350.3 crores, Rs. 5,883.0 crores was received in the form of cash subscription and the balance of Rs. 467.3 crores was by way of conversion (Table VIII-20).

17. Subscription figures for 1986-87 and 1987-88 are actuals and compiled from Reserve Bank of India record.

Table VIII–20 : Market Borrowings of Government of India during 1986-87

(Rupees crores)

Date	Loan Floated	Issue Price Rupees	Amount of issue	Subscription Accepted			Repayment in cash for unconverted Maturiting Securities	Net Market Borrowings (Col. 7-Col. 6+8)]
				Cash	Conversion	Gross Market Borrowings (Col. 5+6)		
1	2	3	4	5	6	7	8	9
12.5.1986	10.00 per cent Loan,1991	1,000.00	1,200	51.23	4.03	55.26		
	10.50 per cent Loan, 1996	1,000.00		28,14	29,75	57.89		
	11.50 per cent Loan, 2006	1,000.00		1,192.13	18.65	1,210.78		
				1,271.50	52.43	1,323.93	304.68	966.82
14.7.1986	10.20 per cent Loan, 1993	1,000.00	1,200	61.11	44.96	106.07		
	11.50 per cent Loan , 2006 (Second Issue)	1,000.00		1,002.72	211.77	1,214.49		
				1,063.83	256.73	1,320.56	134.06	929.77
22.9.1986	10.20 per cent Loan, 1993 (Second Issue)	1,000.00	900	118.03	1,42	119.45		
	11.50 per cent Loan , 2006 (Third Issue)	1,000.00		717.29	153.96	871.25		
				835.32	155.38	990.70	93.26	742.06
27.10.1986	10.50 per cent Loan, 1996 (Second Issue)	1,000.00	600	120.63	—	120.63		
	10.30 per cent Loan, 2004	1,000.00		539.56	—	539.56		
				660.19	—	660.19	—	660.19
6.1.1987	10.20 per cent Loan, 1993 (Third Issue)	1,000.00	800	39.22	—	39.22		
	11.50 per cent Loan, 2006 (Fourth Issue)	1,000.00		839.44	2.77	842.21		
				878.66	2.77	881.43	51.16	827.50
7.1.1987	11.50 per cent Loan, 2006* (Fourth Issue)	1,000.00	350	350.00	—	350.00	—	350.00
26.3.1987	10.20 per cent Loan, 1993 (Fourth Issue)	1,000.00	750	52.86	—	52.86	—	
	11.50 per cent Loan, 2006 (Fifth Issue)	1,000.00		770.66	—	770.66		
				823.52	—	823.52	—	823.52
	Total during 1986-87		**5,800.00**	**5,883.02**	**467.31**	**6,350.33**	**583.16**	**5,299.86**

* Private issue in favour of R.B.I. only

Source: Reserve Bank of India Records.

For the first tranche of borrowings the Central Government entered the market on May 12, 1986 with three loans viz., 10.00 per cent loan 1991, 10.50 per cent loan 1996 and 11.50 per cent loan 2006 on a cash-cum-conversion basis and raised Rs. 1,323.9 crores. Of which, Rs.1,271.5 crores was on cash basis and Rs.52.4 crores was on conversion basis. After repayment in cash for unconverted maturing loans amounting to Rs. 304.7 crores net receipts amounted to Rs. 966.8 crores. For the second tranche of borrowings, besides 11.50 per cent loan 2006 (second issue), the Central Government entered into the market on July 14, 1986 with a new loan viz., 10.20 per cent loan 1993, on a cash-cum-conversion basis and raised an aggregate amount of Rs. 1,320.6 crores. Of which, Rs. 1,063.9 crores was on cash basis and Rs. 256.7 crores on conversion basis. Net realisations amounted to Rs. 929.8 crores after providing for repayment in cash for unconverted maturing loans of Rs. 134.0 crores. In

the third tranche of market borrowings on September 22, 1986 the Central Government entered into the market with two loans viz., 10.20 per cent loan 1993 (second issue) and 11.50 per cent loan 2006 (third issue) on a cash-cum-conversion basis and raised an aggregate amount of Rs. 990.7 crores of which cash subscription was Rs. 835.3 crores and Rs. 155.4 crores on conversion basis. After making provision for repayment in cash for unconverted maturing loans amounting to Rs. 93.3 crores, net receipts were placed at Rs. 742.0 crores.

On October 27, 1986, the Central Government entered the market for the fourth time with two loans viz., 10.50 per cent loan (second issue) 1996 and 11.30 per cent loan 2004 entirely on cash basis and the net collections amounted to Rs. 660.2 crores.

In the fifth tranche of January 6, 1987 the Central Government issued two loans viz., 10.20 per cent loan 1993 (third issue) and 11.50 per cent loan 2006 (fourth issue) on a cash-cum-conversion basis and raised a gross amount of Rs. 881.4 crores of which Rs. 878.7 crores was on cash basis and Rs. 2.7 crores on conversion basis. After providing for repayment in cash for unconverted maturing loans amounting to Rs. 51.2 crores, the net collections were Rs. 827.5 crores.

In order to replenish the holdings of the RBI so as to cater to the requirements of the institutional investors, the Central Government on January 7, 1987 issued 11.50 per cent loan 2006 (fourth issue) on a cash basis for private placement in favour of Reserve Bank of India for Rs. 350.0 crores. This was initially taken over by the RBI for subsequent sales to investors in the open market.

The Central Government completed the market borrowings programme for the fiscal year 1986-87 on March 26, 1987 with the issue of two loans viz. 10.20 per cent loan 1993 (fourth issue) and 11.50 per cent loan 2006 (fifth issue). They were entirely on a cash basis and raised an aggregate amount of Rs. 823.5 crores.

The monthly average of gross redemption yield on Central Government securities was higher at 9.84 per cent during 1986-87 as against 9.03 per cent during 1985-86 (Reference : Statement 71 in volume II of the Report).

1987-88

For the fiscal 1987-88 the Central Government has assumed gross market borrowings of Rs. 7,121 crores. After taking into account the repayment of maturing loans of Rs. 820.9 crores the net borrowings are anticipated to be of the order of Rs. 6,300.1 crores recording a substantial increase of Rs. 1,000.2 crores (+ 18.9 per cent) over the previous year.

For the first tranche of borrowings the Central Government entered the market on May 11, 1987 with the issue of two new loans viz., 10.50 per cent loan 1997 and 11.00 per cent loan 2002 on a cash-cum-conversion basis and raised an aggregate amount of Rs. 990.0 crores. Of this, Rs. 977.6 crores was on cash basis and Rs. 12.4 crores was by way of conversion. The net borrowings amounted to Rs. 574.1 crores after providing for cash repayment of maturing loans. The Central Government again entered the market on July 14, 1987 with two loans viz., 10.50 per cent loan 1997 (second issue) and 11.00 per cent loan 2002 (second issue) on a cash-cum-conversion basis. The subscription aggregated a gross amount of Rs. 1,760.0 crores. Of this, Rs. 1,681.5 crores was on cash basis and Rs. 78.5 crores was by way of conversion. After making repayments of maturing loans to the extent of Rs. 405.0 crores, the net borrowings amounted to Rs. 1,355.0 crores. In the first two tranches of market borrowings, the Central Government raised Rs. 2,750.0 crores or 38.6 per cent of gross budgeted market borrowings for 1987-88.

Coupon Rates on Central Government Loans

The policy to offer an attractive rate of return on investment in long-dated Government securities continued in 1986-87. The highest

coupon rate of 11.50 per cent introduced in 1985-86, was maintained. However, the maturity period was reduced from 30 years to 20 years. The coupon rates on 5 years and 10 years loans were stepped-up by 1.00 percentage point to 10.00 per cent and 10.50 per cent, respectively. The higher coupon rate of 11.50 per cent and the increase in SLR effected in 1985-86 alongwith stricter enforcement of SLR on a daily basis enabled Government to raise more resources from the market. During 1986-87 loans raised at a coupon rate of 11.50 per cent accounted for 82.8 per cent as against 72.4 per cent in 1985-86. As a result, the dependance on RBI's support for raising loans was reduced considerably. The RBI's initial cash subscription to Central loans in 1986-87 amounted to Rs. 2,266.4 crores which accounted for 35.7 per cent of total loans raised. As against this, the RBI had provided initial support of Rs. 2,905.5 crores in 1985-86 accounting for about 50 per cent of total loans. However, during 1986-87, there were net sales by RBI.

During the first and second tranche of market, borrowings of 1987-88 so far the highest coupon rate on long dated securities was 11.00 per cent with a maturity period of 15 years.

In addition to market borrowings, the Central Government also mobilises resources through bonds, certificates and deposit schemes. A brief write up on these resource mobilisation measures is given in the succeeding paragraphs.

National Rural Development Bonds

National Rural Development Bonds (Second Issue) were put on tap from July 7, 1983 with a maturity period of 3 years and carrying an interest rate of 7.5 per cent. As in the case of 7-year National Rural Development Bonds introduced on July 9, 1979, these bonds were intended to provide an investment facility to persons desirous of availing of exemption from capital gains tax on transfer/sale of assets. The total subscriptions as on March 31, 1987 were Rs. 99 crores in the case of 3-year bonds and Rs. 183 crores for 7-year bonds, respectively. After taking into account the repayments which started from July 1986 the total outstanding as on March 31, 1987 amounted to Rs. 55 crores for the 3-year bonds and Rs. 161 crores in the case of 7-year bonds.

Social Security Certificates

With a view to mobilising private savings for public use, especially from small savers, Social Security Certificates were introduced on June 1, 1982. The rate of interest works out to 11.3 per cent per annum (compounded half-yearly). The total subscriptions to Social Security Certificates as on March 31, 1987 amounted to Rs. 18.1 crores.

Capital Investment Bonds

Capital Investment Bonds were put on tap from June 28, 1982, with a maturity period of 10 years and carry interest at the rate of 7.0 per cent per annum free of tax. As on June 28, 1987 the outstanding receipts from the sale of these bonds were placed at Rs. 166.4 crores.

National Deposit Scheme

With a view to mobilising additional resources for public investment the National Deposit Scheme having broadly the same features of long-term deposits with banks was introduced on July 30, 1984. The deposits under the Scheme are for a period of four years and carry interest of 10.50 per cent per annum. The subscriptions to these deposits since inception were placed at Rs. 68.3 crores as on March 31, 1987 as against a target of Rs. 500 crores. The Scheme has been discontinued by Government with effect from April 1, 1987.

Market Borrowing of Local Authorities and Institutions Sponsored by Central and State Governments

During the fiscal year 1986-87, local authorities and institutions sponsored by Central and State Governments borrowed a net amount of Rs. 2,365.9 crores recording a rise of Rs. 158.4 crores (+ 7.2 per cent) over 1985-86 (Table VIII-21). As against this, there was a substantial increase of Rs. 309.1 crores (+ 16.3 per cent) in 1985-86 over 1984-85. In 1986-87 the net borrowings of the institutions sponsored by Central Government at Rs. 1,601.6 crores were higher by Rs. 135.0 crores (+ 9.2 per cent). The net borrowings of institutions sponsored by State Governments at Rs.731.8 crores were marginally higher by Rs. 20.6 crores (+ 2.9 per cent) over 1985-86. The net borrowings of local authorities during 1986-87 were placed at Rs. 32.5 crores registering an increase of Rs. 2.8 crores (+ 9.4 per cent) as compared with a rise of Rs. 3.7 crores (+ 14.2 per cent) in 1985-86. During 1986-87, in the case of institutions sponsored by the Central and State Governments, those engaged in providing long-term finance to industry and export promotion accounted for 65.7 per cent of the net aggregate borrowings of all the institutions and local authorities taken together as compared with 64.7 per cent in the previous year.

Table VIII–21 : Net Market Borrowings of Local Authorities and Institutions Sponsored by Central and State Governments

(Rupees crores)

Institutions	1985-86	1986-87
1	2	3
Local Authorities	**29.71**	**32.48**
Municipal Corporation	29.71	32.48
Institutions Sponsored by the Central Government	**1,466.58**	**1,601.62**
Industrial Development Bank of India	700.00	760.00
Industrial Credit and Investment Corporation of India	196.50	216.15
Industrial Finance Corporation of India	280.50	290.50
Export Import Bank of India	39.50	43.45
Industrial Reconstruction Bank of India	41.75	41.75
National Bank for Agriculture and Rural Development	36.23	39.85
Rural Electrification Corporation	36.30	39.93
Housing and Urban Development Corporation	43.95	50.00
National Co-operative Development Corporation	49.45	54.40
Damodar Valley Corporation	36.90	40.59
Delhi Development Authority	–	15.00
Delhi Co-operative Housing Finance Society Ltd.	5.50	10.00
Institutions Sponsored by State Governments	**711.23**	**731.75**
State Electricity Boards	512.12	515.77
State Financial Corporation	155.25	187.20
Industrial Investment Corporation and Industrial Development Corporation	14.41	14.84
Land Development Banks	(−)29.03	(−)55.71
Housing Boards	14.19	7.14
Other Institutions	44.29	62.51
GRAND TOTAL	**2,207.52**	**2,365.85**

Source : Reserve Bank of India Records.

Maturity Pattern of Rupee Debt[18]

During the year under review the maturity pattern of Government of India rupee loans witnessed some changes. The long-dated securities with a maturity of 10 years and above formed 77.1 per cent of the total at end-March 1987 as agains 73.6 per cent in the previous year, while the proportion of medium-dated securities (maturing between 5 and 10 years) in the total declined from 15.5 per cent to 12.0 per cent. The share of short-dated securities (maturing under 5 years) in the total showed a marginal increase from 10.2 per cent to 10.9 per cent.

Treasury Bills[19]

The Government of India's outstanding treasury bills at end-March 1987 amounted to Rs. 19,876 crores recording a decline of Rs. 6,138 crores (-23.6 per cent) as against a steep rise of Rs. 6,562 crores in the previous year. The sharp decline in the outstanding treasury bills was due mainly to funding of *ad hoc* treasury bills into special rupee securities amounting to Rs. 15,000 crores.

18. Refer the Statement 96 in Volume II of the Report. Figures in the Statement relate to Actuals of 1985-86.
19. Refer to Statement 86 in Volume II of the Report. Figures in the Statement relate to actuals of 1985-86.

The holdings of Reserve Bank of India declined by Rs. 5,688 crores (−23.5 per cent). The decline was also noticed in the holdings of treasury bills by State Governments (−Rs. 252 crores, −16.6 per cent), Banks (− Rs. 30 crores, −65.2 per cent) and others (− Rs. 169 crores, −84.5 per cent).

182 days Treasury Bills

With a view to developing the treasury bill as a monetary instrument with flexible rates and to provide a financial instrument with an intermediate maturity between dated securities and the existing 91 days treasury bill, a new financial instrument of 182 days treasury bills was introduced on November 28, 1986. These bills are issued by the Reserve Bank for a minimum amount of Rs. 1 lakh and in multiples thereof on discounting basis, with the rate of discount and the corresponding issue price being determined through auctions. The bills can be purchased by any person resident in India including individuals, firms, companies, corporate bodies and institutions. However, State Governments and Provident Funds are not eligible to invest in them. The Reserve Bank determines the amount of treasury bills it proposes to issue at each auction after receipt of tender and it has the full discretion to accept or reject any or all the bids without assigning any reason. In the case of accepted tenders, treasury bills are issued at the price at which they are tendered by the bidder in the relevant application. It is an approved investment for SLR purposes of banks and is an eligible collateral for borrowings from the Reserve Bank under its stand-by refinance facility but they will not be rediscounted by R.B.I. Since the inception, 10 auctions have so far been held with bid amounts aggregating Rs. 1,413.9 crores. Of these, bids amounting to Rs. 273.9 crores were accepted in the price range of Rs. 95.63 to 95.92.

Special Floating and Other Loans

As mentioned earlier, Special floating and other loans are the constitutents of the internal debt of the Central Government. These are mainly Government of India's contribution towards share capital of international financial institutions, such as IMF, IBRD and IDA. At end-March 1987, special floating and other loans amounted to Rs. 4,225 crores recording an increase of Rs. 1,137 crores (+ 36.8 per cent) as against a rise of Rs. 534 crores (+ 20.9 per cent) in the previous year. These are budgeted to rise by Rs. 881 crores (+ 20.9 per cent) to reach a level of Rs. 5,106 crores at end-March 1988 (Table VIII-19).

Special Securities Issued to Reserve Bank

Special Securities issued to Reserve Bank of India against Compulsory Deposits and those in lieu of *ad hoc* treasury bills amounted to Rs. 5,135 crores showing a small decline of Rs. 52 crores (−1.0 per cent) at end-March 1987 as compared with a rise of Rs. 537 crores (+ 11.5 per cent) recorded in the previous year.[20] The budget for 1987-88 anticipates that these securities would decline further by Rs. 190 crores (−13.7 per cent) to Rs. 4,945 crores during the year 1987-88 (Table VIII-19).

Other Liabilities

The non-marketable debt liabilities of the Government of India comprising mainly Small Savings, Provident Funds, Reserve Funds and Deposits amounted to Rs. 58,830 crores at end-March 1987 showing a rise of Rs. 10,409 crores (+ 21.5 per cent) over 1985-86. During 1985-86, other liabilities had increased by Rs. 10,153 crores (+ 26.5 per cent) over 1984-85. The budget for 1987-88 assumes an increase of Rs. 10,910 crores under this head and accordingly the outstanding level would touch

20. According to Reserve Bank of India records Special Securities issued to Reserve Bank of India amounted to Rs. 19,867 crores as on March 31, 1987. This increase was mainly due to funding of *ad hoc* treasury bills amounting to Rs. 15,000 crores into special securities.

Rs. 69,740 crores at end-March 1988. The share of non-marketable liabilities in the aggregate liabilities was 35.8 per cent in 1987 as against 35.2 per cent in 1986. This proportion is anticipated to increase further to 36.5 per cent in 1987-88. As a proportion of GDP at current market prices the non-marketable liabilities formed 24.2 per cent at end-March March 1987 as against 22.6 per cent at the end-March 1986.

Small Savings[21]

The outstanding of Small Savings at the end of March 1987 amounted to Rs. 25,602 crores registering a rise of Rs. 3,193 crores (+ 14.2 per cent) over the previous year. During 1985-86, Small Savings had increased by Rs. 4,340 crores. This lower net additions to the total outstanding of Small Savings was largely attributable to large withdrawals particularly Post Office Time Deposits which declined by Rs. 646 crores as compared with an increase of Rs. 1,052 crores in 1985-86. The 6-Year National Savings Certificates (NSCs) VI and VII issues which had shown a rise of Rs. 3,039 crores increased by Rs. 2,967 crores in 1986-87. Similarly the outstanding amounts of 7 Year NSCs (II, III, IV and V issues) combined declined by Rs. 255 crores as against a decline of Rs. 229 crores in 1985-86. The net additions in case of Post Office Savings Deposits and Cumulative Time Deposits were also lower at Rs. 79 crores and Rs. 11 crores as against a rise of Rs. 215 crores and Rs. 26 crores, respectively, in the previous year. However, the net additions to the outstanding of the Post Office Recurring Deposits were higher at Rs. 204 crores compared to an amount of Rs. 194 crores in 1985-86.

Promotional Measures

In order to make the Small Savings Schemes popular, the Government continued to utilise mass media like newpapers, radio and televisions, folders, leaflets and documentary films were also used by the Government to popularise the schemes. During the year under review, the Government of India launched on November 19, 1986 a new small savings instrument known as Indira Vikas Patra (IVP) with a view to mobilising rural savings. The IVPs with a maturity period of five years were issued in the denomination of Rs. 500, Rs. 1,000 and Rs. 5,000. The investors at the time of purchase were required to pay only half of the denomination values. The implicit rate of return worked out to 14.87 per cent per annum. However, IVP is not eligible for any tax concessions. With effect from April 1, 1987, the maturity period of IVP has been increased to five and half years thus reducing the implicit rate of return to 13.43 per cent. The total collections outstanding in respect of IVPs as at the end of March 1987 amounted to Rs. 835 crores.

To enourage savings, the budget for 1987-88 contains a new savings scheme based on net savings principle Under the Scheme, 50 per cent of the amount deposited (upto Rs. 20,000) would be allowed as a deduction from the taxable income in addition to the limit of Rs. 40,000 provided for under Section 80-C of the Income tax Act. However, in the year of withdrawal, 50 per cent of the amount withdrawn would be added to the taxable income during that year. The rate of interest for 1987-88 would be 9 per cent.

B. State Governments[22]

The outstanding debt liabilities of the State Governments at Rs. 59,634 crores at the end of March 1987 were higher by Rs. 7,353 cro res

---

21. Refer to Statement 98 in Volume 11 of the Report. Figures here relate to actuals of 1986-87.

22. Refer to Statement 94 in Volume II of the Report for the debts position of States and Statement 95 for the State-wise break-up.

(+ 14.1 per cent) over 1985-86.[23] During 1985-86 these liabilities had risen by Rs. 6,371 crores (+ 19.1 per cent) over 1984-85. The total outstanding debt of the States is expected to reach the level of Rs. 67,841 crores recording a rise of Rs. 8,207 crores (+ 13.8 per cent) at the end of March 1988.

Loans and Advances from the Centre

Loans and advances from the Centre comprising loans for Plan and non-Plan schemes against small savings and ways and means advances from the Centre, amounted to Rs. 42,758 crores at end-March 1987 recording a rise of Rs. 4,916 crores (+ 13.0 per cent) over 1985-86 as against a rise of Rs. 7,410 crores (+ 24.3 per cent) in the previous year. These are estimated to reach the level of Rs. 48,055 crores registering an increase of Rs. 5,297 crores (+ 12.4 per cent) at end-March 1988. Loans and advances from the Centre constitute a major portion of the State's debt. The Centre's share in the total debts of the States was 71.1 per cent in 1986-87 as against 72.4 per cent in 1985-86. At end-March 1988, the share is expected to decline further to 70.8 per cent.

Market Loans and Bonds

The outstanding market loans and bonds of the State governments comprising loans floated in the market and bonds issued by the States such as Zamindari/ Jagirdari abolition bonds amounted to Rs. 7,177 crores at end-March 1987 recording a rise of Rs. 1,144 crores (+ 19.0 per cent) over the year as against that of Rs. 1,007 crores (+ 20.1 per cent) in the previous year. They are expected to reach a level of Rs. 8,506 crores at end-March 1988 registering an increase of Rs. 1,329 crores (+ 18.5 per cent) over the previous year.

Loans from Banks and Other Institutions

Loans from banks and other insitutions include *inter alia* loans and cash credit from State Bank of India and other commercial banks and loans from the National Rural Credit (Long-Term Operations) Fund of the National Bank for Agriculture and Rural Development, National Co-operative Development Corporation and Life Insurance Corporation of India. The outstanding amount under this head stood at Rs. 1,787 crores at end-March 1987, showing an increase of Rs. 66 crores (+ 3.7 per cent) as compared with that of Rs. 135 crores (+ 8.6 per cent) in the previous year These are budgeted at a higher level of Rs.2,156 crores at end-March 1988 showing a rise of Rs. 369 crores (+ 20.6 per cent) over 1986-87.

Provident Funds and Other Funds

Provident Funds and Other Funds of the State Governments comprise mainly State Provident Funds, Insurance and Pension Funds, Trusts and Endowments. The outstanding amount under this head at Rs. 7,489 crores at end-March 1987 recorded a rise of Rs. 1,131 crores (+ 17.8 per cent) as against that of Rs. 971 crores (+ 18.0 per cent) in the previous year. These are anticipated to reach the level of Rs. 8,703 crores at end-March 1988 showing a rise of Rs. 1,214 crores (+ 16.2 per cent) over the previous year. State Provident Funds at Rs. 6,254 crores at end-March 1987 formed 83.5 per cent of the total Provident Funds and other funds, compared with 84.2 per cent in 1985-86. These would constitute 82.9 per cent of the total at end March 1988.

Market Borrowings : 1986-87[24]

Twenty-one State Governments (excluding Sikkim) approached the market on September 1, 1986 with a notified amount of Rs. 1,312.5 crores. All these loans were issued at par with a maturity period of 15 years carrying a coupon

23. Figures an on end-March 1986, 1987 and 1988 relate to 23 States excluding Arunachal Pradesh and Goa, wheras for the earlier years data relate to 22 States.

24. Figures are actuals and compiled from RBI records.

rate of 11.0 per cent. It was for the first time the State Governments issued loans with a coupon rate of 11.0 per cent. The total subscription of the State loans amounted to Rs. 1,446.4 crores of which Rs. 1,404.8 crores was on cash basis and the balance Rs. 41.6 crores was on conversion basis. After taking into account the repayment of maturing loans amounting to Rs. 283.3 crores the net amount raised by the States stood at Rs. 1,163.1 crores which was higher by Rs. 190.0 crores (+ 19.5 per cent) over that in 1985-86. During 1986-87 the monthly gross redemption yield was 7.14 per cent as compared with 6.66 per cent in 1985-86 (Reference:Statement 71 in Volume II of the Report).

1987-88

Twenty State Governments entered the market on August 17 and 18, 1987 with a notified amount of Rs. 1,534.8 crores on a cash-cum-conversion basis. All these loans were issued at par with a maturity period of 15 years and carry an interest rate of 11.0 per cent. The total subscriptions from these loans amounted to Rs. 1,688.2 crores. After providing for repayment of an amount of Rs. 283.7 crores for the maturing loans the net receipts amounted to Rs. 1,404.5 crores.

Chapter IX

Capital Market

This chapter reviews the trends and developments in the capital market and operations of term-lending institutions.

The capital market witnessed erratic movements in equity prices during greater part of 1986-87 (July-June). This was partly a corrective to the disproportionately high buoyancy experienced in 1985-86.

Aggregate value of approvals (consents/acknowledgements) granted by the Controller of Capital Issues (CCI) to non-Government public and private limited companies for fresh issue of capital (i.e. new issues excluding bonus shares and miscellaneous issues such as loans etc.) during 1986-87 (April-March) at Rs. 4,121.7 crores was 40.6 per cent higher than the value of the approvals in 1985-86. Fresh capital issues by non-Government public limited companies at Rs. 2,434.2 crores in 1986-87 recorded a rise of 42.9 per cent as compared with those in the previous year.

During 1986-87, a number of public sector undertakings issued 14 per cent and 10 per cent (tax-free) bonds of aggregate value of Rs. 1,516.1 crores.

Capital raised (paid up), according to provisional data at Rs. 1,872.8 crores during 1986-87 by non-Government companies against approvals (consents/acknowledgements) granted by CCI was higher by 69.6 per cent when compared with that in 1985-86.

A downward movement was witnessed in equity prices following the presentation of the Union Budget for 1986-87 which continued upto the first week of December 1986 barring temporary phases of mild recovery. However, equities staged partial recovery and ruled firm on the eve of the Union Budget for 1987-88. The immediate post-budget period was again characterised by a continuous decline in equity prices.

Assistance sanctioned by all-India and state level term-lending institutions during 1986-87 (April-March) at Rs. 8,107.1 crores recorded a growth rate of 22.9 per cent when compared with that sanctioned in 1985-86. Disbursement of assistance by these institutions at Rs. 5,665.5 crores during the year was 14.8 per cent higher than that in the previous year. The growth rates of sanctions and disbursements in the preceding year were 16.8 per cent and 40.8 per cent respectively.

Consents for Capital Issues

Approvals (consents/acknowledgements) granted by CCI to non-Government public and private limited companies for fresh issues of capital (i.e new issues excluding bonus shares and miscellaneous issues such as loans, etc.) increased from Rs. 2,931.3 crores in 1985-86

Table IX–1 : Consents/Acknowledgements of Proposals granted by the Controller of Capital Issues to non-Government Public and Private Limited Companies

(Rupees crores)

Year (April-March)	Shares and Debentures				Bonus Shares	Miscellaneous issues (Loans* etc.)	Grand Total	Approvals for Shares (Equity and Preference)	
	Equity Shares@	Preference Shares	Debentures	Total (2+3+4)			(5+6+7)	Initial Issues	Further Issues
1	2	3	4	5	6	7	8	9	10
1981-82	202.1	3.3	416.9	622.3	156.0	155.2	933.5	124.2	81.2
	(32.5)	(0.5)	(67.0)	(100.0)					
1982-83	243.7	11.1	531.3	786.1	107.3	148.9	1042.3	160.4	94.4
	(31.0)	(1.4)	(67.6)	(100.0)					
1983-84	313.4	6.1	609.3	928.8	94.7	62.2	1085.7	192.1	127.4
	(33.7)	(0.7)	(65.6)	(100.0)					
1984-85	773.0	6.5	919.6	1699.1	88.3	222.4	2009.8	557.3	222.2
	(45.5)	(0.4)	(54.1)	(100.0)					
1985-86	1067.3	15.2	1848.8	2931.3	235.5	221.0	3387.8	645.5	437.0
	(36.4)	(0.5)	(63.1)	(100.0)					
1986-87	1503.6	4.2	2613.9	4121.7	302.6	228.0	4652.3	824.9	682.9
(Provisional)	(36.5)	(0.1)	(63.4)	(100.0)					

@ Excluding bonus shares.

* Other than loans granted by public financial institutions, banks, etc., which are exempted from capital issues control.

Note: Figures in brackets in column 2,3,4 indicate percentage to totals in column 5.

Source: The Controller of Capital Issues, Government of India.

to Rs. 4,121.7 crores in 1986-87 showing a rise of 40.6 per cent as compared with a rise of 72.5 per cent in the previous year (Table IX-1).

Approvals for equity issues amounted to Rs. 1,503.6 crores and for debentures to Rs.2,613.9 crores. The proportions of approvals for equity issues and debenture issues to total approvals at 36.5 per cent and 63.4 per cent, respectively, were about the same as in the previous year. Approvals for preference shares continued to form a negligible proportion of total approvals. A notable feature during the year was that approvals for convertible debentures rose manifold from Rs. 372 crores in 1985-86 to Rs. 1,962 crores in 1986-87 while those for non-convertible debentures decreased from Rs. 1,477 crores to Rs. 652 crores during the same period. Approvals for initial issues of shares (equity and preference) increased from Rs. 645.5 crores in 1985-86 to Rs. 824.9 crores and for further issues from Rs. 437.0 crores to Rs. 682.9 crores during the same period. During 1986-87, consents were granted for issue of 14 per cent and 10 per cent (tax-free) public sector bonds of aggregate value of Rs. 1,107 crores compared with that of Rs. 354 crores in the previous year.

Capital Issues

According to the data compiled by the Reserve Bank, new capital issues (excluding bonus shares, miscellaneous issues, and issues privately placed with financial institutions) by non-Government public limited companies during 1986-87 at Rs. 2,434.2 crores (through 529 issues) were higher by 42.9 per cent compared with Rs. 1,702.9 crores (through 850 issues) in 1985-86 (Table IX-2). During 1986-87, equity issues rose marginally to Rs. 876.8 crores while debenture issues rose substantially to Rs. 1,556.6 crores. The year witnessed a sharp shift from non-convertible debenture (NCD) issues to convertible debenture (CD) issues which is attributable to factors such as the ban on conversion of NCDs into

equities and competition faced by NCDs from public sector bonds. Issues of CDs increased to Rs. 1,079.1 crores from Rs. 85.2 crores in 1985-86 while those of NCDs declined to Rs. 477.5 crores from Rs. 758.3 crores in 1985-86. Capital issues through prospectus rose to Rs. 1,271.3 crores from Rs. 878.0 crores and those on rights basis rose to Rs. 1,162.9 crores from Rs. 824.9 crores in 1985-86 (Table IX-3). Debentures accounted for the bulk of right issues (Rs. 1,077.6 crores out of Rs. 1,162.9 crores).

Table IX–2 : New Capital Issues by non-Government Public Limited Companies*

(Amount in Rupees crores)

Year	Equity Shares		Preference Shares		Debentures		Total	
(April-March)	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount
	1	2	3	4	5	6	7	8
1983-84	734	381.6	7	1.7	53	454.2	794	837.5
1984-85	402	363.0	5	0.1	64	693.3	471	1,056.4
		(– 4.9)				(52.6)		(26.1)
1985-86**	758	858.2	9	1.2	83	843.5	850	1,702.9
		(136.4)				(21.7)		(61.2)
1986-87**	426	876.8	4	0.8	99	1,556.6	529	2,434.2
		(2.2)				(84.5)		(42.9)
April-June								
1986**	115	176.8	2	0.5	28	198.0	145	375.3
1987**	38	80.1	–	–	18	136.1	56	216.2
		(– 54.7)				(– 31.3)		(– 42.4)

* Other than term-lending institutions.

** Provisional

Note : Figures in brackets indicate percentage variation over the previous year/period.

Sources : Prospectuses/circulars/advertisements issued by companies: replies given by companies to the Reserve Bank's questionnaires; and information received/collected from Stock Exchange Division of Ministry of Finance, Stock Exchanges, press reports/handouts, etc.

The number of capital issues by newly established public limited companies i.e. companies which had not commenced commercial production/business at the time of making the public issue, declined sharply from 547 in 1985-86 to 279 in 1986-87. The total amount of Capital issues by new companies, however, rose from Rs. 626.2 crores in 1985-86 to Rs. 678.1 crores in 1986-87 on account of an exceptionally large equity issue of Rs. 177.7 crores by one company. Capital issues by leasing companies amounted to Rs. 76.9 crores during 1986-87 compared with Rs. 110.3 crores in 1985-86.

As regards public response to new issues of non-Government public limited companies, available data for 1986-87 in respect of 168 issues revealed that 138 issues were over-subscribed, 9 issues were fully-subscribed, and 21 issues were under-subscribed.

During the quarter April-June 1987, the primary market exhibited sluggish conditions as evident from the decline in both the number of issues as well as the amount issued by the companies that entered the capital market. There were 56 issues by non-Government public limited companies for Rs. 216.2 crores compared with 145 issues for Rs. 375.3 crores in the corresponding period of 1986.

Table IX – 3 : New Capital Issues through Prospectus and Rights by non-Government Public Limited Companies*

(Amount in Rupees crores)

Year	Issues through Prospectus					Issues through Rights					Grand Total		Distribution between			
	Number of issues	Equity Shares	Preference shares	Debentures	Total (3+4+5)	Number of Issues	Equity shares	Preference shares	Debentures	Total (8+9+10)	Number of Issues (2 + 7)	Amount (6 + 11)	Issues of New Cos.	Amount	Issues of Existing Cos.	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1983-84	705	337.5	1.2	21.5	360.2	89	44.1	0.5	432.7	477.3	794	837.5	651	295.4	143	542.1
1984-85	405	353.8	0.1	42.5	396.4	66	9.2	–	650.8	660.0	471	1,056.4	338	309.2	133	747.2
1985-86**	722	785.1	0.9	92.0	878.0	128	73.1	0.3	751.5	824.9	850	1,702.9	547	626.2	303	1,076.7
1986-87**	414	792.1	0.2	479.0	1,271.3	115	84.7	0.6	1,077.6	1,162.9	529	2,434.2	279	678.1	250	1,756.1
April-June																
1986**	120	168.5	–	29.3	197.8	25	8.3	0.5	168.7	177.5	145	375.3	70	133.7	75	241.6
1987**	31	57.8	–	49.3	107.1	25	22.3	–	86.8	109.1	56	216.2	22	40.7	34	175.5

* Other than term-lending institutions.

** Provisional.

Source: Prospectuses/ circulars/advertisements issued by companies; replies given by companies to the Reserve Bank's questionnaires, and information received/collected from Stock Exchange Division of Ministry of Finance, Stock Exchanges, press reports/handouts, etc.

Capital Raised

Capital raised (paid-up) (excluding bonus shares and miscellaneous issues such as loans, etc.) according to provisional data, during 1986-87 by non-Government companies against approvals (consents/acknowledgements) granted by CCI aggregated Rs. 1,872.8 crores as against Rs. 1,103.9 crores in 1985-86 (Table IX-4). Security-wise, capital raised through equity and preference shares at Rs. 503.7 crores was substantially higher than that in the previous year (Rs. 364.7 crores). Capital raised through debentures at Rs. 1,369 crores was also substantially higher than that in the previous year. Debentures continued to account for over two-third of total capital raised.

Table IX—4 : Capital Raised (Paid-up) by non-Government Public and Private Limited Companies against Approvals (Consents/Acknowledgements) granted by the Controller of Capital Issues

(Rupees crores)

Year (April-March)	1985-86 (Revised)	1986-87 (Provisional)
1	2	3
(i) Equity and Preference Shares	364.7	503.7
(a) Initial	301.0	287.5
(b) Further	63.7	216.1
(ii) Debentures	737.2	1,369.1
Total (i + ii)	**1,103.9**	**1,872.8**

Source: The Controller of Capital Issues, Government of India.

Developments in Policy

The Union Budget for 1987-88 contained proposals designed to strengthen the capital market. Proposals to set up a separate board for the regulation and orderly functioning of stock exchanges and security industry and a new mutual fund by State Bank of India on lines similar to the one already set up by Unit Trust of India were announced. The provision allowing deductions from income chargeable to tax in respect of investment in equity shares of certain categories of new companies under Section 80CC of the Income-tax Act, which was due to expire on March 31, 1987 was extended for three more years. Besides, the holding period of shares stipulated for availing this concession was reduced from five years to three years. The holding period of shares for purposes of qualifying for concessional tax treatment of long-term capital gains was reduced from 36 months to 12 months. The existing exemption limit for deduction of tax at source on dividend and interest payments was raised from Rs. 1,000 to Rs. 2,500.

In accordance with the announcement made while presenting the Union Budget for 1986-87, a new series of public sector bonds with a tax-free interest was introduced during the year. In terms of the guidelines issued in this regard in September 1986, all public sector enterprises (PSEs) of the Central Government were allowed to issue two distinct series of bonds, viz., i) 1985 series with interest of 14 per cent per annum and ii) 1986 series with tax-free interest of 10 per cent per annum. PSEs were also allowed to issue a combination of these two series of bonds.

In December 1986, the bonus issue guidelines were amended to reduce the minimum time

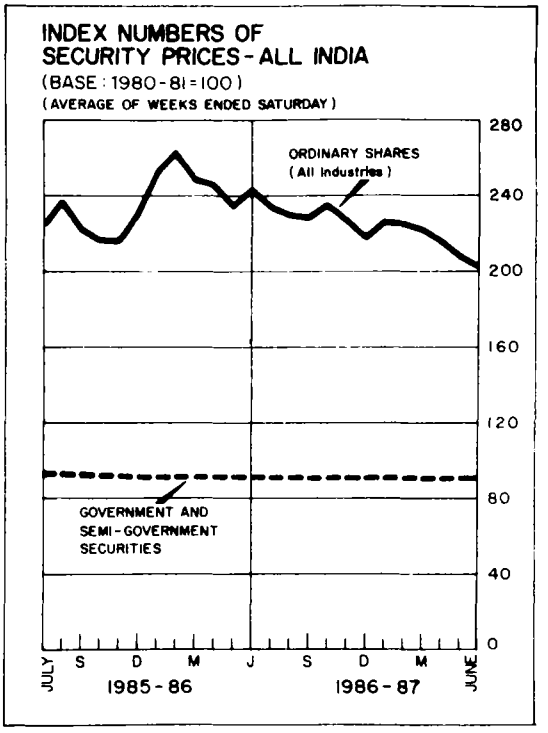
gap between two successive bonus issues from 36 months to 24 months.

In order to encourage enlisting of shares and to reduce the cost of issue of shares to the public, it was notified in January 1987 that companies need not go in for a public issue but instead such shares may be offered to financial institutions or issued on rights basis to existing share holders of the company provided that the share holding pattern in the company indicated that there were at least 10 shareholders for every Rs. one lakh worth of capital.

With a view to strengthening the capital market and improving the investment environment, the Government issued in January 1987 guidelines making it obligatory on all companies raising resources through debentures to create a debenture redemption reserve fund.

In April 1987, the ceiling rate of interest on debentures and company deposits and public sector bonds and dividend on preference shares were reduced by one percentage point each from the then prevailing levels. Thus, the ceiling rate of interest is now 14 per cent for convertible debentures of non-FERA and non-MRTP companies, 12.5 per cent for convertible debentures of FERA and MRTP companies, and 14 per cent for non-convertible debentures and company deposits. The ceiling rate for dividend on preference shares is also 14 per cent now.

IDBI launched a 3 year IDBI Capital Bond Scheme carrying interest at the rate of 9 per cent per annum. Investment of part or whole of the net consideration received on transfer of long term capital assets such as property, shares, etc., in the 3 year IDBI Capital Bonds, will qualify for exemption from capital gains tax. Amounts invested by individuals and Hindu Undivided Families in the bonds are completely exempt from Wealth Tax without any limit. An unique feature of the IDBI Capital Bonds is that the investor can, if he so chooses, receive the entire interest on his investment in advance at the time of subscription itself. Under this option, the interest is paid on discounted value basis applying discount of 9 per cent per annum. Another distinctive feature of the bonds is that no tax will be deducted at source on the interest paid on the bonds. In case the investor opts to receive half-yearly interest, the bonds will be sold with post-dated interest coupons covering the entire period of investment.



Industrial Security Market

Equity prices on major stock exchanges moved erratically during greater part of 1986-87 (July-June). This was, in part, a corrective to the disproportionately high buoyancy experienced earlier in 1985-86. The Reserve Bank's all-India index number of ordinary share prices (Base 1980-81 = 100) declined from 239.2 in the week ended June 28, 1986 to 227.1 in the week ended September 20, 1986. After recovering to 237.2 in the week ended November 1, 1986, the index again declined to

209.5 in the week ended December 6. The index recovered partially to 229.4 by January 10, 1987, then fluctuated within a narrow range upto the week ended February 28, and declined thereafter reaching a low of 198.9 in the week ended June 27, 1987. The average index for 1986-87 (July-June) at 222.6 was lower by 5.8 per cent than the average for the previous year (Table IX-5). On a point-to-point basis, the index at 198.9 for the week ended June 27, 1987 was also lower by 16.8 per cent from its level a year ago.

Table IX–5 : Index Number of and Yield on Ordinary Share Prices

Year July-June	Index Number of Ordinary Share Prices (1980-81 = 100)				Average Gross Yield (per cent per annum)
	End of the year (Last week ended Saturday)	Highest	Lowest	Annual Average of Weekly Index	
1	2	3	4	5	6
1982-83	125.1	125.1	108.4	112.8* (−2.5)	5.7
1983-84	129.6	134.7	122.4	127.7* (+13.2)	5.1
1984-85	221.9	221.9	130.6	149.9 (+17.4)	4.3
1985-86	239.2	268.1	211.1	236.3 (+57.6)	3.2
1986-87	198.9	237.2	198.9	222.6 (−5.8)	3.8**

Notes : 1. Data on yield for 1982-83 and 1983-84 relate to sample of companies covered in the series with base year 1970-71 and from 1984-85 onward relate to those with base year 1980-81.

2. Figures in brackets are percentage variations over the previous year.

* Average of the Index of last week (ended Saturday) of the months as the remaining weekly indices are not compiled for the years 1981 to 1984.

** Average of 9 months (July 1986 to March 1987)

Equity prices which had recorded sharp declines since March 1986 remained subdued in July 1986 due to fresh offering and lack of investment and speculative support. The revival of monsoon in western parts of the country, good corporate news, and success of the India Fund launched by the Unit Trust of India aided market sentiment,and select scrips recorded moderate recovery. Activity, however, remained depressed as a cautious attitude prevailed in the market. In August, equities reacted on account of selling pressures, disinvestments, disturbances in certain parts of the country and disappointing corporate news. In view of the excessive selling pressure, the Bombay Stock Exchange (BSE) enhanced bear margins and imposed restrictions on fresh sales in volatile scrips. With reduction in short sales following purchase of select scrips by financial institutions, BSE lifted the curbs on fresh sales towards the end of August. Thereafter, equity prices fluctuated within a narrow range till the third week of September. In the last week of September equities rallied due to institutional support and good response evoked by the Mutual Fund floated by UTI. In October, market sentiment was affected due to disturbing political events, payment crisis on BSE arising from overtrading and building up of a long position in certain scrips by leading member brokers, discouraging results of a leading company in the market and searches carried out at places of several leading brokers of BSE by income tax authorities. Towards the end of October, however, sentiment was aided by the Finance Minister's statement that

the Government was considering reducing the time gap of 36 months between successive bonus issues, and the clearance given by the Controller of Capital Issues to a leading company for a large convertible debenture issue of Rs. 400 crores. In November and early December, equity prices again declined sharply owing to disappointing corporate news, disquieting developments on the Indo-Pak border and the Union Government's decision to withdraw concessional rates of customs duty on components, etc., of certain fuel efficient cars. A further decline in share prices was averted by prompt action by the stock exchange authorities such as a hike in daily margins in a number of scrips and curbs imposed on fresh trading on major stock exchanges. With a view to prevent the adverse impact on investors of the erratic movements in equity prices, BSE authorities fixed floor prices of specified scrips and reduced trading hours.

In the second week of December, equities looked up on buying support from financial institutions. The market derived further encouragement from reduction in the minimum gap between successive bonus issues from 36 months to 24 months and the Prime Minister's statement about plans to enact comprehensive legislation for orderly regulation of stock exchanges. The recovery however, proved short lived and in the second fortnight of January 1987 prices drifted downward due to profit taking and withdrawal of support by financial institutions. The market exhibited a cautious attitude because of tension on the Indo-Pak border. Following the Indo-Pak accord on withdrawal of troops in a phased manner, and revival of investment support on expectations of a savings and investment oriented Union Budget for 1987-88, equities again recovered in early February. The Prime Minister's statement about the Government's intention to make the capital market healthier and to rationalise the tax system, and the comfortable position of the economy revealed in the pre-budget Economic Survey had a favourable impact on market sentiment and equities ruled firm till presentation of the Union Budget for 1987-88 on February 28, 1987.

In the post-budget period, equities reacted sharply as the budget proposals fell far short of market expectations. The proposals which particularly depressed market sentiment were imposition of corporate tax on a minimum of 30 per cent of book profits of companies and deduction of tax at source in respect of certain type of payments by professionals and companies. The market witnessed heavy selling pressure and major stock exchanges banned short sales and jobbing to arrest further fall in share prices. Although the curbs on jobbing were lifted on March 18, equities remained depressed in the second fortnight of March due to disinvestment selling and lack of follow-up support. Marketmen were cautious despite institutional support and the Prime Minister's assurance to have a fresh look at some of the budget proposals. In early April, equities looked up on sustained institutional support and reduction in interest rate structure but later eased again as a cautious attitude prevailed in the market in view of political developments. Towards the end of April, although the announcement of withdrawal of the budget proposal regarding deduction of tax at source on certain type of payments by professionals and companies and modification of the budget proposal relating to imposition of corporate tax on book profits of companies were welcomed by the market, the disappointing working results of a leading company in the market adversely affected market sentiment, resulting into a further fall in share prices. In the second and third week of May, equities turned steady on buying support extended by financial institutions and canalisation of imports of polyester staple fibre. The ban on short sales was lifted on May 12. From the last week of May to end-June equities moved down under selling pressure. With a view to halting further fall in equity prices, stock exchange authorities reimposed the ban on short sales and also took other measures such as reduction in trading time, compulsory delivery of specified shares within fixed number of days and fixing a ceiling of Rs. 5 lakhs per jobber.

New Stock Exchange

The number of recognised stock exchanges in the country rose to 15 with the recognition of Magadh Stock Exchange at Patna in December 1986.

Yield on Industrial Securities

The average gross yield on ordinary shares had declined from 4.3 per cent in 1984-85 (July-June) to 3.2 per cent in 1985-86 (July-June). During 1986-87 (July-March) the average gross yield rose to 3.8 per cent as compared with 3.1 per cent in the corresponding period of 1985-86.

Open Market Operations

During the financial year 1986-87, both purchase and sale transactions in Central Government securities under the Reserve Bank's open market operations were larger than in the previous year; the net sales of securities were also substantially higher than in 1985-86. The sales of securities during the financial year 1986-87 increased by 69.4 per cent to Rs. 4,425.7 crores from Rs. 2,613.3 crores in 1985-86. The purchases of securities also rose by 91.2 per cent to Rs. 1,686.8 crores from Rs. 882.4 crores in the previous year. As a result, the net sales of securities increased substantially by 58.2 per cent to Rs. 2,738.9 crores from Rs. 1,730.9 crores in 1985-86. This may be attributed to stricter monitoring of SLR maintenance by commercial banks on a daily basis and an increase in the coupon rates of Government securities.

During the first quarter of financial year 1987-88, both purchases and sales of securities were substantially higher than those in the corresponding quarter of the previous year. The sales of securities at Rs. 1,154.6 crores during April-June 1987 were higher than those of Rs. 324.0 crores in the corresponding quarter of the previous year. The purchases of securities at Rs. 233.7 crores were also higher than those of Rs. 54.0 crores in April-June 1986. The net sales of securities stood at Rs. 920.9 crores during the first quarter of 1987-88 as compared with Rs. 270.0 crores in the first quarter of 1986-87.

The data on the purchases and sales of Government securities for the last five years are presented in Table IX-6. Data presented in the brackets in the Table are inclusive of those effected periodically out of the surplus funds of IDBI, the EXIM Bank, NABARD and other institutions under a special arrangement with them. There was a substantial increase in the net sales of Government securities under the special arrangement also.

Gilt-edged Market

The gilt-edged market remained subdued with an easy undertone during the financial year 1986-87, as in the previous year, following increases in coupon rates on Government securities. There was a decline in the prices of Central, State and semi-Government securities, with the decline being higher at 1.3 percentage points in Central Government securities as compared with 0.1 and 0.4 percentage point in State Government and semi-Government securities, respectively. Within the Central Government securities, a few medium-dated and long-dated securities recorded sizeable declines while short-dated securities registered a mixed trend. There was an increase in the coupon rates of Central Government securities by one percentage point and an improvement in the yield ranging between 0.01 and 3.75 per cent during 1986-87 as compared with 0.01 to 0.22 per cent in the previous year.

The all-India index number of security prices (base : 1980-81 = 100) in respect of Government and semi-Government securities, which stood at 91.4 at end-March 1986, moved in both directions in the range of 91.3 – 91.5 during April-June 1986. Subsequently the index declined to 90.9 during the second week of July but recovered to 91.2 in the following week and remained steady at that level upto the end of September. Thereafter, it moved in

Table IX—6 :
Reserve Bank's Open Market Operations

(Rupees crores)

Year	Purchases	Sales	Net Sales
1	2	3	4
1982-83	1223.1	2185.1	962.0
	(3521.5)	(4792.2)	(1270.7)
1983-84	827.5	891.3	63.8
	(3026.1)	(3717.9)	(691.8)
1984-85	898.9	1199.1	300.2
	(4444.7)	(4419.3)	(−25.4)
1985-86	882.4	2613.3	1730.9
	(5345.7)	(7276.7)	(1931.0)
1986-87	1686.8	4425.7	2738.9
	(6225.8)	(9925.4)	(3699.6)
April-June			
1986-87	54.0	324.0	270.0
	(1395.2)	(1426.6)	(31.4)
1987-88	233.7	1154.6	920.9
	(2502.5)	(2655.4)	(152.9)

Notes: 1. Figures shown in brackets are inclusive of purchases and sales effected from time to time out of the surplus funds of IDBI, EXIM Bank, NABARD and other institutions under a special arrangement.
2. Figures are inclusive of purchases from and sales to State Governments.

the range of 91.0—91.2 during October and November and eased during the rest of the period under review, moving in the range of 90.4—90.9. The index stood at 90.4 at the end of March 1987 registering a fall of 1.0 percentage point in 1986-87 as compared with a decline of 1.2 percentage points in 1985-86.

The price index of Central Government securities, which stood at 89.7 at the end of March 1986, moved in the range between 89.6 and 89.8 during April-June. The index declined to 89.0 in the second week of July but recovered to 89.4 in the following week and remained steady at that level upto end-September 1986. Thereafter it moved in the range between 89.3 and 89.5 during October and November 1986 and eased to 88.6 during the first week of December. It fluctuated in the range of 88.4 — 89.0 during the rest of the period under review and closed at 88.4 by end-March 1987 registering an overall decline of 1.3 percentage points overthe year as compared with a decline of 1.4 percentage points during 1985-86.

The index number of State Government securities, which stood at 98.2 at end-March 1986, moved in both directions in the range between 98.0 and 98.2 upto end-October and eased to 97.9 in the first week of November and declined further to 97.7 by third week of November. Subsequently, the index recovered and ranged between 97.9 and 98.2 during the rest of the period under review and closed at 98.1 recording a fall of 0.1 percentage point over the year as compared to a decline of 0.8 percentage point last year.

The index of semi-Government securities at 99.1 on March 29, 1986 remained steady upto end-September 1986 but moved up marginally to 99.2 during the first week of October and remained at that level upto third week of January 1987. Thereafter, it moved in the range of 98.7 — 99.4 during the rest of the period under review and closed at 98.7 by end-March 1987 registering a decline of 0.4 percentage point over the year, as compared to a decline of 0.2 percentage point in 1985-86.

In Bombay, prices of most of the short-dated securities barring six, remained unchanged over the year. Four of them were quoted higher between Re. 0.15 and Rs. 4.30 and two scrips eased by Re. 0.15 and Rs. 3.00. There was an improvement in the yield of short-dated securities ranging between 0.10 and 2.73 per cent. The prices of a few medium-dated and long-dated securities declined over the year with consequent improvement in the yield. The decline in prices ranged between Rs. 2.50 and Rs. 16.15 in the case of loans with maturity of 5 to 10 years; between Rs. 5.05 and Rs. 8.45 in respect of loans maturing in 10 to 15 years and between Rs. 5.25 and Rs. 20.50 in the case of loans maturing after 15 years. However, a notable exception in the case of loans maturing after 15 years was 10¼ per cent 2012 loan which appreciated by Rs. 3.95 over the year. The improvement in yield in respect of medium-dated securities ranged between 0.08 and 3.75 per cent, while that of long-dated securities ranged between 0.01 and 2.62 per cent (Table IX—7).

While prices of most of the State Government securities remained steady, a few securities particularly of Maharashtra, Andhra Pradesh, Tamil Nadu and Madhya Pradesh showed mixed trend. While a few securities of Maharashtra increased by Re. 0.10 to Rs. 8.50 and those of Uttar Pradesh rose by Re. 0.50 to Rs. 2.50, securities of Andhra Pradesh and Tamil Nadu State Governments declined by Re. 1.00 to Rs. 6.00. The prices of securities of other States did not show much variation during 1986-87.

During the first quarter of the financial year 1987-88, the all-India weekly price index (base: 1980=100) for Government and semi-Government securities ranged narrowly between 90.4 and 90.8, recording a marginal increase of 0.2 percentage point over the quarter. While the index of Central Government securities moved in the narrow range of 88.4—88.9 recording a marginal rise of 0.3 percentage point, that of State Government securities fluctuated between 98.0 and 98.3 and recorded a fall of 0.1 percentage point over the period; the index of semi-Government securities remained steady at 99.4 throughout the quarter.

In Bombay, prices of most short-dated Central Government securities remained steady except for four scrips whose prices increased between Re. 0.85 and Rs. 4.65 over the quarter. Prices of medium-dated securities recorded a steady trend except for two scrips which increased by Re. 0.10 and Rs. 2.10 respectively and one scrip which declined by Rs. 2.00. In the case of long-dated securities, two scrips recorded changes, viz, 10½ per cent loan, 2005 declined by Rs. 5.00 and 11½ per cent loan, 2015 showed a marginal rise of Re. 0.05 over the quarter. The prices of State Government securities remained more or less steady during the quarter.

Term-lending Institutions

Financial assistance sanctioned by term-lending institutions (i.e. IDBI, IFCI, ICICI, IRBI, UTI, LIC, GIC and its subsidiaries, SFCs and SIDCs/SIICs) during 1986-87 (April-March) increased by 22.9 per cent to Rs. 8,107.1 crores (Table IX-8) as compared with a rise of 16.8 per cent in the preceding year. Assistance disbursed by these institutions rose by 14.8 per cent during the year to Rs. 5,665.5 crores as against 40.8 per cent growth in 1985-86.

Institution-wise, IDBI provided the largest assistance, accounting for 40.6 per cent of total sanctions and 40.0 per cent of total disbursements, by all term-lending institutions.

Industrial Development Bank of India

Aggregate financial assistance sanctioned (excluding guarantees but including subscription to shares and bonds of financial institutions) by IDBI rose by 22.0 per cent to Rs. 4,481.0 crores in 1986-87 (April-March) from Rs. 3,673.0 crores in 1985-86 (Table IX-9). Disbursements during the year at Rs. 3,107.6 crores were also higher by 18.9

Table IX—7 :
Price and Yield Variations of Central Government Securities *(Contd.)*

Loans		Price as on			Variation		Yield as on			Variation	
		31.3.1986 Rs.	31.3.1987 Rs.	29.6.1987 Rs.	Col. 3 over Col. 2	Col. 4 over Col. 3	31.3.1986 (Per cent)	31.3.1987 (Per cent)	29.6.1987 (Per cent)	Col. 8 over Col. 7	Col. 9 over Col. 8
1		2	3	4	5	6	7	8	9	10	11
TERMINABLE											
Less than 5 years											
5¼%	1987	96.05	—	—	—	—	8.51	—	—	—	—
6%	1987	99.25	—	—	—	—	6.62	—	—	—	—
6¼%	1987	99.00	—	—	—	—	7.23	—	—	—	—
5¼%	1988	98.10	97.95	97.95	− 0.15	—	6.20	7.10	7.59	+ 0.90	+ 0.49
6%	1988	95.20	96.20	97.50	+ 1.00	+ 1.30	8.05	8.53	7.92	+ 0.48	− 0.61
4¾%	1989	85.00	85.00	85.00	—	—	10.63	13.36	14.50	− 2.73	+ 1.14
6%	1989	90.10	90.10	94.75	—	+ 4.65	9.24	10.36	8.46	+ 1.12	− 1.90
6¼%	1989	94.75	94.75	97.90	—	+ 3.15	8.17	8.98	7.45	+ 0.81	− 1.53
6¾%	1989	97.50	97.50	97.50	—	—	7.57	7.86	7.96	+ 0.29	+ 0.10
7¾%	1989	100.00$	100.00$	100.00$	—	—	7.75	7.75	7.75	—	—
5½%	1990	85.40	87.50	87.50	+ 2.10	—	9.74	10.07	10.41	+ 0.33	+ 0.34
6½%	1990	94.80	99.10	99.10	+ 4.30	—	7.95	6.80	6.83	− 1.15	+ 0.03
9%	1990	100.00$	100.15	101.00	+ 0.15	+ 0.85	9.00	8.95	8.65	− 0.05	− 0.30
5½%	1991	87.40	87.40	87.40	—	—	8.44	9.07	9.27	+ 0.63	+ 0.20
6¼%	1991	97.40	97.40	97.40	—	—	6.82	6.92	6.95	+ 0.10	+ 0.03
6¾%	1991	94.55	94.55	94.55	—	—	8.03	8.28	8.36	+ 0.25	+ 0.08
7¾%	1991	100.05	100.05	100.05	—	—	7.74	7.73	7.73	− 0.01	—
8%	1991	100.00$	97.00	97.00	− 3.00	—	8.00	8.93	8.97	+ 0.93	+ 0.04
10%	1991	—	100.00$	100.00	—	—	—	10.00	10.00	—	—
5 to 10 years											
5½%	1992	81.00	78.50	78.50	− 2.50	—	9.50	10.84	11.07	+ 1.34	+ 0.23
7¼%	1992	94.75	94.75	94.75	—	—	8.35	8.52	8.58	+ 0.17	+ 0.06
9¼%	1992	100.00$	100.00$	98.00	—	− 2.00	9.25	9.25	9.75	—	+ 0.50
9¼%	1992 II	100.00$	—	—	—	—	9.25	—	—	—	—
6%	1993	86.60	74.00	76.10	− 12.60	+ 2.10	8.45	11.76	11.40	+ 3.31	− 0.36
6¼%	1993	88.40	88.40	88.50	—	+ 0.10	8.42	8.69	8.78	+ 0.27	+ 0.09
10.20%	1993 IV	—	100.00$	100.00	—	—	—	10.20	10.20	—	—
10.20%	1993	—	100.00$	100.00$	—	—	—	10.20	10.20	—	—
10.20%	1993 II	—	100.00$	100.00$	—	—	—	10.20	10.20	—	—
10.20%	1993 III	—	100.00$	100.00$	—	—	—	10.20	10.20	—	—
6%	1994	91.50	91.50	91.50	—	—	7.40	7.54	7.59	+ 0.14	+ 0.05
6¾%	1994	90.80	90.80	90.80	—	—	8.36	8.54	8.60	+ 0.18	+ 0.06
7%	1994	89.00	89.00	89.00	—	—	8.87	9.04	9.09	+ 0.17	+ 0.05
8½%	1994	100.65	92.55	92.55	− 8.10	—	8.40	9.93	9.97	+ 1.53	+ 0.04
8½%	1994 IV	100.00$	—	—	—	—	8.50	—	—	—	—
8½%	1994 V	100.00$	—	—	—	—	8.50	—	—	—	—

Table IX—7 :
Price and Yield Variations of Central Government Securities *(Contd.)*

Loans		Price as on			Variation		Yield as on			Variation	
		31.3.1986 Rs.	31.3.1987 Rs.	29.6.1987 Rs.	Col. 3 over Col. 2	Col. 4 over Col. 3	31.3.1986 (Per cent)	31.3.1987 (Per cent)	29.6.1987 (Per cent)	Col. 8 over Col. 7	Col. 9 over Col. 8
1		2	3	4	5	6	7	8	9	10	11
5½%	1995	79.40	63.25	63.25	− 16.15	—	8.71	12.46	12.64	+ 3.75	+ 0.18
6¼%	1995	93.50	93.50	93.50	—	—	7.24	7.32	7.35	+ 0.08	+ 0.03
6½%	1995	87.10	87.10	87.10	—	—	8.56	8.74	8.80	+ 0.18	+ 0.06
8¼%	1995	88.00	88.00	88.00	—	—	10.16	10.31	10.36	+ 0.15	+ 0.05
8¼%	1995 II	100.00$	—	—	—	—	8.25	—	—	—	—
8¼%	1995 III	100.00$	—	—	—	—	8.25	—	—	—	—
9½%	1995	100.00$	100.00$	100.00$	—	—	9.50	9.50	9.50	—	
9½%	1995 II	100.00$	—	—	—	—	9.50	—	—	—	—
6¼%	1996	83.10	83.10	83.10	—	—	8.71	8.89	8.93	+ 0.18	+ 0.04
10½%	1996	—	100.00$	100.00$	—	—	—	10.50	10.50	—	—
10½%	1996 II	—	100.00$	100.00$	—	—	—	10.50	10.50	—	—
10 to 15 years											
6¼%	1997	81.75	81.75	81.75	—	—	8.78	8.94	8.98	+ 0.16	+ 0.04
6½%	1997	84.30	84.30	84.30	—	—	8.72	8.86	8.90	+ 0.14	+ 0.04
7¼%	1997	98.15	98.15	98.15	—	—	7.50	7.51	7.52	+ 0.01	+ 0.01
10½%	1997	—	—	100.00	—	—	—	—	10.50	—	—
6%	1998	72.90	72.90	72.90	—	—	9.55	9.78	9.87	+ 0.23	+ 0.09
6¼%	1998	97.95	97.95	97.95	—	—	6.49	6.51	6.51	+ 0.02	—
7%	1998	85.05	85.05	85.05	—	—	9.06	9.17	9.21	+ 0.11	+ 0.04
5½%	1999	67.55	62.50	62.50	− 5.05	—	9.60	10.69	10.77	+ 1.09	+ 0.08
5½%	1999 *	69.00	69.00	69.00	—	—	9.33	9.55	9.63	+ 0.22	+ 0.08
5½%	2000	69.00	60.55	60.55	− 8.45	—	9.18	10.72	10.79	+ 1.54	+ 0.07
6½%	2000	71.00	71.00	71.00	—	—	10.04	10.22	10.28	+ 0.18	+ 0.06
5¾%	2001	72.75	72.75	72.75	—	—	8.78	8.92	8.96	+ 0.14	+ 0.04
5¾%	2001 @NDL	71.75	71.75	71.75	—	—	8.85	8.98	9.03	+ 0.13	+ 0.05
6½%	2001	79.35	79.35	79.35	—	—	9.02	9.12	9.14	+ 0.10	+ 0.02
7½%	2001	80.50	80.50	80.50	—	—	9.76	9.85	9.88	+ 0.09	+ 0.03
15 years and above											
5¾%	2002	71.35	71.35	71.35	—	—	8.82	8.94	8.98	+ 0.12	+ 0.04
6½%	2002	69.75	69.75	69.75	—	—	9.87	10.01	10.04	+ 0.14	+ 0.03
7¾%	2002	89.55	89.55	89.55	—	—	8.98	9.03	9.04	+ 0.05	+ 0.01
11%	2002	—	—	100.00$	—	—	—	—	11.00	—	—
5¾%	2003	76.00	55.50	55.50	− 20.50	—	8.42	11.04	11.11	+ 2.62	+ 0.07
6½%	2003	68.75	68.75	68.75	—	—	9.90	10.03	10.05	+ 0.13	+ 0.02
6½%	2004	66.00	66.00	66.00	—	—	10.14	10.27	10.30	+ 0.13	+ 0.03
9½%	2004	100.00$	100.00$	100.00$	—	—	9.50	9.50	9.50	—	—

Table IX—7 :
Price and Yield Variations of Central Government Securities *(Concld.)*

Loans		Price as on			Variation		Yield as on			Variation	
		31.3.1986 Rs.	31.3.1987 Rs.	29.6.1987 Rs.	Col. 3 over Col. 2	Col. 4 over Col. 3	31.3.1986 (Per cent)	31.3.1987 (Per cent)	29.6.1987 (Per cent)	Col. 8 over Col. 7	Col. 9 over Col. 8
1		2	3	4	5	6	7	8	9	10	11
9½%	2004 II	—	—	—	—	—	—	—	—	—	—
9½%	2004 III	100.00$	—	—	—	—	9.50	—	—	—	—
9½%	2004 IV	100.00$	—	—	—	—	9.50	—	—	—	—
11.30%	2004	—	100.00$	100.00	—	—	—	11.30	11.30	—	—
6½%	2005	64.00	64.00	64.00	—	—	10.24	10.36	10.39	+ 0.12	+ 0.03
8¼%	2005	91.05	91.05	91.05	—	—	9.14	9.15	9.16	+ 0.01	+ 0.01
10½%	2005	100.00$	100.00$	95.00	—	− 5.00	10.50	10.50	11.06	—	+ 0.56
10½%	2005 II	100.00$	—	—	—	—	10.50	—	—	—	—
6¾%	2006	65.00	65.00	65.00	—	—	10.36	10.46	10.50	+ 0.10	+ 0.04
11½%	2006	—	100.40	100.40	—	—	—	11.45	11.45	—	—
11½%	2006 II	—	100.00$	100.00$	—	—	—	11.50	11.50	—	—
11½%	2006 III	—	100.00$	100.00$	—	—	—	11.50	11.50	—	—
11½%	2006 IV	—	100.00$	100.00$	—	—	—	11.50	11.50	—	—
11½%	2006 V	—	100.00$	100.00$	—	—	—	11.50	11.50	—	—
6¾%	2007	64.00	64.00	64.00	—	—	10.33	10.40	10.43	+ 0.07	+ 0.03
9½%	2008	97.50	97.50	97.50	—	—	9.74	9.74	9.75	—	+ 0.01
10⅗%	2008	100.00$	94.75	94.75	− 5.25	—	10.80	11.35	11.35	+ 0.55	—
10⅗%	2008 II	100.00$	—	—	—	—	10.80	—	—	—	—
10⅗%	2009 III	100.00$	100.00$	100.00	—	—	10.80	10.80	10.80	—	
7%	2009	68.00	68.00	68.00	—	—	10.02	10.09	10.10	+ 0.07	+ 0.01
7½%	2010	71.50	71.50	71.50	—	—	10.16	10.22	10.23	+ 0.06	+ 0.01
8¾%	2010	89.00	89.00	89.00	—	—	9.76	9.77	9.78	+ 0.01	+ 0.01
8%	2011	80.85	80.85	80.85	—	—	9.72	9.74	9.74	+ 0.02	—
10¼%	2012	92.05	96.00	96.00	+ 3.95	—	11.00	10.62	10.62	− 0.38	—
9%	2013	81.70	81.70	81.70	—	—	10.67	10.69	10.70	+ 0.02	+ 0.01
10%	2014	88.80	88.80	88.80	—	—	11.02	11.04	11.04	+ 0.02	—
10½%	2014	100.00	91.75	91.75	− 8.25	—	10.50	11.27	11.27	+ 0.77	—
10½%	2014 II	100.00	—	—	—	—	10.50	—	—	—	—
10½%	2014 III	100.00	—	—	—	—	10.50	—	—	—	—
11½%	2015	100.60	100.60	100.65	—	+ 0.05	11.44	11.44	11.44	—	—
11½%	2015 IV	100.00$	—		—	—	11.50	—		—	—
11½%	2015 V	100.00$	—		—	—	11.50	—		—	—
NON-TERMINABLE											
3% 1986 or later		97.60	—	—	—	—	3.07F	—	—	—	—
3% (Government Rupee Paper)		95.00	—	—	—	—	3.16F	—	—	—	—

NDL @ = National Defence Loans
• = Banks (Acquisition & Transfer) Compensation Bonds.
F = Flat Yield.
$ = Issue Price

Table IX—8 : Institution-wise Financial Assistance

(Year : April-March) (Rupees crores)

Institutions	1985-86*		1986-87*		Percentage change in 1986-87 over 1985-86	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7
IDBI ‡	2,545.4	2,112.1	3,292.5	2,264.3	+ 29.4	+ 7.2
	(38.6)	(42.8)	(40.6)	(40.0)		
IFCI ‡	499.2	404.4	798.1	459.3	+ 59.9	+ 13.6
	(7.6)	(8.2)	(9.9)	(8.1)		
ICICI ‡	708.2	482.2	1,117.4	695.5	+ 57.8	+ 44.2
	(10.7)	(9.8)	(13.8)	(12.3)		
IRBI	75.2	67.8	148.9	94.6	+ 98.0	+ 39.5
	(1.1)	(1.4)	(1.8)	(1.6)		
UTI	696.6	528.9	465.0	417.6	− 33.2	− 21.0
	(10.6)	(10.7)	(5.7)	(7.4)		
LIC	383.6	261.9	363.8	389.8	− 5.2	+ 48.8
	(5.8)	(5.3)	(4.5)	(6.9)		
GIC and its subsidiaries	153.0	107.3	153.3	131.6	+ 0.2	+ 22.6
	(2.3)	(2.2)	(1.9)	(2.3)		
SFCs	1,009.1	608.5	1,206.3	791.5	+ 19.5	+ 30.1
	(15.3)	(12.3)	(14.9)	(14.0)		
SIDCs/SIICs ‡	527.1	360.6	561.8	421.3	+ 6.6	+ 16.8
	(8.0)	(7.3)	(6.9)	(7.4)		
Total	**6,597.4**	**4,933.7**	**8,107.1**	**5,665.5**	**+ 22.9**	**+ 14.8**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**		

‡ Including guarantees * Provisional

Notes: 1. The data exclude :i) IDBI refinance to SFCs and SIDCs, subscriptions to shares and bonds of financial institutions and seed capital assistance through SFCs and SIDCs to avoid double counting,
ii) resources support to other institutions and short-term loans by LIC.
2. The data include : a) Suppliers' credit and equipment leasing by ICICI, b) equipment leasing, hire-purchase, sanctions to Textile Processing Corporation of India Ltd. and lines of credit to state-level institutions by IRBI.
3. SIDCs' sanctions and disbursements do not include investments for the year 1986-87.
4. Figures in brackets indicate percentage shares of each institution in total.

Source: Respective financial institution.

per cent than those (Rs. 2,613.2 crores) in 1985-86. The growth rates of sanctions and disbursements in 1985-86, were 12.6 per cent and 26.1 per cent, respectively. The cumulative assistance sanctioned and disbursed by IDBI since its inception upto the end of March, 1987 aggregated Rs. 22,680.2 crores and Rs. 16,454.0 crores, respectively.

Direct industrial assistance sanctioned by way of project loans, including assistance under the modernisation scheme, technical development fund scheme, equipment finance scheme and underwriting of and direct subscriptions to shares and debentures of industrial concerns at Rs. 1,604.4 crores was 45.4 per cent higher than that of Rs. 1,103.2 crores in the preceding year. Disbursements of direct assistance at Rs. 929.0 crores were also higher by 16.9 per cent as compared with that of Rs. 794.4 crores in 1985-86.

Sanctions and disbursements of indirect assistance by way of refinance of industrial loans and rediscounting of bills aggregated Rs. 2,674.1 crores and Rs. 2,003.3 crores respectively, during the year showing a rise of 7.3 per cent and 14.8 per cent respectively

Table IX—9 : Scheme-wise Assistance Sanctioned and Disbursed by IDBI

(Year: April-March) (Rupees crores)

Scheme	Sanctions			Disbursements		
	1985-86	1986-87	Cumulative sanctions upto end March 1987	1985-86	1986-87	Cumulative disbursements upto end March 1987
1	2	3	4	5	6	7
I. Direct Assistance	**1,103.2**	**1,604.4**	**7,712.6**	**794.4**	**929.0**	**4,926.2**
1. Project Finance						
a) Project loans	999.8	1,415.0	6,835.0	765.3	862.6	4,609.6
b) Underwriting and direct subscription	68.5	134.2	686.7	9.5	29.4	183.2
2. Technical Development Fund	24.1	39.3	162.9	19.4	25.9	121.7
3. Equipment Finance	10.8	15.9	28.0	0.2	11.1	11.7
II. Indirect Assistance	**2,569.8**	**2,876.6**	**14,967.6**	**1,818.8**	**2,178.6**	**11,527.8**
4. Refinance of industrial loans	1,564.0	1,659.9	8,885.2	1,047.4	1,245.0	6,801.9
5. Rediscounting of bills	928.0	1,014.2	5,214.1	697.8	758.3	3,939.6
6. Subscription to shares and bonds of financial institutions	61.6	191.3	800.2	62.2	162.1	737.6
7. Seed capital assistance	16.2	11.2	68.1	11.4	13.2	48.7
Sub-Total (I + II)	**3,673.0**	**4,481.0**	**22,680.2**	**2,613.2**	**3,107.6**	**16,454.0**
III. 1. Guarantees for loans/ deferred payment	23.7	72.6	367.5	146.5*	75.8*	249.2*
2. Guarantees in respect of foreign currency loans	24.0	—	24.0	24.0*	—	24.0*
Grand Total	**3,720.7**	**4,553.6**	**23,071.7**	**2,783.7**	**3,183.4**	**16,727.2**

Note : Data are provisional. * Guarantees executed.

Source: Industrial Development Bank of India.

over those in 1985-86. Sanctions of indirect assistance constituted 59.7 per cent of total sanctions as against 67.8 per cent in 1985-86, and disbursements of indirect assistance constituted 64.5 per cent of total disbursements compared with 66.8 per cent in 1985-86.

In the case of project loans, sanctions at Rs. 1,415.0 crores were 41.5 per cent higher than those in 1985-86 (Rs. 999.8 crores). Sanctions for underwriting and direct subscriptions to shares and debentures of industrial concerns increased to Rs. 134.2 crores in 1986-87 from Rs. 68.5 crores in 1985-86. As regards indirect assistance, sanctions by way of refinance of industrial loans (Rs. 1,659.9 crores) and those under bills rediscounting scheme (Rs. 1,014.2 crores), were also higher in 1986-87 than in 1985-86 (Rs. 1,564.0 crores and Rs. 928.0 crores respectively).

Important policy changes introduced and new initiatives undertaken by IDBI during 1986-87 included setting up of the Textile Modernisation Fund Scheme and extension of its coverage to woollen industry, introduction of a new scheme of assistance for export-oriented units etc. and introduction of the 9 per cent Capital Gains Bonds Scheme with a maturity of three years. Besides qualifying for exemption from capital gains tax, interest amount payable on these bonds is exempted from deductions of tax at source. A novel feature of these bonds is that the investor can receive at his option the entire amount of interest for three year period in advance on discounted basis at the time of investment in

the bonds or he can opt to receive half-yearly interest at 9 per cent per annum. Under the leadership of IDBI, financial institutions made the single window concept more effective and liberalised the debt-equity norms, apart from taking steps to expedite the process of sanctions and disbursements of assistance. With a view to increasing the financial assistance to small and medium scale units by state-level institutions, measures were introduced during the year to augment their resources, and mechanism for monitoring their operations was strengthened.

The IDBI (Amendment) Act, 1986 came into force with effect from August 14, 1986. The Act has enlarged the definition of industrial concerns eligible for assistance from IDBI to cover diverse range of industrial activities including the activities of services sector of industries like informatics, health care, storage and distribution of energy and other services contributing to value addition. The Act has also widened the scope of business of IDBI so as to cover consultancy, merchant banking and trusteeship activities. The range of financing instruments has been further enlarged to include instruments like grant of lines of credit and issue of letters of credit and IDBI has been permitted to grant loans and advances to individuals for investment in industrial concerns. Keeping in view the need to continuously augment the share capital of IDBI for sustaining the growing tempo of its operations, the authorised capital of IDBI has been raised to Rs. 1,000 crores which can be increased further upto Rs. 2,000 crores by the Central Government by issuing a notification in the official gazette.

Industrial Finance Corporation of India

The Industrial Finance Corporation of India (IFCI) sanctioned and disbursed financial assistance of Rs. 798.1 crores and Rs. 459.3 crores, respectively, during 1986-87 (April-March)-(Table IX-10). Sanctions rose by 59.9 per cent and disbursements by 13.6 per cent. IFCI provided assistance for 485 projects as against 401 projects in the preceding year.

Sanctions of rupee loans rose by 47.5 per cent to Rs. 504.0 crores. Sanctions of foreign currency loans were more than double at Rs. 221.4 crores equivalent. While disbursements of rupee loans declined marginally by 0.4 per cent to Rs. 346.3 crores, disbursements of foreign currency loans rose significantly by 85.1 per cent to Rs. 94.4 crores equivalent.

Out of total sanctions of direct loans (both, rupee and foreign currency) of Rs. 725.4 crores during the year, loans aggregating Rs. 369.8 crores (51.0 per cent) were sanctioned to newly established companies and Rs. 355.6 crores to existing companies. The amount sanctioned to existing companies included Rs. 267.1 crores for expansion of existing capacity / modernisation and Rs. 88.5 crores for new projects. Sanctions for underwriting of and direct subscriptions to industrial securities rose from Rs. 39.8 crores to Rs. 53.3 crores and related disbursements from Rs. 5.2 crores to Rs. 10.9 crores. IFCI sanctioned guarantees amounting to Rs. 19.4 crores and issued guarantees of Rs. 7.7 crores during the year.

Out of total sanctions during the year, assistance amounting to Rs. 495.9 crores was for new projects. Assistance sanctioned to projects in notified backward districts amounted to Rs. 415.5 crores (52.1 per cent of total assistance). Industries of high national priority such as sugar, cotton textiles, fertilisers, cement, power generation, paper, industrial machinery, etc. accounted for 45.2 per cent of the total assistance sanctioned during the year.

Total assistance of Rs. 101.7 crores was sanctioned by IFCI to 104 projects for purposes of modernisation, which included Rs. 70.1 crores to 75 projects under the Soft Loan Scheme for Modernisation and Rs. 22.9 crores for 24 projects under the Textile Modernisation Fund Scheme; the balance represented mainly sanctions in the form of foreign currency loans for import of equipment, etc., for

Table IX – 10 : Financial Assistance Sanctioned and Disbursed by IFCI

(Year : April-March) (Rupees crores)

Type of Assistance	1985-86		1986-87		Cumulative Assistance as at the end of March 1987	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7
1. Rupee loans	341.7	347.7	504.0	346.3	2,645.0	2,130.5
2. Foreign currency loans	108.3	51.0	221.4	94.4	713.2	416.7
3. Underwriting and direct subscriptions (i + ii)	39.8	5.2	53.3	10.9	276.3	79.4
i) Ordinary and Preference shares	33.9	4.6	51.2	8.2	247.0	63.6
ii) Debentures	5.9	0.6	2.1	2.7	29.3	15.8
4. Guarantees	9.4	0.5	19.4	7.7	114.0	65.5
Total (1 to 4)	**499.2**	**404.4**	**798.1**	**459.3**	**3,748.5**	**2,692.1**

Source : Industrial Finance Corporation of India.

modernisation purposes. As on March 31, 1987, IFCI had sanctioned total assistance of Rs. 374.4 crores for 531 projects under the Soft Loan Scheme for Modernisation. Sanctions during the year under IFCI – sponsored Risk Capital Foundation amounted to Rs. 3.2 crores to 38 promoters of 71 projects.

During the year, the Industrial Finance Corporation Act, 1948 was amended. The amendments, *inter alia* enlarged the area of operations of IFCI and also raised its authorised capital.

IFCI has been designated as the nodal point to administer the Jute Modernisation Fund set up by the Government of India with a view to revitalising the jute industry and giving thrust to its modernisation programme. This fund would provide a focal point for modernisation efforts in jute industry. The Jute Modernisation Fund Scheme became operative from November 1, 1986. Assistance under this scheme will be available to all existing jute mills including the weak but potentially viable units. Two types of loans will be provided for under the scheme (a) 'Modernisation loans' and (b) 'Special loans' towards part of the promoters' contribution for weak but potentially viable units. Modernisation loans will be need-based and there will be no maximum or minimum limit for individual loans. The rates of interest charged are 11.5 per cent on loans upto Rs. 6 crores and 14 per cent on the portion exceeding Rs. 6 crores. Repayment of modernisation loans is linked to repaying capacity of borrowers. For the purpose of grant of special loans, weak units would be deemed to be those units which have a negative net worth or whose accumulated losses have resulted in erosion of 50 per cent or more of their peak net worth during the immediately preceding five financial years. Special loans will be provided upto 80 per cent of the stipulated promoters' contribution and carry simple interest of 6 per cent with a moratorium of six years; these loans are repayable within 12 years with an initial moratorium of six years.

In terms of an agreement executed between the Government of India and IFCI on March 18, 1986, IFCI has been appointed an agent of the Government for making disbursement of loans from the Sugar Development Fund for rehabilitation and modernisation of sugar units and monitoring the end use of loans and effecting recoveries etc. The sanction of loans under the Sugar Development Fund Scheme are, however, to be accorded by the

Government of India. The purpose of these loans is to enable sugar units to get financial assistance from specified financial institutions, viz., IFCI, IDBI, ICICI and IRBI for their modernisation/rehabilitation programmes by providing shortfall in promoters' contribution which the financial institutions require sugar units to contribute from their own sources. The maximum amount of loan from the Fund is thus limited to the promoters' contribution. The loan for modernisation has to be obtained from the financial institutions. Applications approved by the financial institutions, are considered for loan assistance from the Fund only if the applicant units have been in operation for a minimum of 6 to 7 crushing seasons and are able to specify the anticipated additional productivity after completion of the modernisation programme. The loans from the Fund carry simple interest of 6 per cent per annum and are repayable in five annual instalments after a moratorium of 8 years. Sugar Development Fund was set up under the Sugar Development Fund Act, 1982 and it is funded by transfer of proceeds of sugar cess levied and collected under the Sugar Cess Act.

IFCI has set up a Merchant Banking Division (MBD) with head office in Delhi and a bureau in Bombay. During the first year of its operations, MBD managed 12 public issues and received mandate from 38 companies for managing their issues. MBD has taken up assignments for capital restructuring, merger and amalgamation, loan syndication with other financial institutions, and trusteeship assignments. It guides entrepreneurs in project formulation and raising resources for meeting project cost, etc.

During the year, IFCI introduced one more promotional scheme, viz., Scheme of Interest Subsidy for Encouraging Quality Control Measures in Small-scale Sector.

The Industrial Credit and Investment Corporation of India Ltd.

The Industrial Credit and Investment Corporation of India Ltd. (ICICI) sanctioned and disbursed total assistance of Rs. 1,117.4 crores and Rs. 695.5 crores respectively, during 1986-87 (April-March) showing a rise of 57.8 per cent in sanctions and 44.2 per cent in disbursements over the year (Table IX – 11).

Table IX–11 : Financial Assistance Sanctioned and Disbursed by ICICI

(Year: April-March) (Rupees crores)

Type of Assistance	1985-86		1986-87		Cumulative Assistance as at the end of March, 1987	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7
1. Rupee loans	272.2	242.9	427.0	332.0	2,057.0	1,657.5
2. Foreign currency loans	226.1	144.1	349.1	205.3	2,461.1	2,012.9
3. Underwriting and direct subscriptions (a + b)	41.0	10.2	78.4	24.5	405.0	171.9
(a) Ordinary and Preference shares	33.9	5.2	50.9	9.5	295.0	98.4
(b) Debentures	7.1	5.0	27.5	15.0	110.0	73.5
Total (1 + 2 + 3)	**539.3**	**397.2**	**854.5**	**561.8**	**4,923.1**	**3,842.3**
4. Guarantees	15.1	0.5	24.5	0.7	151.6	2.1
5. Suppliers' credit	88.6	67.1	146.6	85.8	469.8	286.5
6. Leasing	65.2	17.4	91.8	47.2	187.7	84.3
Total (1 to 6)	**708.2**	**482.2**	**1,117.4**	**695.5**	**5,732.2**	**4,215.2**

Source: Industrial Credit and Investment Corporation of India Ltd..

Sanctions of rupee loans rose by 56.9 per cent to Rs. 427.0 crores; disbursements of rupee loans rose by 36.7 per cent to Rs. 332.0 crores. Sanctions and disbursements of foreign currency loans increased by 54.4 per cent and 42.5 per cent, respectively to Rs. 349.1 crores and Rs. 205.3 crores, respectively. Sanctions of assistance by way of underwriting and direct subscriptions to shares and debentures rose to Rs. 78.4 crores from Rs. 41.0 crores and disbursements under this head more than doubled to Rs. 24.5 crores from Rs. 10.2 crores in 1985-86. Sanctions and disbursements of suppliers' credit also registered a substantial rise; sanctions increased to Rs. 146.6 crores from Rs. 88.6 crores and disbursements to Rs. 85.8 crores from Rs. 67.1 crores. ICICI's leasing operations expanded further with sanctions rising to Rs. 91.8 crores from Rs. 65.2 crores and disbursements to Rs. 47.2 crores from Rs. 17.4 crores.

ICICI which commenced leasing operations in 1983, provides leasing assistance for computerisation, modernization/replacement schemes, equipment for energy conservation, export orientation, pollution control, balancing and expansion. The industries assisted under leasing included textiles, engineering, chemicals, fertilizers, cement, sugar, etc. ICICI has made significant efforts in promoting investments in information technology, service industry like hotels, and agro-based sectors like hatchery and poultry.

Assistance sanctioned and disbursed to projects located in backward areas registered further rise from Rs. 321.4 crores and Rs. 215.0 crores, respectively, in 1985-86 to Rs. 480.4 crores and Rs. 273.5 crores, respectively, in 1986-87. Sanctions to backward areas accounted for 54.7 per cent of total project finance sanctioned in 1986-87.

Direct loans sanctioned to newly established companies recorded a sharp rise from Rs. 193.0 crores to Rs. 293.1 crores and accounted for 37.8 per cent of total direct loans (i.e. Rs. 776.1 crores). While sanctions of direct loans for new projects declined by 32.6 per cent to Rs. 14.9 crores, sanctions of direct loans for expansion of existing capacity, modernisation, etc., rose substantially by 65.3 per cent to Rs. 468.1 crores in 1986-87.

ICICI's assistance to priority industries accounted for 93 per cent of direct loans sanctioned during 1986-87.

Unit Trust of India

During 1986-87 (July-June) the operations of Unit Trust of India (UTI) expanded further. Gross sales of units under all the schemes crossed the Rs. 1,000 crore mark and amounted to Rs. 1,240.4 crores (including Rs. 139.5 crores mobilised through the India Fund) showing a rise of 39 per cent over gross sales in 1985-86 (Table IX–12). The number of unit-holding accounts rose to 29 lakhs from 20 lakhs in 1985-86. The Trust's investible resources increased by 39.2 per cent to Rs. 4,480.4 crores, the highest on record so far and its income rose by Rs. 120 crores to Rs. 510 crores. The main factors which contributed to the growth in sales of units were stepping up of the dividend rates during 1985-86 under various schemes, reintroduction of Monthly Income Unit Scheme twice during the year, introduction of Growing Income Unit Scheme 1987, and launching of India Fund and Mutual Fund Unit Schemes.

Sales of units under the Trust's main scheme, viz., Unit Scheme 1964 at Rs. 149.1 crores in 1986-87 were lower than Rs. 319.4 crores in 1985-86. The unit capital under this scheme rose from Rs. 1,284.9 crores at the end of June 1986 to Rs. 1,406.7 crores at the end of June 1987. Sales under Unit Scheme 1971 (Unit Linked Insurance Plan) rose from Rs. 40.5 crores to Rs. 55.3 crores, and under Capital Gains Unit Scheme (CGS)-1983 rose from Rs. 270.6 crores to Rs. 317.1 crores during 1986-87.

During 1986-87, the Trust introduced five new schemes which included two Fund

Table IX–12 : Scheme-wise Sales and Repurchases by Unit Trust of India

(Year : July-June) (Rupees crores)

Schemes	Sales		Repurchases		Outstanding (as on June 30)		Dividend Rate 1986-87
	1985-86	1986-87*	1985-86	1986-87*	1986	1987*	(Percent)
1. Unit Scheme 1964	319.4	149.1	50.8	27.3	1,284.9	1,406.7	16.00
2. Unit Scheme 1971 (ULIP)	40.5£	55.3£	7.6	8.6	144.4	91.1	13.25
3. C.R.T.S. 1981	10.4	8.7	0.5	1.7	42.0	49.0	14.50
4. Income Unit Scheme 1982	—	—	0.7	0.4	65.9	65.4	13.00
5. Monthly Income Unit Schemes££ (1,2,3,4 &5)	48.3+	—	1.8$	6.6$	201.0	41.3$$	12.00
6. Growth and Income Unit Scheme 1983	—	—	0.2	0.3	13.0	12.7	10.00
7. Capital Gains Unit Scheme 1983	270.6	317.1	1.0$	72.7	577.4	821.7	9.50
8. Income Unit Scheme 1985	2.5**	3.1++	0.1$	0.1$	57.7	60.6	12.50
9. Monthly Income Unit Scheme with Growth(6) 1986	75.6	—	—	0.7$	75.6	75.0	12.00
10. Growing Income Unit Scheme 1986	105.8	9.5++	—	0.2	105.8	115.1	12.50
11. Children's Gift Growth Fund Unit Scheme 1986	18.7	36.7	—	—	18.7	55.4	12.50 (Pro-rata)
12. India Fund Unit Scheme 1986	—	139.5	—	—	—	139.5	2.50 (Pro-rata)
13. Mutual Fund Unit Scheme 1986	—	150.4	—	—	—	150.4	8.00 (Pro-rata)
14. Monthly Income Unit Scheme with Extra Growth (7) 1986	—	77.0	—	—	—	77.0	12.00
15. Growing Income Unit Scheme 1987	—	99.7	—	—	—	99.7	12.50 (Pro-rata)
16. Monthly Income Unit Scheme with Extra Bonus & Growth (8)1987	—	194.3	—	—	—	347.5@	12.00
Total	**891.8**	**1,240.4**	**62.7**	**118.6**	**2,586.4**	**3,708.1**	

* Provisional.

\+ Sales effected during 1985-86 on clearance of objections.

** Includes sales on account of reinvestment amounting to Rs. 2.49 crores and sales realised on clearance of objections for Rs. 0.01 crore.

++ Sales on account of dividend reinvestment.

$ Premature withdrawals.

$$ Excludes option for conversions to the tune of Rs. 34.59 crores, Rs. 24.18 crores, Rs. 32.51 crores, Rs. 23.79 crores and Rs. 38.17 crores respectively under MIS(1)-83, MIS(2)-83, MIS(3)-84, MIS(4)-85, MIS(5)-85 to MISG(8)-87.

£ Includes sales from reinvestment of dividend, initial contribution from new entrants and renewal contribution from existing members.

££ Monthly Income Unit Schemes 1 and 2 relate to 1983, 3 to 1984 and 4 and 5 to 1985.

@ Includes option for conversions to the tune of Rs. 153.24 crores from MIS (1 to 5) to MISG(8)-87.

Source : Unit Trust of India.

Schemes, viz., India Fund Unit Scheme 1986, and Mutual Fund Unit Scheme 1986, and three close-ended schemes, viz., Monthly Income Unit Scheme with Extra Growth (7) 1986, Growing Income Unit Scheme 1987 and Monthly Income Unit Scheme with Extra Bonus and Growth (8) 1987. Sales under these five new schemes together amounted to Rs. 660.9 crores and accounted for 53.3 per cent of total sales during the year.

The India Fund Unit Scheme 1986 was launched by the Trust in association with Merrill Lynch on July 10, 1986 with a view to providing a unique opportunity to non-resident Indians and persons of Indian origin and individuals resident outside India to invest in the securities market of India. The shares of the Fundwere open for subscription till August 15, 1986. The response to this Fund was very encouraging and total subscription amounted to £ 128 million as against the original issue of £ 60 million. Twenty five per cent of the over-subscription was retained. In terms of rupee equivalent, the amount mobilised under this Fund Scheme was Rs. 139.5 crores. The shares of India Fund are listed on the London Stock Exchange.

The Trust also launched during the year its Mutual Fund Unit Scheme 1986, a unique growth scheme under the name of Mastershare to provide an opportunity for investors to participate in the equity market. The scheme received an over-whelming response from the public and the subscription received amounted to Rs. 158 crores as against the original issue of Rs. 50 crores. The Trust retained Rs. 150 crores. The funds under this scheme are invested in a basket of equities spread over a wide range of industries. The Mastershare, which has a face value of Rs. 10, is listed on all the Indian stock exchanges and its Net Asset Value (NAV) is published every week. The NAV as on June 29, 1987 at Rs. 11.05 was higher by 10.5 per cent compared with the face value.

Sales during the year under the Monthly Income Unit Scheme with Extra Growth (7)-1986 (MISG(7)-1986) which was open from October 1, 1986 to December 15, 1986 aggregated Rs. 77.0 crores and under the Growing Income Unit Scheme 1987 (GIUS 1987) which was open for a period of two months from January 1, 1987 netted Rs. 99.7 crores. Sales under the Monthly Income Unit Scheme with Extra Bonus and Growth (8) — 1987 (MISG (8)-1987) which was open during April-May 1987 aggregated Rs. 194.3 crores.

The MISG (7)-1986 is a socially oriented scheme intended for people above 45 years of age, widows, physically and mentally handicapped persons. In case of defence personnel, the age limit was 35 years. The MISG (8)-1987 was open for all investors irrespective of age limits. As in the case of MISG (7)-1986, resident adult individuals, father/mother /lawful guardians on behalf of minors, persons investing for the benefit of mentally handicapped persons, eligible trusts i.e. charitable or religious trusts or endowments or registered societies and private trusts for the benefit of children being irrevocable and created by an instrument in writing were allowed to invest under this scheme. Companies and other corporate bodies were also eligible to invest under MISG (8) - 1987. MISG (7) 1986 and MISG (8) - 1987 provide for 12 per cent annual dividend payable on monthly basis, a bonus dividend at the end of the fourth year and minimum capital appreciation of 2 per cent. With a view to providing extra benefits offered by MISG (8)—1987, viz., bonus dividend and 2 per cent minimum growth on maturity, the unit holders under MIS(1) to MIS (5) were given option to convert their unit holdings into MISG (8)—1987. The conversion was effected at a premium varying from 2 per cent to 5 per cent depending upon the series of the scheme. Further, the benefit of bonus dividend available for MISG (7)-1986 and MISG (8) 1987 was extended to MISG(6)—1986 unit holders.

The Growing Income Unit Scheme (GIUS—1987) provides for increasing rate of dividend from 12.5 per cent to 14 per cent per annum, in addition to a minimum of 2 per cent

growth in capital on maturity. The dividend is payable at half-yearly rests or it can be cumulated on half-yearly basis as per the option of the investors.

Repurchases under all the schemes of the Trust amounted to Rs. 118.6 crores during the year under review as compared with Rs. 62.7 crores in the previous year. However, repurchases under the Unit Scheme 1964 amounted to Rs. 27.3 crores as against Rs. 50.8 crores in 1985-86.

At the end of June 1987, unit capital under all the schemes aggregated Rs. 3,708.1 crores compared with Rs. 2,586.4 crores a year ago.

Dividend rates were stepped up during 1986-87 in the case of all the on-going schemes. The dividend for the main scheme-Unit Scheme 1964, was raised from 15.25 per cent to 16.00 per cent. Dividend rates for other on-going schemes were also raised by 0.75 percentage point. The dividend declared was 13.25 per cent for Unit Scheme 1971 (Unit-Linked Insurance Plan), 14.50 per cent for CRTS-1981 and 9.50 per cent for CGS-1983. A maiden dividend of 8.0 per cent (pro-rata) was declared on Mastershare (Mutual Fund Unit Scheme 1986).

Financial assistance sanctioned and disbursed by the Trust through subscriptions to privately placed debentures and special deposits and underwriting and direct subscriptions to shares and debentures of companies declined from Rs. 696.6 crores and Rs. 528.9 crores, respectively in 1985-86 to Rs. 465.0 crores and Rs. 417.6 crores, respectively in 1986-87 (April-March) — (Table IX — 13).

Table IX—13 : Financial Assistance Sanctioned and Disbursed by Unit Trust of India

(Year: April-March) (Rupees crores)

Type of Assistance	1985-86		1986-87		Cumulative Assistance as at the end of March, 1987	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7
1. Subscriptions to privately placed debentures and special deposits	227.2	106.8	142.9	110.7	793.6	514.2
2. Underwriting and direct subscriptions (a + b)	469.4	422.1	322.1	306.9	1,411.3	1,180.1
(a) Ordinary and Preference shares	25.4	4.2	44.6	23.3	131.9	74.0
(b) Debentures	444.0	417.9	277.5	283.6	1,279.4	1,106.1
Total	**696.6**	**528.9**	**465.0**	**417.6**	**2,204.9**	**1,694.3**

Source: Unit Trust of India.

As a result of improved sales performance and growth in income, the total investible funds of the Trust rose from, Rs. 3,218.3 crores as on June 30, 1986 to Rs. 4,480.4 crores as on June 30, 1987 showing an increase of Rs. 1,262.1 crores in a year—the highest on record so far (Table IX — 14) Out of total investible funds as on June 30, 1987, a sum of Rs. 2,970.4 crores (66.3 per cent) was invested in the corporate sector. This amount included investments of Rs. 623.1 crores (13.9 per cent) in equity shares, Rs. 10.6 crores (0.2 per cent) in preference shares, Rs. 1,760.9 crores (39.3 per cent) in debentures, Rs. 319.6 crores (7.1 per cent) in advance deposits against investment commitments and Rs. 234.6 crores (5.3 per cent) in unsecured short-term deposits with companies. The rest of the amount invested

was accounted for by bridge finance, application money, advance call, deposits and other investments with banks, and Government securities.

During the year under review, apart from appointing more agents and chief representatives, the Trust also initiated a new approach of appointing ex-servicemen, widows and their dependents as agents, in association with the Director General of Resettlement. With a view to tapping women investors and inculcating the habit of savings and investment in households, the Trust, initiated a novel strategy of appointing women and housewives as its agents. This is expected to give women an opportunity to utilise time available to them and social contacts and at the same time earn a supplementary income.

Table IX—14 : Investments by Unit Trust of India

(Rupees crores)

Type of Investment	As on June 30, 1986	As on June30, 1987*
A. Total investments in Corporate Sector (1 to 8)	2,301.2	2,970.4
Of which :	(71.5)	(66.3)
1. Equity shares	370.7	623.1
	(11.5)	(13.9)
2. Preference shares	10.4	10.6
	(0.3)	(0.2)
3. Debentures	1,314.6	1,760.9
	(40.9)	(39.3)
4. Advance deposits against investment commitments	328.1	319.6
	(10.2)	(7.1)
5. Unsecured short-term deposits	257.0	234.6
	(8.0)	(5.3)
6. Bridge finance	3.8	16.1
	(0.1)	(0.4)
7. Application money	16.5	5.4
	(0.5)	(0.1)
8. Advance call	0.1	0.1
	(—)	(—)
B) Other investments (9 and 10)		
Of which :		
9. Deposits and other investments with banks	632.0	1,179.9
	(19.6)	(26.3)
10. Government securities	285.1	330.1
	(8.9)	(7.4)
C) Total investible funds (A + B)	**3,218.3**	**4,480.4**
	(100.0)	**(100.0)**

* Provisional

Note : Figures in brackets indicate percentage to total.

Source: Unit Trust of India.

General Insurance Corporation of India

As a member of the consortium of all India financial institutions, the General Insurance Corporation of India (GIC) and its subsidiaries* provide assistance to industries in the form of loans, underwriting and direct subscriptions to shares and debentures, and placement of short-term deposits with companies, etc. Besides taking right entitlement and

* The United India Insurance Co. Ltd., Oriental Fire and General Insurance Co. Ltd., National Insurance Co. Ltd., and New India Assurance Co. Ltd.

underwriting of debenture issues, GIC alongwith LIC and UTI, buys back debentures tendered by individual debentureholders back to companies for encashment after a stipulated period and thus provides liquidity to such long term financial assets.

Total financial assistance sanctioned and disbursed by GIC and its subsidiaries during 1986-87 (April-March) aggregated Rs. 153.3 crores and Rs. 131.6 crores, respectively, recording a rise of 0.2 per cent in sanctions and 22.6 per cent in disbursements over the preceding year (Table IX-15). While the assistance in the form of loans sanctioned declined from Rs. 59.9 crores in 1985-86 to Rs. 15.3 crores during 1986-87, that for underwriting and direct subscriptions to shares and debentures rose from Rs. 93.1 crores to Rs. 138.0 crores.

Table IX—15 : Assistance Sanctioned and Disbursed by GIC and its Subsidiaries

(Year : April-March) (Rupees crores)

	1985-86		1986-87	
	Sanctions	Disbursements	Sanctions	Disbursements
1	2	3	4	5
A. Type of Assistance				
1. Loans	59.9	27.9	15.3	29.4
2. Underwriting and direct subscriptions (i+ii)	93.1	79.4	138.0	102.2
i) Ordinary & Preference shares	7.2	4.6	7.5	11.3
ii) Debentures	85.9	74.8	130.5	90.9
Total	**153.0**	**107.3**	**153.3**	**131.6**
B. Sector-wise Assistance				
1. Public Sector	34.2	15.9	22.6	25.1
2. Private Sector	106.8	82.6	129.4	97.5
3. Joint Sector	12.0	8.8	0.5	9.0
4. Co.op. Sector	—	—	0.8	—
Total	**153.0**	**107.3**	**153.3**	**131.6**
Of which : for projects in Backward Areas	8.8	8.5	7.5	9.9

Source : General Insurance Corporation of India

According to sector-wise classification, projects in the private sector received bulk (84 per cent) of total sanctions while the share therein of projects in the public sector was 14.7 per cent during 1986-87.

Projects in areas classified as backward accounted for 4.9 per cent of sanctions and 7.5 per cent of disbursements during the year.

Industrial Reconstruction Bank of India

The Industrial Reconstruction Bank of India (IRBI) is the principal all-India credit and reconstruction agency for reviving sick industrial units, assisting and promoting industrial development and rehabilitating industrial concerns. It also co-ordinates similar work of other institutions engaged in this field. Under the leadership of IRBI, an inter-institutional group considers various matters relating to evolution of policies as also individual cases of rehabilitation/reconstruction of sick industrial units.

Total assistance sanctioned and disbursed by IRBI during 1986-87 (April-March) amounted to Rs. 148.9 crores and Rs. 94.6 crores, respectively (Table IX-16). Sanctions rose by 98.0 per cent and disbursements by 39.5 per cent as compared with those in the preceding

year. IRBI provides assistance mainly by way of term loans to industrial units for essential capital expenditure towards modernisation, diversification, expansion and renovation for bridging urgent liquidity gaps and for margin for working capital.

Table IX.—16 : Financial Assistance Sanctioned and Disbursed by Industrial Reconstruction Bank of India

(Year : April-March) (Rupees crores)

Type of Assistance	1985-86		1986-87	
	Sanctioned	Disbursed	Sanctioned	Disbursed
1	2	3	4	5
1. Term loan	72.8* (63)	64.3	147.7 (126)	93.7
2. Textile Processing Corporation of India Ltd.(TPCI)	1.0	0.8	0.3	0.4
3. Equipment leasing scheme	0.2	1.1	0.1	**
4. Hire-purchase	0.2	0.3	0.8	0.2
5. Lines of credit scheme for assisting sick small units through various state level agencies	1.0	1.3	—	0.3
Total	**75.2**	**67.8**	**148.9**	**94.6**

* Since revised

** Rs. 1 lakh only

Note : 1. Figures are provisional.

2. Figures of assistance sanctioned are gross sanctions.

3. Figures within brackets indicate number of fresh cases sanctioned during the year.

Source: Industrial Reconstruction Bank of India.

Export-Import Bank of India

The Working Group consisting of Export-Import Bank of India (Exim Bank), Reserve Bank of India, Export Credit Guarantee Corporation of India Ltd., Central Government and exporters' bankers approved during 1986, 151 export bids valued at Rs. 1,540 crores for supply, construction, turnkey and consultancy projects. The Working Group is an inter-institutional mechanism which functions under the auspices of Exim Bank and considers approval for export bids where value of a bid exceeds Rs. 5 crores. Bids valued between Rs. 2 crores and Rs. 5 crores are cleared by Exim Bank and those valued up to Rs. 2 crores are cleared by commercial banks. All projects for consultancy and technology services (regardless of value) are however, considered by the Working Group.

Exim Bank made during 1986 commitments-in-principle amounting to Rs. 349.0 crores of funded assistance and Rs. 179.0 crores of non-funded assistance for export bids and for enlarged scope of work on on-going projects. Commitments-in-principle indicate the extent of financial assistance committed by Exim Bank at the time of submission of bids; these commitments get converted into sanctions when bids materialise as contracts. Out of projects where Exim Bank made in principle commitments in 1986 and earlier, 68 contracts worth Rs. 640.0 crores were secured by Indian exporters during the year under review. These contracts consisted of construction projects valued at Rs. 354.0 crores, turnkey projects valued at Rs. 141.0 crores, supply contracts valued at Rs. 112.0 crores and consultancy contracts valued at Rs. 30.0 crores. The value of export contracts secured during the year recorded a rise of 84 per cent as compared with that in the previous year.

In addition to financial assistance for export projects that attract clearance by the Working

Group, Exim Bank also extends financial assistance for Indian exports through lines of credit, relending facility, overseas investment finance, pre-shipment credit, buyer's credit, export bills rediscounting, refinance to commercial banks, and financial assistance to hundred percent export-oriented units and units in free-trade zones. Exim Bank also extends non-funded facility to Indian exporters in the form of guarantees.

Exim Bank introduced a new programme viz. the Export Marketing Fund (EMF) in June 1986. Under this programme, finance is made available to Indian companies for undertaking export marketing activities. Such finance covers upto 50 per cent of total cost incurred on eligible export-marketing activities. Disbursals are in the form of grant. EMF is a component of World Bank loan to India of US $ 250 million for promotion of a select group of

Table IX—17 : Operations of Export Import Bank of India

(Rupees crores)

Lending Programmes	January-December 1985			January-December 1986		
	Sanctions	Utilisations	Outstandings	Sanctions	Utilisations	Outstandings
1	2	3	4	5	6	7
A. Funded						
Buyer's Credit	—	3.4	61.7	14.0	8.1	67.6
Direct Financial Assistance	93.2	81.6	214.5	86.1	44.3	233.2
Export Bills Rediscounting	199.5	199.5	50.0	200.0	200.0	50.0
Export Credit Refinance	48.2	34.5	70.5	32.5	30.1	90.2
Finance for Export-Oriented Units.	6.3	0.6	0.6	5.4	2.7	3.3
Lines of Credit	5.0	12.0	101.5	5.0	24.3	120.5
Overseas Investment Finance	0.4	0.3	6.7	0.3	0.4	5.0
Pre-shipment Credit	6.4	5.6	4.4	29.2	25.1	23.0
Relending Facility	31.3	0.4	1.1	—	—	0.9
Small-Scale Industry Export Bills Re-discounting	50.0	42.7	42.7	189.0	189.0	50.0
Other Funded Assistance*	0.9	0.7	0.7	0.6	0.1	0.1
Total Funded	**441.2**	**381.3**	**554.4**	**562.1**	**524.1**	**643.8**
B. Non-Funded@	73.2	68.3@@	466.1	76.3	39.6@@	529.0

* Sanction and utilisation of import loans for export purposes.
@ Non-funded assistance is given in the form of guarantees.
@@ Guarantees issued.
Note : All sanctions, utilisations and outstanding amounts in foreign currency have been converted into rupees in this and subsequent tables using the exchange rate prevailing at the time of sanction or utilisation or at the end of the year (in the case of outstandings).
Source: Export-Import Bank of India.

engineering export products in markets of developed countries. The Government of India has designated Exim Bank as the agency to manage EMF. The programme covers activities like desk research, minor product adaptation, overseas travel, product inspection services, training, establishing overseas operations and travel to India by buyers overseas. Major categories of engineering export products covered under EMF are light engineering goods comprising of castings, forgings, industrial valves, auto components, diesel engines, pumps, electric motors, starters, hand tools; consumer durables like bicycles and scooters; capital goods such as commercial vehicles, chemical plants, machine tools and computer software. During 1986, Exim Bank sanctioned an amount of Rs. 78 lakhs and utilisation was Rs. 3.4 lakhs

under EMF.

During 1986, Exim Bank sanctioned Rs. 562.1 crores under various programmes of funded assistance recording a rise of 27.4 per cent over the previous year (Table IX-17). Utilisation of funded assistance at Rs. 524.1 crores was also higher by 37.4 per cent compared with that in 1985. Non-funded assistance sanctioned in the form of guarantees amounted to Rs. 76.3 crores and guarantees issued amounted to Rs. 39.6 crores during the year. The outstanding amount at the end of December 1986 under funded and non-funded assistance stood at Rs. 643.8 crores and Rs. 529.0 crores, respectively, compared with Rs. 554.4 crores and Rs. 466.1 crores, respectively, at the end of December 1985.

Construction projects accounted for about 43 per cent of funded sanctions*. Major categories of capital and engineering goods sanctioned assistance were textile machinery, railway rolling stock, commercial vehicles, bicycle parts, cement plant machinery, machine tools, diesel engines and pumps, auto components, power generation and distribution equipment (Table IX—18). Industry-wise distribution of utilisations* reflected a picture similar to that of sanctions with 28 per cent being accounted for by construction projects. Finance was also utilised for export of products and projects like commercial vehicles, textile machinery, railway rolling stock, machine tools, cement plant machinery, jute machinery, bicycle parts, water and sewerage treatment plant, auto components, power generation and distribution equipment. Non-funded assistance was provided mainly for construction projects which accounted for about 88 per cent of sanctions and 77 per cent of issues.

* In the industry-wise and region-wise analysis, pre-shipment credit and bills rediscounting are excluded from sanctions and utilisations, 100 per cent export oriented units and units located in Export Processing Zones are excluded from the region-wise analysis, and in the industry-wise analysis lines of credit are excluded from sanctions because of conceptual and data-related reasons.

Region-wise, the largest share of funded assistance sanctioned* during the year was accounted for by exports to West Asia (51 per cent), followed by Sub-Saharan Africa (18 per cent), Americas (16 per cent) and North Africa (12 per cent) (Table IX—19). The largest share of utilisation of funded assistance* was also accounted for by exports to West Asia (39 per cent), followed by Sub-Saharan Africa (35 per cent), South Asia (14 per cent) and North Africa (7 per cent). The bulk (93 per cent) of non-funded assistance was sanctioned for projects in West Asia.

During 1986, Exim Bank concluded an agency credit line of US $ 15 million with International Finance Corporation (IFC), Washington under which financial assistance by way of foreign currency term loans is available to private sector small and medium enterprises in the country for investment in plant and machinery and product and process know-how to create and enhance export capabilities. Exim Bank provides Rupee term loans on matching basis to assisted enterprises. Activities eligible for financial assistance are new projects, expansion or modernisation projects and equipment imports. This is the first ever agency line of credit from IFC to an Indian financial institution. Marketing of this credit line commenced in November 1986 and 7 credit enquiries were generated during the year.

Exim Bank tapped during 1986 the sterling market for raising an equivalent of US $ 55 million through a swap related mechanism. The Bank raised a fixed interest rate sterling loan and simultaneously swapped it into a floating rate dollar liability which enabled it to obtain floating rate dollar funds at sub-LIBOR (London Inter-Bank Offered Rate) pricing.

Housing and Urban Development Corporation Ltd.

The Housing and Urban Development Corporation Ltd., (HUDCO), finances housing and urban development activities, particularly for the poorer sections of the society. It finances

Table IX—18 : Operations of Exim Bank — Industry-wise*

(January-December 1986)

(Rupees crores)

Lending Programmes	Construction goods and services		Textile Machinery		Railway rolling stock		Commercial vehicles		Bicycle parts		Cement Plant Machinery		Power generation & distribution equipment		Others@	
	S	U	S	U	S	U	S	U	S	U	S	U	S	U	S	U
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Funded Programmes	**59.68**	**30.24**	**20.39**	**14.06**	**16.70**	**8.89**	**5.82**	**8.88**	**8.87**	**4.28**	**6.00**	**3.10**	**2.27**	**2.31**	**19.10+**	**38.18+**
Buyer's Credit	—	—	13.01	1.10	—	—	—	—	—	—	—	1.59	—	1.30	0.94	4.07
Direct Financial Assistance	46.58	17.74	6.50	3.37	15.40	8.89	—	0.56	4.12	—	6.00	1.51	—	0.81	5.85	11.43
Export Credit Refinance	13.10	12.42	0.88	1.11	1.30	—	5.82	6.15	4.75	4.28	—	—	0.57	—	6.08	6.15
Finance for Export Oriented Units	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.37	2.67
Lines of Credit	—	0.08	—	8.48	—	—	—	2.17	—	—	—	—	—	0.20	—	13.42
Overseas Investment Finance	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.30	0.38
Non-Funded Programmes	**67.50**	**30.41‡**	—	—	—	—	—	—	—	—	—	—	**1.50**	**7.02‡**	**7.30**	**2.17‡**

S — Sanctions U — Utilisations

@ Others include jute machinery, water and sewerage treatment plant, auto ancillaries and spares, machine tools, consultancy services, pharmaceuticals, tea machinery, diesel engines and pumps, machinery for steel and rubber products, electronic components, toiletries, steel pipes, computer soft ware and miscellaneous industrial machinery exports.

\+ Includes Rs. 5.6 million sanctioned and Rs. 0.6 million utilised for an import of equipment dedicated for producing exports.

‡ Guarantees issued

* Because of conceptual and data-related reasons, this table does not include industrial distribution of sanctions and utilisations under Export Bills Rediscounting and Pre-shipment credit and sanctions under Lines of Credit.

Source: Export-Import Bank of India.

Table IX – 19 : Operations of Exim Bank – Region-wise

(January-December 1986)

(Rupees crores)

Lending Programmes	West Asia		Africa*		Americas		South East Asia/ Far East & Pacific		South Asia		Europe	
	S	U	S	U	S	U	S	U	S	U	S	U
1	2	3	4	5	6	7	8	9	10	11	12	13
Funded Programmes	**70.26**	**41.44**	**41.61**	**44.71**	**22.40**	**2.02**	**2.66**	**3.48**	**0.97**	**15.36**	**–**	**0.20**
Buyer's Credit	–	–	0.94	7.37	13.01	–	–	0.69	–	–	–	–
Direct Financial Assistance	53.66	25.58	21.40	15.66	9.39	1.72	1.70	1.35	–	–	–	–
Export Credit Refinance	16.60	15.86	14.27	11.79	–	0.30	0.96	0.97	0.67	0.99	–	0.20
Lines of Credit	–	–	5.00	9.85	–	–	–	0.47	–	14.03	–	–
Overseas Investment Finance	–	–	–	0.04	–	–	–	–	0.30	0.34	–	–
Non-Funded Programmes	**70.60**	**36.10$**	**2.30**	**0.63$**	**2.00**	**–**	**–**	**1.42$**	**1.40**	**1.45$**	**–**	**–**

$ Guarantees issued S – Sanctions U – Utilisations

* Includes North Africa and Sub-Saharan Africa

Note : Because of conceptual and data-related reasons, this table does not include regional distribution of sanctions and utilisations under Export Bills Re-discounting, Export-Oriented Units and Pre-shipment Credit.

Source: Export-Import Bank of India.

a variety of schemes being formulated by State Housing Boards, development authorities, municipal corporations, improvement trusts, public undertakings, state apex housing finance societies, co-operatives, etc., in the urban and rural areas. HUDCO loans for its various schemes carry differential rates of interest varying from 4 per cent to 15 per cent per annum. Different loan repayment periods are prescribed depending on the repaying capacity of borrowers; the maximum repayment period is 22 years for economically weaker sections while minimum repayment period is 10 years for rental housing schemes.

HUDCO has also prescribed overall cost ceilings, including cost of land, development administration, supervision charges and cost of finance, with a view to ensure that dwelling units are within the affordable limits of the different target groups.

During 1986-87 (April-March), HUDCO sanctioned loans of Rs. 392.0 crores and its disbursements amounted to Rs. 270.2 crores; the corresponding figures of sanctions and disbursements during the preceding year were Rs. 387.4 crores and Rs. 222.5 crores. Upto end of March 1987, HUDCO had sanctioned schemes with project cost of Rs. 3,710 crores, its own loan commitments being Rs. 2,420 crores for construction of 26 lakh dwelling units in 21 States and 5 Union Territories; over 88 per cent of these dwelling units are meant for the poorer strata of the society.

HUDCO has launched a new scheme of 'Land Bank' to provide housing space to the urban poor without any shelter and those squatting on public lands. Five per cent of the land of any development project would be reserved under the scheme, for allotment to the poor when the colony gets developed.

With assistance from Vastu Shilpa Foundation, Ahmedabad, HUDCO has taken up a project to evolve a National Habitat Code for improving the quality of human settlements by preserving cultural linkages and by relating them to environment.

Housing Development Finance Corporation Ltd.

During 1986-87 (April-March), the Housing Development Finance Corporation Ltd. (HDFC) sanctioned housing loans of Rs. 204.5 crores for over 44,000 units and disbursements for the same amounted to Rs. 170.2 crores. The sanctions and disbursements recorded a rise of 14 per cent and 36 per cent, respectively, over the previous year. During the year, HDFC sanctioned loans for dwelling units in over 200 additional towns raising the total number of towns and cities covered by it to 900. As at the end of March 1987, cumulative loan sanctions aggregated Rs. 763.5 crores in respect of over 1,83,000 units and cumulative loan disbursements aggregated Rs. 547.6 crores. There was no change in the lending rates charged by HDFC during 1986-87 (April-March).

HDFC raised Rs. 18.2 crores during the year by way of term loans from commercial banks under the Reserve Bank guidelines and mobilised Rs. 70.9 crores under its various deposit schemes. As at the end of March 1987, such outstanding term loans and deposits aggregated Rs. 169.9 crores and Rs. 284.2 crores, respectively.

During the year, HDFC finalised borrowing of additional US $ 25 million in the US capital market under the United States Agency for International Development's Housing Guaranty Program, with the approval of the Reserve Bank and the Government of India. HDFC entered into a swap transaction with Canara Bank whereby HDFC exchanged the funds so raised with the Canara Bank, London and in turn Canara Bank in India sanctioned a term loan of Rs. 30 crores to HDFC.

Chapter X

Developments in India's Foreign Trade

I. INDIA'S FOREIGN TRADE DURING 1986-87 (April-March)

Overall Trends

The performance of the foreign trade sector of the country was encouraging during 1986-87. The steep deterioration in the trade balance in 1985-86 was arrested in 1986-87, because of a sharp rise in exports and deceleration in the growth of imports. The data (provisional) released by the Directorate General of Commercial Intelligence and Statistics (DGCI & S) show that while exports increased sharply by 20.4 per cent in 1986-87 as against a decline of 7.8 per cent in 1985-86, growth in imports slowed down to 9.2 per cent from 11.4 per cent in 1985-86. As a result, the merchandise trade deficit which had widened sharply by 53.3 per cent to Rs. 7,951 crores in 1985-86 narrowed down by 5.5 per cent to Rs. 7,513 crores in 1986-87 (Table X-1). In terms of SDRs, exports were higher by 0.8 per cent in 1986-87 as compared to a decline of 14.8 per cent in 1985-86 and imports were lower by 8.6 per cent as against an incease of 2.9 per cent, respectively.

Table X-1 : India's Trade Balance

(Rupees crores)

	Imports	Exports	Balance
1986-87 P	20,063 (+9.2)	12,550 (+20.4)	-7,513
1985-86 P	18,371 (+11.4)	10,420 (-7.8)	-7,951
1984-85 P	16,485	11,297	-5,188
1986-87 PR	20,083 (+1.6)	12,551 (+14.0)	-7,531
1985-86 PR	19,766 (+15.1)	11,012 (-7.1)	-8,754
1984-85	17,173	11,855	-5,318

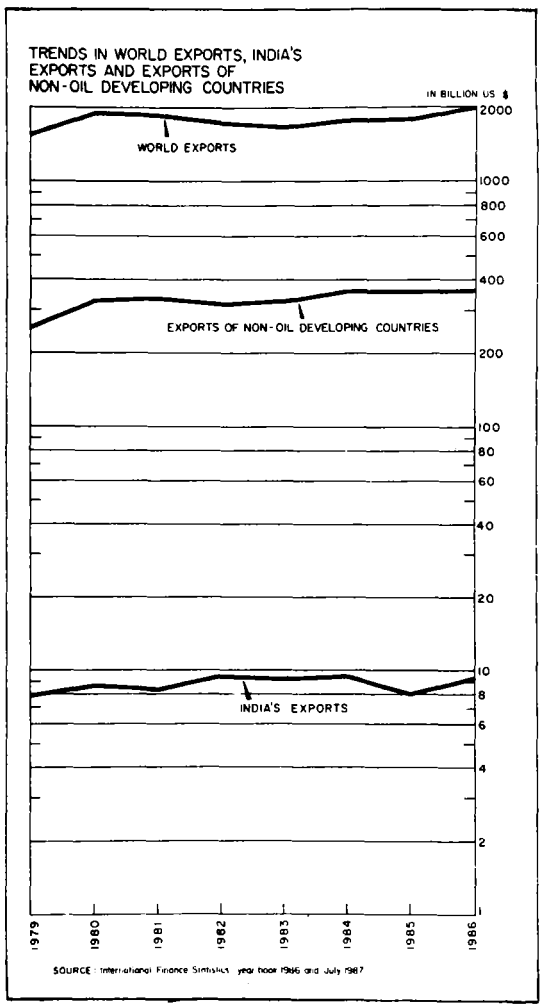
P - Provisional
PR - Partially Revised.
Note : Figures in brackets indicate percentage variations over the preceding year.
Source : DGCI & S.

Exports

India's total exports (including re-exports) increased by 20.4 per cent during 1986-87, as compared to a decline of 7.8 per cent in 1985-86. There were no crude oil exports during the year. The non-oil exports accordingly grew by 22.0 per cent in 1986-87 as against 5.7 per cent in 1985-86. In terms of SDRs, non-oil exports increased by 2.1 per cent in contrast to a decline of 2.4 per cent in 1985-86.

India's export growth at 0.8 per cent during 1986-87 in SDR terms was encouraging,viewed against the development in other countries. In 1986, exports of non-oil exporting developing countries recorded a decline, in SDR terms, of

5.4 per cent against a rise of 0.7 per cent in the previous year. Exports of developing countries as a group declined by 18.8 per cent on top of a fall of 2.9 per cent in 1985.



Commodity-wise, details of exports are presented in Table X-2. Data for 1986-87 and 1985-86, are subject to revision, at times, considerably. As the data for 1985-86 are on a partially revised basis, the developments in 1986-87, which are on a provisional basis, in relation to those in 1985-86 do not fully reflect the improvement shown in Table X-1 (top portion). In 1986-87, significant increases were recorded in exports of gems and jewellery, leather and leather manufactures, engineering goods, chemicals and allied products, raw cotton and cashew kernels. Substantial declines in exports were recorded under mineral fuels, lubricants and related products and tea and mate.

The performance of India's exports, in volume terms, can be analysed on the basis of data available for 12 items for 1986-87. The quantum of exports increased in the case of 8 items viz. iron ore, fish, crustaceans and molluscs, jute manufactures including twist and yarn, raw cotton, cashew kernels, tobacco unmanufactured and tobacco refuse, oil cakes and spices. The export volume declined in the case of tea, coffee, sugar and sugar preparations and rice. Export performance of some major items is reviewed below.

Exports of *gems and jewellery* formed the largest single source of foreign exchange earnings accounting for nearly one-sixth of total exports in 1986-87. These exports rose by Rs.561 crores (37.4 per cent) from Rs.1,498 crores in 1985-86 to Rs.2,059 crores in 1986-87 and seem to have responded to incentives provided to exporters of gems and jewellery. The major component of exports was pearls, precious and semi-precious stones, etc. accounting for more than 92 per cent of the group's total exports. The advance licensing scheme was extended to exporters of gold jewellery in August 1986 and two new schemes were announced for exports of silver jewellery and silver articles in December 1986. Also, marked liberalisation was effected in the policy governing imports of essential machinery and equipment required for this industry so as to boost exports of this sector.

Exports of *readymade garments* rose further by Rs.30 crores from Rs.1,008 crores in 1985-86 to Rs.1,038 crores in 1986-87. The growth has been sluggish during the last two years due to the protectionist measures adopted by the importing Western countries. To encourage exports, higher rates of CCS and assistance for promotional efforts have been provided by the Government during the year.

Table X—2 : India's Exports of Principal Commodities

(Value in Rupees crores)

Sr. No.	Commodities	Unit of Quantity	1982-83		1983-84		1984-85		1985-86 (Partially revised)		Increase(+)/ Decrease(−) Absolute (10 over 8)	1986-87 (Provisional)		Increase (+)/ Decrease(−)in 1986-87 over 1985-86 (in value)	
			Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value		Quantity	Value	Absolute	Percentage (13 over 10)
1		2	3	4	5	6	7	8	9	10	11	12	13	14	15
1.	Handicrafts														
	(a) Pearls, precious & semi-precious stones etc. unworked or worked	Value	—	950	—	1207	—	1321(a)	—	1498(a)	+177	—	2059(a)	+561	+37.5
	(b) Works of art	Value	—	126	—	137	—	160	—	123	−37	—	145	+22	+17.9
	(c) Carpets handmade	Value	—	—	—	—	—	259	—	229	−30	—	287	+58	+25.3
	(d) Jewellery	Value	—	64	—	86	—	—	—	—	—	—	N.A.	—	—
2.	Tea & mate	Million kgs.	194.6	370	188.1	515	213.9	767	213.8	612	−155	190.5	550	−62	−10.1
3.	Machinery including transport equipments	Value	—	585	—	540	—	880(b)	—	760(b)	−120	—	969(b)	+209	+27.5
4.	Readymade garments	Value	—	605	—	741	—	985	—	1008	+23	—	1038	+30	+3.0
5.	Iron ore	Million tonnes	21.7	381	22.1	402	25.5	459	27.0	555	+96	28.1	543	−12	−2.2
6.	Fish crustaceans & molluscs & preparations thereof	'000 tonnes	96.2	364	127.2	359	90.4	381	93.4	389	+8	99.1	477	+88	+22.6
7.	Leather & leather manufactures (except footwear)	Value	—	360	—	429	—	627	—	488	−139	—	787	+299	+61.3
8.	Cotton fabrics	Value	—	217	—	305	—	748	—	510(c)	−238	—	570(c)	+60	+11.8
9.	Chemicals & allied products	Value	—	224	—	160	—	365	—	286	−79	—	437	+151	+52.8
10.	Coffee & coffee substitutes	Million kgs.	74.7	187	70.9	182	67.5	210	84.2	236	+26	74.5	306	+70	+29.7
11.	Metal manufactures except iron and steel	Value	—	196	—	196	—	—	—		—	—	—	—	—
12.	Jute manufactures including twist & yarn	Lakh tonnes	2.9	204	4.3	171	3.0	341	2.5	270	−71	3.2	265	−5	−1.9
13.	Cotton raw	'000 tonnes	79.8	109	174.4	167	52.8	63	32.4	66	+3	175.6	182	+116	+175.8
14.	Cashew kernels	'000 tonnes	30.9	135	36.9	149	32.4	180	37.5	215	+35	46.6	321	+106	+49.3
15.	Tobacco unmanufactured and tobacco refuse	'000 tonnes	109.8	214.	88.9	156	85.6	151	53.7	120	−31	71.1	140	+20	+16.7
16.	Sugar & sugar preparations	'000 tonnes	577	150	82	24	278.4	36	19.6	11	−25	1.8	1	−10	−90.9
17.	Vegetables and fruits excluding cashew kernels	Value	—	154	—	142	—	183	—	175	−8	—	147	−28	−16.0

Table X–2 : India's Exports of Principal Commodities (Concld.)

(Value in Rupees crores)

Sr. No.	Commodities	Unit of Quantity	1982-83		1983-84		1984-85		1985-86 (Partially revised)		Increase (+) Decrease (–) Absolute (10 over 8)	1986-87 Provisional		Increase (+)/ Decrease (–) in 1986-87 over 1985-86 (in value)	
			Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value		Quantity	Value	Absolute	Percentage (13 over 10)
1		2	3	4	5	6	7	8	9	10	11	12	13	14	15
18.	Mineral fuel, lubricants & related products (including the export of Bombay High Crude)	Value	–	1240	–	1590	–	1823	–	653	–1170	–	414	–239	–36.6
19.	Oil cakes	'000 tonnes	1119	150	979	152	828.9	137	665.1	124	–13	988.9	187	+63	+50.8
20.	Crude vegetable materials	Value	–	120	–	130	–	153	–	114	–39	–	N.A.		–
21.	Spices	'000 tonnes	94.2	117	147.7	207	103.0	207	84.2	255	+48	94.8	269	+14	+5.5
22.	Made-up articles, wholly or chiefly of cotton n.e.s.	Value	–	215	–	171	–	298	–	–	–	–	N.A.	–	–
23.	Rice	'000 tonnes	454	218	176	114	247.7	169	245.1	193	+24	181.1	165	–28	–14.5
24.	Meat & meat preparations	Value	–	80	–	72	–	83	–	72	–11	–	76	+4	+5.6
25.	Iron & steel	Value	–	51	–	48	–	76	–	48	–28	–	N.A.	–	–
26.	Rubber & rubber manufactures	Value	–	49	–	42	–	74	–	41	–33	–	N.A.	–	–
27.	Silk fabrics	Value	–	N.A.	–	N.A.	–	56	–	49	–7	–	N.A.	–	–
	A. Total of above items		**–**	**7835**		**8594**		**10894**		**9100**	**– 1794**		**10335**	**+1235**	**+13.6**
	B. Others			**968**		**1144**		**850**		**1912**	**+1062**		**2215**	**+303**	**+15.8**
	C. Grand Total			**8803**		**9738**		**11744(d)**		**11012**	**– 732**		**12550**	**+1538**	**+14.0**

Notes: a) Relates to Gems & Jewellery and includes figures of jewellery of Rs. 84 crores for 1984-85 and Rs. 68 crores for 1985-86.

b) Relates to Engineering Goods and includes figures of metal manufactures of Rs. 217 crores for 1984-85 and Rs. 156 crores for 1985-86.

c) Relates to Cotton fabrics, yarns, made-ups, etc. for 1984-85 and 1985-86.

d) The figure has been further revised to Rs. 11,855 crores.

Source: DGCI & S.

Exports of *raw cotton* increased sharply by 175.8 per cent from Rs.66 crores in 1985-86 to Rs. 182.0 crores in 1986-87. The volume of exports increased more than five fold over the period. The unit value realisation almost halved. In October 1986, the Government announced a long term policy for exports of raw cotton.

Exports of *cotton fabrics including yarn and made-ups,* increased by Rs.60 crores or by 11.8 per cent from Rs.510 crores in 1985-86 to Rs.570 crores in 1986-87.

Exports of *leather and leather manufactures (except footwear)* which have been showing a rising trend since 1982-83, recorded a steep increase of 61.3 per cent to Rs.787 crores during 1986-87. The increase was largely due to the policy thrust to export value added items and to the well-orchestrated policy measures adopted by the Government like improved availability of leather as raw material for production of exportable goods, technical upgradation and to a system of incentives based on comparative value added at different stages.

Exports of *engineering goods* rose to Rs.969 crores during 1986-87 or by about 28 per cent after a substantial decline in 1985-86. This was primarily due to a series of measures taken by the Government for promoting exports of this item. These measures included liberalisation of industrial licensing policy for capacity expansion, making raw materials available at international prices to promising engineering industries, financial incentives for modernisation, procedural simplifications, etc.

Exports of *chemicals and allied products* amounted to Rs.437 crores in 1986-87 as against Rs.286 crores in 1985-86, recording a growth of 52.8 per cent compared to a decline of 21.6 per cent in 1985-86. However, it may be mentioned that the coverage of this group has been broadened to include more items which were not included in the previous year.

The spurt in exports of *cashew kernels* from Rs. 215 crores to Rs. 321 crores (49.3 per cent) is shared by a rise in quantity exported by 25 per cent, from 37.5 thousand tonnes to 46.6 thousand tonnes and that in unit value per kg. by 20 per cent from Rs. 57.33 to Rs. 68.88.

Oil cakes exports increased from Rs.124 crores in 1985-86 to Rs.187 crores in 1986-87, a growth of Rs.63 crores (51 per cent) compared to a marginal decline of Rs.13 crores recorded in 1985-86. The increase in exports in 1986-87 can be attributed to measures initiated by the Government which include grant of CCS at 10 per cent of the FOB value on oil meal exports with effect from April 1, 1986. The increase in exports was largely due to volume growth which was as much as 49 per cent.

Exports of *fish, crustaceans, molluscs and preparations thereof* showed an increase of 22.6 per cent to Rs.477 crores during 1986-87 as against a marginal rise of 2 per cent in the previous year mainly due to an increase of 15.6 per cent in unit value realisation from Rs. 41,649 per tonne to Rs.48,133 per tonne in 1986-87. Quantity exported continued to rise for the second year in succession in this year by 6.1 per cent to 99.1 thousand tonnes, but was still well below the recent peak of 127.2 thousand tonnes in 1983-84. The Government has initiated a number of measures like development of deep sea fishing which are expected to boost exports in near future.

Exports of *coffee and coffee substitutes* increased from Rs.236 crores in 1985-86 to Rs.306 crores in 1986-87 due entirely to higher unit value realisation as the quantity exported declined by 12.5 per cent from 84.2 million kgs. to 74.5 million kgs. To boost exports of value added items like instant coffee, the Government has introduced cash compensatory support and import replenishment on exports of instant coffee.

Exports of *unmanufactured tobacco and tobacco refuse* showed a rise of 16.7 per cent to Rs.140 crores due to an increase of 32.4 per

cent in quantity exported. The unit value realisation fell by 12 per cent from Rs.22.35 per kg. to Rs.19.69 per kg. during 1986-87.

Exports of *spices* during 1986-87 amounted to Rs.269 crores, showing an increase of Rs.14 crores due to rise in quantity of 12.6 per cent. The unit value realisation decreased by 6.3 per cent from Rs. 30,285 per tonne to Rs.28,376 per tonne, partly off-setting larger volume of exports.

Exports of *mineral fuels, lubricants and related products* (including exports of Bombay High crude) showed a decline in the last two years. During 1986-87, exports amounted to Rs. 414 crores, a fall of 36.6 per cent from Rs.653 crores in the previous year. There were no crude oil exports during 1986-87 following the augmentation of domestic refining capacity.

Exports of *tea* declined further to Rs.550 crores in 1986-87 from Rs.612 crores in 1985-86. The fall was mostly due to lower unit value realisation following heavy undercutting of prices by Sri Lanka to capture a larger segment of the world market with promotional measures to build its brands. There was also a decline in quantity exported by 23.3 million kgs. or 11 per cent following a decline in production due to adverse weather conditions.

Exports of *iron ore* after a steady increase since 1982-83, showed a marginal decline of Rs.12 crores (2.2 per cent) to Rs.543 crores in 1986-87. The volume of exports increased by 4.1 per cent from 27.0 million tonnes to 28.1 million tonnes while the unit value realisation declined by 6.3 per cent from Rs.206 to Rs.193 per tonne.

Exports of *vegetables and fruits excluding cashew kernels* continued to decline in 1986-87. Durng the year these exports contracted by 16 per cent to Rs. 147 crores compared to Rs. 175 crores in 1985-86.

Exports of *sugar and sugar preparations* dropped to just Rs.1 crore as against Rs.11 crores in 1985-86 and Rs.150 crores in 1982-83, due mainly to sharp decline in terms of volume from 19.6 thousand tonnes in 1985-86 to only 1.8 thousand tonnes in 1986-87.

Exports of *jute manufactures* including twist and yarn declined marginally by Rs. 5 crores to Rs.265 crores during 1986-87 in spite of a substantial increase in quantity exported by 28 per cent. The unit value realisation declined by 23.3 per cent from Rs.10,800 per tonne to Rs.8,281 per tonne in 1986-87.

Exports of *rice* declined in 1986-87 by 14.5 per cent from Rs.193 crores to Rs.165 crores due mainly to a drop in the quantity exported by 26.1 per cent from 245.1 thousand tonnes to 181.1 thousand tonnes. This was, however, partly off-set by the rise in the unit value realisation. The exports of rice consist mainly of basmati variety. In 1985-86, there were no exports of non-basmati rice but there have been some exports in 1986-87. The exports of basmati rice is allowed under OGL subject to minimum export price, whereas exports of non-basmati rice has been allowed within a limited ceiling and subject to a minimum export price.

Imports

According to the DGCI & S provisional data, imports during 1986-87 at Rs.20,063 crores were marginally higher by Rs.297 crores over the level of Rs.19,766 crores (partially adjusted) in 1985-86 (Table X-3). In fact, the level of imports in 1986-87 would have been lower than that in 1985-86 but for the spurt in imports in the last quarter of 1986-87 during which imports rose by 9.7 per cent or by Rs.1,370 crores over those in the corresponding quarter of the previous year. During 1986-87, major items of imports like machinery and transport equipment, iron and steel, pearls, precious and semi-precious stones recorded significant increases while imports of petroleum, petro-

ieum products and related materials and manufactured fertilizers showed substantial declines, following a marked fall in crude oil prices in international markets, more than off-setting the rise noted for the earlier group of commodities. On balance, during 1986-87, imports recorded a marginal rise of 1.6 per cent as compared to 15.1 per cent in the previous year (partially revised data over final figures).

Imports of POL products fell from Rs.4,990 crores in 1985-86 to Rs.2,680 crores in 1986-87, a decline of 46.3 per cent and their share in total imports came down from 25.3 per cent in 1985-86 to 13.4 per cent in 1986-87. Non-oil imports as a whole registered an increase of 17.8 per cent over the year to Rs.17,383 crores, after a rise of 25.9 per cent in the preceding year.

During 1985-86, total imports rose by Rs.2,593 crores or 15.1 per cent to Rs.19,766 crores (partially revised data) from Rs.17,173 crores in 1984-85. Imports of machinery and transport equipment, iron and steel and metalliferous ores and metals were substantially higher in 1985-86. On the other hand, imports of cereals and cereal preparations, edible oils and manufactured fertilisers declined during the year.

The pattern of imports noticed in 1985-86 continued in 1986-87 barring the trend in POL imports. The provisional commodity-wise data for the year 1986-87 (in comparison with partially revised data for 1985-86) show that machinery and transport equipment continued to be the major item (+ Rs.1,763 crores) contributing to rise in total imports followed by pearls, precious and semi-precious stones (+ Rs. 389 crores), iron and steel (+ Rs. 219 crores), organic and inorganic chemicals (+ Rs. 157 crores), artificial resins, plastic materials (+ Rs. 145 crores), and professional, scientific and controlling instruments and photographic and optical goods (+ Rs. 107 crores). Among the items showing marked decline were petroleum, petroleum products and related materials (− Rs. 2,310 crores), manufactured fertilisers (− Rs. 336 crores) and non-ferrous metals (− Rs. 54 crores). Sugar imports dropped significantly. Trends in imports of selected commodities in 1986-87 are discussed in the following paragraphs.

Imports of *petroleum, petroleum products and related materials* in quantity terms continued to decline for the fourth successive year, reflecting growth in domestic crude production coupled with decline in their exports more recently following increase in refining capacity. A sharp decline in world prices of crude oil in 1986 reduced oil import bill. These imports at Rs.2,680 crores (18.0 million tonnes) during 1986-87 were lower by 46.3 per cent over the year 1985-86 mainly as a result of a fall of over 43 per cent in the unit value during the year. However, the pace of growth in domestic crude oil production has slowed down in recent years, necessitating increasing reliance on imports. This would become clear from data on net oil imports.

Imports of *machinery and transport equipments* at Rs.5,261 crores in 1986-87 were 50.4 per cent higher over the imports worth Rs.3,498 crores in 1985-86. Nearly 30 per cent of the annual imports were made during the last quarter of 1986-87. The relative share of this item in total imports moved up from 17.7 per cent in 1985-86 to 26.2 per cent in 1986-87.

In the case of imports of *pearls, precious and semi-precious stones,* the rise was of the order of Rs.389 crores or 35.2 per cent over 1985-86. The continued surge in their imports shows the level of growing demand for processed jewellery and diamonds abroad, the exports of which touched a record level in 1986-87 as was observed earlier. The share of this item in total imports improved by 2 percentage points to 7.5 per cent in 1986-87.

The uptrend in imports of *iron and steel* noticed last year continued. Imports of this item increased by 4 lakh tonnes (20 per cent) in 1986-87. In value terms, imports at Rs.1,450 crores in 1986-87 were higher by nearly 18 per

Table X – 3 India's Principal Imports

(Rupees crores)

Sr. No.	Commodities	Unit of Quantity	1982-83		1983-84		1984-85		1985-86 (PR)		Increase(+)or Decrease(−) in 1985-86 over 1984-85 (in value)		1986-87(P)		Increase (+) or /Decrease (−) in 1986-87 over 1985-86 (in value)	
			Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Absolute	Percentage	Quantity	Value	Absolute	Percentage
1		2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1.	Petroleum, Petroleum Products and related materials	Million Tonnes	22.0	5622	20.3	4832	19.7	5409	19.0	4990	−419	−7.7	18.0	2680	−2310	−46.3
2.	Machinery and transport equipment	Value	—	2573	—	3174	—	3027	—	3498	+471	+15.6	—	5261	+1763	+50.4
3.	Iron and Steel	000' T	2841.1	1172	2582.9	1049	1875.4	941	1996.5	1231	+290	+30.8	2401.0	1450	+219	+17.8
4.	Pearls, precious and semi-precious stones	Value	—	729	—	1098	—	1032	—	1106	+74	+7.2	—	1495	+389	+35.2
5.	Cereals and Cereal preparations	000'T	3297.6	373	4212.4	809	954.0	242	241.7	89	−153	−63.2	129.4	47	−42	−47.2
	Of which: a) Wheat	-do-	1651.8	352	3038.6	643	554.2	130	144.2	49	−81	−62.3	107.6	37	−12	−24.5
	b) Rice	-do-	19.4	4	408.8	100	348.6	90	25.7	8	−82	−91.1	2.5	1	−7	−87.5
6.	Sugar	-do-	13.5	2	5.8	3	403.1	96	1990.0*	449*	+353	+367.7	725.5	205	−244	−54.3
7.	Organic and inorganic chemicals	Value	—	422	—	660	—	857	—	879	+22	+2.6	—	1036	+157	+17.9
8.	Vegetable oils, fixed (edible oils)	000' T	1092.1	397	1383.8	734	1173.9	950	904.1	614	−336	−35.4	1415.2	612	−2	−0.3
9.	Non-ferrous metals	Value	—	345	—	391	—	412	—	469	+57	+13.8	—	415	−54	−11.5
10.	Professional, scientific controlling instruments, photographic, optical goods	-do-	—	333	—	315	—	287	—	348	+61	+21.3	—	455	+107	+30.7
11.	Paper, paperboards and manufactures thereof	000' T	256.6	160	245.2	157	271.2	195	208.4	195	—	—	240.0	195	—	—
12.	Artificial resins, plastic materials etc.	Value	—	138	—	199	—	223	—	291	+68	30.5		436	+145	+49.8
13.	Manufacture of metals	-do-	—	144	—	149	—	141	—	186	+45	+31.9	—	199	+13	+7.0

Table X – 3 : India's Principal Imports *(Concld.)*

(Rupees crores)

Sr. No.	Commodities	Unit of Quantity	1982-83		1983-84		1984-85		1985-86(PR)		Increase (+) or Decrease(−) in 1985-86 over 1984-85 (in value)		1986-87(P)		Increase (+) or /Decrease (−) in 1986-87 over 1985-86 (in value)	
			Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Absolute	Percentage	Quantity	Value	Absolute	Percentage
1	2		3	4	5	6	7	8	9	10	11	12	13	14	15	16
14.	Metalliferous ores. metal scrap etc.	Value	–	194	–	193	–	185	–	286	+101	+54.6	–	362	+82	+28.7
15.	Textile yarn, fabrics, made up articles,etc.	-do-	–	127	–	136	–	113	–	133	+20	+17.7	–	123	−10	−7.5
16.	Medicinal & Pharmaceutical products	-do-	–	89	–	147	–	137	–	164	+27	+19.7	–	158	−6	−3.7
17.	Non-metallic mineral manufactures	-do-	–	115	–	179	–	82	–	81	−1	−1.2	–	74	−7	−8.6
18.	Chemical materials & products	-do-	–	94	–	145	–	135	–	117	−18	−13.3	–	120	+3	+2.6
19.	Synthetic & regenerated fibre	000' T	98.4	145	73.2	105	39.2	60	35.9	56	−4	−6.7	25.5	44	−12	−21.4
20.	Fertilizer, Crude	-do-	1065.6	65	1447.4	107	1605.9	137	1516.5	124	−13	−9.5	1542.7	129	+5	+4.0
21.	Fertiliser, manufactured	-do-	1874.1	205	1254.1	204	4893.9	1007	3493.5	823	−184	−18.3	2865.6	487	−336	−40.8
22.	Crude rubber (including Synthetic and reclaimed)	-do-	61.6	64	62.8	82	60.2	87	64.7	82	−5	−5.7	59.9	81	−1	−1.2
	A. Total of the above			**13508**		**14868**		**15755**		**16211**	**+456**	**+2.9**		**16070**	**−141**	**−0.9**
	B. Others			**785**		**963**		**1379**		**3536**	**+2157**	**+156.4**		**3993**	**+457**	**+12.9**
	C. Grand Total			**14293**		**15831**		**17134**		**19747**	**+2613**	**+15.3**		**20063**	**+316**	**+1.6**

Note : Grand totals for 1984-85 and 1985-86 have been further revised to Rs. 17,173 crores and Rs. 19,766 crores, respectively.
P – Provisional. PR – Partially revised * – As reported in the Annual Report of State Trading Corporation of India – 1985-86.
Source: D.G.C.I. & S.

cent (Rs.219 crores) than in 1985-86. The higher increase was, however, arrested by the decline in international price of this item, the unit value of which at Rs.6,039 per tonne in 1986-87 was lower by Rs.127 per tonne.

Imports of *organic and inorganic chemicals* increased by Rs.157 crores to Rs. 1,036 crores in 1986-87 against a modest rise of Rs.22 crores in 1985-86. Imports of *chemical materials and products* went up marginally by Rs. 3 crores in 1986-87 to Rs.120 crores. *Medicinal and pharmaceutical products* imports, on the other hand, declined marginally by Rs. 6 crores. Together, the share of chemicals in total imports moved up marginally in the year to 5.2 per cent from 4.5 per cent in 1985-86.

Imports of *artificial resins and plastic materials* have shown consistently rapid rise in recent years. These imports at Rs.436 crores in 1986-87 registered a rise of around 50 per cent. In four years between 1982-83 and 1986-87, these imports have shot up by 216 per cent. Similarly, the imports of *professional, scientific controlling instruments, photographic and optical goods* have shown considerable increase for the second successive year. The rise of about 31 per cent in their imports to Rs.455 crores in 1986-87 was on top of an increase of 21.3 per cent in 1985-86.

Apart from the decline in imports of POL products, discussed earlier, the largest decline was noticed in the imports of *manufactured fertilisers,* the imports of which at Rs.487 crores in 1986-87 were less by Rs.336 crores or 40.8 per cent over those of the preceding year. In terms of quantity too, the imports were less by 18 per cent because of restrictions imposed in the latter part of the year, due to a glut in the domestic market. The unit value of manufactured fertilisers also declined substantially by 28 per cent to Rs. 1,699 in 1986-87.

According to the data available from State Trading Corporation of India, imports of *sugar* touched a new peak, both in terms of quantity and value, in 1985-86 at 19.90 lakh tonnes and Rs. 449 crores, respectively. In 1986-87, however, imports of sugar as per DGCI & S data amounted to 7.26 lakh tonnes worth Rs. 205 crores. The unit value of sugar imports at Rs. 2,826 per tonne was higher by 25.3 per cent over 1985-86.

Imports of *edible oils* which had declined by 35.4 per cent in 1985-86 to Rs. 614 crores fell further marginally to Rs. 612 crores in 1986-87 despite an increase of 57 per cent (or an increase of 5.11 lakh tonnes) in quantity terms. The unit value of imports of edible oils dropped by 36 per cent from Rs. 6,791 in 1985-86 to Rs. 4,324 in 1986-87.

The decline in imports during 1986-87 of other items like *non-ferrous metals, cereals and cereal preparations, synthetic and regenerated fibres, textile yarn fabrics and made-up articles* were individually in the range of Rs. 2 crores and Rs. 54 crores when compared with their imports in the preceding year.

Imports of other items which were not enumerated in Table X-3 had shot up by 156 percent to Rs 3,536 crores in 1985-86 as compared to Rs. 1,379 crores in 1984-85. These imports increased further by 13 percent in 1986-87 to nearly Rs. 4,000 crores.

Direction of Foreign Trade

Provisional data on direction of India's foreign trade, for the year 1986-87 are given in Table X-4 along with the latest revised data for the four previous years.

Region-wise, trade deficit with *Western Europe* at Rs. 4,485 crores registered a rise of 42 per cent during 1986-87 and accounted for 59.7 per cent of the country's global trade deficit as against 36.2 per cent in the previous year. In 1985-86 our trade deficit with West Europe as a proportion of total trade deficit had contracted after a rise therein since 1982-83. Exports to the region increased by 47 per-

Table X—4 : Regional Pattern of India's Trade

(Rs. crores)

Regions	1982-83			1983-84			1984-85			1985-86(PR)			1986-87(P)		
	Exports	Imports	Balance	Export	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. North America	985	1664	−679	1552	2174	−622	1897	2200	−303	2067	2332	−265	2507	2343	164
	(11.2)	(11.6)		(15.9)	(13.7)		(16.2)	(12.8)		(18.8)	(11.8)		(20.0)	(11.7)	
2. Western Europe	1643	3754	−2111	1938	4428	−2490	2211	4742	−2531	2164	5323	−3159	3179	7664	−4485
	(18.7)	(26.3)		(19.8)	(28.0)		(18.8)	(27.7)		(19.7)	(27.0)		(25.3)	(38.2)	
3. Eastern Europe	2016	1712	304	1541	1965	−424	2242	2152	90	2331	2102	229	2319	1507	812
	(22.9)	(12.0)		(15.9)	(12.4)		(19.1)	(12.6)		(21.2)	(10.6)		(18.5)	(7.5)	
4. West Asia	839	4057	−3218	888	3343	−2455	1002	3853	−2851	951	3919	−2968	827	2092	−1265
	(9.5)	(28.4)		(9.1)	(21.1)		(8.5)	(22.5)		(8.6)	(19.8)		(6.6)	(10.4)	
5. Japan	833	1088	−255	828	1447	−619	1029	1240	−211	1179	1584	−405	1341	2555	−1214
	(9.5)	(7.6)		(8.5)	(9.1)		(8.8)	(7.2)		(10.7)	(8.0)		(10.7)	(12.7)	
6. Other Asia	750	1214	−464	870	1442	−572	973	1809	−836	1081	1595	−514	1480	2119	−639
	(8.5)	(8.5)		(8.9)	(9.1)		(8.3)	(10.6)		(9.8)	(8.1)		(11.8)	(10.6)	
7. Africa	332	190	142	379	395	−16	353	414	−61	328	562	−234	316	813	−497
	(3.8)	(1.3)		(3.9)	(2.5)		(3.0)	(2.4)		(3.0)	(2.8)		(2.5)	(4.1)	
8. Other Developing Countries	14	232	−218	11	397	−386	14	444	−430	17	463	−446	30	406	−376
	(0.2)	(1.6)		(0.1)	(2.5)		(0.1)	(2.6)		(0.2)	(2.3)		(0.2)	(2.0)	
9. Oceania	115	351	−236	118	179	−61	164	231	−67	142	410	−268	173	476	−303
	(1.3)	(2.5)		(1.2)	(1.1)		(1.4)	(1.3)		(1.3)	(2.1)		(1.4)	(2.4)	
10. Unclassfied	1276	31	1245	1646	61	1585	1859	49	1810	752	1457	−705	378	88	290
	(14.5)	(0.2)		(16.9)	(0.4)		(15.8)	(0.3)		(6.8)	(7.4)		(3.0)	(0.4)	
Grand Total	**8803**	**14293**	**−5490**	**9738**	**15831**	**−6060**	**11744**	**17134**	**−5390**	**11012**	**19747**	**−8735**	**12550**	**20063**	**−7513**

a) West Asia Group includes Bahrain, Iran, Iraq, Jordan, Kuwait, Qatar,, Saudi Arabia, United Arab Emirates, Oman, Israel, Syrian Arab Republic, Lebanon, Yemen Arab Republic and Yemen Peoples' Democratic Republic.

b) Other Asia Group includes Afghanistan, Bangladesh, Burma, Nepal, Pakistan, Sri Lanka, Indonesia, Malaysia, Philippines, Singapore, Thailand, Hong Kong, China Peoples' Republic (Main land), China Republic (Formerly Formosa), Korean Republic, Socialist Republic of Vietnam and Korean Democratic Peoples' Republic.

c) Other Developing Countries Group includes Argentina, Bolivia, Brazil, Chile, Colombia, Paraguay, Peru, Uruguay, Venezuela, Bahamas, Barbados, Guatemala, Mexico, Panama Republic, Netherlands Antilles, Nicargua, Trinidad, Tobaga and Guyana.

d) Oceania Group includes Australia, New Zealand and Fiji.

e) Unclassified Group consists of countries not included elsewhere and also inlcudes data on Exports of POL.

Notes: 1. Exports of Bombay High crude oil for 1982-83, 1983-84, 1984-85, 1985-86 amounting to Rs. 1063 crores, Rs. 1,213 crores, Rs. 1,563 crores and Rs. 135 crores, respectively, are taken into account in Grand Total and Unclassified Group but, are not shown in Region wise details and for 1986-87 these figures are NIL.

2. Exports of petroleum products amounting to Rs. 172 crores in 1982-83, Rs. 357 crores in 1983-84, Rs. 255 crores in 1984-85, Rs. 376 crores in 1985-86 and Rs. 342 crores in 1986-87 are taken into account in Grand Total and Unclassified Group by these are not shown in Regionwise details.

3. Figures in brackets are percentages to Grand Total.

4. Import figures for 1984-85 and 1985-86 have been further revised to Rs. 17,173 crores & Rs. 19,766 crores, respectively.

5. Exports figure for 1984-85 has been further revised to Rs. 11,855 crores.

PR — Partially Revised P — Provisional *Source:* D.G.C.I. & S.

cent (Rs. 1,015 crores) to Rs. 3,179 crores in 1986-87 as against a marginal decline of 2.1 per cent (Rs. 47 crores) in the previous year and the region's share in total Indian exports rose from 19.7 per cent to 25.3 per cent. The rising trend in imports from this region continued. Imports, rose by Rs. 2,341 crores or by 44 per cent to Rs. 7,664 crores in 1986-87 as against the increase of Rs. 581 crores or 12.3 per cent in 1985-86. Consequently, the region accounted for 38.2 per cent of imports in 1986-87 as against 27 per cent in 1985-86.

The Federal Republic of Germany, the United Kingdom, Belgium, France and Sweden accounted for about 80 per cent of the deficit with the region. Exports to Federal Republic of Germany increased by 53 per cent (Rs. 255 crores) to Rs. 739 crores in 1986-87 as against a marginal decline in the previous year and accounted for 23 per cent of our exports to this region and 6 per cent of India's total exports. Imports from Federal Republic of Germany increased by 39 per cent (Rs. 538 crores) to Rs. 1,933 crores, as against a rise of 8.2 per cent in 1985-86. The trade deficit with Germany thus widened from Rs. 911 crores in 1985-86 to Rs. 1,194 crores in 1986-87. Exports to the U.K. during the year increased by 40 per cent (Rs. 211 crores) to Rs. 736 crores as against a decline of 14 per cent in 1985-86. Imports also increased by 40 per cent (Rs. 464 crores) to Rs.1,622 crores as against the rise of 24 per cent (Rs. 224 crores) in 1985-86. The trade deficit with the U.K. rose from Rs. 633 crores in 1985-86 to Rs. 887 crores in 1986-87, a rise of 40 per cent over the year.

West Asia and Japan each accounted for about 16 per cent of the trade deficit in 1986-87. There was, however, a striking difference in that the deficit with West Asia during the year narrowed down by about 60 per cent to Rs. 1,265 crores from Rs. 2,968 crores in 1985-86. This contraction in deficit was largely because of a 47 per cent decline in our imports from the region from Rs. 3,919 crores to Rs. 2,092 crores in 1986-87 mainly because of a fall in imports from Iran, Iraq and the United Arab Emirates. The region's relative share in total imports declined to 10 per cent from that of generally over 20 per cent since 1982-83. Exports to the region declined further by 13 per cent to Rs. 827 crores, accounting for 6.6 per cent of total exports.

India's trade deficit with *Japan* registered a sharp three-fold rise in 1986-87 to Rs. 1,214 crores following 61 per cent rise (Rs. 971 crores) in imports on the top of 27.7 per cent increase (Rs. 344 crores) in the previous year. Exports to Japan, on the other hand, increased by only 13.7 per cent or by Rs. 162 crores in 1986-87 as against 14.6 per cent or by Rs. 150 crores in the preceding year. The relative share of Japan in imports increased from 8.1 per cent in 1985-86 to 12.7 per cent in 1986-87 while her relative share in exports remained stable at 10.7 per cent.

In the case of *Other Asia* which accounted for about one-tenth each of our exports and imports, the trade deficit increased to Rs. 639 crores in 1986-87 from that of Rs. 514 crores in 1985-86. Exports to this region increased by 36.9 per cent in 1986-87 while imports rose by 32.9 per cent during the year as against 11.8 per cent decline in 1985-86.

With the *African* region, the deficit more than doubled to Rs. 497 crores during the year from Rs. 234 crores in 1985-86. Imports from the region continued to increase at a faster rate of 44.7 per cent while exports to the region declined by 3.7 per cent. The relative share of this region in our imports increased to 4.1 per cent from 2.8 per cent in 1985-86 while that in exports declined marginally to 2.5 per cent from 3 per cent during the same year.

The *Oceania* region was the other region in respect of which India's trade deficit increased from Rs. 268 crores in 1985-86 to Rs. 303 crores in 1986-87, as imports rose by 16 per cent in 1986-87, on top of 77.5 per cent rise in the previous year. The region's share in India's total exports and imports continued to

be around 1.4 per cent and a little over 2 per cent, respectively.

India's trade position continued to improve further vis-a-vis *North America* and *Eastern Europe* during 1986-87. Exports to North America in 1986-87 increased by 21 per cent or by Rs. 440 crores to Rs. 2,507 crores and accounted for 20 per cent of India's total exports. Imports, on the other hand, increased marginally (0.5 per cent); the share of the region in the country's total imports remained at 11.7 per cent. As a result, India achieved a surplus trade balance of Rs. 164 crores, as against the deficit of Rs. 265 crores in 1985-86. Exports to the U.S.A. in 1986-87 were up by 21.6 per cent to Rs. 2,357 crores and accounted for 18.8 percent of India's global exports. Imports from the U.S.A. increased by 3 per cent as against the rise of 12 per cent in 1985-86, and at Rs. 1,963 crores accounted for 9.8 per cent of India's total imports. The trade surplus with the U.S.A. increased from Rs. 34 crores in 1985-86 to Rs. 394 crores in 1986-87, more than wiping out the deficit with Canada of Rs. 231 crores.

There was a substantial increase in the trade surplus with the *East European countries* during the year from Rs. 229 crores in 1985-86 to Rs. 812 crores in 1986-87 following a steep fall of 28.3 per cent in imports. Exports, too, declined, but marginally. The share of the region in imports came down from 10.6 per cent in 1985-86 to 7.5 per cent in 1986-87 while its share in exports declined from 21.2 per cent to 18.5 per cent. Amongst the countries of the region the U.S.S.R. at Rs. 801 crores accounted for almost the entire surplus with the region. Imports from the U.S.S.R. declined by 3.5 per cent from Rs. 1,648 crores to Rs. Rs. 1,072 crores in 1986-87, while exports declined by 3.1 per cent to Rs. 1,873 crores. The U.S.S.R.'s share in total imports came down to 5.3 per cent from 8.3 per cent in 1985-86 while its share in exports declined to 14.9 per cent from 17.5 per cent in the previous year.

IMPORT LICENCES

Data on value of import licences issued to the eight categories of importers under both government and private sectors are presented in Table X-5. The discussion hereafter is in terms of value of these licences unless otherwise specified. The interpretation of these data, as in the past is subject to the following limitations : a) the validity period of certain licences is for eighteen months, b) extension is granted in some cases in the period of validity or revision in the value of a licence and c) there is sometimes revalidation of the licences issued earlier. Barring these limitations, however the data would reflect broadly the dynamics of the import policy as a whole. There is no direct one to one correspondence between the value of licences issued and the actual imports of goods in a given period. But an analysis of the movement in the ratio of value of licences and actual imports would reveal the relative importance of licensing in import trade, particularly the import trade in private sector. In 1986-87 this ratio at 45.9 percent was higher by over 3 percentage points when compared with the ratio for the preceding year. Since the lag in the issue of a licence and its utilisation is not uniform the movements in this ratio need to be interpreted with caution.

Licences issued during 1986-87 increased by Rs. 796 crores (9.5 per cent) from Rs. 8,417 crores in the last year to Rs. 9,213 crores due entirely to an increase in licences issued to the private sector. The value of licences issued to the Government sector declined by Rs. 13 crores during the year.

Licences under all categories except those to actual users (both industrial and non-industrial) and State Trading Agencies increased during the year 1986-87. Of the total increase in licences of Rs. 796 crores, those issued to the category registered exporters'recorded the largest increase of Rs. 705 crores (24.8 percent) to Rs. 3,553 crores. The licences issued to the category 'others' also registered notable increase. As against a six-fold increase in 1985-86

Table X—5 : Value of Import Licences issued : Classified by Major Categories and Sectors — 1985-86 and 1986-87

(Rupees crores)

Sr. No.	Category	GOVERNMENT SECTOR		PRIVATE SECTOR		TOTAL	
		1985-86	1986-87	1985-86	1986-87	1985-86	1986-87
	1	2	3	4	5	6	7
1.	Actual Users (Industrial)	329	219	34	36	363	255
		(9.0)	(6.0)	(0.7)	(0.6)	(4.3)	(2.8)
2.	Actual Users (Non-industrial)	689	264	33	11	722	275
		(18.8)	(7.2)	(0.7)	(0.2)	(8.6)	(3.0)
3.	Raw Materials (DGTD Units)	287	450	846	883	1,133	1,333
		(7.8)	(12.3)	(17.8)	(15.9)	(13.5)	(14.5)
4.	Small Scale Industries	—	—	116	130	116	130
				(2.4)	(2.3)	(1.4)	(1.4)
5.	Registered Exporters	347	384	2,501	3,169	2,848	3,553
		(9.5)	(10.5)	(52.6)	(57.0)	(33.8)	(38.6)
6.	Capital Goods/Heavy Electrical Plants	1,142	1,435	1,031	1,022	2,173	2,457
		(31.2)	(39.3)	(21.7)	(18.4)	(25.8)	(26.7)
7.	State Trading Agencies	747	497	—	—	747	497
		(20.4)	(13.6)	—	—	(8.9)	(5.4)
8.	Others*	122	401	192	312	314	713
		(3.3)	(11.0)	(4.0)	(5.6)	(3.7)	(7.7)
	Total	**3,663**	**3,650**	**4,754**	**5,563**	**8,417**	**9,213**

* Include the categories 'Ad-hoc licences', 'Customs Clearance permits', 'Director General of Supplies and Disposals Contracts', 'Government and against Government Contracts', 'Replacement Licences', and 'Co-operative Societies'.

Note : Figures in parenthesis are percentages to the value of total licences issued to each category in the sector during the year.

Source: Chief Controller of Imports and Exports.

the licences issued to actual users (non-industrial) declined by 61.9 per cent to Rs. 275 crores in 1986-87 bringing down the relative share of this category sharply from 8.6 percent in 1985-86 to 3 percent in the total value of licences. Licences issued to actual users (industrial) continued to decline and at Rs. 255 crores in 1986-87 formed 2.8 percent of total licences. Licenses to State Trading Agencies declined substantially by 34 percent to Rs. 497 crores reflecting the lesser roles to be played by licences in imports by these agencies.

The relative importance of various categories under the licensing system got reflected in their shares in total licences issued. The share of registered exporters at 38.6 percent in 1986-87 was up by 5 percentage points over that of 1985-86 followed by the 'others' category with a share of 7.7 percent as against 3.7 percent in 1985-86. D.G.T.D. units recorded a marginal rise from 13.5 percent to 14.5 percent in 1986-87. The largest decline in the share, on the other hand, was in the case of actual users (non-industrial) which fell from 8.6 percent in 1985-86 to 3.0 percent in 1986-87. The share of State Trading Agencies also fell to 5.4 percent from 8.9 percent in the previous year. The share of actual users (industrial) moved down from 4.3 percent to 2.8 percent.

Licences issued to the Government sector during 1986-87 declined by Rs. 13 crores (0.4 percent) to Rs. 3,650 crores and those to private sector went up by Rs. 809 crores to Rs. 5,563 crores. Consequently, the share of the Government sector in the total licences came down from 43.5 percent in 1985-86 to 39.6 percent in 1986-87. The larger share of the private sector in the licences is, perhaps, the reflection of various incentives given to export-oriented units.

In the Government sector licences issued to the category of capital goods/heavy electrical plants went up from Rs. 1,142 crores to Rs. 1,435 crores in 1986-87. Licences to registered

exporters moved up from Rs. 347 crores to Rs. 384 crores, an increase of 10.7 percent. As against a sharp increase in the last year, State Trading Agencies in the Government sector registered a decline of Rs. 250 crores or 33.5 percent to Rs. 497 crores in the value of licences in 1986-87. The licences issued to actual users (non-industrial) also declined sharply from Rs. 689 crores in 1985-86 to Rs. 264 crores in 1986-87.

In relation to the private sector, licences to registered exporters category increased substantially by Rs. 668 crores (26.7 percent) to Rs. 3,169 crores in 1986-87. Licences to D.G.T.D. units for raw materials went up by Rs. 37 crores though its share in the total value of licences in the private sector declined from 17.8 percent in 1985-86 to 15.9 percent in 1986-87. The share of capital goods/heavy electrical plants also came down from 21.7 percent to 18.4 percent in the period under review with a marginal fall of Rs. 9 crores in absolute terms. Small scale industries recorded a rise of Rs. 14 crores or 12.1 percent in 1986-87 over 1985-86 but its share in the total licences to private sector came down slightly to 2.3 percent in 1986-87 from 2.4 percent in 1985-86.

II. DEVELOPMENTS IN FOREIGN TRADE POLICY

The basic framework of the foreign trade policy is as delineated in the long term Import-Export Policy announced on April 12, 1985 for the three year period 1985-88. The Government in 1986-87 made some amendments in the policy, taking into account the emerging national and international economic scenario. Major amendments are described below:

The Export-Import Pass Book Scheme introduced for manufacturer exporters in January 1986 was liberalised during the year, to provide easy access to imports for export production. The import entitlements of some of the export products were enhanced and also the facility of use of the Pass Book was extended to Export and Trading Houses. Further, the supply of finished goods to a unit in a free trade zone or to 100 per cent EOUs was treated as deemed exports and considered towards fulfilling the export obligation by the Pass Book licence holder.

The Advance Licensing Scheme was also liberalised to include all imported inputs as cleared by the Advance Licensing Committee to encourage exports as against imports of only about 145 items earlier. In the case of manufacturer exporters, imports of consumables were also allowed under the Scheme since January 1987. The Advance Licensing Scheme was extended to imports of gold for the production of jewellery for exports in August 1986.

In December 1986, the Government announced a new Import Replenishment Scheme for export of silver jewellery and silver articles providing for replenishment of pure silver to the extent of the quantity used in the manufacture of silver jewellery and articles exported. Replenishment of silver under this Scheme will be arranged by State Bank of India at a price, at which SBI purchases silver from the international market on behalf of the concerned exporter plus some service charge. The stipulation of minimum value added on the silver content has also been reduced from 33.3 per cent to 20 per cent.

In March 1987, the Imprest Licensing Scheme was modified whereby the value of a licence issued under the Scheme will be debited to the replenishment entitlement admissible to exports made in fulfilment of the export obligation prescribed.

The Government announced a three-year export policy for raw cotton in October 1986 envisaging a minimum annual export of six lakh bales of various types of cotton, beginning from the 1986-87 season, subject to a minimum export price. In December 1986, a new computer software development and export policy was announced to encourage the development

of the computer industry and to promote the exports of computer software. The policy allows the imports of hardware/software of computer/computer based system on liberal terms but all such imports carry a software export obligation to be fulfilled in a four year period.

The major developments in export/import controls during the year 1986-87 as well as changes in export/import duties are indicated in Appendices I and II.

Export Controls

Export promotion has acquired special urgency for sometime. The government has been introducing various measures in support of export performance. These measures are announced after due consideration of domestic availability of goods, prevailing international economic environment, etc. The measures include placing of items on OGL or stipulating minimum export price. In a few cases exports are banned or restricted in the light of developing situations. The notifications pertaining to export controls are indicated in Appendix - I.

In April 1986, exports of wheat and hydrogenated oil were allowed within a specified ceiling for the licensing year 1986-87. Pure milk,ghee, maize, pearl barley, wheat and paddy seeds, cotton linters, hatching eggs, snake venom, polyester filament yarn, deoiled groundnut cake and rice bran were the other items allowed within a specified limit during the year. Similarly, export of non-basmati rice was allowed within a specified limit at a minimum export price of Rs. 4000 per tonne during the year 1986-87. The minimum export price was reduced to Rs. 3000 per tonne in July 1986 and the conditions governing the exports were liberalised in December 1986, in that the exports were allowed against revolving letters of credit in contrast to the earlier stipulation of allowing exports only against 100 per cent confirmed irrevocable letters of credit. Exports of high value added processed foods and Indian snacks were allowed within a ceiling subject to a minimum export price of Rs. 9 per kg. Exports of viscose staple fibre spun yarn were allowed in June 1986 within a ceiling at the minimum export price of Rs. 18 per kg. and in January 1987 exports were liberalised by allowing them within a quota not exceeding 30 per cent of the available ceiling per day, instead of 10 per cent allowed earlier. The other major products exports of which were allowed at minimum export price within a specified ceiling were rayon filament yarn,goat meat, wheat products, bajra, jowar and ragi. Private trade was also allowed to export bajra, jowar and ragi as associates of NAFED.

Exports of Gum Karaya was allowed through NAFED only. Exports of silver mica capacitor plates, staple/rayon hand knotted carpets, bone-sinews meal, video programmes produced by Doordarshan and peanut meal were placed under OGL during the year.

Import Controls

Within the framework of the long-term Import-Export Policy mentioned earlier, the following changes were made in import controls during 1986-87 without significantly shifting the basic approach.

The following items were allowed for imports under the Open General Licence (OGL) list : (a) Computers/computer sub-systems and computer peripherals (b) colour TV picture tubes (other than flat square/full square types), (c) family welfare equipments including LIPPOS' loop and CU - T 200, (d) instructional films including video films in a gauge of 16 mm.or less, and of 800 metres or less in length for predominantly educational purposes, (e) noise meters/noise level meters and sound level meters, (f) levadopa with benserazide capsules, (g) molecular bonding metal, (h) non-toxic and non-inflammable comprising macro molecular substances, automised steel and aluminium particles, (i) spares for after-sales-services of electronic goods and equipment (j) flint button (RI-1,625 to RI-1,700) required for fusing

photochromatic blanks, (k) 33 new items of capital goods, machinery and equipment, accessories and consumables, precision rolling mills for wires and strips, second hand capital goods, (l) inactivated rabies vaccine obtained from purified chick embryo cells tissue culture, nitroglycerine injection and 18 other items of life saving drugs and anti-cancer drugs, polysilicon, single crystal silicon wafers and diffused wafers/dices/chips (other than metallurgical grades silicon), Hepatitis B vaccine, Meninigocoiel vaccine A + C, polyestrodial phosphate injection, and related drugs, (m) computer software of a specific type and (n) gibberellic acid.

The OGL list was shortened with the deletion from this list of the following items : Ferrochrome with carbon less than 0.03%, woodpulp, synthetic rubber except butyl rubber, silicon rubber, neoprene/chloroprene/hypalon/viton, bromobutyl, PTEF and EPDM, iron and steel items imported by oil refineries, volumetric displacement meters, lens thickness measure gauge (caliper), flint buttons (RI-1, 625 to RI-1,700),seedlac and shellac, 7 types of acetoacet compounds, cinnamon/cassia and cloves, darchini (bark) and lavang, laung (flower bud), glycol ethers, tea bag machines for heat seal paper bags, power driven pumps including high pressure water jetting equipment (except those in the limited permissible list), all components of machine tools, equipment, instruments and other engineering items and caustic soda and second-hand capital goods.

Keeping the indigenous availability and the need of the various sectors in view, several items were brought under the purview of the limited permissible list of items or taken out of the list. Among the items that were included in the list were : Ferrochrome, synthetic rubber (excluding certain specified types), PTEF and EPDM, 8 bit microprocessor of type 6502 versatile interface adaptor, pulse dialler 2560 G and disc type ceramic capacitors, diethylene glycol and mercury sodium vapour lamps, 7 types of acetoacet compounds, components of footwear (excluding certain specified types), polyurethane foam/sheets including laminations thereof (but excluding polyurethane film /foil below 0.7 mm thickness coloured or uncoloured,grain,or plain for finishing leather), power driven pumps including high pressure water jetting equipment and precision metering pumps and acrylonitrils. Several items were deleted from the limited permissible list chief among which are : ceramic dielectric, general purpose solid tantalum capacitors and centrifugal pumps upto 100 X 100, mm.size.

A.B.S. resin/granules/moulding powder (all grades) and brewery hops (including hop extracts in any form), flint buttons (RI - 1,625 to RI - 1,700) other than those required for fusing photochromatic blanks) and seedlac and shellac were included in the Restricted List of items.

Old ships, vessels (other than Indian flag vessels, etc.) for breaking were canalised for imports through the Metal Scrap Trade Corporation Ltd. Cinnamon/cassia and cloves, polyester staple fibre and caustic soda were canalised through State Trading Corporation of India.

Extension of the Bulk Duty Free Licences to canalising agencies for import of raw materials and components, application of the list attestation procedure to small scale units whose phased manufacturing programme was approved by DC (SSI) and extension of the facility of Import-Export Passbook Scheme to manufacturer-exporters and export/trading houses to facilitate duty free access to imported inputs for export production are some of the major highlights of the import control policy of the year.

In the first quarter (April-June 1987) of the terminal year of the three year long-term import-export policy, the following important changes were made in the direction of import regulation.

The items included in the OGL list were : pad printing machines, steel wire and bronze

wires in micron tolerances, diamond powder (synthetic coated and uncoated), plug gauges, poly cristalline diamond points, copper saws, mechanical comparators and profile project, single/double/triple/quadruplicate blood plastic bags and polyvinyl acetate/acrylate and co-polymers (excluding emulsions), man-made fibres/yarn, other than those elsewhere specified, import of Polyurethane leather for making footballs for exports, computer softwares in any media except software in floppy diskette costing Rs. 50 or less in c.i.f. per diskette, import of non-permissible spares by industrial units importing computer to a specified extent. Among the items taken out of the OGL list were : lifting magnets, machinery imported as capital goods by industrial units using mainly indigenous machinery and polyester staple fibre.

Polyester staple fibre and cinnamon/cassia and cloves were canalised for imports through State Trading Corporation of India. In addition, polyurethane leather was also allowed for imports by STC for distribution to the manufacturers of footballs for exporting under sports goods.

The list of limited permissible items was enlarged with the inclusion of PVC leather cloth of all sorts including PU leather cloth (except PU leather required for manufacture of footballs), emulsions of polyvinyl acetate/-acrylate and co-polymers, lifting magnets and nonyl phenel and mercury/sodium vapour lamps and metal halide lamps.

Other notable changes in the broader perspective of the import policy were : (1) Extension of the definition of ' deemed exports ' to include exports under barter deals or deals under trade promotion agreements without prior approval of the Government. Such deemed exports by registered exporters were eligible for import replenishment and import of raw materials for manufacture of export products. (2) Permission to an exporter with a minimum export performance of Rs. 25 lakhs, to import one fascimile machine with a c.i.f. value not exceeding Rs. 1 lakh as office machine under special licensing provisions. (3) Withdrawal of the List Attestation Procedure in respect of DGTD units, textile machinery manufacturing units and small scale units importing components, upon the units' completing the ' phased manufacturing programme' (4) Enhancement of value ceiling in respect of licence issued to 'new' or 'proposed' units from Rs. 50,000 to Rs. 2.5 lakhs, to import 'restricted' or 'limited permissible items' and also to new or proposed small scale units for obtaining supplementary licences and for small scale industries set up in backward areas or by graduates/diploma holders in professional subject or by ex-servicemen/persons belonging to SC and ST where the ceiling was raised from Rs. 75,000 to Rs. 2.5 lakhs.

Changes in Export Duties - 1986-87

The instrument of export duty which presently affects very few items was used in a flexible manner and changes in duties were made either to increase the competitiveness of export item in world markets or to promote higher unit value realisation and mop up a part of windfall profits accruing to exporters. During the third quarter of 1986, coffee prices in international markets hardened significantly and the export duty on coffee was raised from Rs. 600 per quintal to Rs. 1000 per quintal in October 1986. Subsequently, as the boom in coffee prices gradually petered out, export duty was cut down to Rs. 600 per quintal in January 1987 and further to Rs. 330 per quintal in March 1987. Export duty on black pepper was raised from Rs. 3 per kg. to Rs. 5 per kg. in November 1986. Export duty on all varieties of mica (except mica scrap) which had ranged from 10 to 30 per cent ad valorem was abolished in March 1987; duty on mica scrap remained unchanged.

Changes in Import Duties - 1986-87

Changes in import duties announced during 1986-87 are presented in Appendix II-B. Some of the major developments are enumerated overleaf.

In April 1986 the import duty on X-ray intensifier tube and X-ray image distributor was reduced and the duty on X-ray cameras was abolished. The Government allowed duty free imports of DDT formulations to be exclusively used for the national malaria eradication programme. The concessional rate of duty for imports of crude palm kernel oil to be used in the manufacture of fatty alcohols, was extended by one more year till March 31, 1987. Imports of video casettes and video tapes for educational purposes, were allowed duty free.

In May 1986 concessional rate of duty was allowed on imports of components of nickel cadmium cell to facilitate the domestic production of sealed cylindrical rechargeable nickel cadmium cell.

In June 1986 the basic duty on computers was reduced from 200 per cent to 110 per cent. In December 1986 in keeping with the long-term computer software development and export policy announced in the month, further concessions were allowed. The basic duty on computer equipment was reduced to 60 per cent from the previous level of 200 per cent and other duties like auxiliary and countervailing were abolished. The Union Budget 1987-88 also allowed the import of certain components required for manufacture and maintenance of computer and computer peripherals at concessional rates. To encourage the development of new sources of energy, imports of specific components required for the manufacture of solar energy equipment were allowed duty free. The concessional rate of duty on components required for the manufacture of fork lift trucks with capacity above 10 tonnes was further extended by one year till June 30, 1987.

In order to facilitate the research activities being conducted on the high seas, to explore new sources of mineral wealth, the Government allowed duty free imports of all equipments required by board vessels engaged in research activities on high seas. Also were exempted polymetric nodules collected by such vessels from payment of any customs duty. In December 1986 this facility was further extended to include various goods imported for offshore exploration and exploitation and the exemption was allowed till March 31, 1988.

In November 1986 concessional rate of duty was allowed on imports of components required for the manufacture of power transmission system for the earth moving machinery. In December 1986 the facility to import components required for the manufacture of commercial vehicles was further extended till December 31, 1987.

The Government announced a new policy in December 1986 for promoting exports of silver jewellery and silver articles. From January 1987 imports of silver are allowed duty free, on the condition that it is required under the scheme for export of silver jewellery and articles against silver supplied by the foreign buyer. This exemption has been allowed till February 29, 1988. The import duty on polyester filament yarn has also been reduced in January 1987 to facilitate the production and exports of textiles.

The Union Budget 1987-88 has allowed concessional rate of duty on specific chemicals and electronic items and has extended by one year till March 1988, the concessions granted on imports of modern looms used in the textile industry. Imports of specific types of leather have also been granted concessions to promote exports of leather goods from the country. Imports of nearly 31 additional items of machinery required for leather industry have also been allowed at a concessional duty of 35 per cent. Similarly, for the gems and jewellery industry, customs duty on 46 additional items of tools, machinery, etc., has been reduced to 35 per cent. The budget has allowed concessional rate of duty on special steel required by the domestic capital goods manufacturer and stainless steel for textile machinery industry. Import duty on specified capital goods to encourage modernisation of foundries has also been reduced.

Export Promotion Measures

The Government has been pursuing a multi-pronged strategy for promotion of exports to achieve the targets envisaged in Seventh Five Year Plan. The approach followed has been broadly to identify sectors, industries and products which have a good export potential and provide a suitable policy framework. Fourteen broad sectors have been identified, in consultation with the export promotion councils and commodity boards, for making special thrust in the overseas markets without minimising the importance of increased exports from other sectors as well. The fourteen thrust sectors include tea (especially in package and value added forms), cereals (in particular wheat); processed foods (including fruits and juices, meat and meat products and fresh fruits and vegetables); marine products (especially in value added forms); iron ore; leather and leather manufactures ; handicrafts and jewellery; capital goods and consumer durables; electronic goods and computer software; basic chemicals; fabrics, piece goods and made ups; readymade garments; woollen fabrics and knitwear and projects and services.

The major policy thrust is on promoting exports of both primary commodities and manufactured products. In the case of primary commodities the emphasis is on higher export unit value realisation in the processed and value added form, while in respect of manufactured products from which major contribution to exports has to come, it is on improving quality and international price competitiveness, besides increasing their production. Towards these ends, a series of measures were announced during the year in the areas of industrial policy, fiscal policy, trade policy and export finance policy. The principal measures are discussed in the following paragraphs.

In the area of industrial policy it has been decided to exempt export production from industrial licensing. The industrial units have also been exempted since September 1986 from seeking licences for expansion of capacity exclusively for export production. Relaxation from the provisions of MRTP Act has also been made. The large firms are also permitted, on a case by case basis, to manufacture products which are in the small scale reserved sectors, provided sixty per cent of the production is exported and such units are set up in backward areas. In addition to these specific measures, the policy of broad-banding has been extended to a large number of items particularly those in the thrust sectors to provide requisite flexibility in production.

As mentioned in the last year's Report, effective from July 1, 1986, a new scheme of Cash Compensatory Support (CCS) was introduced, which is valid upto March 31, 1989 for all product groups except cotton textiles for which it is valid till December 31, 1988. In February 1987, CCS rates were revised for a number of items including some engineering goods. Admissibility of CCS to deemed exports has also been extended from July 1, 1986 to March 31, 1989. CCS on such supplies is allowed at 75 per cent of what is admissible on physical exports. These supplies include supplies to IDA/IBRD financed projects in India, to projects financed by multilateral, bilateral external agencies and to UNICEF for their aid programmes. The Government also decided to grant with effect from July 1, 1986, project assistance of 10 per cent of the net foreign exchange earnings from the service portion of the turnkey projects and package projects of civil engineering construction services and software. Project assistance was further extended to operation and maintenance service contracts with effect from February 17, 1987. This scheme is valid till March 31, 1989.

The Duty Drawback System was rationalised and the new schedule was brought into effect from June 1, 1986. Higher rates have been fixed for certain thrust sectors, which have substantial export potential like leather and leather manufactures. Some of the other important items for which the rates have been increased are woollen hand-made carpets, hand-made fabrics, instant coffee, plastic arti-

cles, sports goods, lead acid storage batteries, tools of high speed steel and certain categories of chemicals and paints. Also, the all-industry rates have been fixed for the first time for a number of new items like imitation plastic jewellery, copper/brass utensils and some specified drugs.

A new Blanket Exchange Permit Scheme for the exporters was announced by the Reserve Bank of India in June 1987. The scheme aims to give a major thrust to the country's export promotion drive. The scheme is more broad-based and flexible both as to eligibility of exporters and the purposes for which exchange can be drawn by holders against their blanket permits. All exporters whose annual foreign exchange earnings on account of export of products included in the select list (announced by the Government from time to time) are not less than Rs. 5 lakhs will be eligible for issue of the blanket exchange permits. The minimum qualifying amount of foreign exchange earnings in a year for exporters of other products will be Rs. 20 lakhs and for companies executing civil construction contracts and consultancy contracts abroad, it will be Rs. 10 lakhs and Rs. 5 lakhs, respectively. In addition, certain export oriented units and those exporters eligible for assistance from the Export Marketing Fund are also eligible. The quantum of exchange permitted will be determined on the basis of classification of the products given in lists A and B, exported by it during the previous accounting year. Broadly, exporters engaged in exports of products covered in list A are eligible upto 10 per cent of the f.o.b. value of their export realisation. Exporters of products covered in List B are eligible for the permit on a discretionary basis for an amount not exceeding 2 per cent of the f.o.b. value of their annual exports realisation. Significantly, the goods specified in the two lists are those with high value addition and those which have high potential for exports. Most of the fourteen thrust sectors find place in the list. The list A has 25 items and list B has 16 items. Exporters whose products are not covered in any of the lists will be eligible for a maximum of 5 per cent of the export realisations. The blanket permit that may be issued to any exporter initially will be subject to a monetary ceiling of Rs. 2 crores.

The principle of supplying raw materials at international prices has been extended to aluminium based industries since August 1986 with a view to encouraging exports of engineering goods. In October 1986 it was decided to extend in principle the facility of supplying raw materials at international prices to all major export sectors where raw materials are required for the export production. This facility will also cover those process accessories which constitute a high percentage in the cost structure. The Advance Licensing Scheme has been simplified to facilitate exports in various sectors and has recently been extended to cover all imported raw materials including consumables.

In June 1986 the Government announced a new policy package to boost exports of gold jewellery and in December 1986 it announced two schemes to promote exports of silver jewellery and articles. It was also decided to set up a 100 per cent export oriented gems and jewellery complex in the Santacruz Electronic Export Processing Zone, Bombay. To promote exports of tea, various concessions were allowed like higher CCS rates on value added tea, exemption of tea bags from excise, abolition of customs duty on filter paper used in the manufacture of tea bags, excise duty rebate of 50 paise per bag on export of loose tea and blended tea.

The Union Budget for 1987-88 also announced a number of duty concessions for industries with promising export potential. The import duty on tools and machinery required for the leather industry, gems and jewellery industry, marine products industry and food processing/packaging industry was reduced to 35 per cent. Similarly, concessions in duty were also extended to imports of goods for electronics industry and automobile industry. Export duty on mica products was abolished.

In the area of export finance, with effect from August 1, 1986, the Reserve Bank lowered interest rates on export credit by 2.5 percentage points. The rates of interest on pre-shipment and post-shipment credit upto 180 days was reduced from 12 per cent to 9.5 per cent. In the case of pre-shipment credit beyond 180 days but upto 270 days, the rate was reduced from 14 per cent to 11.5 per cent. Export credit interest subsidy to banks was stepped up from 1.5 per cent to 3 per cent from August 1, 1986.

A new scheme has been introduced to promote exports of projects and consultancy. Under the scheme grant of 50 per cent subsidy for submission of tenders for overseas projects, subsidy for establishing consultancy offices abroad for a period of 5 years, and 10 per cent of project assistance for consultancy exports are to be provided.

The Government also decided to give a rebate of 20 per cent in interest payments on all new rupee loans granted by the financial institutions like IDBI, IFCI and ICICI to the export-oriented industries on or after December 1, 1986, in the years in which their exports reach or exceed 25 per cent of their total sales, subject to a floor interest rate of 10 per cent per annum on the relevant loans. Hundred per cent EOU's are also entitled to this scheme. The scheme will be in operation till March 31, 1990.

The debt-equity norm for thrust industries has been liberalised to 4 : 1 to finance projects, against the prevailing 2:1 norm. The relaxation, however,will be on case-by-case basis. With effect from August 1, 1987, the Export Credit Guarantee Corporation (ECGC) has reduced the premium rate for export finance guarantee from 7.5 paise per Rs. 100 per month or part thereof to 5 paise. The guarantee covers post-shipment advances granted by banks to exporters against export incentives receivable in the form of cash assistance and duty drawback.

III. SPECIALISED FOREIGN TRADE AGENCIES

State Trading Corporation of India (STC)

State Trading Corporation of India (STC) has been playing an important role in the country's foreign trade as a major canalising agency for exports and imports since its formation in May 1956. The exports of the Corporation have increased from Rs. 377 crores in 1985-86 to Rs. 505 crores in 1986-87 - a rise of 34 per cent. The import sales increased marginally from Rs. 2,131 crores to Rs. 2,157 crores. During the year, STC was designated as the canalising agency for two varieties of spices — cinnamon/cassia and cloves.

Exports

The export of canalised items declined to Rs. 127 crores in 1986-87 from Rs. 141 crores in 1985-86, and accounted for 25 per cent of its total exports as against 37 per cent in the previous year (Table X-6). The major declines were noticed in exports of semi-processed leather which contracted from Rs. 58 crores to Rs. 45 crores and of castor oil, from Rs. 19 crores to Rs. 15 crores. Exports of non-canalised items on the other hand rose by 56.8 per cent from Rs. 232 crores in 1985-86 to Rs. 364 crores in 1986-87.

Among the non-canalised items, exports of fresh and processed foods rose markedly from Rs.6 crores in 1985-86 to Rs. 41 crores in 1986-87 whereas exports of spices and meat and marine products rose from Rs. 9 crores and 12 crores to Rs. 34 crores and Rs. 33 crores, respectively. Similarly, exports of coffee including instant coffee, more than doubled from Rs. 30 crores to Rs. 63 crores. Increase in exports was also recorded for extractions, footwear and components and chemicals and drugs. Exports of tea declined from Rs. 40 crores to Rs. 10 crores in 1986-87 and jute goods from Rs. 23 crores to Rs. 12 crores.

Table X—6 : Exports and Imports by STC, Major Items

(Rupees crores)

		1985-86 (Provisional)	1986-87 (Provisional)
A.	**Exports**		
I.	**Canalised**		
	Sugar	20	19
	Semi-processed leather	58	45
	Castor oil	19	15
	Molasses	1	—
	Opium	17	6
	Salt	5	7
	Others (including SBO re-export)	21	35
	Total I	**141**	**127**
II.	**Non-canalised**		
	Coffee & instant coffee	30	63
	Tobacco	5	5
	Tea	40	10
	Footwear and footwear components	36	40
	RMG/Cotton textiles / fabrics/coir products	11	6
	Jute goods	23	12
	Finished leather	6	8
	Engineering products and construction material	7	10
	Drugs and chemicals	13	19
	Processed foods & Fruits	6	41
	Spices	9	34
	Livestock, dry fish, meat and marine products	12	33
	Groundnut extractions/other extractions	12	48
	Seedlac/shellac	3	1
	Others	19	34
	Total II	**232**	**364**
Total (I+II)		**373**	**491**
	Special Trading Arrangement (Off-shore trading)	**4**	**14**
	Grand Total	**377**	**505**
B.	**Imports (Sales Value)**		
I.	**Canalised**		
	Edible oils	1006	1347
	Newsprint	129	130
	Sugar	743	384
	Chemicals	74	113
	Rubber	71	67
	Cement	25	12
	Drugs & Pharmaceuticals	22	10
	Fatty acids	45	81
	Others		
	Total I	**2115**	**2144**
II.	**Total non-canalised**	**16**	**13**
	Total (I+II)	**2131**	**2157**

Imports

During the year, import sales of canalised items increased marginally by Rs. 29 crores from Rs. 2,115 crores in 1985-86 to Rs. 2,144 crores in 1986-87. Commodity-wise, sales of imported edible oils registered the largest increase of Rs. 341 crores (33.9 per cent) to Rs. 1,347 crores in 1986-87. Import sales of fatty acids and newsprint also rose during the year. There was a sharp fall in sugar import sales from Rs. 743 crores in 1985-86 to Rs. 384 crores in 1986-87. Sales of cement and natural rubber were also lower than those in the previous year.

Cashew Corporation of India (CCI)

The Cashew Corporation of India (CCI) was set up in August 1970 as a fully owned subsidiary of STC with the objective to serve as a canalising agency for import of raw cashewnuts so as to assist the export-oriented sector of the cashew industry. However, the decanalisation of imports of raw cashewnuts in April 1981 and the subsequent inclusion of such imports under OGL, reduced its role in imports of raw cashew. The Corporation has been concentrating on export activities.

Exports of Corporation increased from Rs. 3 crores in 1985-86 to Rs. 4 crores in 1986-87 but did not reach the target of Rs. 5 crores. In relation to total exports of cashewnuts from India, the Corporation's share is negligible. Hongkong and Japan emerged as the major markets, accounting for more than half of the total exports in 1986-87. Imports of raw cashewnuts in 1986-87 amounted to Rs. 62.5 lakhs.

Handicrafts and Handlooms Exports Corporation (HHEC)

The Handicrafts and Handlooms Exports Corporation of India (HHEC) was set up in June 1962, as a wholly owned subsidiary of STC, with twin objectives of export promotion and trade development of handicrafts and handloom products. The HHEC exports handicrafts (including hand-knitted woollen carpets), handloom fabrics, ready-made garments, gold jewellery and knitwear. Exports of silver jewellery and silver articles were also undertaken by the HHEC from 1987-88. The HHEC does not handle import trade.

Exports of the HHEC declined by nearly 25 percent from Rs.94.8 crores in 1985-86 to Rs. 71.5 crores in 1986-87. Exports of gold jewellery dropped by Rs. 24 crores (31 percent) to Rs. 52.6 crores. The fall in exports of handlooms and carpets was marginal; exports of handlooms declined from Rs. 6.1 crores to Rs. 5.5 crores and those of carpets from Rs. 5.8 crores to Rs. 5.7 crores. The only item, the exports of which showed an increase was readymade garments with exports rising from Rs. 3 crores in 1985-86 to Rs. 5.4 crores in 1986-87. There was no export of knitwear during the year.

The HHEC has set a target of Rs. 108.2 crores for exports in 1987-88, inclusive of that for gold jewellery at Rs. 67.6 crores and for silver jewellery and articles, at Rs. 15 crores.

Tea Trading Corporation of India

The Tea Trading Corporation of India (TTCI) became a wholly owned subsidiary of STC during 1985-86. The Corporation's objective is to promote tea exports particularly of value added items like packet tea, and teabags. The TTCI deals mainly in exports of tea in addition to sales in the domestic market.

The Corporation exported tea worth Rs. 10 crores as against the target of Rs. 28.7 crores set for July 1986-June 1987. Exports by the TTCI consisted mainly by way of agency sales and of green tea. The entire agency sales of Rs. 5.1 crores were to the USSR while Morroco accounted for the entire green tea exports of Rs. 2.4 crores during the period. Bulk tea exports of Rs. 1.4 crores were made during the year, of which Iran accounted for about 86 per cent or Rs. 1.2 crores. Exports of packet tea and tea bags earned Rs. 0.7 crores and Rs. 0.4 crores, respectively.

Minerals and Metals Trading Corporation (MMTC)

Minerals and Metals Trading Corporation (MMTC) is the main canalising agency for exports of major minerals and imports of non-ferrous metals, industrial raw materials, steel, raw materials for fertilisers and finished fertilisers.

The total turnover of the Corporation declined by 7.3 per cent in 1986-87 to Rs. 2,783 crores from Rs. 3,001 crores in 1985-86. Exports grew by Rs. 77 crores or 12.4 per cent to Rs. 700 crores but imports contracted by 12.5 per cent from Rs. 2,367 crores in 1985-86 to Rs. 2,072 crores in 1986-87. The domestic turnover continued to be around Rs. 11 crores.

Exports of canalised items expanded marginally from Rs. 391 crores in 1985-86 to Rs. 396 crores in 1986-87 whereas in the case of non-canalised items,exports grew by nearly 31 per cent to reach the peak of Rs. 304 crores. Exports of non-canalised minerals increased by 75 per cent to Rs. 46.8 crores. The Corporation contracted project exports of US $ 105 millions for the first time.

For the second year, the Corporation entered into counter-trade deals involving exports of Rs. 180 crores. The Corporation has also signed 100 per cent barter deals with Yugoslavia against steel imports and with DPR Korea against zinc imports.

Imports of finished fertilisers almost halved from Rs. 1,052 crores in 1985-86 to Rs. 556 crores in 1986-87. Imports of steel, on the other hand, doubled from Rs. 196 crores to Rs. 367 crores in 1986-87, so as to meet the demand of a wider range of steel products.

MMTC has projected to achieve a total turnover of Rs. 2,950 crores in 1987-88 with exports rising to Rs. 800 crores and imports to Rs. 2,100 crores. The targets for canalised and non-canalised exports have been set at Rs. 440 crores and Rs. 350 crores, respectively.

Free Trade Zones

Kandla Free Trade Zone (KFTZ)

The Kandla Free Trade Zone (KFTZ), set up in 1965, is a premier multi-product free trade zone of the country located on the west coast of India, in the Gulf of Kutch. The exports from the Zone were almost stagnant during the year at Rs. 237 crores.

Though exports from the Zone in 1986-87 were spread over 62 countries, the USSR continued to be the largest buyer absorbing 90 per cent of exports. Exports to the USSR, however, declined marginally from Rs. 220 crores in 1985-86 to Rs. 210 crores in 1986-87. Exports to the UK increased from Rs. 2.6 crores to Rs. 3.1 crores while those to Saudi Arabia increased from Rs. 1.9 crores to Rs. 3.9 crores in 1986-87. Exports to France and Hungary also rose.

The number of units operating in the Zone increased from 114 at the end of March 1986 to 122 at the end of March 1987.

Santacruz Electronics Export Processing Zone (SEEPZ)

The Santacruz Electronics Export Processing Zone (SEEPZ) was established on September 1, 1974, exclusively for augmenting exports of electronic goods. The Government has now decided to establish a gems and jewellery complex in SEEPZ and 9 projects for exports of this item were also approved during the year. In 1986-87 exports from SEEPZ rose to Rs. 102 crores from Rs. 84 crores in 1985-86, an increase of 21 per cent over the year. The share of SEEPZ in the total electronic exports from the country, however, declined to 42 per cent in 1986 from 55 per cent in 1985 due to tremendous increase in exports from the Domestic Tariff Area (DTA) and other Free Trade Zones.

The major products exported during the year from SEEPZ continued to be computers, computer components and peripherals, accounting for 58 per cent of total exports followed by other electronic components (19 per cent) and consumer electronics (13 per cent). The share of exports of computer software, it may be mentioned, increased from 5 per cent to 8 per cent during the year.

Countries of the Far East continued to account for two-fifths of exports from the SEEPZ. The share of East Europe increased from 13 per cent in 1985-86 to 20 per cent in 1986-87, while that of North America declined from 38 per cent to 30 per cent. West Europe and the UK accounted for 8 per cent of total exports in 1986-87. The total number of units operating in SEEPZ at the end of March 1987 rose to 71 from 59 a year earlier.

Madras Export Processing Zone (MEPZ)

The Madras Export Processing Zone (MEPZ) has made further progress since it s commencement on May 1, 1984.

Approved 84 projects in MEPZ have potential for investment of Rs. 95 crores, with annual average exports of Rs. 297 crores. Foreign equity to the tune of Rs. 9.9 crores is involved in 30 cases. The major product groups are readymade garments, electronics and engineering goods, gems and jewellery and leather products.

Exports from MEPZ rose from Rs. 0.54 crore in 1985-86 to Rs. 10 crores in 1986-87 and are projected to rise to Rs. 30 crores in 1987-88. Imports for the units in the zone amounted to Rs. 9.0 crores in 1986-87 and till June end 1987, another Rs. 2 crore worth of goods were imported. The major exports from MEPZ are sewing machines, motors and needles and readymade garments to the USSR, accounting for nearly 88 per cent of the total exports till June 1987. Exports of sewing machines, motors and needles and readymade garments accounted for 73 per cent and 17.5 per cent of total exports from the zone. Other items of exports like computer software and semi precious stones are being exported to the USA, UK and Switzerland.

NOIDA Export Processing Zone (NEPZ)

The NOIDA Export Processing Zone (NEPZ), the only inland export processing zone has completed the infrastructural development work. Total investment of Rs. 91 crores is envisaged in the 43 approved projects with an expected average annual export of Rs. 250 crores. The major product groups which the units are expected to export are electronics, computers, garments and light engineering goods. Six units earned foreign exchange of Rs. 7 crores. It is expected that 16 more units will commence production in 1987-88. The export target for the year is set at Rs. 35 crores.

FALTA *Export Processing Zone (FEPZ)*

The Falta Export Processing Zone (FEPZ) has made considerable progress since its inception in October 1984. The Union Government has spent about Rs. 8 crores for the development of internal infrastructure. Thirty-three units having investment proposals of Rs. 82.6 crores have so far been granted letters of authority for the manufacture of vegetable processed items, carpets, leather goods, electronic goods, bicycle parts, motor cars and sophisticated items like computer systems, software and peripherals. Only one unit, so far, has exported computer peripherals and mica-products to the USSR and Czechoslovakia amounting to Rs. 3.4 crores.

Cochin Export Processing Zone (CEPZ)

The Cochin Export Processing Zone (CEPZ) is a multiproduct zone where 100 per cent foreign participation or collaboration is allowed. The Government has spent approximately Rs. 10 crores for development of infrastructural facilities. One unit engaged in the manufacture of natural essential oil has already started

production and four more units are targeted to start production during 1987-88. Exports worth Rs. 1.5 crores were made till April 1987 from the zone and the target for 1987-88 is fixed at Rs. 2 crores.

100 Percent Export Oriented Units (EOUs)

The scheme of 100 percent export oriented units was introduced in December 1980 to boost exports. Such units are required to undertake manufacture in bond and export for period of 10 years in normal cases and 5 years in case of high technology products. A total of 1404 applications were registered for licences under the scheme upto end-December 1986 and approval was granted for 716 applications. Of these, 109 applications were cancelled due to non-compliance of adequate steps necessary to implement the approvals. By end-December 1986, 99 units commenced production and exports. During 1985-86 exports worth Rs. 131.3 crores were made whereas during the first 6 months of 1986-87 exports amounted to Rs. 40.3 crores. During the year under review, parameters of the policy for 100 percent export oriented units for deep sea fishing were finalised and clearance was given for 46 proposals.

IV. TRADE AGREEMENTS AND ECONOMIC AND TECHNICAL COOPERATION AGREEMENTS.

Trade Agreements and Economic and Technical Cooperation Agreements are important instruments used by the Government to impart vigour and dynamism to the country's foreign trade and to strengthen the economic relations with other countries. The aim is to identify new areas of mutual interest and strengthen the existing ones. These agreements are basically indicative in nature, without imposing any binding commitments on either of the two countries. However, sincere efforts are made to remove hurdles or bottlenecks in trade through negotiations and periodic reviews of the agreements.

In 1986-87, India signed fresh Trade Agreements with Angola and New Zealand and extended the earlier one with Bangladesh for another three years. India also signed Economic and Technical Cooperation Agreements with the USSR, Romania and Angola.

The Trade Agreement and Economic and Technical Cooperation Agreement with Angola was signed on October 4, 1986. The agreement provides for the most favoured nation treatment and is for a duration of two years to be automatically renewed for successive period of two years unless intended otherwise by either of the countries. The two countries have identified the items in which trade can be promoted and this is expected to provide a definite direction to bilateral trade. India has agreed to assist in sectors relating to agriculture, energy, transport, rural development, mining, small scale industries,etc. The payments between the two countries shall be effected in freely convertible currencies.

The Trade Agreement with New Zealand was also signed in October 1986. The agreement is expected to provide a boost to our trade relations. Simultaneously, an agreement on Avoidance of Double Taxation was also signed.

The Trade Agreement with Bangladesh was extended for another three years till October 1989. The initial agreement was signed on October 4, 1980, for a period of three years extendable by three years. India has agreed to import additional quantities of urea, newsprint, leather, books, bamboo pulp etc. India's major exports to Bangladesh comprise of textile yarn, coal, chemicals, medicinal and pharmaceutical products, crude minerals, spices, etc. with engineering goods accounting for nearly 60 per cent of the total exports to Bangladesh.

In November 1986 India signed an Economic and Technical Coqperation Agreement with the USSR which envisaged an increase in the bilateral trade turnover by two and half times

by 1992. In March 1987 a long term Agreement for Economic, Scientific and Technical Cooperation was signed with Romania envisaging more than doubling the trade turnover between the two countries within the next five years.

Annual Trade Protocols indicating trade plans for the ensuing year are generally signed under the long term trade agreements. Annual Trade Protocols for 1987 were signed with all the five East European countries with whom India has Trade and Payments Agreements, namely, Czechoslovakia, German Democratic Republic, Poland, Romania and the USSR. The Indo-Soviet Trade Protocol for 1987 envisages a trade turnover of Rs. 3,800 crores, a growth of 5 per cent over 1986. India's exports to the USSR are expected to be Rs. 1,950 crores and imports from the USSR at Rs. 1,850 crores. The trade plan for 1987 is notable in that a wide range of new commodities and additional quantities of the existing commodities are to be traded and the value thereof is estimated at around Rs. 300 crores. India would be importing from the USSR, for the first time, items like coking coal, abrasive goods, selenium, antimony, soda ash, PVC, polystyrene, orthaxylene and paraxylene, wood pulp, waste paper, raw hides, etc. India would be importing additional quantities of crude oil, fertilisers, methanol, polythylene, synthetic rubber, newsprint, etc. The Indian exports which are likely to show increases in 1987 are tea, shoe uppers, readymade garments, cotton hosiery, woollen knitwear, electronic goods, automobile ancillaries, etc.

The Trade Protocol for 1987 with Czechoslovakia was concluded in December 1986. The protocol envisaged a growth of about 9 per cent from the planned trade turnover of Rs. 467 crores for 1986. The Trade Protocol for 1987 with the German Democratic Republic signed in December 1986 envisaged a trade turnover of Rs. 490 crores showing a rise of nearly 19 per cent over Rs. 414 crores planned for 1986. In 1987, the Indo-Polish trade is envisaged to grow by nearly 30 per cent to Rs. 500 crores. The Trade Protocol provides for additional purchases of tea and pellets from Kudremukh by Poland. The Trade Protocol for 1987 with Romania signed in December 1986 provides for a growth of nearly 20 per cent in the trade turnover over a level of Rs. 280 crores.

V. INTERNATIONAL TRADE NEGOTIATIONS

UNCTAD - VII

The Seventh session of the United Nations Conference on Trade and Development (UNCTAD) was held in Geneva from July 9 to August 2, 1987. The main items on the agenda of the conference were : (1) Commodities; (2) International Trade; (3) Debt and (4) Problems of the Least Developed Countries (LDCs).

The UNCTAD is mainly a negotiating forum and the consensus reached at the Conference on tackling the above issues was as follows :

(1) Commodities :

The industrialised and developing countries have reached an agreement on the Integrated Programme for Commodities (IPC) which would now open the way for commodity agreements on a number of products which the developing nations have been seeking. The prospects of the Common Fund for Commodities set up under the IPC, becoming operational have enhanced with new pledges announced at UNCTAD - VII by many countries including the Soviet Union. These new pledges have raised the total pledged capital to 66.9 per cent of the $470 million fund, allowing it to become operational.

(2) International Trade :

The Conference has reiterated its commitment to halt and reverse protectionism and

urged Governments to consider establishing a transparent mechanism at the national level to evaluate protectionist measures sought by firms/sectors and the implications of such measures for the domestic economy. The Conference also expressed the view that a successful completion of the Uruguay Round of GATT was necessary for bringing about further liberalisation and expansion in trade, and the success of the negotiations will be greatly facilitated by a supportive international economic environment which should ensure mutually reinforcing linkages between trade, money, finance and development. The statement on trade also demanded that the commitments on "stand still" and "roll back" of protectionism made at the launching of the Uraguay Round in Punta del Este should be fully respected and implemented. It also observed that there should be greater access to markets for developing country exports, particularly manufactures and semi-manufactures as well as textiles and clothing. The Conference has also urged the UNCTAD Secretary-General to provide technical assistance to needy developing countries to facilitate their effective participation in the Uruguay Round negotiations.

(3) Debt

The consensus was reached that the response to the debt crisis should "continue to evolve" through continuous dialogue and "shared responsibility", and that the strategy should be implemented with flexibility in an environment of strengthened international cooperation.

(4) Problems of the Least Developed Countries (LDCs)

There was recognition about the need to help poor countries suffering from heavy debt burden and economic difficulties due to fall in prices of commodities. The Conference agreed that it was essential for the international economic environment to be made more stable and predictable in support of growth through "efforts by the major market economy countries", including strengthened multilateral surveillance. Such efforts, the seventh UNCTAD conference said, should be aimed at correcting existing external and fiscal imbalances, promoting non-inflationary sustainable growth, lowering real rate of interest and making exchange rates more stable and markets more accessible.

The Generalised System of Preferences (GSP) Scheme

The UNCTAD Special Committee of Preferences held its 14th Session in Geneva from May 20 to May 30, 1986 to undertake a periodic review of the Generalised System of Preferences (GSP). It was pointed out at the Conference that the value of imports flowing from developing to developed countries on preferential terms within the generalised system of preferences was nearing $40 billion as compared to preferential imports of $ 12 billion in 1976, the first year when all schemes were operative. However, according to the Director of the UNCTAD Manufactures Division, the process of improving the system had slowed down considerably in recent years in comparison with the first decade of its existence. A study prepared by UNCTAD on GSP implementation had also found out that there was a tendency in certain schemes to restrict further the preferential limits on certain categories of products/beneficiaries, thus denying them the opportunity to realize their full export potential. Accordingly, it was decided at the Conference that expeditious steps should be taken to implement the recommendations of the thirteenth session.

Common Fund for Commodities

The agreement establishing the Common Fund for Commodity has so far been ratified by 92 countries accounting for 58.5 per cent of the directly contributed capital of the Fund ($470 million). The Fund is still short of 8—9 per cent of the contributions to reach the target of two-thirds of the directly contributed capital to become operative.

International Agreement/Co-operation in respect of selected commodities

Copper

For the first time since 1980, all major copper producing and consuming countries met under UNCTAD auspices from December 8 to 12, 1986 to consider the copper situation in the world market and to further international co-operation in the copper sector. At the *ad hoc* Review Meeting, the U.S. proposed establishment of an inter-Government producer-consumer forum on copper.

Olive Oil

The fourth International Agreement on Olive Oil and Table Oils 1986, entered into force provisionally on January 1, 1987, after it was adopted by five members accounting for 95 per cent of the participation shares, namely European Economic Community (74 per cent) Tunisia (9.2 per cent), Morocco (2.4 per cent), Algeria (1.3 per cent) and Turkey (8.8 per cent). The agreement is designed to cover not only olive oil but also table oils which were not covered by the earlier agreements. Like the previous agreements the new Agreement also aims at prices which are to be remunerative and just to producers and equitable to consumers, and to avoid excessive fluctuations in prices. However, as in the past, the agreement does not contain any economic provisions aimed at stabilising prices or regulating supply. The other objectives of the Agreement include coordination of production and marketing policies, modernisation of olive cultivation and promotion of world consumption of olive oil.

Cocoa

The International Cocoa Agreement 1986 which came into force provisionally on January 20, 1987 marked the successful conclusion of more than two years of negotiations. Nine producing and 17 consuming countries which account for more than 90 per cent of total world exports and 58 per cent of world imports have ratified the Agreement. The new Agreement will remain in force for three years, with the possibility of further extension for a total of three years.

The main objective of the new Agreement is price stabilisation through the mechanism of buffer stocks. The overall size of the buffer stock remains unchanged at 250,000 tonnes with the possibility of an additional 100,000 tonnes in case the Agreement is extended for a period of more than one year. Already there is a buffer stock of 100,000 tonnes of cocoa which will be transferred to the new Agreement. As in the past, the buffer stock will be financed through a levy on trade of 2 US cents per lb. An innovation in the new Agreement, designed to reinforce the buffer stock calls for cocoa to be withheld from the market under certain conditions. Under the 1980 Agreement the buffer stock was the sole mechanism for defending the price range.

Natural Rubber

A new International Natural Rubber Agreement 1987 was established on March 20, 1987 under the auspices of the UNCTAD. This is successor instrument to the International Natural Rubber Agreement 1979. Exporting and importing countries accounting for about 90 per cent of world trade in natural rubber are parties to the Agreement. The main objective of the Agreement is to stabilise prices and to achieve a balanced growth of demand and supply. The buffer stock is the sole instrument of market intervention for stabilisation of prices. The maximum capacity of the buffer stock has been retained, as in 1979, at 550,000 tonnes.

GATT

The Uruguay Round

The Ministers of the contracting parties to the General Agreement on Tariffs and Trade (GATT) concluded their meeting held at Punta

del Este in Uruguay, from September 15-20, 1986 and decided to launch a new round (eighth round) of Mutilateral Trade Negotiations (The Uruguay Round). According to the declaration made at the conclusion of the GATT meeting, the trade negotiations were to begin by October 31, 1986 and conclude within four years.

The declaration on trade in goods called for a stand still and roll back on trade restrictive or trade destructive measures, under which government undertook not to increase existing levels of protection and phase out their existing breaches of GATT disciplines. The contracting parties also agreed to launch negotiations on *trade in services* and it was decided that though these negotiations will not be placed within the legal framework of GATT, GATT practices and procedures will nevertheless apply to them.

Multilateral Trade Negotiations (MTN) on *trade in goods* will cover the following areas:

1) tariffs, 2) non-tariff measures, 3) tropical products, 4) natural resource based products, 5) textiles and clothing, 6) agriculture, 7) GATT Articles, 8) safeguards, 9) MTN Agreements and Arrangement, 10) subsidies and countervailing measures, 11) Dispute Settlements, 12) trade related aspects of intellectual property rights including trade in counterfeit goods, 13) trade-related investment measures and 14) functions of the GATT system.

A Group on Negotiations on Goods (GNG) has been established to carry out the programme of negotiations. The GNG in turn, has established 14 groups to cover each of the areas of negotiations mentioned above.

Multilateral Trade Negotiations (MTN) on trade in services will aim at establishing a multilateral framework of principles and rules for trade in services including elaboration of possible disciplines for individual sectors. Such framework, however, will respect the policy objectives of national laws and regulations applying to services.

A separate Group on Negotiations on Services (GNS) has also been established to deal with these matters. The two groups (GNG & GNS) will report the progress to the Trade Negotiations Committee (TNC). The TNC met on January 28, 1987 following the meetings of GNG and GNS, and approved a mechanism for surveillance of the stand still and roll back commitments and has set up a Surveillance Body to oversee the actions in these areas.

Chapter XI

Balance of Payments and International Monetary Developments

I. Balance of Payments Developments

Balance of payments data for 1986-87 are available only for the first quarter, i.e. April-June 1986. These show a narrowing down of the current account deficit from Rs. 2,067 crores during April-June 1985 to Rs. 1,789 crores or by 13.5 per cent, due to a significant reduction in the trade deficit. During the quarter, exports at Rs. 3,040 crores improved by 12.2 per cent, while imports at Rs. 5,547 crores declined by 4.9 per cent over April-June 1985. Consequently, the trade deficit contracted by 19.6 per cent from Rs. 3,120 crores in April-June 1985 to Rs. 2,507 crores in April-June 1986. This improvement in trade balance was, however, partly offset by a reduction in net invisible receipts from Rs. 1,052 crores to Rs. 719 crores due to a substantial reduction of 23.1 per cent in net private transfer receipts (reflecting lower remittances from Indians overseas), and 154.9 per cent increase in net investment income payments attributable to larger interest and service payments on external debt. There was also a turnaround in miscellaneous transactions from a net surplus of Rs. 144 crores in April-June 1985 to a net deficit of Rs. 35 crores reflecting mainly larger payments on account of technicians' fees and professional services. A redeeming feature of the invisible account was the substantial growth in travel receipts which went up over the year by 35.0 per cent following an increase in tourist arrivals by 25.8 per cent.

The net capital inflow during April-June 1986 at Rs. 1,153 crores was substantially lower than that of Rs. 1,686 crores in April-June 1985 due mainly to a turnaround in banking capital movements, lower miscellaneous official capital receipts and private capital receipts. Repurchases from the IMF amounted to Rs. 100 crores as against Rs. 65 crores in April-June 1985. Net capital inflow (net of repurchases from IMF) financed 65 per cent of the current account deficit during the quarter (as against 82 per cent in April-June 1985) and the balance was met by drawal on reserves. Thus, although the current account deficit was lower, because of smaller net capital inflow, the reserves declined by Rs. 576 crores as compared to a fall of only Rs. 99 crores in April-June 1985 (Table XI—1).

Table XI–1 : India's Balance of Payments

(Rupees crores)

Items	April-June 1986	April-June 1985
1. Imports, c.i.f.	5547.3	5830.1
2. Exports, f.o.b.	3040.1	2709.8
3. Trade Balance	− 2507.2	− 3120.3
4. Non-monetary gold movement (net)	—	+ 0.9
5. Official transfer payments (net)	+ 44.9	+ 42.0
6. Other invisibles (net)	+ 673.6	+ 1010.1
7. Current Account (net)	− 1788.7	− 2067.3
8. Capital Account (net)		
i) Private	+ 501.5	+ 572.9
ii) Banking	− 22.7	+ 276.5
iii) Official		
— Loans	+ 1033.2	+ 767.7
— Amortisation	− 382.7	− 137.5
— Miscellaneous	+ 23.6	+ 206.0
9. Total Capital Account (net)	+ 1152.9	+ 1685.6
10. IMF	− 100.0	− 64.6
11. Capital Account & IMF	+ 1052.9	+ 1621.0
12. Current Account, Capital Account and IMF	− 735.8	− 446.3
13. Errors and Omissions	+ 160.0	+ 347.5
14. Reserves and Monetary gold (Decrease +)	+ 575.8	+ 98.8

Judging from the data for the first quarter of 1986-87 and available information for the subsequent three quarters, India's balance of payments situation which had shown a marked deterioration in 1985-86 seems to have improved during 1986-87. The current account deficit is likely to have narrowed down during the year under review from Rs. 5,927 crores in 1985-86. The ratio of current account deficit (inclusive of official transfers) to GDP might have declined from 2.4 per cent in 1985-86 to 1.9 per cent in 1986-87 due both to a reduction in trade deficit and a moderate improvement in invisibles. However, on the capital account side, repayments to the IMF were substantially larger than in the previous year. Even so, India's foreign exchange reserves (foreign currency assets of the Reserve Bank of India, gold and SDR holdings) rose by Rs. 331 crores in 1986-87. In the previous year, reserves had risen somewhat more by Rs. 577 crores. In SDR terms, India's foreign exchange reserves declined by SDR 615 million in 1986-87, as against a fall of SDR 276 million in the previous year.

The DGCI&S data on merchandise trade (provisional) presented in Chapter X of this Report show that the trade deficit narrowed down by Rs. 438 crores from Rs. 7,951 crores in 1985-86 to Rs. 7,513 crores in 1986-87. The contraction of the trade deficit was brought

about by an expansion of 20.4 per cent in exports which more than offset a rise of 9.2 per cent in imports during 1986-87 over 1985-86.

Invisible transactions (including net official transfers) had resulted in a surplus of Rs. 3,630 crores during 1985-86. Based on information available net invisible receipts during 1986-87 may be higher than those in the preceding year, due mainly to a rise in travel receipts following 23 per cent increase in the number of tourist arrivals in India as against that of 12 per cent in the previous year. In the wake of a fall in incomes of oil-exporting countries following the slide in oil prices, receipts on account of private transfers representing mainly inward remittances from expatriates might be lower. Further, interest payments on growing foreign borrowings, both concessional and commercial, would be higher during the year in keeping with the rising trend over the past few years. Payments in respect of other items of invisibles such as foreign travel, transportation and miscellaneous might have increased somewhat during 1986-87.

On the capital account, the inflow of net external assistance (inclusive of official transfers) during the year at Rs. 2,170 crores was marginally higher (by 3.8 per cent) than in 1985-86. During 1986-87, the use of commercial borrowings was somewhat higher than in the previous year. The net inflows under NR(E) R Accounts (excluding the estimated interest element) at Rs. 485 crores during 1986-87, were significantly higher over those of Rs. 281 crores during 1985-86. Net inflow under FCNRA Scheme during 1986-87 was Rs. 1,169 crores as against Rs. 1,151 crores in 1985-86. However, repayments to the IMF including those under Trust Fund loans during 1986-87 of Rs. 840 crores were significantly more than those of Rs. 327 crores in 1985-86.

Developments in Reserves

The foreign currency assets of the Reserve Bank increased by Rs. 261 crores during 1986-87, as compared with a rise of Rs. 567 crores in 1985-86.

The SDR holdings also increased by SDR 24.3 million to SDR 139.4 million during 1986-87. In the previous year, these had declined by SDR 31.4 million. During 1986-87, repurchases from the IMF under EFF amounted to SDR 431.3 million; payment of charges on the use of Fund resources and interest on SDRs aggregated SDR 298.8 million. Receipts from the Fund by way of remuneration, interest on SDR holdings and interest subsidy amounted to SDR 14.1 million, SDR 9.9 million and SDR 25.4 million, respectively. During 1985-86 repurchases from the IMF in SDRs had amounted to SDR 197.8 million. Charges paid to the Fund were SDR 391.8 million. Receipts by way of remuneration and interest on SDR holdings were SDR 18.1 million and SDR 15.1 million, respectively.

Gold holdings of the Reserve Bank remained at the previous year's level of Rs. 274 crores (valued at the statutory price of Rs. 84.39 per 10 grammes). During 1985-86, these had risen by Rs. 28 crores.

During the first quarter of 1987-88 (i.e. April-June 1987), the foreign currency assets of the Reserve Bank fell by Rs. 369 crores as compared with the decline of Rs. 299 crores in the corresponding quarter of 1986. SDR holdings declined by SDR 31.8 million to SDR 107.6 million due mainly to repurchases under the EFF of SDR 125.0 million and charges on the use of Fund resources and SDRs amounting to SDR 37.1 million, partly offset by acquisition of SDR 125.0 million and receipts by way of remuneration and interest on SDR holdings of SDR 3.3 million and SDR 2.0 million, respectively. In April-June 1986, SDR holdings had increased by SDR 11.8 million. Gold holdings of RBI remained unchanged at Rs. 274 crores during April-June 1987. On the whole, foreign exchange reserves (foreign currency assets of RBI, gold and SDR holdings) fell by Rs. 424 crores as against a

decline of Rs. 275 crores during the corresponding quarter of 1986. In SDR terms, foreign exchange reserves declined by SDR 206 million in April-June 1987 as against a fall of SDR 390 million during April-June 1986.

II. Foreign Investment : Policy and Developments

The policy for encouraging portfolio and direct investment by non-residents of Indian nationality/origin and by overseas bodies owned to the extent of 60 per cent or more by such non-residents was further liberalised during 1986-87. Accordingly, the Government announced certain facilities such as — (a) the extension of the facility of direct investment under the 40 per cent scheme by NRIs to companies engaged in development of computer software and oil explorations, (b) permission to NRIs to subscribe to the Memorandum and Articles of Association of a new company and take up its shares upto the face value of Rs. 10,000/- for the purpose of its incorporation and (c) permission to Indian companies with more than 40 per cent non-resident interest to acquire immovable properties in India which may be necessary for or incidental to carrying on their industrial activities on submission of Letters of Intent or Industrial Licence or Certificates of Registration from appropriate Government authority. Since July 31, 1986, to facilitate prompt remittance of dividends, authorised dealers have been granted permission for the remittance of dividends to non-resident shareholders, irrespective of the face value of the equity shares or percentage of the issued equity capital held by such non-residents,without the prior approval of the Reserve Bank of India in respect of Non-FERA companies. Only applications of FERA companies are required to be submitted to the Reserve Bank.

Further, NRIs have been allowed to invest (i) upto 100 per cent of the equity capital in sick industrial units, (ii) in new issues of Indian shipping companies under the 40 per cent scheme and (iii) in "Diagnostic Centres" in India under "40 per cent scheme" or "74 per cent scheme". Besides, it has been decided to remove the quantitative ceiling of Rs. 40 lakhs for making investments in India by NRIs in private limited companies under the "40 per cent scheme". (Please see "Section VII Developments in Exchange Control").

Data on foreign investment in India during the year 1986-87 are not yet available. Data on approvals for such investment continued to show a rising trend during the year. The number of proposals approved by the Reserve Bank under facilities available for direct investment with full repatriation rights to non-resident Indians went up by 65.2 per cent from 264 in 1985-86 to 436 in 1986-87. The amount involved also went up sharply by 65.9 per cent over the previous year, from Rs. 255 crores in 1985-86 to Rs. 423 crores in 1986-87. As in the past, approvals for investment under 40 per cent scheme, at Rs. 410 crores, accounted for the bulk of the investment (97 per cent) approved. Such approvals during 1986-87 were nearly twice those of Rs. 242 crores in 1985-86. Approvals under the 74 per cent scheme during 1986-87, however, remained at the previous year's level of Rs. 13 crores. The proposals approved under direct investment on non-repatriation basis increased from Rs. 41 crores in 1985-86 to Rs. 58 crores in 1986-87.

The number of approvals granted for portfolio investment on repatriation basis increased significantly from 641 in 1985-86 to 974 in 1986-87. However, the amount invested by banks on behalf of their non-resident constituents through stock exchanges declined marginally from Rs. 6.0 crores in 1985-86 to Rs. 5.5 crores in 1986-87.

In regard to foreign collaboration in Indian industry, the number of approvals during the year declined marginally by 5.0 per cent from 979 to 930. In 1985-86, such approvals had shown a rise of 19 per cent. Of the approvals granted during 1986-87, 674 or 72 per cent (as against 76 per cent in 1985-86) were for pure technical collaboration, drawings and designs,

and 256 for technical-cum-financial collaboration. The continued emphasis on technical collaboration would enhance the productivity of Indian industries and, in the long run, is expected to improve the competitiveness of Indian export industries.

During the year, seven more companies complied with the final orders issued under Section 29(2), FERA 1973, requiring Indianisation/dilution of non-resident equity holdings to a specified level. By the end of March 1987, the number of foreign companies complying with FERA directives stood at 366. The remaining 23 companies to whom directives for Indianisation/dilution of foreign equity holdings have been issued were at various stages of compliance such as issue or transfer of shares, winding up, etc. Thus, by end-March 1987, out of 898 applications received, only 2 cases remained to be finally disposed of.

Under the current regulations, consents for all bonus issues and debenture issues irrespective of their value are to be obtained from the Controller of Capital Issues. However, in regard to initial and further issues and loans, consents are required only if the value of subscription is more than Rs. 1 crore. Hence, the data presented in this para. and in Table XI– 2 would not indicate the total value of capital raised by Indian joint stock companies.

The value of consents for capital issues granted to Indian joint-stock companies by the Controller of Capital Issues increased by 55 per cent during 1986-87 from Rs. 3,916 crores in 1985-86 to Rs. 6,071 crores in 1986-87. The number of consents issued to these companies for raising capital from non-residents was marginally lower at 156 in 1986-87 as compared to 159 in 1985-86, while the total amount involved was considerably lower at Rs. 111 crores than that of Rs. 189 crores in 1985-86. This led to a fall in share of non-residents in the value of total consents from 4.8 per cent in 1985-86 to 1.8 per cent in 1986-87 (Table XI–2).

The fall in the value of consents granted for raising capital from non-residents was mainly due to initial issues, loans and debenture issues. The declining trend of approvals for raising loans from non-residents witnessed in 1985-86 continued in 1986-87 when the amount fell to Rs. 7.4 crores in 1986-87 from Rs. 85.7 crores in 1985-86. Consequently, the share of non-residents in the value of loans consented to be raised, which fell from 86.6 per cent in 1984-85 to 38.8 per cent in 1985-86, declined sharply to 3.2 per cent in 1986-87. The value of consents for initial issues to non-residents declined sharply from Rs. 26.6 crores in 1985-86 to Rs. 1 crore in 1986-87, and their share in the total consents for initial issues, from 4.1 to 0.1 per cent.

The value of consents for debenture issues, which had registered an increase from Rs. 2.3 crores in 1984-85 to Rs. 35.2 crores in 1985-86, declined by 11.6 per cent to Rs. 31.1 crores in 1986-87. As a result, the share of non-residents in debenture issues came down from 1.5 per cent in 1985-86 to 0.8 per cent in 1986-87.

The value of further issues and bonus issues to non-residents increased by 129 per cent and by 42 per cent, respectively, during the year. Their share in total further issues increased to 4.7 per cent from 3.2 per cent in 1985-86, while in respect of bonus issues, it declined marginally from 11.6 per cent in 1985-86 to 10.9 per cent in 1986-87.

Thus during 1986-87, while consents issued to non-residents for further issues and bonus issues increased by Rs.18 crores and Rs.11 crores over the previous year, this was more than offset by a drop in approvals for loans by Rs. 78 crores, initial issues by Rs. 26 crores and debenture issues by Rs. 4 crores. As a result, the total approvals for non-residents came down sharply by Rs. 78 crores over 1985-86. In 1985-86, such approvals had fallen by as much as Rs. 127 crores.

Table XI—2 : Consents for Capital Issues@ — Aggregate and by Non-residents (NR) 1984-85 to 1986-87

(Rupees crores)

YEAR	INITIAL ISSUES			FURTHER ISSUES			BONUS ISSUES			DEBENTURE ISSUES			LOANS ETC.			TOTAL		
April to March	Total	N.R.	2 as % of 1	Total	N.R.	5 as % of 4	Total	N.R.	8 as % of 7	Total	N.R.	11 as % of 10	Total	N.R.	14 as % of 13	Total (1+4+7 +10+13)	N.R. (2+5+8 +11+14)	17 as % of 16
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1984-85	557.3	95.6	17.1	222.2	8.7	3.9	88.3	17.1	19.3	919.5	2.3	0.3	222.4	192.4	86.6	2009.8	316.2	15.7
1985-86	645.5	26.6	4.1	437.0	14.2	3.2	235.5	27.3	11.6	2376.8	35.2	1.5	221.1	85.7	38.8	3915.8	189.0	4.8
1986-87	825.0	1.0	0.1	687.4	32.5	4.7	354.1	38.7	10.9	3976.6	31.1	0.8	228.0	7.4	3.2	6071.1	110.6	1.8

@ By Indian Joint-Stock Companies

India continued her overall strategy to participate in the developmental efforts of other countries by way of encouraging and promoting joint ventures abroad. However, the number of Indian joint ventures in operation abroad declined from 156 at end-December 1985 to 150 at end-December 1986. Besides, 37 joint ventures were at different stages of implementation. Equity participation by Indian companies in joint ventures in operation abroad declined to Rs. 92 crores (including bonus shares) at end-December 1986 from Rs. 93.8 crores at end-December 1985. The approved Indian equity in Indian joint ventures under implementation declined from Rs. 23.5 crores at end-December 1985 to Rs. 18 crores at end-December 1986. More than 50 per cent of operating joint ventures are concentrated in developing countries of Far-East and South-East Asia. Details regarding inflow of remittances from Indian joint ventures abroad are given below :

(Rupees crores)

Year as at end-December	Dividends	Other Repatriation
1984	7.7	25.4
1985	9.3	29.6
1986	11.6	34.8

Note : Other repatriation includes : Fees for technical know-how, engineering services, management fee, royalty, etc.

Source : Ministry of Commerce, Government of India, New Delhi.

It may be seen from the above that remittances received from abroad during 1986 increased to Rs. 11.6 crores by way of dividends and to Rs. 34.8 crores by way of fees for technical know-how, engineering services and consultancy fees etc. as against Rs. 9.3 crores and Rs. 29.6 crores, respectively, during 1985.

III. External Assistance*

Fresh authorisations of external assistance which had shown a rising trend in 1984-85 and 1985-86, declined during the year. Authorisations at Rs. 3,324 crores (provisional) in 1986-87 were lower by Rs. 862 crores or 21 per cent than those of Rs. 4,186 crores in 1985-86, as against an increase of Rs. 1,083 crores in 1985-86 over 1984-85 at the pre-December 1971 parity rates. (At the current exchange rates, authorisations declined by 10 per cent from Rs. 6,475 crores in 1985-86 to Rs. 5,839 crores in 1986-87). The decline in authorisations during the year was due to lower loan authorisations of Rs. 986 crores partly offset by an increase of Rs. 124 crores in authorisations of grants (Table XI-3).

The utilisation of external assistance at Rs. 1,854 crores (provisional) during 1986-87 was marginally lower by Rs. 15 crores than that of Rs. 1,869 crores during 1985-86, as compared with an increase of Rs. 236 crores (14 per cent) in the previous year. While the utilisation of loans in 1986-87 was higher by Rs. 37 crores, that of grants declined by Rs. 52 crores.

Debt service payments, on a provisional basis, at Rs. 1,065 crores in 1986-87 were higher by 24 per cent than those of Rs. 861 crores in the previous year. Consequently, the net inflow of aid (utilisation of aid net of debt servicing) at Rs. 789 crores was lower by Rs. 219 crores or by 22 per cent than in the previous year (Table XI-6).

Authorisations

External loan assistance authorised during the year declined by Rs. 986 crores to Rs. 2,938 crores due mainly to sharp fall of Rs. 1,148 crores in the authorisations by the World Bank Group. As a result, the share of the World Bank Group in total authorisations came down to 40 per cent in 1986-87 from 59 per cent in the previous year. Loan authorisations were lower also from France (by Rs. 68 crores), the U.S.A. (by Rs. 40 crores), OPEC (by Rs. 39

* The discussion in this Section is in terms of values arrived at on the basis of pre-December 1971 IMF parity rates unless otherwise stated.

Table XI—3 : External Assistance (Fiscal Years)

(Rupees crores)

Items	Loans	Grants	P.L. 480 Aid	Total (2+3+4)
1	2	3	4	5
1. Amount undisbursed as at the end of March 1966	**1,604**	**86**	**108**	**1,798**
2. Amount undisbursed as at the end of March 1969	**1,601**	**25**	**123**	**1,749**
3. Authorisations during 1969-74	**3,793**	**188**	**32**	**4,013**
4. Authorisations during 1974-79	**6,585**	**1,609**	—	**8,194**
	(7,891)	**(1,703)**		**(9,594)**
5. Authorisations during				
(a) 1979-80	780	431	—	1,211
	(964)	(484)		(1,448)
(b) 1980-81	2,887	125	—	3,012
	(3,165)	(160)		(3,325)
(c) 1981-82	2,161	219	—	2,380
	(2,732)	(258)		(2,990)
(d) 1982-83	1,876	322	—	2,198
	(2,506)	(321)		(2,827)
(e) 1983-84	1,474	356	—	1,830
	(1,953)	(403)		(2,356)
(f) 1984-85	2,595	508	—	3,103
	(4,204)	(564)		(4,768)
(g) 1985-86 R	3,924	262	—	4,186
	(6,163)	(312)		(6,475)
(h) 1986-87*	2,938	386	—	3,324
	(5,339)	(500)		(5,839)
6. Utilisation during 1969-74	**3,512**	**158**	**155**	**3,825**
7. Utilisation during 1974-79	**4,607**	**1,215**	—	**5,822**
	(5,615)	**(1,321)**		**(6,936)**
8. Utilisation during				
(a) 1979-80	850	289	—	1,139
	(1,058)	(307)		(1,365)
(b) 1980-81	1,020	331	—	1,351
	(1,226)	(388)		(1,614)
(c) 1981-82	1,188	329	—	1,517
	(1,502)	(355)		(1,857)
(d) 1982-83	1,428	274	—	1,702
	(1,912)	(285)		(2,197)
(e) 1983-84	1,395	237	—	1,632
	(1,972)	(256)		(2,228)
(f) 1984-85	1,299	334	—	1,633
	(1,992)	(356)		(2,348)
(g) 1985-86 R	1,565	304	—	1,869
	(2,522)	(365)		(2,887)
(h) 1986-87*	1,602	252	—	1,854
	(2,990)	(346)		(3,336)
9. Amount undisbursed as at the end of March 1987	**12,148**	**709**	**—**	**12,857**
	(22,021)	**(1,021)**		**(23,042)**

Notes : 1. 'Loans' include P.L. 480 Title I convertible currency credits and refinance credits but exclude rupee loans out of P.L. 480/P.L. 665 rupee counterpart funds. 'Grants' include grants under debt relief but exclude grants out of P.L.480/ P.L.665 rupee counterpart funds. P.L.480 aid comprises value of imports on rupee payment terms under P.L. 480 Title I programme.

2. The rupee value of amounts undisbursed at the end of March 1966 (except those for P.L. 480 aid which are given at the pre-devaluation rate of exchange) are shown at the post-devaluation rate of exchange. The rupee values of amounts undisbursed at the end of March 1969, the amounts authorised and utilised during each of the subsequent years and the amounts undisbursed at the end of March 1987 have been arrived at on the basis of pre-December 1971 IMF Par values. Figures in brackets shown against items 4,5,7 and 8 indicate the rupee values calculated at the rupee's annual average rate of exchange for the respective years, while figures in brackets shown against amount undisbursed as at the end of March 1987 (item 9) represent rupee values calculated at the rates prevalent at the end of March 1987.

R : Revised. * : Provisional

crores), West Germany (by Rs. 19 crores) and Italy (by Rs. 17 crores). As against these, loan authorisations by the USSR were higher by Rs. 116 crores, Japan by Rs. 83 crores and the Netherlands by Rs. 12 crores. During 1986-87, for the first time, there were fresh authorisations of Rs. 113 crores from the Asian Development Bank (ADB). During the year, Denmark which had not authorised any aid in 1985-86, made authorisations of Rs. 18 crores. However, there were no fresh commitments by IFAD, Canada and Switzerland during the year as also in the previous year (Table XI-4).

Of the total loans authorised during 1986-87, project loans at Rs. 2,887 crores constituted 98 per cent of the total. With the sharp fall in project loans from the IBRD/IDA, the share of the World Bank Group in project loans declined from 60 per cent in 1985-86 to 41 per cent during the year. The USSR emerged during the year as the single largest source of project loans, accounting for 43 per cent of the total. The ADB made an authorisation of a project loan of Rs. 113 crores. Authorisations of project loans from Japan doubled during the year under review. However, project loan authorisations from France, the USA, OPEC, Italy and West Germany were lower during the year.

Authorisations of non-project loans increased from Rs. 28 crores in 1985-86 to Rs. 51 crores in 1986-87; their share in total loan authorisations improved marginally to 1.7 per cent from 0.7 per cent in the previous year. While in 1985-86, the entire non-project loan authorisation of Rs. 28 crores was from West Germany, authorisations of non-project loans by Denmark and the Netherlands amounted to Rs. 32 crores and those from West Germany were Rs. 16 crores, in 1986-87.

Authorisations of grants increased by almost one-half from Rs. 262 crores in 1985-86 to Rs. 386 crores in 1986-87. Grant assistance from the U.K. rose by 71 per cent to Rs. 294 crores and accounted for 98 per cent of the increase in total grant assistance authorised during the year. Authorisations of grants from Denmark, USA and the EEC were somewhat higher, while those from the Netherlands were lower. Unlike in 1985-86, Canada and Switzerland made authorisations in this year, whereas no commitments were made by Sweden and West Germany (Table XI-5).

Utilisation

Utilisation of loans during 1986-87 at Rs. 1,602 crores was Rs. 37 crores higher than in the previous year. While utilisation of project loans increased by Rs. 84 crores, that of non-project loans dropped by Rs. 47 crores. Source-wise, while utilisation of loans from IBRD/IDA, Japan, Italy, France, the USA, West Germany and Denmark increased over the year, that from the USSR, Canada, OPEC, IFAD and the Netherlands declined. The contribution of the World Bank Group in loan utilisation improved marginally from 62.6 per cent in 1985-86 to 63.9 per cent in 1986-87 (Table XI-4).

The utilisation of grant assistance which had declined by Rs. 30 crores in 1985-86 contracted further by Rs. 52 crores during the year to Rs. 252 crores. The lower utilisation of grants during 1986-87 was mainly accounted for by the EEC (by Rs. 25 crores) and the U.K. (by Rs. 14 crores). There was no utilisation of grants from Sweden, Canada and West Germany, whereas they contributed Rs. 19 crores during 1985-86. On the other hand, there was a marginal increase in utilisation from Denmark, the Netherlands and the USA during the year. Despite lower grant receipts, the U.K. continued to account for the bulk of grant assistance utilised, accounting for 73 per cent of the total in 1986-87 as against 65 per cent in 1985-86 (Table XI-5).

Debt Servicing

Debt service payments increased from Rs. 861 crores during 1985-86 to Rs. 1,065 crores during 1986-87. As a result, the propor-

Table XI—4 : Loans Authorised and Utilised during 1985-86 and 1986-87 (Fiscal Years)

(Rupees crores)

Country/ Institution	Authorisations						Utilisation					
	1985-86R			1986-87$			1985-86R			1986-87$		
	Project	Non-Project	Total	Project	Non-Project	Total	Project	Non-Project	Total	Project	Non-Project	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
1. IBRD/IDA	2,335	—	2,335@	1,187	—	1,187	979	—	979@	1,023	—	1,023
	(3,809)		(3,809)	(2,022)		(2,022)	(1,597)		(1,597)	(1,743)		(1,743)
2. IFAD	—	—	—	—	—	—	18	—	18	11	—	11
							(29)		(29)	(19)		(19)
3. ADB	—	—	—	113	—	113	—	—	—	—	—	—
				(193)		(193)						
4. Canada	—	—	—	—	—	—	25	6	31	16	1	17
							(32)	(8)	(40)	(21)	(1)	(22)
5. Denmark	—	—	—	—	18	18	—	9	9	—	10	10
					(30)	(30)		(11)	(11)		(17)	(17)
6. France	129	—	129	61	—	61	136	17	153	156	5	161
	(142)		(142)	(87)		(87)	(150)	(19)	(169)	(223)	(7)	(230)
7. West Germany	49	28	77	42	16	58	17	48	65	45	27	72
	(109)	(62)	(171)	(129)	(49)	(178)	(38)	(106)	(144)	(138)	(83)	(221)
8. Italy	47	—	47	30	—	30	—	7	7	19	—	19
	(27)		(27)	(23)		(23)		(4)	(4)	(14)		(14)
9. Japan	82	—	82	165	—	165	50	—	50	98	—	98
	(221)		(221)	(635)		(635)	(135)		(135)	(377)		(377)
10. Netherlands	2	—	2	—	14	14	2	22	24	—	18	18
	(4)		(4)		(38)	(38)	(4)	(43)	(47)		(48)	(48)
11. Switzerland	—	—	—	—	—	—	—	1	1	—	1	1
								(3)	(3)		(4)	(4)
12. U.S.A.	74	—	74	34	—	34	33	—	33	41	—	41
	(121)		(121)	(58)		(58)	(54)		(54)	(70)		(70)
13. OPEC*	44	—	44	5	—	5	30	—	30	19	—	19
	(88)		(88)	(9)		(9)	(58)		(58)	(38)		(38)
14. U.S.S.R.	1,134	—	1,134	1,250	—	1,250	161	—	161	107	—	107
	(1,580)	—	(1,580)	(2,057)		(2,057)	(224)		(224)	(176)		(176)
15. Others	—	—	—	—	3	3	—	4	4	—	5	5
					(9)	(9)		(7)	(7)		(11)	(11)
Total	**3,896**	**28**	**3,924**	**2,887**	**51**	**2,938**	**1,451**	**114**	**1,565**	**1,535**	**67**	**1,602**
	(6,101)	**(62)**	**(6,163)**	**(5,213)**	**(126)**	**(5,339)**	**(2,321)**	**(201)**	**(2,522)**	**(2,819)**	**(171)**	**(2,990)**

* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and OPEC Special Fund.
R Revised. @ Includes Revolving Fund Credit under IDA.
$ Provisional.

Note : Figures in brackets indicate the rupee values at the average annual rates of exchange prevalent during respective years.

Table XI—5 : Grants$ Authorised and Utilised during 1985-86 and 1986-87

(Fiscal Years)

(Rupees crores)

Country/Institution	Authorisations		Utilisation	
	1985-86 R	1986-87*	1985-86 R	1986-87*
1	2	3	4	5
1. Canada	—	4	6	—
		(5)	(8)	
2. Denmark	12	13	8	12
	(15)	(22)	(11)	(20)
3. West Germany	—	—	1	—
			(2)	
4. Japan	8	8	6	6
	(22)	(31)	(16)	(23)
5. Netherlands	24	14	18	21
	(47)	(38)	(35)	(57)
6. Sweden	15	—	12	—
	(16)		(13)	
7. Switzerland	—	1	4	1
		(4)	(12)	(4)
8. U.K.	172	294	199	185
	(161)	(312)	(186)	(196)
9. U.S.A. other than P.L. 480/P.L. 665	12	22	6	8
	(20)	(37)	(10)	(14)
10. E.E.C.	19	30	44	19
	(31)	(51)	(72)	(32)
Total	**262**	**386**	**304**	**252**
	(312)	**(500)**	**(365)**	**(346)**

Note : Figures in brackets indicate the rupee values at the average annual rates of exchange prevalent during respective years.

* Provisional.

R Revised.

$ Including Debt relief as under :

(Rupees crores)

Country	Authorisations		Utilisation	
	1985-86	1986-87	1985-86	1986-87
1	2	3	4	5
By way of Grants				
Japan	3.3	3.0	0.3	1.8

tion of debt servicing to gross aid utilisation rose from 46 per cent in 1985-86 to 57 per cent in 1986-87. The shares of amortisation and interest in total debt servicing were 58 per cent and 42 per cent, respectively, about the same as in the previous year (Table XI—6).

Table XI—6 : Inflow of Foreign Assistance — Gross and Net (Fiscal Years)

(Rupees crores)

Year	Gross Utilisation	Amortisation Payments	Interest Payments	Total Debt Services (3+4)	Net Inflow of Aid (2−5)
1	2	3	4	5	6
1970-71	780	254	158	412	368
1971-72	823	271	175	446	377
1972-73	605	302	177	479	126
1973-74	803	300	184	484	319
1974-75	968	331	181	512	456
	(1,087)	(368)	(201)	(569)	(518)
1975-76	1,436	335	174	509	927
	(1,739)	(427)	(224)	(651)	(1,088)
1976-77	1,248	383	187	570	678
	(1,529)	(471)	(242)	(713)	(816)
1977-78	1,076	464	203	667	409
	(1,249)	(561)	(260)	(821)	(428)
1978-79	1,094	479	218	697	397
	(1,332)	(600)	(286)	(886)	(446)
1979-80	1,139	440	238	678	461
	(1,365)	(570)	(301)	(871)	(494)
1980-81	1,351	448	239	687	664
	(1,614)	(569)	(281)	(850)	(764)
1981-82	1,517	477	260	737	780
	(1,857)	(588)	(323)	(911)	(946)
1982-83	1,702	474	292	766	936
	(2,197)	(585)	(360)	(945)	(1,252)
1983-84	1,632	492	283	775	857
	(2,228)	(658)	(424)	(1,082)	(1,146)
1984-85	1,633	457	328	785	848
	(2,348)	(647)	(528)	(1,175)	(1,173)
1985-86	1,869R	508	353	861	1,008
	(2,887)	(796)	(597)	(1,393)	(1,494)
1986-87$	1,854	619	446	1,065	789
	(3,336)	(1,166)	(838)	(2,004)	(1,332)

$ Provisional. R Revised.

Notes : 1. Gross aid utilisation includes debt relief provided in the form of refinancing credits and grants. Debt service payments in these cases are covered in columns (3) and (4).

2. Figures in brackets indicate the rupee values at the average annual rates of exchange prevalent during respective years.

3. Both amortisation and interest payments exclude payments which are either postponed or rescheduled as under :

(Rupees crores)

Country/ Institution	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78 through 1986-87
1	2	3	4	5	6	7	8	9
1. IBRD	11	—	—	—	—	—	—	—
2. Canada	1	1	1	1	—	—	—	—
3. Japan	19	15	25	31	25	26	25	—
4. USA	7	7	—	—	—	—	—	—
5. USSR	—	—	—	—	—	—	—	1@
Total	**38**	**23**	**26**	**32**	**25**	**26**	**25**	**1**
				(44)	**(32)**	**(26)**	**(36)**	**(1)**

@ Relates to 1985-86.

Aid Pledges for 1987-88

At the Aid-India Consortium meeting held in Paris during June 1987, members pledged assistance to India amounting to U.S.$ 5.4 billion for 1987-88, which is higher by U.S. $ 0.6 billion than the assistance of U.S. $ 4.8 billion for 1986-87. Of the total pledges for 1987-88, the World Bank Group accounted for U.S. $ 2.5 billion including U.S.$ 800 million from IDA. While the total commitments by the World Bank Group remained at the same level as in 1986-87, the share of IDA was higher by U.S. $ 200 million. Other major contributors were Japan (U.S. $ 451 million), West Germany (U.S. $ 358 million), France (U.S. $ 351 million) and USA (U.S. $ 134 million).

Commitments of external assistance were higher than in the previous year in the case of France (by U.S. $ 251 million), Japan (by U.S. $ 166 million) and West Germany (by U.S. $ 72 million). The pledge of external assistance by the U.S.A. is lower by U.S. $ 18 million. There would be a softening in the terms of assistance during the year in view of the slightly larger share of the IDA. Besides, Canada and Denmark have indicated that their contributions will be wholly by way of grants.

Cumulative Assistance

The cumulative external assistance authorised to India upto end-March 1987 aggregated Rs. 44,551 crores. Of this, loans amounted to Rs. 37,194 crores or 83 per cent of the total, and grants, Rs.5,192 crores or 12 per cent of the aggregate assistance. P.L. 480/665 assistance contributed the balance of Rs. 2,165 crores i.e. 5 per cent of the total assistance authorised.

Assistance utilised upto end-March 1987 amounted to Rs. 31,806 crores or 71 per cent of the total amount authorised. Of the total aid utilised, loans accounted for Rs. 25,047 crores (79 per cent), grants Rs.4,482 crores (14 per cent), and P.L. 480/665 assistance Rs.2,277 crores (7 per cent) (Table XI-7).

As at end-March 1987, the share of the World Bank Group in total authorisations was about 41 per cent, about the same level as at end-March 1986. The total authorisations by the IBRD and the IDA increased from Rs. 17,046 crores as at end-March 1986 to Rs.18,233 crores as at end-March 1987. The utilisation of loan assistance extended by these institutions increased from Rs.9,935 crores to Rs. 10,958 crores over the year and constituted 34 per cent of the aid utilised at end-March 1987, as against 33 per cent at end-March 1986 (Table XI-8).

The USA continued to be the second largest source of foreign aid accounting for 15 per cent of authorisation and 21 per cent of utilisation. Other major donors were the USSR, the U.K., West Germany, the OPEC and Japan. These together accounted for 30 per cent of total authorisations and utilisation as at end-March 1987.

Total aid in the pipeline, as at end-March 1987 and at current exchange rates worked out to Rs. 23,042 crores, higher by Rs. 4,976 crores than that at the end of March 1986. Out of this, project loans constituted Rs.21,387 crores or 93 per cent, non-project loans Rs. 634 crores and grant aid, Rs. 1,021 crores. The World Bank Group accounted for the largest share of assistance in the pipeline followed by the USSR.

IV. India's Financial Assistance to Other Countries

During 1986-87, the Government of India sanctioned financial assistance for an aggregate amount of Rs. 146 crores as against Rs. 124 crores in the preceding year (Table XI-9). Loan authorisations were higher by Rs. 18 crores and grant aid by Rs. 4 crores. As a result, the share of loans in total aid increased from 40 per cent in 1985-86 to nearly 46 per cent during 1986-87. Correspondingly, the share of grants fell to 54 per cent during the year from 60 per cent in the preceding year. Country-wise,

Table XI—7 : Aggregate External Assistance

(Fiscal Years)

(Rupees crores)

Period	Loans	Grants	P.L. 480/665 Aid and Third Country Currency Assistance	Total (2+3+4)
1	2	3	4	5
Authorisations from August 15, 1947				
1. Upto March 1979	18,559	2,583	2,165$	23,307
2. Authorisations during :				
(a) 1979-80	780	431	—	1,211
(b) 1980-81	2,887	125	—	3,012
(c) 1981-82	2,161	219	—	2,380
(d) 1982-83	1,876	322	—	2,198
(e) 1983-84	1,474	356	—	1,830
(f) 1984-85	2,595	508	—	3,103
(g) 1985-86 R	3,924	262	—	4,186
(h) 1986-87 *	2,938	386	—	3,324
Total upto March 1987*	**37,194**	**5,192**	**2,165$**	**44,551**
Utilisation from August 15, 1947				
3. Upto March 1979	14,700	2,132	2,277$	19,109
4. Utilisation during :				
(a) 1979-80	850	289	—	1,139
(b) 1980-81	1,020	331	—	1,351
(c) 1981-82	1,188	329	—	1,517
(d) 1982-83	1,428	274	—	1,702
(e) 1983-84	1,395	237	—	1,632
(f) 1984-85	1,299	334	—	1,633
(g) 1985-86 R	1,565	304	—	1,869
(h) 1986-87 *	1,602	252	—	1,854
Total upto March 1987*	**25,047**	**4,482**	**2,277$**	**31,806**

$ P.L. 480 authorisations were fully utilised by the end of 1971-72. The difference between rupee value of total authorisations and total utilisation is attributable to the devaluation of rupee on June 6, 1966.

R Revised.

* Provisional.

Note : Refer to notes to Table XI—3.

Bhutan continued to be the largest recipient of financial assistance given by India, accounting for 55 per cent of the total, followed by Vietnam, Nicaragua, Bangladesh, Nepal and Mauritius. While assistance to Bhutan increased by 24 per cent, that to Bangladesh and Vietnam more than doubled. There were authorisations of loan assistance for Nicaragua and Mauritius, for which there were no authorisations in the preceding year. However, assistance to Nepal was substantially lower. Aid under the ITEC Programme amounted to Rs. 9 crores during the year, marginally higher than in the previous year (Rs. 8 crores).

Table XI—8 : Aggregate External Assistance — Source-wise (upto end-March 1987 $$)

(Rupees crores)

Country/Institution	Authorisations				Utilisation			
	Loans	Grants	P.L. 480/ 665 Aid and Third Country Currency Assistance	Total (2+3+4)	Loans	Grants	P.L. 480/ 665 Aid and Third Country Currency Assistance	Total (6+7+8)
1	2	3	4	5	6	7	8	9
IBRD/IDA	18,233	—	—	18,233 (40.9)	10,958	—	—	10,958 (34.4)
United Nations	—	44	—	44 (0.1)	—	44	—	44 (0.1)
EEC	40$	572	—	612 (1.4)	40$	452	—	492 (1.5)
IFAD	135	—	—	135 (0.3)	82	—	—	82 (0.3)
ADB	113	—	—	113 (0.3)	—	—	—	—
USA	4,246	393	2,165	6,804 (15.3)	3,997	298	2,277	6,572 (20.7)
U.S.S.R.	4,365	11	—	4,376 (9.8)	1,602	11	—	1,613 (5.1)
U.K.	1,419	2,597	—	4,016 (9.0)	1,408	2,177	—	3,585 (11.3)
West Germany	2,021	45	—	2,066 (4.6)	1,866	44	—	1,910 (6.0)
Japan	1,380	75	—	1,455 (3.3)	1,028	62	—	1,090 (3.4)
OPEC*	1,649	—	—	1,649 (3.7)	1,177	—	—	1,177 (3.7)
Others	3,593	1,455	—	5,048 (11.3)	2,889	1,394	—	4,283 (13.5)
Total	**37,194**	**5,192**	**2,165**	**44,551 (100.0)**	**25,047**	**4,482**	**2,277**	**31,806 (100.0)**

* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and OPEC Special Fund.
$ Relates to Special Action Credit
$$ Provisional.
Notes: 1. Please refer to Notes to Table XI—3.
2. Figures in brackets represent percentage to the total.

Utilisation

The utilisation of aid extended by India which had been rising in recent years, declined to Rs. 115 crores in 1986-87 from Rs. 126 crores in 1985-86. Grant assistance authorised during the year to Bangladesh, Bhutan and Nepal as well as under the ITEC Programme was almost fully utilised. The utilisation of loan assistance during 1986-87 was lower primarily due to lower utilisation of such assistance by Nicaragua and Vietnam. Country-wise, Bangladesh, Bhutan and Nepal together accounted for utilisation of Rs. 97 crores or 85 per cent of the total. Other beneficiaries of aid were Mozambique, Mauritius, Sri Lanka and Vietnam, which together accounted for 7 per cent of the total utilisation (Table XI-9).

Table XI–9 : Assistance Extended by India to Other Countries
(Fiscal Years)

(Rupees crores)

Country/ Programme	Authorisations						Utilisation					
	1985-86			1986-87+			1985-86			1986-87 +		
	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Bangladesh	4.1	2.7	6.8	10.3	1.4	11.7	4.1	2.7	6.8	10.3	1.1	11.4
2. Bhutan	22.3	42.1	64.4	21.5	58.1	79.6	22.3	42.1	64.4	21.5	58.1	79.6
3. Ghana	—	—	—	—	—	—	1.6	—	1.6	—	—	—
4. Mauritius	—	—	—	5.0	—	5.0	—	—	—	2.0	—	2.0
5. Mozambique	—	—	—	—	—	—	0.3	—	0.3	0.2	—	0.2
6. Nepal	15.0	21.3	36.3	0.3	9.4	9.7	8.0	21.3	29.3	0.3	5.8	6.1
7. Nicaragua	—	—	—	12.5	—	12.5	—	—	—	—	—	—
8. Peoples' Democratic Republic of Yemen	—	—	—	—	—	—	0.1	—	0.1	—	—	—
9. Sri Lanka	—	—	—	—	—	—	0.3	—	0.3	1.8	—	1.8
10. Tanzania	—	—	—	—	—	—	0.2	—	0.2	—	—	—
11. Vietnam	8.1	—	8.1	18.0	—	18.0	12.3	—	12.3	4.4	—	4.4
12. Uganda	—	—	—	—	—	—	0.2	—	0.2	—	—	—
13. Zimbabwe	—	—	—	—	—	—	1.8	—	1.8	—	—	—
14. Assistance under ITEC	—	8.3	8.3	—	9.0	9.0	—	8.3	8.3	—	9.0	9.0
Total	**49.5**	**74.4**	**123.9**	**67.6**	**77.9**	**145.5**	**51.2**	**74.4**	**125.6**	**40.5**	**74.0**	**114.5**

\+ Provisional

Notes: 1. Aid to Nepal excludes grant expenditures on Kosi and Gandak Schemes executed by the Bihar Government and the grant expenditure on training of Nepalese scholars in India.

2. Authorisations are net of de-obligations/cancellations.

Cumulative Assistance Extended by India

Total aid authorised upto end-March 1987 amounted to Rs. 1,647 crores, of which 61 per cent was by way of grants and the balance, loan assistance (Table XI-10). The major beneficiaries were Bhutan (Rs. 656 crores), Nepal (Rs. 321 crores), Bangladesh (Rs. 282 crores) and Vietnam (Rs. 134 crores). These four countries together accounted for 85 per cent of total authorisations.

Aid utilised at end-March 1987 was Rs. 1,525 crores or 93 per cent of aid authorised. Of the total utilisation, Bhutan, Nepal, Bangladesh and Vietnam together accounted for 86 per cent.

As utilisation of aid during the year, was lower than fresh authorisations, the amount of undisbursed aid increased from Rs. 100 crores at end-March 1986 to Rs. 123 crores at end-March 1987. Of this, Rs. 41 crores was grant assistance, shared primarily by Nepal and Bangladesh.

V. Exchange Rate Developments

The exchange rate of the rupee continued to be linked to the value of a weighted basket of currencies of India's major trading partners, with the pound sterling as the intervention currency. Because of the volatility in exchange

Table XI—10 : Aggregate Assistance Extended by India to Other Countries

(Upto end-March 1987)

(Rupees crores)

Country/Programme	Authorisations			Utilisation			Amount undisbursed as at the end of March 1987$		
	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total
1	2	3	4	5	6	7	8	9	10
1. Afghanisthan	6.4	—	6.4	6.4	—	6.4	—	—	—
2. Bangladesh	130.7	151.0	281.7	106.8	135.8	242.6	23.9	15.2	39.1
3. Bhutan	142.1	513.5	655.6	142.1	513.2	655.3	—	0.3	0.3
4. Burma	20.0	—	20.0	20.0	—	20.0	—	—	—
5. Ghana	4.9	—	4.9	4.9	—	4.9	—	—	—
6. Indonesia	10.0	—	10.0	10.0	—	10.0	—	—	—
7. Kenya	5.0	—	5.0	—	—	—	5.0	—	5.0
8. Mauritius	24.5	—	24.5	16.5	—	16.5	8.0	—	8.0
9. Mozambique	8.1	—	8.1	7.5	—	7.5	0.6	—	0.6
10. Nepal	41.9	278.7	320.6	34.9	253.3	288.2	7.0	25.4	32.4
11. Nicaragua	12.5	—	12.5	—	—	—	12.5	—	12.5
12. Peoples' Democratic Republic of Yemen	1.0	—	1.0	1.0	—	1.0	—	—	—
13. Seychelles	1.9	—	1.9	1.9	—	1.9	—	—	—
14. Sri Lanka	69.3	—	69.3	63.7	—	63.7	5.6	—	5.6
15. Tanzania	14.2	—	14.2	14.2	—	14.2	—	—	—
16. Uganda	6.5	—	6.5	2.5	—	2.5	4.0	—	4.0
17. Vietnam	133.7	—	133.7	118.5	—	118.5	15.2	—	15.2
18. Zambia	5.8	—	5.8	5.8	—	5.8	—	—	—
19. Zimbabwe	4.9	—	4.9	4.9	—	4.9	—	—	—
20. Assistance under ITEC	—	60.6	60.6	—	60.6	60.6	—	—	—
Total	**643.4**	**1,003.8**	**1,647.2**	**561.6**	**962.9**	**1,524.5**	**81.8**	**40.9**	**122.7**

$ Provisional.

Notes : 1. Refer to Notes to Table XI—9.

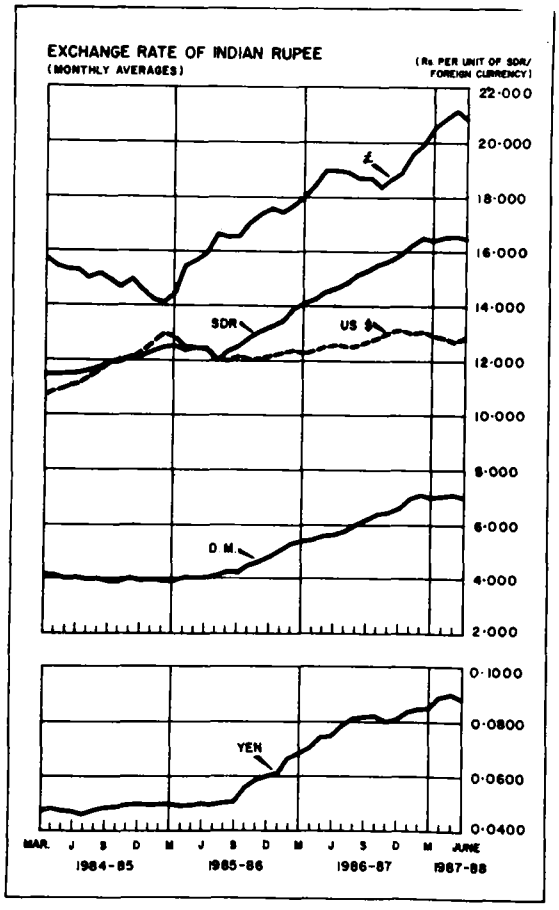
2. Aid to Bangladesh does not cover the relief goods of the value of Rs. 17 crores supplied to that country in 1971-72.

rates of currencies included in the basket, the rupee-pound parity was changed 148 times during 1986-87 (April-March) as compared to 156 changes made during the previous year. The number of adjustments during April-June 1987 at 27 was also lower than 34 changes effected in the corresponding quarter of 1986. During 1986-87, the maximum number of exchange parity adjustments of 19 was in the month of September 1986, followed by 16 during October 1986 and 14 each during July 1986 and January 1987. There were 11 changes per month in April, June, December 1986 and February 1987. The smallest number of 7 changes in the parity rate took place in March 1987.

Table XI - 11 gives annual average exchange rates of the rupee vis-a-vis the SDR and four major international currencies.

During the year 1986-87, the rupee weakened against the SDR and all the four leading international currencies. The softening trend of the rupee, against the SDR and the US dollar, has continued since 1981-82, against the yen since 1983-84, against the DM since 1984-85 and against the pound sterling since 1985-86.

In terms of annual averages, during 1986-87, the rupee depreciated by 29.9 per cent against



the yen, from Rs. 0.0562 per yen to Rs. 0.0802 per yen, followed by 27.6 per cent against the DM, from Rs.4.56 per DM to Rs. 6.30 per DM. The highest rate of depreciation of the rupee against yen (since 1983-84) and the DM (since 1984-85) was witnessed in 1986-87. In relation to SDR, the rupee weakened by 16.3 per cent to Rs. 15.45 per SDR, as against that of 8 per cent each in the preceding two years. In terms of U.S. dollar, the rupee depreciated by 4.3 per cent to Rs. 12.78 in 1986-87; the weakening of rupee in the year was higher than that of 2.8 per cent in 1985-86, but significantly lower than that of 7 to 13 per cent noticed in the preceding four years (1981-82 to 1984-85). In relation to pound sterling, the rate of depreciation of rupee in 1986-87 was marginally lower at 11.6 per cent to Rs. 19.07 per pound as compared to 11.8 per cent in the previous year.

During the first quarter of 1987-88, the rupee appreciated against the U.S. dollar. Its rate of depreciation against the SDR, the DM and the pound sterling slowed down somewhat, though not in the case of yen.

Table XI—11 : Exchange Rate of the Indian Rupee (Annual Average)*

(Rs. per Unit of SDR/foreign currency)

pril-March	SDR	U.S $	£	D.M.	Yen
1981-82	10.3354	8.97	17.11	3.86	0.0394
	(−1.5)	(−11.8)	(+8.1)	(+8.5)	(−7.6)
1982-83	10.5628	9.67	16.14	3.96	0.0389
	(−2.2)	(−7.2)	(+6.0)	(−2.5)	(+1.3)
1983-84	10.9405	10.34	15.42	3.94	0.0438
	(−3.5)	(−6.5)	(+4.7)	(+0.5)	(−11.2)
1984-85	11.9320	11.89	14.87	3.99	0.0487
	(−8.3)	(−13.0)	(+3.7)	(−1.3)	(−10.1)
1985-86	12.9232	12.23	16.85	4.56	0.0562
	(−7.7)	(−2.8)	(−11.8)	(−12.5)	(−13.3)
1986-87	15.4472	12.78	19.07	6.30	0.0802
	(−16.3)	(−4.3)	(−11.6)	(−27.6)	(−29.9)

* Based on monthly averages.

Notes: 1. The SDR rate is as given in the IMF Survey. For the pound sterling, it is the middle rate of the RBI Quotations. For other currencies, the rates are the middle rates on the London market as crossed with the RBI middle rate for the pound sterling.

2. Figures in brackets indicate percentage appreciation (+) / depreciation (−) of the rupee in terms of the SDR/ currency concerned over the previous fiscal year.

Monthly average exchange rates of the rupee, vis-a-vis the SDR and the four leading currencies are given in Table XI-12, for the period March 1985 to June 1987. In relation to the SDR, the rupee ruled easy throughout 1986-87, with the exception of March 1987; the monthly variation ranged from an apreciation of 0.4 per cent (March 1987) to a depreciation of 2.6 per cent (January 1987). Over the year (March 1987 over March 1986), the rupee weakened against the SDR by 14.0 per cent as compared to a depreciation of 11.6 per cent in 1985-86. Between March 1987 and June 1987, however, the weakening trend of the rupee has slowed down with the rupee depreciating by 0.6 per cent, as against 3.3 per cent in the previous quarter.

The rupee generally ruled easy against the US dollar during the period under review. In July 1986 and January and March 1987, the rupee appreciated against the dollar. The range of monthly changes was from a depreciation of 1.7 per cent in November 1986 to an appreciation of 1.0 per cent in January 1987. The rupee weakened against the U.S. dollar by 5.1 per cent over the year (March 1987 over March 1986) while it had appreciated by 4.8 per cent in the last year. Between March and June 1987, the rupee appreciated marginally by 0.6 per cent, from Rs. 12.93 to Rs. 12.85 per US dollar.

The rupee ruled easy against the pound sterling except during the period June-October 1986. The down-trend was significant during the later months of the year. Between March 1986 and March 1987, the rupee eased against the pound sterling by 12.5 per cent, as compared to its depreciation of 19.6 per cent in the previous year. During the quarter April to June 1987, the rupee weakened further by 1.6 per cent from Rs.20.60 to Rs. 20.93 per pound.

In relation to the DM, the rupee continued to rule easy throughout the year with the exception of March 1987 when it appreciated by 1.6 per cent. In January 1987, the rupee weakened by as much as 5.7 per cent. Over the year, the rupee weakened by 23.2 per cent, as compared to a depreciation of 27.8 per cent in the previous year. The rupee eased marginally by 0.3 per cent from Rs. 7.05 per DM to Rs.7.07 per DM between March and June 1987.

As in the case of the DM, the rupee depreciated considerably against the yen during the year, but particularly so during the first half of the year. It had weakened by 5.5 per cent in May 1986 but appreciated in the month of November 1986, by 2.4 per cent. Over the year the rupee depreciated by 19.6 per cent as compared to the depreciation of 27.2 per cent in the previous year. The softening trend has continued during the quarter April-June 1987 during which period it weakened further by 4.0 per cent, from Rs. 0.0854 per yen in March 1987 to Rs. 0.0890 per yen in June 1987.

During 1986-87, the Rupee-Rouble rate in respect of credit agreements and commercial transactions was changed five times, i.e., on April 24, July 17, September 21, December 4, 1986 and January 23, 1987. The exchange rate of the rupee per rouble, at the end of March 1987 was Rs.14.79 as against Rs. 12.52 at the end of March 1986, reflecting a depreciation of 15.3 per cent over the end-March 1986 level. During April-June 1987, the rupee-rouble parity remained unchanged (Please see Section VII "Developments in Exchange Control").

VI. International Monetary Developments

Despite some favourable developments, output growth in the world economy decelerated in 1986 and the outcome was clearly unsatisfactory. The world output grew by 2.9 per cent as against 3.1 per cent in 1985 and that of industrial countries by 2.4 per cent (in relation to 3.0 per cent). As against this, developing countries recorded a higher growth of 3.5 per cent as compared to 3.2 per cent in 1985.

Table XI–12 : Exchange Rate of the Indian Rupee

(Rupees per unit of SDR/foreign currency)

Months/Year	SDR	U.S. $	£	D.M.	Yen
March 1985	12.4861	12.8693	14.4883	3.9093	0.0500
1985-86					
April	12.3762	12.4767	15.4873	4.0437	0.0496
May	12.4205	12.5067	15.6534	4.0321	0.0497
June	12.4236	12.4564	15.9591	4.0684	0.0501
July	12.3007	12.0522	16.6116	4.1403	0.0500
August	12.3613	11.9811	16.5686	4.2878	0.0505
September	12.5183	12.1389	16.5769	4.2833	0.0514
October	12.8114	12.0471	17.1286	4.5574	0.0562
November	13.0535	12.0771	17.4031	4.6585	0.0592
December	13.2483	12.1602	17.5824	4.8408	0.0601
January	13.4767	12.2781	17.4877	5.0329	0.0614
February	13.9637	12.3645	17.6763	5.3041	0.0670
March	14.1238	12.2798	18.0255	5.4145	0.0687
	[−11.6]	[+4.8]	[−19.6]	[−27.8]	[−27.2]
1986-87					
April	14.2647	12.3753	18.5580	5.4632	0.0708
	(−1.0)	(−0.8)	(−2.9)	(−0.9)	(−3.0)
May	14.5909	12.5005	19.0020	5.6101	0.0749
	(−2.2)	(−1.0)	(−2.3)	(−2.6)	(−5.5)
June	14.6783	12.5842	18.9908	5.6366	0.0752
	(−0.6)	(−0.7)	(+0.1)	(−0.5)	(−0.4)
July	14.8828	12.5182	18.8850	5.8165	0.0789
	(−1.4)	(+0.5)	(+0.6)	(−3.1)	(−4.7)
August	15.1979	12.5730	18.6923	6.0972	0.0816
	(−2.1)	(−0.4)	(+1.0)	(−4.6)	(−3.3)
September	15.3584	12.7005	18.6850	6.2244	0.0821
	(−1.0)	(−1.0)	(−)	(−2.0)	(− 0.6)
October	15.5773	12.8626	18.3537	6.4192	0.0823
	(−1.4)	(−1.3)	(+1.8)	(−3.0)	(−0.2)
November	15.6943	13.0825	18.6438	6.4664	0.0804
	(−0.7)	(−1.7)	(−1.6)	(−0.7)	(+2.4)
December	15.8902	13.1444	18.9082	6.6117	0.0811
	(−1.2)	(−0.5)	(−1.4)	(−2.2)	(−0.9)
January	16.3167	13.0098	19.6044	7.0096	0.0842
	(−2.6)	(+1.0)	(−3.6)	(−5.7)	(−3.7)
February	16.4938	13.0534	19.9469	7.1602	0.0851
	(−1.1)	(−0.3)	(−1.7)	(−2.1)	(−1.1)
March	16.4212	12.9334	20.5965	7.0483	0.0854
	(+0.4)	(+0.9)	(−3.2)	(+1.6)	(−0.4)
	[−14.0]	[−5.1]	[− 12.5]	[−23.2]	[−19.6]
1987-88					
April	16.5453	12.8027	20.8851	7.0699	0.0896
	(−0.8)	(+1.0)	(−1.4)	(−0.7)	(−4.7)
May	16.5525	12.7030	21.1658	7.1036	0.0904
	(−)	(+0.8)	(−1.3)	(−0.5)	(−0.9)
June	16.5140	12.8503	20.9345	7.0691	0.0890
	(+0.2)	(−1.1)	(+1.1)	(+0.5)	(+1.6)

Notes: 1. Figures in brackets indicate percentage appreciation (+) / depreciation (−) of the rupee in terms of the SDR/ currency concerned over the preceding month.

2. Figures in square brackets for March show appreciation (+)/ depreciation (−) of the rupee over the preceding March.

The sharp drop in oil prices and a further weakening in non-oil commodity prices contributed to a significant further improvement in inflation performance but resulted in huge transfer of resources from developing countries to industrial countries due to terms of trade changes. The expected improvement in industrial countries' output growth arising therefrom however, did not materialise. The progress towards realignment of exchange rates of major currencies and the relative decline in dollar exchange rate was an important development of the year; the favourable effects thereof have been surfacing, however, at a much slower pace.

International price developments reduced export earnings of developing countries imposing severe hardships on many of them, leading to a further rise in their external debt ratios. It is estimated that this group of countries suffered a terms of trade loss of over $ 100 billion in 1986.

The contribution of the developing countries to the growth of world trade was also substantial as far as growth of exports was concerned. In 1986, the world trade grew by 4.9 per cent as against 3.2 per cent in 1985. While exports of industrial and developing countries expanded by 2.9 per cent and 8.2 per cent respectively, imports of industrial countries grew by 8.9 per cent. There was a decline of 3.1 per cent in imports of developing countries because of the adverse movement in their terms of trade and constraints of financing. The net result of this adverse movement in terms of trade was that the surplus trade balance of developing countries was cut down to just 20 per cent of that in 1985, and the current account deficit doubled. The debt ratio and debt service ratio also increased to 167.5 per cent (147.8 per cent in 1985) and 22.4 per cent (20.5 per cent in 1985) in 1986.

The prospects of output growth in 1987 in developing countries do not look sanguine. Rise in oil prices that has already taken place in the year will adversely affect the performance of oil importing countries. Moreover, given the projected slowing of domestic demand growth in industrial countries from 3.42 per cent to 2.42 per cent, prospects for exports are more subdued.Consequently, output growth in the developing countries might slow to about 3 per cent in 1987. For the industrial countries as a whole, output growth is expected to average 2¼ per cent in 1987, slightly less than in 1986. A deceleration in world trade growth to 3.3 per cent and some rise in inflationary pressures in 1987 is foreseen.

Domestic Activity

Industrial Countries

The pace of growth of the world economy which had slowed down considerably during 1985 slid down further in 1986 with output in the world and in industrial countries rising by 2.9 per cent and 2.4 per cent in 1986 as against 3.1 per cent and 3.0 per cent respectively in 1985. The deceleration in the growth rate of industrial countries took place, mainly due to slow pick up in demand, both domestic and external, though several factors such as fall in oil and commodity prices, international inflation rate and interest rate, and considerable realignment of exchange rates of major international currencies were favourable. All the major industrial countries with the exception of France and Italy, recorded declines in their growth rates, with growth in the U.S. falling from 2.7 per cent to 2.5 per cent, in Japan from 4.7 per cent to 2.5 per cent and in West Germany from 2.5 per cent to 2.4 per cent.

According to IMF, the outlook for 1987 is also not encouraging, with both world output and output in industrial countries projected to rise by about 2.7 per cent and 2.3 per cent, respectively. All the major industrial countries are likely to record a further slowing down of economic activity except Japan and U.K., whose economies are expected to grow by 2.7 per cent and 3.0 per cent respectively, in 1987 as against 2.5 per cent each in 1986.

The financial policies, as announced by national authorities, will be somewhat more restrictive in 1987-88 than they were in 1986. Fiscal policy is likely to supply less stimulus, especially at the central government level, largely because of a projected substantial reduction in the U.S. federal deficit. And the easing of monetary conditions that occurred during 1986 is also not expected to be repeated in 1987. Further, in the rest of the industrial world, the gradual waning of favourable terms of trade effects of consumption, together with continuing sluggishness in the pace of output and investment because of negative net exports, is likely to engender a slowing of domestic demand.

Despite the slowing down of economic activity in 1986, total employment growth in the industrial countries accelerated to 1.6 per cent in 1986, the best performance since 1980 for most countries. Canada and the United States had the largest increases in employment among the major industrial countries in 1986. In Europe, the level of employment in 1986 was only marginally above that of 1970. The moderation of real wage increases in recent years appears to have played an important role in raising employment by reducing the incentive to substitute capital for labour. In addition, extensive job training schemes introduced in some countries, particularly France and the United Kingdom, also contributed to the rise in total employment in 1986.

The significant increase in employment in the industrial countries in 1986 was accompanied by an acceleration in the rate of growth of the labour force, so that unemployment remained unchanged. For Europe as a whole the unemployment rate rose marginally to 10.8 per cent in 1986, almost 4 percentage points higher than in the United States where the unemployment rate continued to recede.

For 1987, the outlook for growth in employment in industrial countries is not encouraging. The growth rate in employment is likely to revert back to 1985 level (1.4 per cent). However, the unemployment situation is likely to show some marginal improvement in that the unemployment growth rate would decline by 0.1 percentage point to 7.9 per cent in all industrial countries, to 7.3 per cent in seven major industrial countries and to 10.7 per cent in European countries.

Consumer prices in industrial countries rose by only 2.3 per cent in 1986, 1.8 percentage points less than in 1985, and registering the lowest inflation rate since the early 1960s. In Federal Republic of Germany, consumer prices declined by 0.3 per cent, the first fall since 1953. Besides the firm anti-inflationary policies maintained over a period, sharp deceleration in price rise in industrial countries in 1986 can be attributed mainly to the effects of declining import prices, particularly oil and commodity prices. Large appreciations of Yen and European currencies also contributed to the sharp deceleration in price inflation. As a result, import prices in Japan fell by 39 per cent, and in Europe by 11 per cent. Despite the depreciation of the dollar, import prices in the United States also fell — by almost 5 per cent — largely because of the drop in oil prices.

Price pressures arising domestically also moderated somewhat in 1986, although less than in previous years. For the industrial countries as a group, hourly wage increase in manufacturing fell from 5½ per cent in 1985 to 4.1 per cent in 1986. The deceleration in wage gains was most pronounced in North America and Japan but was also felt in some of the larger European countries.

The near-term outlook for inflation remains less favourable than in 1986. The import prices are unlikely to continue to decline for the industrial countries as a whole, and oil prices have increased substantially. The lagged effects of reductions in some import prices may be felt for some time. Overall, consumer prices are projected to rise by 2.8 per cent in 1987 as compared to a rise of 2.3 per cent in 1986. Among the major industrial countries which will experience an acceleration of inflation

rate are the U.S., France, West Germany and the U.K. In Japan, consumer prices are expected to remain unchanged in 1987.

Monetary conditions continued to ease in 1986, with relatively rapid growth in monetary aggregates and continued declines in interest rates. For the seven major industrial countries as a group the narrow money (M_1) rose by 2.8 percentage points to 11.4 per cent in 1986. Monetary policy intentions announced so far do not suggest major changes in the orientation of policy in 1987, even though the need to consolidate the reduction in inflation rates may require a deceleration in rates of growth of monetary aggregates. In the United States the monetary targets announced in February 1987 lowered the ranges for M_2 and M_3 by ½ of 1 percentage point to 5½–8½ per cent The German authorities have announced a slightly wider target range for central bank money growth of 3–6 per cent for this year, compared with a 3.5–5.5 per cent range in 1986. In France, the announced target ranges are 3–5 per cent for M_3, unchanged from 1986, and 4–6 per cent for M_2. In the United Kingdom the target range for M_0 (the wide monetary base) in FY 1987/88 is 2–6 per cent, the same as that for FY 1986-87.

The stance of fiscal policy in the major industrial countries became somewhat restrictive in 1986 following three years in which it had been expansionary. The change in fiscal policy mainly reflected a partial reversal of the previous expansionary stances in Italy, Canada, and the United States. In 1987, fiscal policy in the major industrial countries as a group is expected to continue to be slightly restrictive, mainly as a result of further withdrawal of stimulus in the United States. In the United States, the federal budget deficit rose slightly to $ 221 billion (on a unified budget basis) in fiscal year 1986, corresponding to 5.3 per cent of GNP, compared with a deficit of $ 212 billion (or 5.4 per cent of GNP) the previous fiscal year. For the current fiscal year, the latest administration projections are that the deficit will be reduced to $ 173 billion as a result of a broad range of expenditure cuts and revenue-raising measures.

Fiscal policy in Japan was adjusted significantly during the course of 1986 in response to the slowdown in economic activity stemming from the negative contribution of net exports. The Government has taken the following new measures to stimulate domestic demand and promote imports during the period April 1987 – March 1988. An additional expenditure of Yen 5,000 billion, of which Yen 2,900 billion will be for general public works and natural disaster relief and the remainder for local government projects, housing, education, research and new express ways will be undertaken. More than 80 per cent of the expenditure on public works is to be brought forward to the first half of the fiscal year. At least Yen 1,000 billion in income tax receipts is to be reduced. An amount equivalent of $ 1 billion is to be spent to boost government purchases of foreign manufactured goods. Moreover, the base lending rate of public financial institutions will be cut and, in addition to the $ 20 billion 3–year plan, the Government intends to implement the doubling of its annual overseas development aid budget to $ 7.6 billion, two years ahead of schedule.

The stance of fiscal policy was relaxed more significantly in the Federal Republic of Germany in 1986, partly as a result of a cut in personal taxes early in the year but also reflecting more expansionary policies at the level of state and local governments. In 1987, the fiscal stance for the federal authorities is estimated to be roughly neutral. In the U.K., the budget deficit for general government increased by only 0.1 per cent of GDP in 1986. Reflecting the strength of revenues, the budget for FY 1987-88 announced on March 17, 1987 provided for the Public Sector Borrowing Requirement (PSBR) at the lower level achieved in FY 1986-87 as well as a further reduction in the basic income tax rate. Efforts to contain the growth of public expenditure are expected to continue, with real public outlays planned to grow by only 1 per cent annually over the medium term.

Reflecting the easy monetary conditions in 1986, both short-term and long-term interest rates declined further throughout the industrial countries in 1986, continuing the trend of the past five years. In late 1986 interest rates rose slightly in several countries, partly in response to exchange rate tensions. However, the position had largely been reversed since early 1987 with the exception of the United States, where short-term interest rates increased from 5.76 per cent to 6.75 per cent and long-term interest rates from 7.08 per cent to 8.48 per cent between January-June 1987.

Exchange rate considerations played a significant role in the determination of short-term interest rates. To lessen upward pressure on the yen, Japan reduced its discount rate to 3 per cent on November 1, 1986, following the announcement of policy coordination understandings with the United States; a further reduction to 2.5 per cent took place on February 23, 1987 following the Paris Accord. In the United Kingdom, base lending rates were permitted to fall by 3 percentage points from February to June 1986 as the exchange rate was allowed to depreciate. However, when sterling came under additional pressure in the autumn, base rates rose again by 1 percentage point in October. This rise was reversed in March 1987 following a renewed strengthening of sterling. In the Federal Republic of Germany, short-term interest rates were relatively stable during 1986 but were subsequently reduced following the re-alignment in the European Monetary System (EMS) in January 1987. Both Italy and France experienced significant reductions in nominal short-term interest rates in 1986. In Canada, the authorities increased short-term interest rates somewhat in late 1985 and more sharply in the opening months of 1986 in response to strong downward pressure on the Canadian dollar. Over the remainder of the year and early 1987, Canadian rates fell significantly, as exchange market pressures eased.

The first six months of 1987 witnessed further significant reductions in short-term interest rates in most of the major industrial countries. In the Euro-dollar markets, however, the LIBOR lending rate which stood at 8.1 per cent in January 1986 declined to 6.0 per cent by September 1986 but at end June 1987 it had edged up to 7.0 per cent.

Developing Countries

The year 1986 was difficult one, in many respects, for developing countries. Oil and other commodity prices fell sharply in real terms, and external finance continued to be a severe constraint. The terms of trade loss experienced by the developing countries as a group amounted to the equivalent of some 3½ per cent of GDP, most of which fell on the fuel exporting countries. Output growth, however, firmed up slightly from 3.2 per cent in 1985 to 3.5 per cent in 1986. Outside the group of fuel exporting countries, growth picked up from about 4.6 per cent in 1985 to 5.4 per cent in 1986. For the oil-exporting countries which were the most adversely affected by external developments, suffering a 46 per cent decline in their terms of trade in 1986, income fell by 0.7 per cent as against a rise of 0.3 per cent in 1985. The primary product exporting countries, however, staged a recovery in that the growth rate for the group improved by 2.0 percentage points to 5.2 per cent in 1986. Region-wise the growth rate accelerated for the developing countries of Europe (from 2.1 per cent to 3.2 per cent) and Western Hemisphere (from 3.5 per cent to 4.0 per cent) and decelerated for developing countries of Africa (from 2.0 per cent to 1.6 per cent) and Asia (from 5.9 per cent to 5.7 per cent). The growth rate was inert for the developing countries in the Middle East.

Developing countries' exports recovered relatively strongly in volume terms in 1986, rising by 8.2 per cent. Both fuel exporters and exporters of manufactures sought to increase their market share and as such their exports increased by 9.8 per cent and 14.1 per cent, respectively. However, exports of primary product exporters declined by 1.6 per cent, of

agricultural exporters by 2.1 per cent, and of mineral exporters by 0.3 per cent. Region-wise, there was a significant increase in exports from Asia and Middle East, a noticeable deceleration in exports from Africa and Europe, and fall in exports from Western Hemisphere by 8.8 per cent.

Output growth is expected to slow down significantly in 1987 to 3 per cent for the developing countries as a whole and to 4.2 per cent for the non-fuel exporters. The main reason for the deceleration of growth rate is the likely slowing down of growth of demand in the industrial countries, particularly in the U.S., France and West Germany.

Inflation performance in developing countries in 1986 appears to have been better than for several years. The steadily rising trend in the rate of inflation (as measured by the weighted average of consumer prices) witnessed from 1982 to 1985 (when it had reached 40.6 per cent) was halted and the inflation rate fell to 28.6 per cent in 1986. The improvement was largely attributable to reduction in inflation rates in several high-inflation countries of the Western Hemisphere (Argentina, Bolivia and Brazil). In the Western Hemisphere countries, the inflation rate was cut down to nearly half (from 150.3 per cent in 1985 to 86.5 per cent in 1986) as against nominal fall recorded by other regions. The inflation rate actually increased in countries of Africa.

The IMF has projected a moderate hardening of inflation rate in 1987 for the developing countries. It expects a further decline in inflation rate in countries of Africa, Asia and Europe, but an increase, in the countries of Western Hemisphere. The inflation rate is likely to be stable in Middle East.

International Trade and Payments

The growth and pattern of world trade in 1986 was influenced by various factors such as decline in prices of commodities and oil, slow down in imports' growth of developing countries due to adjustment of their import demand to export earnings, and the adoption of protectionist policies by the industrial countries. Inspite of these adverse factors, volume of world trade in 1986 rose by 4.9 per cent – the second highest growth after 1979. The improvement in world trade was brought about mainly by increase in exports of developing countries (corresponding to increase in import of industrial countries). While exports of developing countries as a group increased by 8.2 per cent, those of industrial countries increased only by 2.9 per cent. Among the developing countries, exports of fuel exporters achieved a significant rise of 9.8 per cent. This was the first positive increase after 1979. Non-fuel exporters on the other hand, recorded a growth rate of 7.7 per cent. The exporters of manufactures recorded a growth rate of 14.1 per cent in 1986 as compared to an increase of 4.4 per cent in 1985. As regards primary commodity exporters, their exports were down by 1.6 per cent as several primary product exporters had to compete for markets in industrial countries in which domestically produced and subsidised supply was increasing, particularly of agricultural commodities.

The volume of imports of industrial countries grew by 8.9 per cent while growth in imports of developing countries decelerated to 3.1 per cent. There was an all round fall in the imports of developing countries but was concentrated mainly in the countries in Africa, Middle East and Western Hemisphere, which recorded declines in the import volume growth of 11.0 per cent, 18.3 per cent and 4.8 per cent, respectively. Imports in countries in Asia and Europe, grew but at rates lower than those recorded in 1985, viz., at 4.3 per cent and 5.6 per cent, respectively. Negative flows of financial resources and weakening of purchasing power of exports of developing countries were the main factors contributing to the negative growth of their import volume.

The fuel exporters were the worst sufferers as they were compelled to reduce their imports by 21.5 per cent in 1986 on top of a cut of 11.7 per cent in 1985. This was the fifth successive year when the fuel exporters had to compress their imports. The non-fuel exporters increased their volume of imports by 3.9 per cent. The fall in imports of primary product producers noticed in 1985 was largely reversed in 1986. The purchasing power of exports from fuel exporters fell by 40 per cent in 1986, while non-fuel exporters, by contrast, achieved 8 per cent increase.

In view of continued slow growth in industrial countries and likely restrictions on oil production and consequent increase in oil prices, the growth of world trade is projected to slow down to 3.3 per cent in 1987. While the export growth of developing countries may decline sharply to 2.8 per cent, that of industrial countries is likely to show an improvement of 0.5 percentage point to 3.4 per cent in 1987. The deceleration in the export growth of developing countries would be shared by almost all the regions, but the sharpest fall will be experienced by the Middle East countries which will record a decline in exports of 3.2 per cent in 1987 as against an increase of 16.6 per cent in 1986, followed by Asian countries in whose case the growth rate might decelerate from 17.1 per cent in 1986 to 6.1 per cent in 1987. Among the predominant commodity exporters, fuel exporters are likely to register a fall in exports by 0.4 per cent as against a rise of 9.8 per cent in 1986. In the case of non-fuel exporters, the growth rate would be halved to 3.9 per cent mainly due to a decline in the exports of manufactures; the primary product exporters, mainly mineral exporters, will be able to more than recover the lost ground.

The growth of imports of industrial countries is projected to come down to 4.3 per cent in 1987 compared to 8.9 per cent in 1986, reflecting a slow down in the growth of their domestic demand. The improvements in the prospects for imports of developing countries are not very encouraging as imports of fuel exporters would decline further by 12.2 per cent, and those of non-fuel exporters would rise only by 3.3 per cent. The growth of imports in the case of exporters of manufactures is also projected to decelerate to 6.0 per cent in 1987 from 7.7 per cent in the previous year.

In 1986, there was a significant improvement in the merchandise terms of trade of industrial countries while the developing countries experienced the worst deterioration in a decade. The terms of trade of industrial countries improved by 9.4 per cent after a rise of 0.9 per cent in 1985; those of developing countries deteriorated by 16.8 per cent in 1986 in addition to a fall of 1.4 per cent in 1985. The largest decline of the order of 45.7 per cent was experienced by fuel exporters due to steep drop in oil prices. The non-fuel exporting countries, however, experienced a marginal deterioration of 0.2 per cent in their terms of trade. Within the group of non-fuel exporting countries, mineral exporting countries continued to experience unfavourable terms of trade with a further deterioration of 2.6 per cent in 1986.

In 1987, the projected improvement in terms of trade of industrial countries is of the order of 0.6 per cent. Their terms of trade gains in 1986 which are estimated to be equivalent of about $ 118 billion in 1986, are projected to be around $ 9 billion in 1987. The developing countries on the other hand, would continue to face unfavourable terms of trade for the third year in succession. The deterioration in terms of trade in 1987 of 2.7 per cent, however, is expected to be much smaller mainly due to an improvement in oil prices. The annual average export prices of the major oil exporting countries are estimated to increase in nominal (dollar) terms by about 9 per cent from an estimated $ 13.80 a barrel in 1986 to $ 15 a barrel in 1987 (In recent months oil prices have firmed up substantially and well above this level).

Non-oil primary commodity prices fell by 1.1 per cent in 1986 on top of a decline of 12.9 per cent in 1985. All the three major commodity groups— food, agricultural raw materials and metals — recorded further declines of 11.6 per cent, 1.0 per cent and 10.0 per cent, respectively. Beverages was the only commodity, which recorded a gain of 16.2 per cent mainly due to rise in coffee prices. The continued weakness in non-oil primary commodity prices which has been prevailing by and large since 1981, has been caused mainly by demand factors and policies of industrial countries. While overall world consumption has increased, the production of food grains and other agricultural crops has also increased both in industrial and developing countries and as such import demand is far less than the export supply. Further, because of large subsidies, farmers in the USA and EEC countries also have realised growing surpluses of food products and several agricultural raw materials. The availability of cheap materials and increased recycling and conservation of materials are also factors contributing to the weakness of commodity prices. As regards the outlook for 1987, world commodity markets are likely to remain weak and the non-oil primary commodity prices are projected to fall by about 5 per cent.

The current account position of the industrial countries benefited substantially in 1986 due to a large improvement in their terms of trade, with the result, the current account deficit (including official transfers) was cut down to $ 9.3 billion in 1986 from $ 54.7 billion in 1985. However, the industrial countries continued to experience large imbalances in their current account position with a further rise in US current account deficit to $ 141 billion and surpluses of Japan and Germany increasing to $ 86 billion and $ 36 billion, respectively. The growing US current account deficit since 1982 has made the US a net debtor country and as at the end of 1986, the US foreign debt totalled $ 264 billion, compared to $ 112 billion at the end of 1985 when for the first time since 1914 the US was classified as a debtor nation.

According to IMF's World Economic Outlook, April 1987, the current account deficit (including official transfers) of industrial countries is projected to rise to $ 17.9 billion in 1987 mainly because of a larger increase in imports than exports and increased outflow on account of private and official transfers. Country-wise, there will be small changes in the current account position of major countries. While the current account deficit of the US might decline nominally by $ 2 billion to $ 139 billion, the surpluses of Japan and Germany might contract by $ 3 billion and $ 1 billion to $ 83.0 billion and $ 34.9 billion, respectively.

The combined current account deficit of developing countries doubled to $ 47.6 billion in 1986 due to marked fall in value of exports following deterioration in terms of trade. Three-fourths of the increase in the deficit was accounted for by fuel exporters, whose trade balance contracted by nearly $ 50 billion following a sharp deterioration in their terms of trade. The performance of non-fuel exporters was comparatively better in that their current account deficit got reduced from $ 26.5 billion in 1985 to $ 11.9 billion in 1986. This was mainly due to a turnaround in the current account position of the exporters of manufactures who moved from a deficit position of $ 2.8 billion to a surplus position of $ 10.7 billion in 1986. Among the primary product exporters both agricultural and mineral exporters reported further deterioration in their current account deficit to $ 15.5 billion and to $ 1.3 billion, respectively.

The current account deficit of developing countries is expected to decline marginally to $ 41.3 billion in 1987. This improvement is expected to be on account of both trade and services account. The deficit of fuel exporters will decline to $ 20.7 billion whereas that of non-fuel exporters is projected to rise to $ 20.5 billion in 1987 from $ 11.9 billion in 1986, largely due to doubling of deficit on trade account.

The current account deficit of developing countries continued to be financed as in earlier years with the help of long-term external borrowings from official creditors which increased from $ 24.5 billion in 1985 to $ 32.1 billion in 1986. The non-debt creating flows comprising official transfers and direct investment flows, declined in 1986 by $ 2.0 billion to $ 30.3 billion due mainly to decrease in the direct investment flow. The net use of Fund resources has been declining over the last three years. In 1986, there was a net payment of the order of $ 2.1 billion to the Fund. The net lending from private creditors dropped from $ 17 billion in 1985 to $ 3 billion in 1986.

In 1987, there are signs that the non-debt creating flows may decline further. Thus, the developing countries' dependence on both private and official creditors for financing their current account deficit would continue.

The inter-Governmental Group of Twenty-Four on International Monetary Affairs (G-24) while expressing their serious concern on the rising debt-burden and debt servicing problems of developing countries due to unfavourable international environment for their exports, at their meeting held on April 8, 1987 in Washington, made the following recommendations :

i) Official Development Assistance (ODA), should be increased as a matter of urgency in pursuance of recommendations of the Task Force on concessional flows and that there should be a substantial increase in the financial resources of the multilateral institutions. Further the lending policies of multilateral institutions should be reviewed in order to promote additional lending and growth.

ii) Industrial countries should remove their protectionist barriers and encourage recycling of their huge surpluses and terms of trade gains.

iii) The heavily indebted countries inspite of strong adjustment programme implemented by them have failed to achieve growth, improve standards of living and strengthen their external payment position. Thus, the World Bank and the IMF should play a central role in the promotion of growth oriented adjustment programmes and mobilisation of resources from the official as well as private sources.

iv) Industrial countries should broaden the range of resource flows to developing countries, largely through the expansion of exports of the developing countries, by rolling down protectionist policies and removing domestic subsidies.

v) The Structural Adjustment Facility (SAF) and IDA Programmes should be complemented with larger resources in order to support policies and programme for higher growth in low income countries.

Resource Flows

Financial resources provided to the developing world fell sharply in real terms in 1986, as higher official aid failed to balance the continued net decline in export credits and bank lending. The flow from the international bank sector was down to $ 5 billion in 1986 from $ 13.5 billion in 1985.

Total Official Development Finance (ODF) to developing countries from all sources, rose in "nominal" amounts from $ 82.3 billion in 1985 to $ 84.7 billion or by 2.9 per cent in 1986. In real terms there has, however, been a decline of $ 12.6 billion and the total flows came down to $ 69.7 billion in 1986 at 1985 prices and exchange rates.

Net disbursements of Official Development Assistance (ODA) from the countries of the development assistance committee (DAC)

amounted to $ 37.0 billion in 1986, registering an increase of 2.5 per cent over 1985. This rate of increase in volume was lower compared to the average of 3.6 per cent for the last five years.

As a percentage of gross national product (GNP), ODA reached 0.36 per cent in 1986. A slight decline in the volume of bilateral ODA, was more than offset by members' increased contribution to multilateral agencies. Italy's overseas development assistance recorded an increase of 18 per cent in volume. Finland also continued the rapid expansion of its aid programme. Norway has ranked first with ODA to GNP ratio of unprecedented 1.2 per cent followed by the Netherlands with one per cent. Other donors whose ODA exceeded 0.7 per cent of the GNP in 1986 were : Denmark (0.89 per cent), Sweden (0.85 per cent) and also France, if aid to its overseas departments and territories were included. However, aid from Austria, Belgium, France and West Germany declined both in terms of volume and national currencies.

After several years of decline, net aid disbursements from the OPEC countries rose in nominal terms by about $1 billion to $ 4.54 billion in 1986, recovering to almost one per cent of their GNP. This was almost exclusively due to larger assistance from Saudi Arabia.

Net disbursements from the countries of the Council of Mutual Economic Assistance are estimated to have increased by about 20 per cent to $ 4.2 billion in 1986, mainly on account of larger Soviet aid to Cuba, Mongolia and Vietnam.

With net new export credits and bank lending continuing to decline in 1986, the total net resource flow to developing countries is estimated to have risen only slightly over 1985 in current dollar terms, implying a decline of about 15 per cent in volume. Export credits no longer represent a significant source of net development finance. On a gross basis, however, at the current annual level of about $ 20 billion they still account for an important share of about 16 per cent of the estimated total gross finance in 1986.

World Bank Group

With a view to helping the indebted countries mainly the highly indebted middle income countries, the World Bank, during the fiscal 1986 (July 1985 — June 1986), continued to lend, in association with IMF, its support in the formulation, implementation and monitoring of medium-term adjustment progress and through its catalytic role in mobilizing and coordinating private and official flows. Throughout the year, the Bank also sought to encouragecommercial banks to increase their lending to the highly indebted middle-income countries. A programme of expanded Bank lending involving an amount of $ 40 billion to $ 45 billion for developing countries over the period 1986-1988 had been endorsed early in the fiscal year 1986, but later in the year, the Bank recognised the need for additional lending not only to the heavily indebted countries but also to the other countries including "blend" countries. Accordingly it raised the amount of lending for these years to $ 50 billion while projecting a lending programme of $ 21.5 billion for fiscal 1990. Because of expanded lending demands, the question of the timing of a general capital increase (GCI) of IBRD has become crucial. No agreement was reached by June end 1987.

As regards the financial operations during the fiscal year (FY) 1986 (July 1985-June 1986) the World Bank Group, | the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)| approved total loans amounting to $ 16.3 billion, as against $ 14.4 billion in FY 1985. At this level, the loan commitments were higher by $ 1.9 billion or 13 per cent than in F Y 1985; there was a fall of $ 1.1 billion or of 7 per cent in F Y 1985. Disbursements by the IBRD and the IDA totalled $ 11.4 billion exceeding the disburse-

ments during the previous year by $ 0.3 billion or by 2.5 per cent as compared to a small increase of only 0.3 per cent during FY 1985. While there was a fall of $ 382 million in disbursements made by the IBRD, those made by the IDA showed an increase of $ 664 million. However, there was a contraction in the net transfer of resources (disbursements minus debt servicing) from IBRD and IDA, which declined from about $ 5 billion in FY 1985 to a little more than $ 3 billion in FY 1986.

In F Y 1987, the total lending commitments of World Bank group increased by 8.4 per cent or by $ 1.4 billion as compared to an increase of $ 1.9 billion in the previous year. The disbursements by the IBRD and IDA totalled $ 14.5 billion, higher by about $ 3.1 billion. While disbursements of IBRD in 1986-87 increased by $ 3.1 billion, those of IDA decreased by $ 67 million. The net transfer of resources by the IBRD & IDA in F Y 1987 aggregated only $ 2.5 billion.

Table XI—13 : Loans by World Bank@

($ million)

	IBRD		IDA		World Bank	
	1985-86	1986-87	1985-86	1986-87	1985-86	1986-87
1. Lending Commitments	13,179	14,196	3,140	3,486	16,319	17,682
	(16.0)	(7.7)	(3.7)	(11.0)	(13.4)	(8.4)
2. Disbursements	8,263	11,383	3,155	3,088	11,418	14,471
	(− 4.4)	(37.8)	(26.7)	(− 2.1)	(2.5)	(26.7)

@ Excludes figures for special facility for SubSaharan Africa

Note: Figures in brackets are percentage changes over the previous year.

International Bank for Reconstruction and Development (IBRD)

While fresh commitments of the IBRD in FY 1986 rose by more than $ 1.8 billion or by 16 per cent to $ 13.2 billion over the year, the number of operations remained the same at 131 as last year. The disbursements, however, declined by $ 0.38 billion or 4.4 per cent to $ 8.3 billion. For FY 1987, while the new lending commitments increased by $ 1.00 billion to $ 14.2 billion, disbursements rose sharply by $ 3.1 billion or by 37.8 per cent.

Of the 41 countries which received financial support from IBRD in 1985-86, only four countries namely India, Brazil, Indonesia and Turkey secured loan commitments in amounts exceeding $ 1 billion, and these together accounted for 42 per cent of the total approvals. Fresh loan commitments made by the IBRD to India totalled $ 1.7 billion, the highest among all countries. However, the share of India in total IBRD approvals declined to 13.2 per cent in 1985-86 from 14.7 per cent in 1984-85. The six projects for which amounts were sanctioned were energy ($ 485 million), agriculture and rural development ($ 375 million), irrigation ($ 131 million), fertilisers ($ 302 million), export of engineering products ($ 270 million) and cement industry ($ 200 million). Gross disbursements made to India increased by $ 320 million to $ 1,366 million in 1985-86 and the net transfers rose by $ 218 million to $ 916 million during the same period.

Since July 1982, the IBRD has been adopting a policy of variable lending rates for new loans. The lending rate on all loans made under the variable rate system is adjusted semi-annually

on January 1 and July 1 by adding a spread of 0.5 per cent to the IBRD's weighted average cost of borrowing. The variable lending rate has been steadily declining since the date of introduction and as on July 1, 1986 the rate had stood at 8.23 per cent. This rate was lowered to 7.92 per cent on January, 1, 1987 and further to 7.76 per cent on July 1, 1987. Mention was made in the last year's Report about the selective capital increase of $ 8.4 billion in the IBRD's authorised capital. A total capital of $ 6.9 billion was subscribed to during the fiscal 1986 comprising $ 4.9 billion of general capital increase and $2.00 billion of selective capital increase. As on June 30,1986, the authorised capital of IBRD stood at SDR 78.650 billion and subscribed capital at SDR 65.836 billion.

The Special Facility for Sub-Saharan African countries began operations on July 1, 1985 with expected available resources from direct contributions and joint financing totalling more than $ 1.2 billion. However, till the middle of 1986, the amount pledged had totalled around $ 1.6 billion. The facility was designed to provide quick-disbursing assistance to IDA-eligible countries in Sub-Saharan Africa that had undertaken appropriate medium-term programmes of policy reform. During the year, Special Facility Operations totalling $ 782 million were approved for 15 countries. Disbursements under the Special Facility including $ 17.4 million in disbursements from special joint financing, amounted to $ 119 million during the year.

For F Y 1987, loan commitments and disbursements under the special facility for Sub-Saharan Africa amounted to $ 421.4 mn and $ 378.6 mn. respectively, as compared with $ 535.8 mn and $ 101.6 mn in F Y 1986.

Multilateral Investment Guarantee Agency

At the World Bank-IMF annual meetings of 1985 in Seoul (Korea), the Bank's Board of Governors, in pursuance of the recommendations of Executive Directors of the World Bank, decided to open the draft convention establishing the Multilateral Investment Guarantee Agency (MIGA) for signature by member governments of the Bank and by Switzerland. By June 30, 1986, thirty-one countries (five capital-exporting and twenty-six capital importing) had signed the convention providing total subscriptions of more than $ 457 million.

MIGA will try to encourage investment flows to developing countries by issuing guarantees, including co-insurance and reinsurance in respect of non-commercial risks. In addition, MIGA will carry out promotional and technical assistance operations including technical assistance and policy advice by interested members. MIGA is expected initially to focus on equity interests, including equity types of loans and various forms of direct investment, such as certain types of management and services contracts, licensing agreements, turnkey contracts and arrangements involving the transfer of technology and know-how. It may also cover medium and long-term loans that are released to specific investments.

The International Development Association (IDA)

The IDA credit sanctioned during FY 1986 (July 1985 —June 1986) totalled $ 3,140 million showing a rise of $ 112 million as compared to an increase of $ 547 million in 1984-85.

During the year, India received the largest amount of $ 625 million followed by Bangladesh with $ 463 million and China with $ 410 million. However, the share of India in total credit sanctioned came down from 22.2 per cent in FY 1985 to 19.9 per cent in FY 1986.

Disbursements from IDA in FY 1986 at $ 3,155 million, however, were substantially higher when compared with those of $ 2,491 million in FY 1985.

For FY 1987, the fresh commitments of IDA amounted to $ 3,486 mn. exceeding the commitments of FY 1986 by $ 346 mn. showing an increase of 11.0 per cent over FY 1986. In FY 1986, IDA commitments had shown a smaller increase of 3.7 per cent. However, disbursement of IDA at $ 3088 mn in FY 1987 fell by 2.1 per cent compared to an increase of 26.7 per cent in FY 1986.

IDA Eighth Replenishment

Donor countries reached an agreement on December 15, 1986 to provide $ 12.4 billion for IDA's Eighth replenishment as compared to $ 9 billion in the Seventh IDA replenishment. The resources which will be channelled over the period July 1987 to June 1989 was largely brought together by an understanding between Japan and the United States by which Japan's shareholding in the IBRD will increase by 1.5 percentage points. It is also proposed to amend the Bank's charter so as to have the required margin for decision making at 85 per cent instead of the present 80 per cent. Besides Japan, the Federal Republic of Germany, Italy, the Netherlands,the U.K., New Zealand and Switzerland would be making their additional contributions. The U.S. will contribute $ 2.87 billion, about 25 per cent of the total contribution.

In considering the terms of IDA credits, the donor countries have recommended that final maturities be reduced from 50 to 40 years on credits to the least developed IDA recipient countries and 35 years for others. The concessional 10 year grace period on credit repayments and interest-free credits will remain unchanged. In IDA-8, therefore, IDA credits will be made at zero per cent rate of interest with only a 0.75 per cent service charge, as in IDA-7.

It has also been recommended that priority in the allocation of resources should be given to countries in Sub-Saharan Africa as well as to those that have taken "bold measures towards policy reform". In this connection it has been suggested that lendings to Sub-Saharan Africa should be increased from 35 per cent to between 45 per cent and 50 per cent, and that $ 3- 3.5 billion of IDA- 8 resources should be used to support adjustment programmes, and, to the extent feasible, these resources should be used in conjunction with the Fund's Structural Adjustment Facility.

The International Finance Corporation (IFC)

The IFC has drawn a five-year programme which aims at increasing the volume of loans and equity investments with a view to promoting the private sector in the developing countries.

During Fiscal Year 1986 (July 1985 — June 1986), the IFC approved 85 investments in 39 developing countries and one region for a total investment of $ 1,156 million which was $ 219 million higher than the investment of $ 937 million made in fiscal 1985 in 38 countries and one region. Of the total investment approved, $ 710 million was to be invested for IFC's own account and $ 446 million was to be syndicated or sold to other investors. The investment of $ 1,156 million comprised $ 1,070 million for loans and $ 86 million for equity investment. Of the loans, $ 139 million involved corporate restructuring.

During the Fiscal 1986, total disbursements of committed loans and equity investments amounted to $ 324.8 million, comprising $ 292.5 million of loans and $ 32.3 million of equity investment.

The distribution of investments, region-wise, was as follows :

Region	Amount US $ Million)	No. of Projects
1. Africa	117	24
2. Asia	478	22
3. Latin America and the Caribbean	366	28
4. Middle East/Europe	186	10
5. Worldwide	9	1
Total	**1156**	**85**

In fiscal 1986, IFC approved investments for the first time in three countries — Greneda, Mozambique and the Seychelles. Of the total approved investments, 33 ventures with a total value of $ 295 million, were for countries with a per capita annual income of less than $ 800. These investments accounted for 39 per cent of the projects approved this year and 26 per cent of the amounts approved in fiscal 1986.

The Corporation continued to seek out and invest in a wide variety of business and financial institutions. Investments in food and agro business, which has been an important sector for IFC investments, amounted to $ 64.7 million for 14 ventures, compared with the preceding Fiscal Year's 13 food and agrobusiness investments amounting to $ 59.3 million. The other sector in which investments were mainly undertaken were capital markets, tourism and services, textiles, pulp, paper and timber, energy and mining, chemicals and petrochemicals and iron and steel.

As regards sources of finance, 44 per cent of the total project financing came from sources within the developing countries where the projects are located. Most of the foreign funds were in the form of suppliers' credits or funding from international sources. Of the estimated $ 640.3 million provided by foreign commercial banks, more than 70 per cent was raised through the syndication of IFC loans. It is estimated that some 71 companies from industrial countries participated in one form or another in business ventures that were supported by the IFC this year. In 35 cases, foreign companies from 17 industrial countries were equity investors.

The fixed lending rate of the IFC in US dollars was lowered by 300 basis points @ during fiscal year 1986 to 10.375 per cent. The lending rates in other currencies, such as the Deutsche Mark and Swiss Franc were also significantly reduced.

The Board of Directors' resolution to increase the capital stock of the Corporation to $ 1.3 bn. with the authorisation of $ 650 million in new shares, was approved by the Board of Governors on December 26, 1985. Subscription to the additional shares and payments of one-fourth of the total ($ 130 million) were to be received by the Corporation by September 1, 1986. The subscriptions totalling $ 350 million of the total capital increase and payments of $ 60 bn. had been received by end-June 1986.

Use of Fund Resources

The use of Fund Resources declined for the third consecutive year in 1986. Total purchases by members which had come down by 42 per cent to SDR 7.3 billion in 1984 decreased by 45 per cent to SDR 4.0 billion in 1985 and further to SDR 3.8 billion in 1986. In contrast to the fall in drawings, repurchases continued to rise and were SDR 5.7 billion in 1986 as compared to SDR 3.6 billion in 1985 and SDR 2.3 billion 1984. Thus, the net financial flows (drawings minus repurchases) from Fund to member countries were negative to the tune of SDR 1.9 billion in 1986— a phenomenon which emerged again after 1979. As a result, Fund credit outstanding declined to SDR 33.4 billion at end 1986 from SDR 35.2 billion a year earlier.

@ 3/10th of 1 percent

The pattern of use of Fund resources in 1986 was not much different from that noticed in the preceding two years. Most drawings in 1986 (87 per cent) were subject to upper-credit-tranche conditionality. Drawings under stand-by arrangements were SDR 3.0 billion, while those under extended arrangements continued to decline, the latter (SDR 250 million) accounted for only about 8 per cent of total drawings in 1986.

Drawing under the special facilities decreased in both absolute and relative terms in 1986. Drawings under the compensatory financing facility in 1986 at SDR 567 million, were 15 percent of total drawings, compared with SDR 929 million a year earlier (23 per cent of the total). This facility mainly assists members that are primary commodity exporters and are experiencing balance of payments problems stemming from temporary shortfalls in export receipts that are largely beyond their control, as well as from "excesses" in the cost of their cereal imports. As in 1985, there were no drawings under the buffer stock financing facility which support members' contributions to Fund approved international buffer stocks set up to moderate export price fluctuations.

Reserve tranche drawings which represent a use of reserves held by members with the Fund, amounted to SDR 382 million in 1986, compared with SDR 185 million in 1985.

During the first quarter (January-March) of 1987, gross Fund disbursements including disbursements under SAF amounted to SDR 384 million as against SDR 1.0 billion in the same quarter of 1986. The repayments to the Fund were substantially higher with the result the net flows from the Fund in the first quarter were *negative by SDR 1.3 billion*, compared with (−) SDR 174 million in the year-earlier quarter. Thus, Fund credit outstanding (excluding credit extended under the Structural Adjustment Facility) continued to decline, and amounted to SDR 32.1 billion at the end of March 1987, compared with SDR 35.0 billion a year earlier.

Table XI—14 : Fund Purchases and Repurchases

(Billion SDRs)

	1985	1986	January-March 1986	January-March 1987
1. Total Purchases[1]	4.0	3.8	1.0	0.3
Of which :				
Credit Tranche[2]	2.6	3.0	0.8	0.1
Extended Fund Facility	0.4	0.3	0.1	0.1
Compensatory Financing Facility	0.9	0.6	0.1	0.1
Buffer Stock Financing Facility	—	—	—	—
2. Total Repurchases	3.6	5.7	1.2	1.6
3. Net Purchases	0.4	(−) 1.9*	(−) 0.2*	(−) 1.3*

1. Excludes purchases under the reserve tranche and disbursements under Structural Adjustment Facility.
2. Includes purchases under stand-by arrangements.

* Repurchases exceed total purchases.

The countries which in 1986 made purchases of more than SDR 100 million under the stand-by arrangements were Bangladesh, Korea, Morocco, Uruguay, Cote d'Ivoire (Ivory Coast), China, Philippines, Mexico, Tunisia, Zaire and Zambia. Only Chile made purchases under Extended arrangement. Of the SDR 750 million sanctioned, only SDR 500 million had been drawn by May 31, 1987.

As on May 31, 1987 the countries availing of Structural Adjustment Facility (SAF) numbered 11 and the total amount sanctioned was SDR 464.2 million, of which SDR 197.5 million was drawn. All countries except Bangladesh and Zaire had drawn amounts well below SDR 50 million, Bangladesh and Zaire had drawn SDR 57.5 million and SDR 58.2 million respectively, whereas other countries had drawn amounts varying from SDR 18.1 million (Bolivia) and SDR 0.8 million (Dominica).

Policy on Enlarged Access to Fund Resources and Limits to Special Facilities

The Fund decided on December 1, 1986 to extend the enlarged access policy, which governs member countries' access to the Fund's general resources to 1987 also with the same percentage limits in relation to quotas, as in 1986. The decision was made in view of the uncertainties facing the world economy and the worsening balance of payments position of a number of member countries. Accordingly, access by members to the Fund's general resources under the policy will continue to be subject to annual limits of 90 or 110 per cent of quota, three-year limits of 270 or 330 per cent of quota and cumulative limits, net of scheduled repurchases, of 400 or 440 per cent of quota depending on the seriousness of the member's balance of payments needs and the strength of its adjustment efforts.

The annual and triennial access limits are not regarded as targets. Within these limits, the amounts of access in individual cases will vary according to the circumstances of the member. Also, the Fund will continue to be able to approve stand-by and extended arrangements that provide for amounts in excess of these access limits in exceptional circumstances.

With respect to the compensatory financing facility, the Fund has retained, at 83 per cent of quota, the limit on amounts members may draw either in respect of shortfalls in receipts from export or in respect of excess in the cost of cereal imports. For members making use of compensatory financing for both export shortfalls and excesses in cereal costs, the overall limit of 105 per cent of quota has also been maintained. The Fund has also decided to maintain the maximum access limit at 45 per cent of quota under the buffer stock financing facility.

These limits, and the enlarged access policy itself, will be reviewed before the end of 1987.

Report of the Working Group of G-24 on the Role of the IMF in Adjustment with Growth

In April 1986, the inter-governmental Group of 24 on International Monetary Affairs (G-24) commissioned a working group to elaborate upon and enrich those proposals set out in the Report of the G-24 on the Functioning and Improvement of the International Monetary System that had not received adequate consideration by the Interim Committee of the Fund's Board of Governors on the International Monetary System.

In March 1987, the working group completed its study of the Role of the IMF in Adjustment With Growth. The Report was considered and approved at a special meeting of G-24 on June 4-5 in Washington. The Report has suggested that for the Fund to assume a larger role in the promotion of international adjustment, the design of adjustment programmes must be changed to include an unequivocal commitment to the promotion of economic growth, and accordingly, the Fund programmes need

to be formulated in a medium-term framework with an appropriate growth orientation, and that provision of financing to support the programmes should be assured over the medium term. The main proposals of the Report are summarised below :

Design of Fund Programmes : Fund-supported adjustment programmes have generally relied heavily on demand-management policies to correct external payments imbalances, which has led to a decline in levels of output and rates of growth and increased unemployment, and has adversely affected income distribution in developing countries. However, a programme with a strong growth orientation will take longer to mature than a programme oriented to the early achievment of balance of payments objectives, because the structural changes needed to achieve growth take more time to yield results. Such programmes will, therefore, require larger amounts of supporting external finance extended over longer periods than programmes with shorter time horizons.

In order to provide Fund-supported programmes with a growth perspective, a set of "growth exercises" should be performed before the financial exercises that are now part of the design of such programmes. These growth exercises would provide estimates of the foreign credit needed to sustain a targeted rate of growth of gross domestic product (GDP). The estimated values would then be included in the Fund's financial exercises as the external counterpart to domestic stabilisation efforts. No one particular growth model be developed, but that each country's structure and characteristics be reflected in its programme model. The growth rate of real income should be related to the investment rate, and the foreign credit required to sustain that rate of growth would be derived from the investment rate, depending upon the country's domestic rate of savings as well as on its import requirements and export prospects.

The essential point of these growth exercises would be to ensure that an adjustment programme designed to correct external imbalances would provide for a rate of growth that is both positive and close to the country potential. In addition, the growth exercises would provide an estimate of the flow of external finance needed to achieve that rate of growth. The foreign credit flows should be consistent not only with growth targets but also with sustainable net debt positions. Accordingly, an assessment of the sustainable level of debt-service burden of a country be an integral part of the growth exercises. The validity of financial exercises and the outcome of the policies adopted would depend on whether the actual inflows of foreign capital reached the required levels. This implies a need for an effective acceptance by creditor countries of the concept of symmetry in adjustment and an obligation of those with large surpluses to provide the capital required — an obligation which would constitute, in effect, a reciprocal performance criterion for these countries.

Conditionality : The Fund has evolved, over time, a set of terms and conditions under which it is prepared to provide financial resources to its members, generally known as conditionality. In the process of evolution of conditionality there has been an excessive emphasis on achieving a relatively rapid turnaround in the balance of payments position of the country to safeguard the 'temporary' use of the Fund's resources, with inadequate attention to the basic purposes of the Fund contained in the Articles (of Agreement). The Report has suggested that the fundamental objective of conditionality be made explicit and be defined as the achievement of medium-term balance of payments viability consistent with an adequate rate of growth. Such an approach, would not be inconsistent with maintaining the revolving nature of the Fund's resources, "but would only affect the speed at which the resources rotate". There should not be any undue interference of the Fund in a country's decision-making process.

The following three general principles should govern the formulation of performance criteria. First, as a general rule a country's adherence to a Fund programme should be assessed on the basis of fulfilment of a minimum number of performance criteria. Second, programme targets should be confined to external variables, and only if these targets are not met, should the Fund assess the degree to which criteria regarding policy instruments are not being met. Third, quantitative performance criteria should be set not as precise numbers but as ranges.

Prior actions should serve to prepare the way for the adoption of a Fund programme and not to reduce the amount and duration of Fund support. Prior actions should therefore be suggested only when necessary and should be kept to a minimum. And in cases where prior actions are judged to be necessary - such as exchange rate adjustment - the Fund should not insist on the achievement of specific targets, but only on movement in the desirable direction.

Contingency Mechanisms : Given the uncertainties inherent in the international economy, the report recommends that the Fund should make use of contingency mechanisms. Such mechanisms, would protect a country's programme from any threat resulting from exogenous events, such as the price of primary commodity exports, the rate of market growth for non-traditional exports, receipts from non-factor services such as workers' remittances, the prices of key imports, and the interest rate on foreign debt. A stand-by arrangement would specify a formula whereby the permissible drawings would fluctuate according to the impact of changes in variables from what was projected in a baseline case. For example, if weaker-than-expected export receipts reduced export tax revenue, the fiscal target might be relaxed by a predetermined percentage of the shortfall. Further, if all the performance criteria are being met but a programme of country's targeted rate of output growth is not being met, "the presumption would be that the amount of external finance provided for it in the programme was not appropriate and that additional financing should be made available".

The repayment obligations of Fund members are currently set in accordance with a fixed schedule. A preferable alternative, however, would be for a country to repay only a specified proportion of its export earnings or some other sum determined on the basis of indicators similar to those under the proposed contingency mechanism.

Financial Resources of the Fund : Fund quotas be enlarged and that the method of calculating and distributing quotas be modified. Further, it may be desirable to tie quotas to some appropriate measure of the size of the world economy, "with formulas for country quotas reflecting their circumstances and financing needs, including some form of poverty index for low-income countries ". Borrowings by the Fund to supplement its resources be undertaken " only when quota resources are inadequate to ensure that the access of borrowing countries to its resources is not reduced in real terms ". The Fund's General Arrangements to Borrow (GAB) should be improved and its resources made available whenever the success of a Fund-supported programme is endangered by resource constraints.

The Report has expressed concern that the Fund's role in relation to debtor countries is increasingly being perceived as that of debt collector, acting on behalf of creditors. It has therefore recommended that in order to improve its image, the Fund should try to " create some distance between it and the commercial banks ". Further, the Fund should " move from crisis management to problem solving with a view to obtaining solutions to debt problems on the basis of the genuine needs of the countries concerned in an appropriate global perspective ".

The Fund, as a major creditor, " should increase access to its own resources, as well as be prepared to extend the maturity of its loans". As part of its catalytic role, the Fund should

also help generate medium and long-term concessional financing for low-income countries from official sources.

Reorientation of Fund Facilities : The Extended Fund Facility (EFF) should be based on a design for correcting structural maladjustments and maintaining adequate growth in an integrated three-to-five-year programme. The conditionality should be minimal and the amount of finance available substantial.

The Fund's Structural Adjustment Facility (SAF) should be changed to enlarge its resources and reduce its conditionality "so as to transform the existing inadequate and tightly constrained facility into a more comprehensive soft credit facility".

The Compensatory Financing Facility (CFF) should be free of conditionality and should be quick disbursing. In addition, the size of the export shortfall should be the basis for determining access to the CFF, not quotas as at present.

The Fund and the World Bank have separate perspectives and mandates and closer relations between them should not blur the distinctions between their respective roles. Further, cross conditionality should be avoided.

Rates of Charges of the Fund and System of Burden Sharing

The rate of charge on the use of ordinary resources at the beginning of the financial year 1985-86 (beginning May 1985) was 7.0 per cent, but it was increased to 7.87 per cent at mid-year in order to ensure that the net income target of 5 per cent of reserves at the beginning of the year would be met. However, net income at the end of the year exceeded projections and permitted a retroactive reduction in the rate of charge to 7.0 per cent effective November 1, 1985. Taking the retroactive reduction of the rate of charge into account, net income for the year amounting to SDR 78 million was added to the Special Reserve.

Effective July 25, 1986, the Executive Board decided on a new target for net income for the financial years 1987 and 1988, and on the rate of charge and the rate of remuneration. These decisions were taken in the light of the level of overdue financial obligations and the resulting need to strengthen the Fund's financial position. They were based on the principle that the financial consequences for the Fund which stem from the existence of overdue financial obligations shall be shared between debtor and creditor countries, and that the sharing shall be applied in a simultaneous and symmetrical fashion. Under the decision, during the financial years 1987 and 1988 (May-April) the Fund's net income target was raised from 5 per cent to 7.5 per cent of the Fund's reserves at the beginning of each year.

The basic rate of charge is determined at the beginning of the financial years 1987 and 1988 on the basis of the estimated income and expense of the Fund and the target amount of net and supplemental income during that year. Effective May 1, 1986, the rate of charge was set at 6.0 per cent. However, the rate of charge during 1987 and 1988 was to be further adjusted at half-yearly intervals in light of overdue charges to the Fund, and the rate of remuneration was also to be adjusted in a similar fashion as the rate of charge. The adjustments were to be made within agreed limits. Accordingly the effective rate of charge for the half year May 1986 to October 1986 worked out to 6.39 per cent and the average rate of remuneration 5.44 per cent. The decision also provided that effective February 1, 1987 the rate of remuneration shall be equal to 100 per cent of SDR interest rate.

In November 1986, the system of making adjustment to the basic rate of charge and remuneration was reviewed and it was decided that in view of the fact that the payment of charges and remuneration was effected every quarter, the adjustment to the basic rate of

charge and remuneration could also be made on a quarterly basis so as to coincide with the cycles of payment of charges (by members) and remuneration (to members). The average (adjusted) rate of charge and rate of remuneration for the financial year 1986-87 (May-April) as a whole, worked out to 6.49 per cent and 5.34 per cent respectively. The average rate of remuneration corresponds to an annual average remuneration coefficient of 88.5 per-cent of SDR interest rate.

Effective February 1, 1986, a system of special charges on overdue obligations was also instituted to recover the direct financial costs to the Fund resulting from members' late payments of obligations. The special charges are linked to SDR interest rate and when the SDR interest rate is greater than the rate of charge, the rate of special charge to be imposed on overdue repurchases would be equal to the difference between the SDR interest rate and the rate of charge on ordinary resources. Also overdue charges are being levied in respect of unpaid amount of charges and overdue interest on and repayment of Trust Fund loans. During February-April 1986, the first quarter of imposition of special charges, the special charges accruing to the Fund amounted to SDR 2.3 million. During F Y 1986-87, the special charges amounted to SDR 0.5 million only.

SDR Allocation and SDR Interest Rate

The SDRs were allocated for the first time in 1970. Since then there were two annual allocations during the first basic period and three annual allocations during the third basic period totalling SDR 21.4 billion. The second basic period remained empty. The fourth basic period which began on January 1, 1982 and ended on December 31, 1986 was also without any allocations, because the U.S., the U.K., W. Germany and Japan remained unconvinced of the need for allocations.

The question of an SDR allocation in the fifth basic period was discussed in the successive meetings of the Interim Committee in 1986 and in April 1987 meeting, but no allocation could be agreed to as the requisite majority support was not forthcoming.

Most Interim Committee members had reiterated the view that there was a long-term global need to supplement existing reserve assets and that many countries had a need for reserve supplementation. They had also stressed the factors like costs to members and the risks to the efficient functioning of the international monetary system of building reserve holdings through borrowing on international credit markets or through current account surpluses. Some other members of the Committee, mainly major industrialised countries, however, continued to believe that the condition for an SDR allocation, (i.e., the existence of a long-term global need) had not been demonstrated. The Interim Committee, therefore, asked the Executive Board to continue its examination of the question of allocation of SDRs.

The interest rate to be paid to holders of SDRs on their holdings thereof, and charges payable by the participants on cumulative allocation of SDRs, continued to be set at 100 per cent of the weighted-average interest rates of the chosen short-term instruments of five countries whose currencies comprise the SDR valuation basket. The rate of remuneration to be paid by the Fund on member's remunerated position with the Fund was set at 92.00 per cent for the period February 1, 1986 to April 30, 1986, and at 97.49 per cent for the period May-January 1987. However, the same was increased to all time high level of 100 per cent from February 1, 1987.

The quarterly rate of interest of SDR and the rate of remuneration for some recent quarters are presented in Table XI-15. It would be seen there from that the SDR interest rate declined below 6 per cent in the quarter ending September 1986, fluctuated around that

level during the next two quarters before falling futher to 5.68 per cent for the quarter ending June 1987.

Table XI–15 : SDR Interest and Remuneration Rates@

(Per cent per annum)

For the quarter ended	SDR interest rate	Rate of Remuneration
June 1986	6.31	6.01
September 1986	5.93	5.78
December 1986	6.04	5.88
March 1987	5.96	5.92
June 1987	5.68	5.68

@ Effective August 1, 1983 both SDR interest rate and remuneration rate are being set on a weekly basis. The figures given above are averages of weekly rates.

International Reserves

In 1986, the international non-gold reserves (foreign exchange, SDRs and reserve position in the Fund) increased by SDR 15.3 billion or by 3.8 per cent to SDR 419.6 billion. This was in sharp contrast to the trend noticed in 1985 when the reserves had declined by SDR 1.6 billion or 0.4 per cent to SDR 404.3 billion. In 1984, the reserves had increased by SDR 45 billion or 12.5 per cent and in 1983 by 10 per cent. In 1986, the foreign exchange component of the reserves increased by SDR 17.4 billion or 5.0 per cent to SDR 364.8 billion. There was also a 7 per cent rise (of SDR 1.3 billion to SDR 19.5 billion) in the holdings of SDRs, but this was more than offset by a decline of SDR 3.4 billion of 8.8 per cent to SDR 35.3 billion in the reserve position in the Fund. The decline in reserve position in the Fund for the second successive year (from SDR 41.6 billion in 1984 to SDR 38.7 billion in 1985 and further to SDR 35.3 billion 1986) reflected, in main, the greater reliance of developing countries on utilisation of reserve position in the Fund in the face of difficulties experienced by them in availing of various Fund facilities because of Fund's stiff conditionality.

The entire increase in the total non-gold reserves was reported by industrial countries whose reserves rose from SDR 227.3 billion in 1985 to SDR 250.8 billion 1986. The non-gold reserves of industrial countries have been rising since 1983 and during the four years ending 1986 their reserves have increased by SDR 66.4 billion or by 36 per cent. Reserves of the developing countries continued to decline and between 1984 and 1986 these countries lost SDR 34.4 billion, almost three-fourths of the fall (or SDR 25.4 billion) occurring in 1986 alone. Consequently, the share of developing countries in total non-gold reserves declined by 6.5 percentage points from 40.8 per cent in 1985 to 34.3 per cent in 1986, and that in foreign exchange holdings by 7.5 percentage points from 42.7 per cent to 35.2 per cent.

Of the fall in non-gold reserves of developing countries, two-thirds or SDR 17.5 billion was accounted for by oil-exporting countries and nearly one-third or SDR 8.0 billion by non-oil developing countries. The fall in reserves in the oil-exporting developing countries was all around with Saudi Arabia reporting the maximum loss of SDR 7.8 billion followed by Venezuela SDR 4.0 billion, and Algeria, and Indonesia, SDR 1.2 billion each. Among the non-oil developing countries, China (SDR 2.2 billion) and Singapore (SDR 1.1 billion) in Asia, and Brazil (SDR 5.0 billion) and Argentina (SDR 0.9 billion) in Western Hemisphere bore most of the brunt of fall in reserves. Most of the developing countries in Europe, however, had reported increases in reserves. Of the fall of SDR 25.4 billion in total non-gold reserves of developing countries, the bulk (SDR 24.4 billion) was accounted for by foreign exchange reserves. This was mainly due to a fall in net external borrowing from private creditors and short-term flows.

The Fund related reserve assets of all countries which had declined by SDR 1.1 billion to SDR 56.9 billion in 1985 fell further by SDR 2.1 billion to SDR 54.8 billion in 1986. This decline was mainly accounted for by a fall in the reserve position in the Fund of SDR 3.4 billion to SDR 35.3 billion, offset by a rise in SDR holdings of SDR 1.3 billion to SDR 19.5

billion. The increase in SDR holdings and decrease in reserve position in the Fund was shared equally both by the industrial and developing countries. Among the major industrial countries, the countries which reported an increase in the SDR holdings and a fall in reserve position in the Fund were USA, Germany and UK. Japan was the only major industrial country which reported declines both in SDR holdings and reserve position in the Fund.

The rising trend witnessed in the non-gold reserve in 1986 continued in the first quarter of 1987 and as at the end of March 1987 the reserves of all countries stood at SDR 437.1 billion, higher by SDR 16.8 billion as compared to end 1986 level. The entire increase was accounted for by industrial countries with developing countries reporting a fall of SDR 5.3 billion.

Developments in Exchange Rates of Major Currencies

Mention was made in the last year's Report regarding the efforts made by the G—5 to bring about a better realignment of exchange rates of major currencies. The year under review saw a further depreciation of the dollar and an appreciation of the other major currencies (Yen, DM, French Franc) vis-a-vis the dollar. The Pound sterling depreciated in relation to all major currencies excepting the US and Canadian dollar. The Canadian dollar, however, remained stable. The year also saw further progress towards alignment of key exchange rates in line with underlying economic conditions in the major industrial countries. The Tokyo Economic Declaration of May 1986 calling for a significant strengthening of multilateral surveillance through the use of economic indicators, the Louvre (Paris) Accord of February 1987 reiterating the major countries' intention to foster stability of exchange rates around current levels and its reiteration at the Venice Summit in June 1987, and the commitment of trade-surplus countries to stimulate domestic demand and reduce external surpluses and of deficit countries to reduce fiscal and trade deficit, were the steps forward in bringing about explicit policy coordination by the major industrial countries. At the Venice Summit leaders agreed that, if in the future world economic growth was insufficient, additional appropriate policy measures would be adopted.

The exchange rate of the *U. S. dollar* fell significantly through July 1986, maintaining the trend that had begun in March 1985. For the twelve months through March 1987, the depreciation amounted to over 12 per cent in nominal effective terms. Currency-wise, the U.S. dollar depreciated during 1986-87 (April-March) by 19 per cent against the D.M., over 15 per cent against the yen, nearly 8 per cent against the pound sterling, over 19 per cent against the Swiss franc and over 15 per cent against the Italian lira. The main reasons for the continued decline in the external value of the dollar were (i) widening of merchandise trade and current account deficits of the United States, (ii) the reservations on the part of non-residents with respect to investments in dollar assets due to slackening trend in U.S. economic activity and decline in U.S. interest rates leading to narrowing down of differential between interest rates of U.S.A. and of other major countries; and (iii) the substantial fall in oil prices in the first half of 1986, favouring more the continental European countries and Japan because they are relatively more dependent on net oil imports than the United States.

From the *spring* of 1986 onwards, there were increasing signs that the depreciation of the dollar in relation to individual currencies was threatening to overshoot a level that was appropriate over the longer term and because of uncertainty about the attitude of the United States towards the dollar exchange rate. The Finance Ministers and Central Bank Governors of the United States, Japan, Germany, France, the United Kingdom and Canada again discu-

ssed the international economic and monetary situation in Paris in February 1987. They announced their intention of co-operating with the aim of stabilising the exchange rate of their currencies at about the level they had reached. When the dollar showed renewed signs of weakness, especially vis-a-vis the yen, as from the end of March, 1987, Japan and the United States took counteraction in the form of coordinated exchange market interventions. However, despite these efforts, during the three month period ending June 1987, the US dollar eased further by nearly 5 per cent against the yen, by around 2 per cent against the pound sterling and the Swiss franc, and by about 1 per cent against the DM and French franc. However, it gained by about 2 per cent against the Canadian dollar and 1 per cent against the Italian lira.

The *Japanese Yen* emerged as the strongest of all six major currencies during 1986-87. In fact, the exchange rate of the dollar against the yen fell from 260.24 yen per dollar in February 1985 to 151.54 yen by March 1987. By currency, the yen persistently rose against the dollar, the pound sterling and the French franc, while it remained weak against the DM and the Swiss franc. Over the year, on a monthly average basis, while the Japanese yen had appreciated by over 18 per cent against the US dollar, by nearly 9 per cent against the pound sterling and by about 4 per cent against the French franc, it had depreciated by over 4 per cent against the DM, about 5 per cent against the Swiss franc. In nominal effective terms, the yen had gained about 10 per cent during the period under review. The main driving forces behind the strong appreciation of the yen were the large current account surpluses leading to substantial build up of foreign exchange reserves, and the expectation that nothing much would change in this respect in the foreseeable future. A low inflation rate in 1986 and 1987 (rate was lower than the average for all the major industrial countries) also aided the sentiment.

During the quarter ending June 1987, the Japanese yen has appreciated against all major currencies including the DM and the Swiss franc against which it had declined earlier. In fact, it appreciated by 4 per cent against the DM, and by 3 per cent against the Swiss franc. The yen had appreciated by about 5 per cent against the US dollar and by over 4 per cent against the French franc.

The *Deutsche Mark* (DM) ruled firm during 1986-87 (April-March) against all major currencies except the Swiss franc. The rise was prominent particularly against the U.S. dollar. Over the year, the D.M. appreciated by about 24 per cent against the US dollar, by nearly 14 per cent against the pound sterling, by over 8 per cent against the French franc,by about 5 per cent against the yen, by over 6 per cent against the Canadian dollar and by over 4 per cent against the Italian lira. In nominal effective terms, the DM strengthened by nearly 10 per cent during the year. The major factors which contributed to the strength of the DM were : (i) large current account surpluses, (ii) increased importance of DM as an international investment currency reflecting the confidence of the international financial community in Germany's economic strength, the domestic stability of its currency and the soundness of Germany's financial system; (iii) a continued narrowing of the interest rate differential vis-a-vis the United States; and (iv) a moderate rate of inflation.

During April-June 1987, the DM evinced a mixed trend. While it continued to appreciate against the US dollar (by nearly 1 per cent), the Canadian dollar (by over 2 per cent), the Italian lira (by nearly 2 per cent) and the French franc (by 0.4 per cent), it depreciated by nearly 2 per cent against the pound sterling and by nearly 4 per cent against the Japanese yen.

The *pound sterling*, on the other hand, showed a mixed trend. While it appreciated against the US dollar by nearly 9 per cent and the Canadian dollar by about 2 per cent, it depreciated by 12 per cent against the DM, by 8 per cent against the yen, by nearly 5 per cent

against the French franc and by about 13 per cent against the Swiss franc. However, in nominal effective terms, the pound sterling depreciated by nearly 4 per cent. The appreciation of the pound sterling vis-a-vis the US dollar is attributed mainly to the fact that the relevant UK interest rates continued to exceed considerably those in the United States. On the other hand, the weakness of the pound sterling against the other major currencies is attributed to (i) declining oil prices in the world market (the UK is a major producer and net exporter of oil), (ii) the rapid growth of sterling M_3 and (iii) a sharp decline in the balances on current account and long-term capital.

During April-June 1987, the pound sterling strengthened against almost all currencies barring the Japanese yen. It gained over 2 per cent against the US dollar, nearly 2 per cent against the DM, nearly 2 per cent against the French franc, and nearly 5 per cent against the Canadian dollar. However, it eased by over 2 per cent against the Japanese yen.

As in the case of pound sterling, the *French franc* also showed a mixed trend during the year under review. While it strengthened by over 14 per cent against the US dollar and by over 5 per cent against the pound sterling, it eased by about 8 per cent against the DM and by over 3 per cent against the yen. In nominal effective terms, however, the French franc depreciated only marginally (o.4 per cent) during the year under review.

During April-June 1987, French franc showed a mixed trend. It appreciated marginally against the US dollar but depreciated by over 4 per cent against the Japanese yen, by nearly 2 per cent against the pound sterling and marginally against the DM.

External Debt of Developing Countries

The external debt of capital importing developing countries (i.e. all developing countries except the eight middle eastern oil exporting countries, namely, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia and the United Arab Emirates) crossed the 1 trillion mark and reached the level of $ 1,032 billion in 1986. Most of the debt was on the head of countries in the Western Hemisphere (Brazil, Mexico, Argentina, Venezuela, Chile, Peru) which accounted for 35 per cent of the total debt, followed by countries in Asia (25 per cent), Africa (14 per cent) and Europe and Middle East (13 per cent each). The external debt of capital importing developing countries as a percentage of exports of goods and services (debt ratio) increased markedly to 183 per cent in 1986 from 171 per cent in 1985. Similarly, the ratio of external debt to GDP also increased from 41.2 per cent in 1985 to 43.1 per cent in 1986. The small low income countries had the highest debt ratio of 432.7 per cent but the Western Hemisphere countries which are the middle income countries also recorded a very high debt ratio of 354.7 per cent.

The debt service ratio of capital importing developing countries is on the rise since 1984 and by 1986, the ratio had reached 24.7 per cent from 23.9 per cent in 1985. Similarly, the debt service ratio of countries with recent debt-servicing problems had increased from 34.3 per cent in 1985 to 37.6 per cent in 1986. In value terms, the debt service payments of capital importing countries in 1986 amounted to $ 139 billion comprising $ 70 billion of interest payments and $ 69 billion of amortization payments.

According to the Fund Staff estimates, the external debt of capital importing developing countries is likely to grow by about 8 per cent to $ 1,116 billion in 1987. While the debt ratio will remain unchanged at 183 per cent, the ratio of external debt to GDP would increase to about 45 per cent. The debt service ratio, however, would decline to 22.6 per cent owing mainly to a decline in interest payments which are projected to fall by $ 3 billion to $ 67 billion. Amortization payments, however, would increase by about $ 2 billion to $ 71 billion. Region-wise, the debt ratio would rise

for countries in Africa, Middle East and Western Hemisphere.

The small low-income countries would be the worst sufferers as in their case the debt ratio in 1987 would rise by 18 percentage points to 451 per cent as against no change in the case of all capital importing developing countries as a group.

Gold in International Markets

During 1986-87 (April-March), gold prices ruled generally firm. The month-end price of gold in London market which stood at $ 344.00 per fine ounce in March 1986 spurted to $ 384.70 in August 1986 showing a handsome gain of $ 40.70. The rise in gold prices was the combined effect of continued political disturbances in South Africa, and expectations that Japan might buy gold to enlarge the size of its coin issue. The onward march of gold price continued in September 1986 also; the prices touched a peak of $ 423.20 in September 1986, registering an increase of $ 38.50 in a month. The increase in the price of gold in September was attributed mainly to investors' concerns about the international monetary situation and the possibility of renewed inflation. Reports that the Government of France might be forced to buy up to 200 metric tons of gold (6.4 million ounces) in 1987 to redeem its issue of gold-backed bonds also aided the sentiment.

However, on realisation that an imminent inflation problem was unlikely, the gold prices reacted sharply, shedding most of the gains achieved in August-September and stood at $ 389.50 as at the end of November 1986. But this reaction did not last long and gold prices started edging up again from December 1986 reaching $ 421.00 by March-end 1987, in response to reports of weakening of U.S. dollar in foreign exchange markets and rise of world oil prices above $ 18 a barrel. At this level, gold prices were higher by $ 77.00 (22.4 per cent) as compared to the level obtaining a year ago.

The uptrend noticed in gold prices during 1986-87, continued during the first quarter of 1987-88 (April-June) also. Prices rose sharply in the month of April reaching $ 453.25 - a new peak. The main factors contributing to this increase were continuing bearish sentiment against the U.S. dollar on exchange markets, and fears of trade war between the United States and Japan. As at the end of June 1987, gold prices were higher by $ 26.3 (6.2 per cent) than the end-March 1987 level. For detailed discussion please see Chapter VI of the Report.

VII. Developments in Exchange Control

Sale of U.S. Dollar by Reserve Bank to authorised dealers

The Reserve Bank of India started selling spot U.S. dollars to authorised dealers with effect from February 2, 1987. Earlier, the Bank was selling only spot pound sterling, while it bought, both on spot and forward basis, from authorised dealers, four foreign currencies, viz., pound sterling, U.S. dollar, Deutsche Mark and Japanese yen. The decision to sell dollars has obviated the need for banks to buy first pound sterling either from the inter-bank market or from RBI and convert it into dollars in the overseas market to meet their dollar commitments. The scheme, which is at present confined to Bombay, is intended to make dollars available to authorised dealers to meet their *bonafide* merchant commitments in that currency and would help growth of local exchange market.

Remittance of Dividends to Non-resident Shareholders of Indian companies

Prior to July 31, 1986, authorised dealers could effect remittances of dividends to non-resident shareholders without the prior approval of the RBI, if equity shares held by non-resident shareholders in a non-FERA company did not exceed 25 per cent of the total issued

capital or Rs. 5 lakhs in face value. In order to facilitate prompt remittance of dividends to non-resident shareholders, the Reserve Bank of India has granted general permission to authorised dealers with effect from July 31, 1986 to make remittance towards equity dividends to non-resident shareholders of all non-FERA companies, irrespective of the face value of equity shares or percentage of issued capital held by the non-resident shareholders. Only applications of FERA companies will now be required to be submitted to the RBI for prior approval.

Investment by NRI

With a view to providing further incentives to non-resident Indians (NRIs) and overseas bodies owned directly or indirectly to the extent of at least 60 per cent by NRIs, to make investments in Indian companies with the benefit of repatriation of capital and income earned thereon, certain additional facilities are offered to them. These cover (i) bulk investments upto 100 per cent, in sick industrial units, (ii) investments in new issues of Indian shipping companies under the "40 per cent Scheme", (iii) investments in "medical diagnostic centres" under the "40 per cent and 74 per cent Schemes" and (iv) removal of the quantitative ceiling of Rs. 40 lakhs on investment of NRIs in private limited companies under the "40 per cent Scheme".

The following additional facilities/liberalisations have been introduced in the NRI investment scheme, effective June 15, 1987. These include (i) the extension of the facility of direct investment under the "40 per cent Scheme" by NRIs and companies/firms predominantly owned by NRIs in Indian companies engaged in the development of computer software and oil exploration, (ii) granting general permission to NRIs under FERA to enable them to subscribe to the Memorandum and Articles of Association of a new company and to take up its shares upto the face value of Rs. 10,000 for the purpose of its incorporation, and (iii) grant of general permission under FERA to Indian companies with more than 40 per cent non-resident interest to acquire immovable properties in India which may be necessary for or incidental to carrying on their industrial activities, provided the companies have obtained a letter of intent or industrial licence or certificate of registration from the concerned Government authorities.

Relaxation in Exchange Control Procedures relating to Exports

In order to render more prompt service to exporters, the powers delegated to authorised dealers in certain Exchange Control areas have been suitably enhanced with effect from July 23, 1987. These include :

i) permission for reduction upto 10 per cent of the invoice value of an export shipment or Rs. 10,000 whichever is less, on behalf of all regular export clients, for quality claims, irrespective of whether they hold blanket permits or not. Earlier, authorised dealers could consider such applications from exporters who held only blanket permits;

ii) permission to remit commission or agree for deduction of the commission amount from the invoice value of the relative export shipment upto Rs. 1 lakh in respect of shipments of goods included in the *'select'* list of export products and upto Rs. 50,000 in respect of shipments of other export products, provided the rates at which commission is paid are within the ceiling rates of agency commission on different commodities as advised by the Reserve Bank to authorised dealers from time to time;

iii) to effect remittances towards export claims upto 10 per cent of f. o. b. value of the shipment or Rs. 30,000 whichever is less;

iv) to grant pre-bid clearance for bids/offers for export of engineering goods on deferred payment terms and execution of turnkey/

civil construction contracts abroad upto the value of Rs. 5 crores. The monetary ceiling on the powers delegated to Exim Bank to grant such pre-bid clearance has been raised from Rs. 5 crores to Rs. 20 crores.

Engagement of Foreign Technicians

Engagement of foreign technicians is permitted for a period of three months for attending to breakdowns/emergencies, etc. The limit of per diem remuneration payable to a technician in foreign currency was enhanced from U.S. $ 300 to U.S. $ 500 with effect from July 18, 1986. The RBI has also granted, with effect from March 25, 1987, general permission to firms/companies to incur rupee expenses towards engagement of foreign experts/technicians for attending to the work of erection or commissioning of imported plant/equipment/machinery as also breakdowns of existing plant/equipment/machinery supplied under collaboration arrangements, subject to compliance with prescribed conditions.

Scheme for Export of Silver Jewellery and Articles against Silver supplied by Foreign Buyers

Government of India have introduced with effect from December 8, 1986, a new Scheme for Export of Silver Jewellery and Articles against Silver supplied by Foreign buyers. Under this Scheme,the silver required for the manufacture of articles/jewellery has to be supplied free of charge by the foreign buyers so that there is no net export of silver from India. Under the Scheme, export of jewellery and articles (including studded ones) will be permitted only if the 'value added' in the export as compared to the value of the silver supplied by the overseas buyer is atleast 20%. The Scheme is to be administered through the Handicrafts and Handlooms Export Corporation of India (HHEC).

Export Promotion and Replenishment Scheme for Silver Jewellery and Silver Articles

Government of India have introduced with effect from December 8, 1986, another scheme under which export of jewellery and articles (other than coins) made of silver will be entitled to the benefit of replenishment of silver, provided they satisfy the 'value added' and other requirements laid down by the Government. The scheme is restricted to exports effected against orders which are backed by irrevocable letters of credit or payment on cash-on-delivery basis or full advance payment. Imports of silver under the scheme are to be handled by State Bank of India.

Hospitality to Non-residents on visits to India

General permission had been granted with effect from July 24, 1986, to any person resident in India to make payments in Indian rupees towards hospitality extended to any person resident outside India who is on a visit to India, upto maximum of Rs.2,000/- during the course of such visit. This limit was enhanced to Rs. 5,000/- with effect from June 27, 1987.

Surrender of unspent foreign exchange

With effect from July 24, 1986 any person resident in India who had acquired foreign exchange under general or special permission of the Bank for travel abroad is permitted to surrender the unspent foreign exchange, if any, brought back to India by him, to a bank authorised to deal in foreign exchange against payment in rupees (i) within 60 days from the date of his return, if the value of the foreign exchange brought back does not exceed US $ 200 or its equivalent and (ii) within 30 days of his retun if the value of such foreign exchange exceeds US $ 200 or its equivalent. Earlier, such unspent balances were required to be surrendered to authorised dealers immediately on the traveller's return to India.

Introduction of new Blanket Exchange Permit Scheme

In pursuance of the Government policy to give a major thrust to the country's export promotion drive, Reserve Bank has introduced on June 8, 1987 a single broad-based Blanket Exchange Permit Scheme for exporters in place of the separate RBI and ITC Blanket Permit Schemes. The following are the salient features of the new Scheme :

i) The list of approved purposes for which foreign exchange can be availed of by holders of blanket permits has been expanded considerably to obviate frequent applications from exporters to Reserve Bank for release of exchange for a variety of purposes connected with export promotion.

ii) Monetary ceilings prescribed for foreign exchange expenditure for the approved purposes have been either removed or considerably enhanced to afford greater freedom to exporters to use their commercial judgement.

iii) Quantum of exchange entitlements has been related to specific percentage of realised f.o.b. value of goods exported and their classification in accordance with product lists prepared by the Ministry of Commerce, Government of India.

iv) All exporters of engineering goods who are eligible for monetary assistance from the Export Marketing Fund administered by Exim Bank are considered eligible for the Blanket Permit facility irrespective of their actual export performance.

Export of Computer Software

In order to give a fillip to the export of computer software, the Government of India announced in December 1986 a policy on computer software export, software development and training. Export of computer software will include besides in physical form, such items as magnetic tapes or paper media, also in non-physical form viz., direct data transmission through dedicated earth stations or satellite links.

Despatch of goods abroad under Self-declaration

Government of India issued a Notification on April 23, 1986 in terms of which the monetary limit prescribed for despatch of articles abroad by air-freight or post-parcel on the sender's own declaration without the despatch being declared on GR / PP form has been raised from Rs. 50/- to Rs. 200/-, except in the case of samples of journals and periodicals despatched by air freight for which the enhanced limit has been fixed at Rs. 250/-.

Taking out of India personal jewellery and precious stones

Reserve Bank has permitted effective June 27, 1987 any person permanently resident in India to take out of India personal jewellery made wholly or mainly of gold upto Rs. 20,000/- in value, which is worn on his person or which forms part of his personal baggage. Similarly, any resident can take out of India precious stones or jewellery, other than articles made wholly or mainly of gold, upto Rs. 20,000/- in value as against the earlier limit of Rs. 10,000/- except in the case of travellers going to Afghanistan, Iran and Gulf countries in the Middle East, who are allowed to take out with them such articles upto Rs. 2,000/- in value.

Payment of Hotel Bills by Foreign Nationals

In order to avoid hardship to foreign nationals visiting India, Government of India, have permitted with effect from February 28, 1986, foreign nationals on visits to India to make payment of hotel bills in Indian rupees also, provided the rupees are derived out of proceeds

of foreign currency notes/coins or travellers cheques brought into India by them as evidenced from encashment certificates issued by authorised dealers or full-fledged money-changers.

Changes in Interest Rates on Deposits under FCNRA Scheme

Following a decline in interest rates abroad, the Bank had lowered interest rates on FCNR deposits of some maturities with effect from September 8, 1986. These were revised upward again on May 25, 1987 as shown below :

Maturity	Rates as on	Revised rates with effect from	
	05.05.1986	08.09.1986	25.05.1987
a) 1 year and above but less than 2 years	8.5	8.0	9.5
b) 2 years and above but less than 3 years	9.0	8.5	10.0
c) 3 years only	10.0	9.0	10.5

Opening of Offices

During 1986-87 (April-March), permission was granted to Indian companies/firms for opening of 20 trading and 29 non-trading offices and for posting 19 representatives at various foreign centres. During April-June 1987, such permission was granted to 4 trading offices, 4 non-trading offices and 6 representatives at various foreign centres.

During the fiscal year 1986-87, 49 overseas companies were granted permission to open new liaison/representative offices and 20 project offices for execution of specific contracts. Such permission was granted to 14 liaison/representative offices and 6 project offices during the period April-June 1987.

Project Exports

During 1986-87 (April-March), the Working Group on Project Exports accorded approvals involving a total value of Rs. 2,102 crores. These comprised 24 proposals for civil construction contracts (Rs. 742 crores), 38 proposals for turnkey contracts (Rs. 886 crores), 12 proposals for deferred payment contracts for supply of engineering goods (Rs. 166 crores) and 26 proposals for consultancy contracts (Rs. 308 crores).

During April-June 1987, 36 proposals for project exports were approved, of a total value of Rs. 1,463 crores. Of these, 7 proposals were for civil construction contracts (Rs. 344 crores), 11 for turnkey contracts (Rs. 952 crores), 5 proposals for deferred payment contracts for supply of engineering goods (Rs. 101 crores) and 13 proposals for consultancy contracts (Rs. 66 crores).

Rupee-Rouble Exchange Rate

The Rupee-Rouble exchange rate in respect of (a) credit agreements and commercial transactions and (b) contracts (under the deferred payments protocol of December 23, 1985) relating to deliveries of machinery and equipment from USSR to India were revised from time to time as under :

	Rs. per Rouble	
	(a)	(b)
As on March 31, 1986	12.5231	13.2360
From April 24, 1986	12.9577	13.6453
From July 17, 1986	13.3743	14.1356
From September 21, 1986	13.8669	14.6562
From December 4, 1986	14.3049	15.1191
From January 23, 1987	14.7923	15.6342

ANNEXURE.

R.B.I's Spot Rate for Purchases and Sales of Pound Sterling

Date	Buying Rate		Selling Rate		Middle Rate
	£ per Rs. 100/-	Rupees per £ 1	£ per Rs. 100/-	Rupees per £ 1	Rupees per £ 1
1	2	3	4	5	6
March 31, 1986	5.5066	18.16	5.4825	18.24	18.20
April 2, 1986	5.4765	18.26	5.4526	18.34	18.30
April 3, 1986	5.4915	18.21	5.4675	18.29	18.25
April 8, 1986	5.4466	18.36	5.4230	18.44	18.40
April 11, 1986	5.4318	18.41	5.4083	18.49	18.45
April 15, 1986	5.4171	18.46	5.5937	18.54	18.50
April 17, 1986	5.3879	18.56	5.3648	18.64	18.60
April 18, 1986	5.3591	18.66	5.3362	18.74	18.70
April 24, 1986	5.3305	18.76	5.3079	18.84	18.80
April 25, 1986	5.3163	18.81	5.2938	18.89	18.85
April 28, 1986	5.2882	18.91	5.2659	18.99	18.95
April 29, 1986	5.2743	18.96	5.2521	19.04	19.00
May 2, 1986	5.3022	18.86	5.2798	18.94	18.90
May 5, 1986	5.2743	18.96	5.2521	19.04	19.00
May 8, 1986	5.2604	19.01	5.2383	19.09	19.05
May 13, 1986	5.2466	19.06	5.2247	19.14	19.10
May 14, 1986	5.2604	19.01	5.2383	19.09	19.05
May 15, 1986	5.2466	19.06	5.2247	19.14	19.10
May 16, 1986	5.2743	18.96	5.2521	19.04	19.00
May 19, 1986	5.2882	18.91	5.2659	18.99	18.95
May 20, 1986	5.2743	18.96	5.2521	19.04	19.00
May 23, 1986	5.2882	18.91	5.2659	18.99	18.95
May 28, 1986	5.2743	18.96	5.2521	19.04	19.00
May 30, 1986	5.2882	18.91	5.2659	18.99	18.95
June 2, 1986	5.3022	18.86	5.2798	18.94	18.90
June 4, 1986	5.2882	18.91	5.2659	18.99	18.95
June 5, 1986	5.3022	18.86	5.2798	18.94	18.90
June 6, 1986	5.2882	18.91	5.2659	18.99	18.95
June 10, 1986	5.3022	18.86	5.2798	18.94	18.90
June 11, 1986	5.2604	19.01	5.2383	19.09	19.05
June 12, 1986	5.2466	19.06	5.2247	19.14	19.10
June 17, 1986	5.2743	18.96	5.2521	19.04	19.00
June 23, 1986	5.3022	18.86	5.2798	18.94	18.90
June 24, 1986	5.2743	18.96	5.2521	19.04	19.00
June 27, 1986	5.2604	19.01	5.2383	19.09	19.05
July 1, 1986	5.2466	19.06	5.2247	19.14	19.10
July 7, 1986	5.2329	19.11	5.2110	19.19	19.15
July 8, 1986	5.2468	19.06	5.2247	19.14	19.10
July 11, 1986	5.2743	18.96	5.2521	19.04	19.00
July 14, 1986	5.3163	18.81	5.2938	18.89	18.85
July 15, 1986	5.3591	18.66	5.3362	18.74	18.70
July 16, 1986	5.3305	18.76	5.3079	18.84	18.80
July 17, 1986	5.2882	18.91	5.2659	18.99	18.95
July 21, 1986	5.3305	18.76	5.3079	18.84	18.80
July 22, 1986	5.3591	18.66	5.3362	18.74	18.70
August 1, 1986	5.3447	18.71	5.3220	18.79	18.75

ANNEXURE.

R.B.I's Spot Rate for Purchases and Sales of Pound Sterling

Date	Buying Rate		Selling Rate		Middle Rate
	£ per Rs. 100/-	Rupees per £ 1	£ per Rs. 100/-	Rupees per £ 1	Rupees per £ 1
1	2	3	4	5	6
August 4, 1986	5.3879	18.56	5.3648	18.64	18.60
August 6, 1986	5.3735	18.61	5.3505	18.69	18.65
August 8, 1986	5.4025	18.51	5.3792	18.59	18.55
August 12, 1986	5.3591	18.66	5.3362	18.74	18.70
August 18, 1986	5.3305	18.76	5.3079	18.84	18.80
August 20, 1986	5.3022	18.86	5.2798	18.94	18.90
August 22, 1986	5.3163	18.81	5.2938	18.89	18.85
August 25, 1986	5.3735	18.61	5.3505	18.69	18.65
August 26, 1986	5.3879	18.56	5.3648	18.64	18.60
September 1, 1986	5.3447	18.71	5.3220	18.79	18.75
September 3, 1986	5.3305	18.76	5.3079	18.84	18.80
September 4, 1986	5.3163	18.81	5.2938	18.89	18.85
September 5, 1986	5.3022	18.86	5.2798	18.94	18.90
September 9, 1986	5.3305	18.76	5.3079	18.84	18.80
September 10, 1986	5.3591	18.66	5.3362	18.74	18.70
September 11, 1986	5.3447	18.71	5.3220	18.79	18.75
September 12, 1986	5.3735	18.61	5.3505	18.69	18.65
September 15, 1986	5.3305	18.76	5.3079	18.84	18.80
September 16, 1986	5.3163	18.81	5.2938	18.89	18.85
September 17, 1986	5.3591	18.66	5.3362	18.74	18.70
September 18, 1986	5.3305	18.76	5.3079	18.84	18.80
September 19, 1986	5.3735	18.61	5.3505	18.69	18.65
September 19, 1986	5.3447	18.71	5.3220	18.79	18.75
September 22, 1986	5.3591	18.66	5.3362	18.74	18.70
September 23, 1986	5.4318	18.41	5.4083	18.49	18.45
September 24, 1986	5.4171	18.46	5.3937	18.54	18.50
September 26, 1986	5.4615	18.31	5.4377	18.39	18.35
September 29, 1986	5.4466	18.36	5.4230	18.44	18.40
October 1, 1986	5.4171	18.46	5.3937	18.54	18.50
October 3, 1986	5.4615	18.31	5.4377	18.39	18.35
October 6, 1986	5.4466	18.36	5.4230	18.44	18.40
October 8, 1986	5.4765	18.26	5.4526	18.34	18.30
October 9, 1986	5.5066	18.16	5.4825	18.24	18.20
October 10, 1986	5.4915	18.21	5.4675	18.29	18.25
October 13, 1986	5.4765	18.26	5.4526	18.34	18.30
October 15, 1986	5.4466	18.36	5.4230	18.44	18.40
October 16, 1986	5.4318	18.41	5.4083	18.49	18.45
October 17, 1986	5.4466	18.36	5.4230	18.44	18.40
October 20, 1986	5.4615	18.31	5.4377	18.39	18.35
October 21, 1986	5.4318	18.41	5.4083	18.49	18.45
October 24, 1986	5.4466	18.36	5.4230	18.44	18.40
October 27, 1986	5.4915	18.21	5.4675	18.29	18.25
October 29, 1986	5.4765	18.26	5.4526	18.34	18.30
October 30, 1986	5.4915	18.21	5.4675	18.29	18.25

ANNEXURE.

R.B.I's Spot Rate for Purchases and Sales of Pound Sterling

Date	Buying Rate		Selling Rate		Middle Rate
	£ per Rs. 100/-	Rupees per £ 1	£ per Rs. 100/-	Rupees per £ 1	Rupees per £ 1
1	2	3	4	5	6
November 3, 1986	5.4615	18.31	5.4377	18.39	18.35
November 5, 1986	5.4171	18.46	5.3937	18.54	18.50
November 6, 1986	5.3879	18.56	5.3648	18.64	18.60
November 10, 1986	5.3591	18.66	5.3362	18.74	18.70
November 11, 1986	5.3305	18.76	5.3079	18.84	18.80
November 13, 1986	5.3591	18.66	5.3362	18.74	18.70
November 20, 1986	5.3879	18.56	5.3648	18.64	18.60
November 25, 1986	5.4025	18.51	5.3792	18.59	18.55
November 26, 1986	5.3447	18.71	5.3220	18.79	18.75
November 27, 1986	5.3305	18.76	5.3079	18.84	18.80
December 1, 1986	5.3163	18.81	5.2938	18.89	18.85
December 8, 1986	5.3447	18.71	5.3220	18.79	18.75
December 11, 1986	5.3305	18.76	5.3079	18.84	18.80
December 15, 1986	5.3163	18.81	5.2938	18.89	18.85
December 16, 1986	5.3022	18.86	5.2798	18.94	18.90
December 17, 1986	5.3163	18.81	5.2938	18.89	18.85
December 19, 1986	5.3022	18.86	5.2798	18.94	18.90
December 22, 1986	5.2882	18.91	5.2659	18.99	18.95
December 23, 1986	5.2743	18.96	5.2521	19.04	19.00
December 24, 1986	5.2329	19.11	5.2110	19.19	19.15
December 30, 1986	5.2056	19.21	5.1840	19.29	19.25
January 1, 1987	5.1787	19.31	5.1573	19.39	19.35
January 6, 1987	5.2056	19.21	5.1840	19.29	19.25
January 7, 1987	5.1921	19.26	5.1706	19.34	19.30
January 8, 1987	5.2056	19.21	5.1840	19.29	19.25
January 12, 1987	5.1921	19.26	5.1706	19.34	19.30
January 13, 1987	5.1520	19.41	5.1308	19.49	19.45
January 15, 1987	5.1125	19.56	5.0916	19.64	19.60
January 19, 1987	5.0352	19.86	5.0150	19.94	19.90
January 20, 1987	5.0226	19.91	5.0025	19.99	19.95
January 21, 1987	5.0480	19.81	5.0277	19.89	19.85
January 22, 1987	5.0226	19.91	5.0025	19.99	19.95
January 23, 1987	5.0352	19.86	5.0150	19.94	19.90
January 28, 1987	5.0100	19.96	4.9900	20.04	20.00
January 29, 1987	5.0226	19.91	5.0025	19.99	19.95
February 2, 1987	5.0480	19.81	5.0277	19.89	19.85
February 3, 1987	5.0352	19.86	5.0150	19.94	19.90
February 5, 1987	5.0226	19.91	5.0025	19.99	19.95
February 9, 1987	5.0736	19.71	5.0531	19.79	19.75
February 10, 1987	5.0352	19.86	5.0150	19.94	19.90
February 12, 1987	5.0607	19.76	5.0403	19.84	19.80
February 16, 1987	5.0352	19.86	5.0150	19.94	19.90
February 18, 1987	5.0226	19.91	5.0025	19.99	19.95
February 19, 1987	5.0100	19.96	4.9900	20.04	20.00

ANNEXURE.

R.B.I's Spot Rate for Purchases and Sales of Pound Sterling

Date	Buying Rate		Selling Rate		Middle Rate
	£ per Rs. 100/-	Rupees per £ 1	£ per Rs. 100/-	Rupees per £ 1	Rupees per £ 1
1	2	3	4	5	6
February 24, 1987	4.9850	20.06	4.9652	20.14	20.10
February 27, 1987	4.9603	20.16	4.9407	20.24	20.20
March 2, 1987	4.9480	20.21	4.9285	20.29	20.25
March 3, 1987	4.9237	20.31	4.9044	20.39	20.35
March 5, 1987	4.9116	20.36	4.8924	20.44	20.40
March 6, 1987	4.8757	20.51	4.8567	20.59	20.55
March 10, 1987	4.8638	20.56	4.8450	20.64	20.60
March 18, 1987	4.8520	20.61	4.8333	20.69	20.65
March 24, 1987	4.8286	20.71	4.8100	20.79	20.75
April 2, 1987	4.8403	20.66	4.8216	20.74	20.70
April 3, 1987	4.8286	20.71	4.8100	20.79	20.75
April 6, 1987	4.8170	20.76	4.7985	20.84	20.80
April 10, 1987	4.8054	20.81	4.7870	20.89	20.85
April 13, 1987	4.7939	20.86	4.7755	20.94	20.90
April 24, 1987	4.7824	20.91	4.7642	20.99	20.95
April 27, 1987	4.7596	21.01	4.7416	21.09	21.05
May 4, 1987	4.7259	21.16	4.7081	21.24	21.20
May 20, 1987	4.7037	21.26	4.6860	21.34	21.30
May 25, 1987	4.7259	21.16	4.7081	21.24	21.20
May 26, 1987	4.7371	21.11	4.7192	21.19	21.15
May 27, 1987	4.7710	20.96	4.7529	21.04	21.00
May 28, 1987	4.7939	20.86	4.7755	20.94	20.90
June 3, 1987	4.7596	21.01	4.7416	21.09	21.05
June 4, 1987	4.7939	20.86	4.7755	20.94	20.90
June 5, 1987	4.7824	20.91	4.7642	20.99	20.95
June 9, 1987	4.7710	20.96	4.7529	21.04	21.00
June 10, 1987	4.7371	21.11	4.7192	21.19	21.15
June 12, 1987	4.7259	21.16	4.7081	21.24	21.20
June 15, 1987	4.7371	21.11	4.7192	21.19	21.15
June 16, 1987	4.7596	21.01	4.7416	21.09	21.05
June 17, 1987	4.7824	20.91	4.7642	20.99	20.95
June 22, 1987	4.8170	20.76	4.7985	20.84	20.80
June 23, 1987	4.8520	20.61	4.8333	20.69	20.65
June 24, 1987	4.8403	20.66	4.8216	20.74	20.70
June 25, 1987	4.8170	20.76	4.7985	20.84	20.80
June 29, 1987	4.8403	20.66	4.8216	20.74	20.70

APPENDIX-1
IMPORTANT EXPORT CONTROL/PROMOTION ANNOUNCEMENTS
(APRIL- 1986 – MARCH 1987)

A. CHANGES IN EXPORT CONTROL

Sr. No.	Item	Month of Announcement	Details
1	2	3	4
1.	De-oiled Rice Bran (Rice Bran Extraction)	April 1987	Export was allowed within a limited ceiling on "first-come, first-served,"basis against registration of contracts with the Solvent Extractors' Association of India, Bombay.
2.	Solvent Extracted Cotton Seed Cakes (De-corticated and Un-decorticated)	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis against registration of contracts with the All India Cotton Seed Crushers Association, Bombay.
3.	De-oiled Groundnut Cake (Extractions)	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis against registration of contracts with the Groundnut Extractors' Export Development Association, Bombay.
4.	Non-basmati Rice	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis subject to minimum export price of Rs. 4,000/- per tonne FOB.
5.	Rayon Filament Yarn	April 1986	Export was allowed for April & May 1986 within a limited ceiling on "first-come, first-served," basis subject to minimum export price as mentioned below :– 1. Rs. 31.50 per kg. for 75 deneirs. 2. Rs. 26.00 per kg. for 120 deneirs. 3. Rs. 20.00 per kg. for 150 deneirs and above.
6.	Meat of Indian Goat	April 1986	Export was allowed within a limited ceiling subject to minimum export price of Rs. 19 per kg. FOB on presentation of shipping bill/ airway bills.
7.	Pure Milk Ghee	April 1986	Export was allowed within a limited ceiling on "first-come, first-served,' basis only against 100% irrevocable letter of credit opened and accepted by any Indian Bank or against full payment received in advance.
8.	Wheat and wheat products	April 1986	Export of wheat was allowed within a limited ceiling on "first-come, first-served," basis without any minimum export price. Export of wheat products namely, maida, suji and whole meal atta was allowed within a limited ceiling on "first-come, first-served," basis subject to minimum export prices as mentioned below :– a) Wholemeal Atta – Rs. 1,750/- per M.T. F.O.B. b) Maida / Suji – Rs. 2,050/- per M.T. F.O.B.
9.	Maize	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis by issue of export licences against 100% confirmed irrevocable letter of credit.
10.	Rhubarbee Roots	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis.
11.	Dehusked Coconut Whole, Coconut flour and Dessicated Coconut	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis. Export of Dehusked Coconut whole is allowed subject to minimum F.O.B. value of Rs. 24/- per kg.
12.	Pearl Barley	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis by all categories of exporters to all permissible destinations on production of firm sale contract or cable offer and acceptance.
13.	Rajagaro Seed/Powder	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis.

1	2	3	4
14.	Wheat Seedsand Paddy Seeds	April 1986	Export was allowed within a limited ceiling canalised through the National Seed Corporation Limited and permitted by port licensing authorities by making endorsement on shipping bills.
15.	Sammo Seeds and Kodari Seeds	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis subject to certain conditions.
16.	Cotton Linters	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis.
17.	Hydrogenated Oil (Vanaspati ghee)	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis on production of certificate of preshipment inspection and permission from Directorate of Vanaspati, Vegetable Oils & Fats, New Delhi to Customs authorities.
18.	Cotton Seed Expeller Cakes	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis against registration of contracts with the All India Cotton Seed Crushers'Association, Bombay.
19.	High value added Processed food and Indian Snacks	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis subject to a minimum export price of Rs. 9/- per kg.
20.	Writing and Printing Paper all sorts including Airmail Tissue Paper below 34 GSM	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis.
21.	Live Sheep and Goats (adults)	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis on production of irrevocable letter of credit or proof of receipt of payment against a specific export order, subject to a minimum export price of Rs. 12/- per kg. (FOB) of live weight of the animal and certain other conditions.
22.	Peacock Tail Feathers and Articles/ Handicrafts made of Peacock Tail Feathers	April 1986	Export was allowed within a limited ceiling by all categories of exporters falling under respective categories against valid irrevocable letter of credit and export licences.
23.	Hatching Eggs	April 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis without any M.E.P.
24.	Groundnuts including HPS Variety both in Shell and Kernels	April 1986	Exports of HPS Groundnuts (Both in shell and kernels) was allowed under OGL-3 against contracts registered with Agricultural Products-Export Development Authority — Delhi.
25.	Wild Life and Wild Life Products	May 1986	Export of listed items was allowed within a limited ceiling on "first-come, first-served," basis subject to production of legal procurement certificate issued by the concerned wild life authority.
26.	Bajra	May 1986	Ceiling was released and export allowed subject to MEP of Rs. 2000/- per MT F.O.B. Private Trade was also allowed to export Bajra as associates of NAFED in their own names against the ceiling earmarked for them subject to registration of contracts with NAFED, backed by 100% irrevocable letter of credit on "first-come, first-served," basis.
27.	Jowar & Ragi	May 1986	Ceiling was released and export allowed subject to a minimum export price of Rs. 2000/- per tonne F.O.B. Private Trade was also allowed as Associates of NAFED in their own names on "first-come, first-served," basis against contracts backed by 100% irrevocable letter of credit.
28.	Live Buffaloes	May 1986	Export was allowed during the first six months of 1986-87 within a ceiling to all permissible destinations subject to certain conditions and endorsement on the shipping bill by the licensing authorities.

1	2	3	4
29.	Handicrafts made of Sandal wood	May 1986	Export was allowed subject to the condition that the value addition of handicrafts made of sandal wood is minimum of 300 per cent of the average price of sandal wood per M.T. F.O.B. announced by the Development Commissioner (Handicrafts) from time to time.
30.	Cantharidine Beetles	May 1986	Export was allowed "on merits" within a limited ceiling on "first-come, come, first-served," basis.
31.	Gum Karaya	May 1986	Export was allowed provided the exports were canalised through NAFED.
32.	Rice Bran Oil	May 1986	Export of this item was not to be normally allowed.
33.	Solvent Extractions not specified elsewhere and Mango Kernel Oil,Mahua Oil and Neemseed Oil.	May 1986	Export was allowed under OGL No. 3 against registration of contracts with the Solvent Extractor Association of India, Bombay.
34.	Wollastonite	May 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis.
35.	Pyrophyllite	May 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis.
36.	Corrundum (other than Saphires and Rubies)	May 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis.
37.	Hatching Eggs	May 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis by all categories of exporters to all permissible destinations against firm sale contracts.
38.	Wild life andWildlife Products	June 1986	Export was allowed within a limited ceiling on 'first-come, first-served," basis on production of legal procurement certificate issued by Chief Wild Life authorities.
39.	Seed Lac	June 1986	Export was allowed to exporters of shellac to the extent of 20 per cent of the quantity of shellac shipped.
40.	Crushed Bones and Steamed Crushed Bones	June 1986	Export was allowed within a limited ceiling by all categories of exporters to all permissible destinations against firm sale contracts backed by 100% irrevocable letter of credit.
41.	SeaWeeds	June 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis.
42.	Venom of snakes	June 1986	Export (only Cobra venom and Russels Viper venom) was allowed within a limited ceiling on "first-come, first-served,"basis.
43.	Viscose Staple Fibre Spun Yarn	June 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis with M.E.P. of Rs. 18/- per kg. F.O.B.
44.	Rayon and Filament Yarn	June 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis subject to MEP as mentioned below :— 1) Rs. 31.50 per kg. for 40-75 Deniers 2) Rs. 26.00 per kg. for 76-149 Deniers 3) Rs. 20.00 per kg. for 150 and above Deniers.
45.	Polyester Filament Texturised Yarn	June 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis.
46.	Non-basmati Rice	July 1986	Export was allowed within a limited ceiling on "first-come, first-served," basis against 100 per cent confirmed irrevocable letter of credit subject

1	2	3	4
			to minimum export price of Rs. 3,000/- per metric tonne F.O.B.
47.	Peacock Tail Feathers and Articles/Handicrafts made of Peacock Tail Feathers	August 1986	Export was allowed against irrevocable letter of credit or on production of a Bank Certificate by a Scheduled Bank in India covering 100% F.O.B. value against specified export order.
48.	Gold Jewellery	September 1986	Export was allowed by endorsement of shipping bills by the Handicrafts and Handlooms Export Corporation under the scheme for export of Gold jewellery against gold supplied by the foreign buyer and by the Port Licensing Authorities under the Gold Jewellery Export Promotion Replenishment Scheme and Duty Exemption Scheme.
49.	Kuth (Costus lappa Syn. Samsurea lappa C.B. Cl. Asteraceae), cultivated in private lands, and its derivatives.	September 1986	Export was allowed "On Merits".
50.	Granular Sillimate produced by Indian Rare Earths Ltd., and Kerala Minerals & Metals Ltd.,	September 1986	Export was allowed within a limited ceiling on recommendation of Department of Atomic Energy.
51.	Silver Mica Capacitor Plates	September 1986	Export was allowed with immediate effect under OGL3 subject to floor prices mentioned in annexure 'H' against production of valid 100% Irrevocable Letter of credit and other conditions stipulated in the annexure.
52.	Dehusked Coconut Whole, Coconut Flour and Dessicated Coconut.	October 1986	Ceiling increased for export of dehusked coconut whole subject to minimum f.o.b. value of Rs. 24 per kg.
53.	Jowar , Ragi & Bajra	October 1986	Export was allowed by i) NAFED and ii) PrivateTrade. Export by NAFED was allowed by endorsement of shipping bills by the Port Licensing Authorities. Export by Private Trade was allowed within a limited ceiling on "first-come, first-served" basis against contracts backed by 100%, irrevocable letter of credit subject to minimum export price of Rs. 2,000/- per tonne f.o.b. and grant of export licence in each case. Private Trade need not approach N.A.F.E.D.
54.	Staple/Rayon hand knotted Carpets	November 1986	Export was allowed under OGL-3 on declaration in categorical terms that the carpets are made of Staple/Rayon in shipping bills and exporters will not use the word "Art Silk" in place of Staple/Rayon.
55.	Red Sanders Wood in the form ofChips and Powder	December 1986	Export was allowed under OGL-3 on production of a certificate of origin.
56.	Silver Jewellery and Silver Articles	December 1986	Export of certain items was allowed by endorsement of shipping Bills by Handicrafts and Handlooms Export Corporation under the Scheme for Silver Jewellery and Silver articles against Silver supplied by the foreign buyer and by the export licensing authorities under the Export Promotion and Replenishment Scheme for Silver Jewellery and Silver Articles.
57.	Lemon I (Machine made) (variety of Shellac of 0.75% insolubility)	December 1986	Export was allowed under OGL-3 subject to the minimum export price of Rs. 22,500/- per metric tonne and also subject to the production of (i) export price security slip and (ii) quality certificate issued by the Shellac Export Promotion Council, Calcutta.

1	2	3	4
58.	Non-Basmati Rice	December 1986	Export was allowed also against revolving letter of credit against firm contracts.
59.	Bone Sinews Meal	December 1986	Export was allowed under OGL-3 without any condition.
60.	Barytes	December 1986	Export was allowed subject to minimum export price as indicated below : 1. Barytes Lumps — US $ 22 per M.T. f.o.b. 2. White Barytes (90-93%) — US $ 88 per M.T. f.o.b. 3. Snow White Barytes (93-95%) — US $ 100 per M.T. f.o.b. 4. Super Snow white Barytes (above 95%) — US $ 110 per M.T. f.o.b. US $ 8/- will be charged over and above the floor price when the material is exported in pellet..
61.	Viscose Staple Fibre Spun Yarn	January 1987	Export was allowed at a quota not exceeding 30% of the available ceiling per day instead of 10%.
62.	Video Programme produced by Doordarshan direct or through outsideAgencies	January 1987	Export was allowed under OGL-3 without any condition.
63.	Manufactured Articles of Mongoose Hair and Manufactured articles made out of Reptile/Snake skins	January 1987	Export of Manufactured articles of Mongoose Hair was banned with immediate effect. Export of Manufactured articles made out of the following Species of Reptile / snake skins like Atretrium Schistosum (olive keel back water snake), Cerberus rhynclops (Dog-faced water snake), Natrix Piscator (Checkered keel back water snake), ptyas mucosus (Rat snake), Naga raja (cobra), ophiophagus hannah (King Cobra), Vipera russellii (Rusell's Viper) was only allowed.
64.	Peanut Meal (Deoiled Groundnut cake not meant for edible purpose)	January 1987	Export was allowed under OGL-3 without any condition.
65.	Groundnuts, including HPS variety (both in shell and Kernels)	February 1987	Agricultural Products Export Development Authority was allowed export of the said item only to Rupee Payment Area Countries, against irrevocable letters of credit supported by at least 98% of the total sale proceeds subject to the condition that the balance 2% of the sale proceeds is repatriated within a period of six months from the date of the shipment in respect of the first consignment.
66.	Silver bearing chemicals, electrical contacts and drug formulation	March 1987	Export of silver bearing chemicals and electrical contacts was allowed under OGL-3 subject to minimum realisation of 25% of value addition over the price of silver content. Export of drug formulation of mild silver proteins and silver sulphadiazing conforming to formulations prescribed in recognised pharmacopoeia/ official standards was allowed under OGL-3 subject to minimum value addition of 33-1/3% over the price of silver content. The price of silver for purpose of determining the value addition would be the price of silver at international price, whichever is higher on the date of export.

APPENDIX - I
B – CHANGES IN EXPORT DUTIES
(APRIL 1986 to MARCH 1987)

Sr. No.	Item	Date of Announcement/ Effective Date	Duty		Cess	
			Present	Previous	Present	Previous
1.	Coffee	22.10.1986	a) Rs. 1000/- per quintal	Rs. 600/- per quintal	Rs. 11.80 per quintal	Rs. 11.80 per quintal
		16. 1.1987	b) Rs. 600/- per quintal	Rs. 1000/- per quintal	Rs. 11.80 per quintal	Rs. 11.80 per quintal
		23. 3.1987	c) Rs. 330/- per quintal	Rs. 600/- per quintal	Rs. 11.80 per quintal	Rs. 11.80 per quintal
2.	Black pepper	27.11.1986	Rs. 5/- per kg.	Rs. 3/- per kg.	½%	½%
3.	Mica	1. 3.1987	a) Nil*	Rates differed from 15 per cent to 30 per cent ad-valorem		
		13. 3.1987	b) Nil **	Rates differ		

* On four types of mica

** Mica of all varieties except mica scrap

Source : Customs Notification, Ministry of Finance, Government of India.

APPENDIX – II

A – IMPORTANT ANNOUNCEMENTS WITH REGARD TO IMPORT CONTROL POLICY (APRIL 1986- MARCH 1987)

Sr. No.	Item	Month of Announcement	Details
1	2	3	4
1.	Open General Licence No. 1 *@	April 1986	Actual users (industrial) were allowed to import, under OGL, for their own use raw materials, components and consumables, other than instruments and items listed in the restricted, banned or canalised appendices, subject to the following conditions:1) imports of components by units must be registered with the D.G.T.D. while the imports of textile machinery by manufacturing units were to be registered with the Textile Commissioner, in advance and both the imports are subject to list attestation procedure and phase manufacturing programme, 2) in respect of imports of raw materials, components etc by 'proposed' units, these imports would be effected on their behalf by State/Industrial Development Corporations or State Financial Corporations, with the actual user unit producing a bank guarantee for 25 per cent of the c.i.f. value of goods imported, 3) all the imports by large scale industrial units would be intimated to the DGTD or the Department of Electronics about the value and description of the relevant imported item, 4) import contracts in respect of man-made fibre tow, yarns, raw wool/greasy / scoured wool (not carded or combed) / angora goat hair (mohair)/greasy/ scoured angora goat hair (mohair) (not carded or combed), woollen rags/synthetic rags / shoddy wool in completely premutilated condition, were registered with the Textile Commissioner in advance, 5) the imports of man-made fibres, tows and yarns are made by the State Trading Corporation, 6) in the case of imports of soda ash, PVC resin, wood pulp, caustic soda and copper scrap/copper mill scale, the import contracts are registered with the DGTD, and the import contracts in respect of import of Rifampicin, are registered with the Joint Secretary and Development Commissioner (Drugs), 6) an order to the extent of 33 per cent of the requirements of vitamin B-6 (Pyridoxin HCL/Pyridoxin base and its intermediates) were placed first with the Indian Drugs & Pharmaceuticals Ltd. (IDPL) and the balance 67 per cent to be allowed by customs on the basis of evidence of this order with the IDPL, 7) the import contracts in the case of raw cashewnuts are registered with the Cashew Corporation of India within 7 days of its execution, 8) the import contracts in respect of pig iron containing phosphorous not more than 0.1 per cent, carbon steel items and alloy steel items are registered with the Iron and Steel Controller within 30 days of entering into the contract, 9) import by Oil Refineries of iron & steel items covered by the OGL is allowed, 10) that the Department of Agriculture (Plant Protection Division) is intimated about the quantity and c.i.f. value of insecticides, pesticides and weedicides imported, 11) the import contract in the case of polysiticon, single crystal silicon ingots/ bans/ rods except metallurgical grade silicon, silicon wafers excluding diffused wafers, dices and chips, are registered with the Department of Electronics in advance 12) the imports of ivory (unmanufactured) will be subject to the regulations of the Convention on International Trade in Endangered Species (CITES) and inspection by the Regional Deputy Director, wild life preservation, Department of Environment, 13) imports of greases and lubricating oils to the extent of Rs. 10,000 on the basis of a no-objection certificate issued by the Indian Oil Corporation, 14) the specified items under various lists of the OGL are imported by actual

1	2	3	4
			users (industrial) as have been engaged in respective industries/export trading houses, 15) the size of imported brass/copper pipes and tubes as scrap does not exceed 15 cms in length unless they are imported as scrap in hydraulically pressed briquettes.
2.	Open General Licence No. 2@	April 1986	Actual users (industrial and non-industrial) were allowed to import specified capital goods under OGL, subject to the following conditions:1) the concerned importers have registered with DGTD or the relevant State Director of Industries or the sponsoring authority, about the necessity of such items for their own use in their factories,commercial establishments, institutions or professional offices or concerned premises, 2) that by importing these items, the licensed/authorised capacity of the unit is not exceeded, 3) the items imported are of new manufacture and in the case of second-hand or re-conditioned items, they are not more than seven years old with a residual life of at least 5 years, and a certificate to this effect is produced, as issued by a professional independent chartered engineer of the country from which imports are made, furnishing the details of the year of manufacture of the capital good, its present condition, the c.i.f. value of equivalent capital good if purchased new, the nature of reconditioning or repairs done,etc.
3.	Open General Licence No. 3	April 1986	Actual users (industrial and non-industrial) were permitted to import, for their own use,'permissible' spares (other than those in the restricted, banned or limited permissible lists) required for maintenance of capital goods including accessories, ancillary equipment, control and laboratory equipment and safety appliances, installed or in use as on 1st April of the licensing year, provided the following conditions were fulfilled : 1) the value of imported permissible spares for computer systems is not more than 5 per cent of the c.i.f. value of imported computer or 2 per cent per year of the purchase price of an indigenously manufactured computer system or 5 per cent of the computer which are integral part of the photo composing machines, 2) small scale units with provisional registration certificates were also allowed to import these spares and 3) the importer intimates the appropriate authorities, the description and total value (c.i.f.) of the items imported if the value exceeds Rs. 2 lakhs.
4.	Open General Licence No. 4	April 1986	Permission was granted for the import of the following specified items, subject to certain conditions : 1) Reimport of items sent for repairs abroad, free of charge on c.i.f. basis or on payment (c.i.f.) not more than 10 per cent of the c.i.f. value of the imported machinery or Rs. 1 lakh, 2) free gift of trade catalogues and circulars upto Rs. 2000, 3) blue-prints and drawings (including microfilms) relating to machinery & plants sites, work and building research data supplied free of charge having no commercial value 4) bonafide technical and trade samples supplied free of charge not exceeding Rs. 20,000 in c.i.f. value per consignment, excepting vegetable seeds, bees, tea and new drugs, 5) bonafide advertising material supplied free of charge less than Rs. 2000 in c.i.f. per consignment, 6) goods supplied free of cost by foreign suppliers or imported against an insurance claim settlement (marine-cum-erection insurance), in replacement of defective, unfit, unsuitable, lost or damaged goods imported earlier, 7) drugs and medicines supplied free of charge for clinical trials with a prior written permission of the Drugs Controller of India, 8) bonafide samples of drugs and medicines supplied free of charge to the sole agents in India of the foreign

1	2	3	4
			suppliers, not exceeding Rs. 10,000 in c.i.f. per consignment on the written recommendations of the Drugs Controller of India, 9) human vaccines and sera supplied freely or on payment, on written recommendation of the Drugs Controller, 10) animal, including poultry vaccines supplied free of charge or on payment on the recommendations of the Animal Husbandry Commissioner and 11) technical and trade samples of the insecticides (including pesticides and weedicides) supplied freely on the basis of the registration issued by the Registration Committee under the Insecticides Act, 1968, in specified quantities.
5.	Open General Licence No. 5	April 1986	Research and Development units, scientific or research laboratories, institutions of higher education & hospitals recognised by Central and State Governments were allowed to import raw materials, components, consumables machinery, equipment, instruments, accessories, tools and spares, for their own use, provided they fulfilled the following conditions : 1) a declaration that the imports are required for their own use and for R & D purposes by R & D units, 2) the imports of computers, computer based systems and their spares are in accordance with the prescribed policy, 3) imports by R & D units of micro organism in any form are with the prior permission of the Animal Husbandry Commissioner, 4) importsexceedingRs. 1 lakh would be reported to the concerned authorities within 30 days of customs clearance, as in the case of imports by R & D units, they shall inform the CCI & E, the Department ofElectronics in the case of electronic items, the DGTD for imports registered with DGTD,etc.
6.	Open General Licence No. 6	April 1986	In the case of imports of canalised items by the designated canalising agencies, the imports are made against the foreign exchange released for the purpose and these are distributed as per the procedures laid down.
7.	Open General Licence No. 7	April 1986	ActualUsers (industrial) were allowed to import, for use in their own undertakings, jigs, fixtures, dies and patterns (including contour roller dies), moulds, including moulds for diecasting, and press tools (except those banned or restricted) and parts thereof provided; 1) the units are registered with DGTD/sponsoring authority or the concerned State Director of Industries, 2) the imports are of new manufacture, 3) in the case of second hand or re-conditioned items, they are not more than 7 years old and the remaining life is atleast 5 years and a certificate furnishing the details of the year and name of the manufacturer, nature of repairs/re-conditioning the c.i.f. value of equivalent capital good if purchased new, etc. issued by a professional independent chartered engineer of the country from which imports are made.
8.	Open General Licence No. 8	April 1986	Oil and Natural Gas Commission, Oil India Ltd., Gas Authority of India Ltd. and M/s. Bharat Gold Mines Ltd. were permitted to import raw materials, consumables (not consumer goods), components, machinery equipments, tools and spares, instruments and accessories. An indigenous clearance was necessary for imports by ONGC and OIL issued by the Empowered Committee on Indigenisation in the oil industry under the Ministry of Petroleum and Natural Gas. Imports by M/s. Bharat Gold Mines were subject to indigenous clearance by DGTD, imports of

1	2	3	4
			electronic items including fascimile equipment for a c.i.f. value of Rs. 5 lakhs or more, and marine electronics equipment and parts irrespective of value, or communication equipments with a value exceeding Rs. 1 lakh, the clearance of the Department of Electronics was essential. Exemption from indigenous clearance was given in respect of imports made against foreign exchange released by the Govt. The re-export of the main equipment brought along with the foreign expert in the course of the execution of the service contracts awarded to them by the ONGC, Oil India Ltd., the GAIL/M/s. Mazgaon Dock Ltd., provided the imported equipment involves no payment and the equipment is re-exported when the foreign specialists leave India on completion of the project work.
9.	Open General Licence No. 9	April 1986	The Air-India, the Indian Airlines, owners of executive aircrafts in both private and public sectors and other airlines who are members of the IATA were allowed to import, subject to 'actual user' condition, spares, consumable (excluding greases and lubricants that are canalised), aircraft tyres and tubes, manuals technical drawings, illustrations and othertechnical literature related to the fleet of aircrafts operated and maintained by them and the associated list and training equipment, subject to the following conditions : 1) consumer goods are not imported, 2) particulars of current membership with the IATA, 3) companies operating aircraft or engaged in spraying of crops can now import only permitted spares (other than those restricted or banned) for maintenance of their aircrafts and that the importer has been registered for the last atleast 3 years under the local shops and establishment laws.
10.	Open General Licence No. 10	April 1986	Permission for the import of the following items by specified actual users was granted subject to the fulfilment of the stipulated conditions : 1) all the imports are within the value limit indicated against each item and for the purpose for which imports are sought to be made, 2) the imports of medical instruments,etc.,scientific instruments and chemicals and spare parts of motor vehicles and agricultural tractors, the eligible importer shall declare to the customs authorities, the c.i.f. vlaue of such goods already imported in the same financial year, 3) importers of motor vehicle and agricultural tractors' spare parts, produce an evidence of upto date payment/exemption of taxes under Motor Vehicles Act, 1939, 4) in the case of imports of computer/computer based systems costing below Rs. 10 lakhs in c.i.f. , the imports are for their own use and not for stock and sale, 5) the imports are of: a) drugs and medicines, b) medical including surgical optical and dental equipments, apparatus and appliances and replacement parts and accessories thereof and dental materials, c) sutures and needles for surgical purposes (those allowed under OGL), d) x-ray intensifying screens, e) scientific and measuring instruments and chemicals, f) testing equipment, instruments and chemicals, g) amateur radio communication equipment including kits,accessories, instruments, spares and components of specified frequency ranges, h) import of second-hand computer, computer based systems is not allowed.
11.	Open General Licence No. 11	April 1986	Permission was granted to actual users engaged in ship repairing work, to import raw materials, components, consumables, capital goods and spares, subject to the following conditions : 1) the importer is registered with the Director General, Shipping as a ship repairing unit, 2) the goods are imported in custom bonded premises, 3) the imported goods

1	2	3	4
			are used in repairs of ocean-going vessels, Indian or foreign, in the customs bonded premises, and subject to procedures applicable for customs bonding including transit bond and, 4) importer shall furnish to the Director General, Shipping, Bombay, details of the imported item, its c.i.f. value, the imported item used in the ship repairing work and the amount of foreign exchange earned in ship repairs, duly certified by the bank.
12.	Open General Licence No. 12	April 1986	Government Departments (Central or State) or projects owned or controlled by Governments were allowed to import any goods against foreign exchange released by the Government for the purpose subject to the condition that such imports are strictly in accordance with the relevant agreement entered into with the foreign government under this licence, personal effect of a foreign expert were also permitted subject to the condition that these personal effects are taken back by the foreign expert after completion of the project work or assignment.
13.	Open General Licence No. 13	April 1986	Imports of machinery, equipments, testing apparatus, tools and implements required by gem and jewellery industry by registered exporters of gem and jewellery, co-operative societies of goldsmiths and artisans, Export Promotion Councils for gem and jewellery and industry for use in the institutes set up by the Council,the connected Regional Training Institutions were allowed subject to'actual user'condition. Further, the goods imported should be of new manufacture, in case of import of second-hand or reconditioned items, they are not more than 7 years old with a residual life of atleast 5 years and this fact is certified by a chartered engineer of theco.untry from which imports are made.
14.	Open General Licence No. 14	April 1986	GovernmentDepartments(asdistinctfromindustrialdepartmentalundertaking), Government industrial undertakings (Departmentally-run), Railways, State Electricity Boards/undertakings/projects in the Public Sector and Public Sector industrial undertakings under the Ministry of Defence were allowed to import capital goods, raw materials, components, consumables and spares subject to the following conditions : 1) In the case of Government departments/Government industrial undertakings (Departmentally run excluding Defence undertakings) and Railways import of these items which are under the restricted, banned or limited permissible lists on the basis of and indigenous clearance certificate issued by the D.G.T.D., 2) in the case of import of any electronic items including fascimile equipments with a c.i.f. value of Rs. 5 lakhs or more and marine electronic equipments and parts irrespective of value or communicationequipment with a value of Rs. 1 lakh or more, the clearance of the Department of Electronics is obtained, 3) the imported capital goods are only such as those allowed for imports under OGL, jigs, fixtures, dies and patterns (including contour and roller dies), moulds (including moulds for die-casting) and press tools (except those banned or restricted) and parts thereof and 4) the imports are made against foreign exchange released for the purpose in the case of State Electricity Boards/projects/undertakings in the Public Sector and the Director Generals of "Doordarshan" and All India Radio and Posts and Telegraphs Department, only spares were allowed for imports provided : 1) the imports were against foreign exchange released for the purpose, 2) in respect of restricted spares, the indigenous clearance from D.G.T.D. is obtained, and 3) in the case of imports of electronic equipments with a c.i.f. value of Rs. 5 lakhs or

1	2	3	4
			more, marine electronic equipments and parts, irrespective of value or communication equipment with a value of over Rs. 1 lakh, the clearance of the Department of Electronics is obtained. The Public Sector Industrial undertaking under the Defence Ministry and R.& D units, were allowed to import permitted raw materials, components, consumables and spares under OGL, beside capital goods, computer spares and jigs and fixture subject to value ceiling on the foreign exchange allocated by the Defence Ministry.
15.	Open General Licence No. 15	April 1986	Permission for the import of the following items was granted subject to specified conditions : 1) Teaching aids-microfilms and microfiches of educational nature with or without reader-cum-printer and film strips slides of educational nature with or without audio cassettes/video tapes and video discs — by recognised educational, scientific, technical and research institutions, libraries of such institutions, Central or State Govt. departments, industrial units engaged in research and development work, registered medical institutions, hospitals, consultants, recognised Chambers of Commerce, Productivity Councils, Management Associations and professional bodies for their own use, 2) Pulses-for which imports contracts were to be registered with the National Agricultural Co-operative Marketing Federation of India (NAFED), 3) Braille type writers, instruments and equipments required by blind, 4) life saving and family welfare equipments/ instruments, 5) finished life saving drug preparations, anti-cancer drugs, homeopathic medicines in finished form or homeopathic (single) drugs in basic form and/or of any potency including sugar, or milk, crude drugs for making Ayurvedic and unani medicines, 6) Spices, dates, rock salt, x-ray films, lubricating oils for watches, clocks and house-service meters, 7) fishing hooks, predominantly educational non-fictional and fictional films (video films and 16 mm gauge of 800 meters or less in length), photographic films and papers both in colour, films (black and white) other than 120 and 620 size rolls, records for learning languages, rudrakshabeads, cinematographic films (unexposed), dental items, optholmic items, ozone generating apparatus, smoke meters, exhaust gas anlysers for measuring automobile exhaust, energy saving/conservation equipment, devices working on/used for renewable and alternative sources of energy, gibberallic acid,outboard motors upto 10 HP, spares (other than those restricted or banned) and laboratory and reagent chemicals (except those in the banned/restricted and canalised lists).
16.	Open General Licence No. 16 * @	April 1986	Imports of 1) Poultry vaccine (all types) by poultry farms/hatcheries approved by the Department of Agriculture,2) Medical Gas cylinders of 10.2 litre water capacity and below, 3) CO_2 gas cylinders upto 15 litre water capacity for fire extinguishers, 4) broken electric motors, 5) magnetic electromagnetic water conditioning system, 6) grape guard paper, 7) photographic chemicals developers, fixers, intensifier reducers, toners and cleaning agents and 8) ¾ inch U-matic and 1 inch video cassettes/tapes were allowed subject to the following conditions. 1) In the case of import of poultry vaccines, the importer is an 'actual user' and has imported them on the specific recommendations of the Animal Husbandry Commissioner, the Department of Agriculture, regarding the essentiality of the material (description / value /quantity) and that these details are intimated to the Department of Agriculture, within 15 days of the import, 2) Importers of medical gas cylinders hold

1	2	3	4
			a valid licence under the Drugs and Cosmetics Act of 1940 and that the imported items are used exclusively for the manufacture of medical gas (Oxygen) and nitrous oxide and for medical purposes for compressing and supplying medical gas and that the cylinders imported are not used for any gas services other than medical gas, for a period of 10 years from the date of importing, 3) Broken electric motors are to be imported by canalising agency — viz. Metal Scrap Trade Corporation, Ltd. which will also salvage and distribute them to eligible, 'actual user,' 4) Municipal Corporations Govt. Departments and other Public Sector undertakings, Agricultural Development Corporations of the Central and State Governments/ Union Territories, Co-operative Societies of farmers and Associations of farmers recognised by Governments, actual users registered under local laws applicable to Shops and Establishments, film studios and processing laboratiories and testing laboratories certified by State Director of Industries and units registered with the Ministry of Information and Broadcasting were specified as eligible importers of magnetic, electromagnetic, water conditioning systems, gibberallic acid and grape guard paper, photographic chemicals and ¾ inch U-matic and 1 inch video cassettes, respectively.
17.	Open General Licence No. 17	April 1986	M/s. Coal India Ltd., Neyveli Lignite Corporation Ltd., Bharat Coking Coal, Ltd., Central Coal Field, Ltd., Eastern Coal Fields, Ltd., Western Coal Fields, Ltd., Central Mine Planning and Design Institute, Ltd., and M/s Singareni Collieries Company, Ltd., were permitted to import specified capital goods under OGL against foreign exchange released for the purpose. In respect of import of other capital goods (excluding those not allowed), an indigenous clearance certificate from DGTD was necessary, in the case of import of second hand or reconditioned items, the machines are not more than seven years old with a balance life of atleast 5 years and a certificate by a professional independent chartered engineer regarding the name & year of the manufacture, present condition and the expected residual life, the c.i.f. vlaue of equivalent capital goods if purchased new.
18.	Open General Licence No. 18*	April 1986	Non-resident Indian, fulfilling the 'actual user' condition, returning to India for permanent settlement for setting up an industry in India, including investments for expansion, diversification or modernisation of an existing industry or setting up a service industry, were allowed to import capital goods, raw materials, components, consumables and spares out of their own foreign exchange earnings and resources abroad with no remittance from India, for use in an enterprise in India. Imports of generating sets, computer system, office equipment, prototypes and restricted and second hand (used) capital goods (except those allowed under OGL), were not permitted for imports by NRIs. There was no upper ceiling on the value of import of certain capital goods which could be imported without an indigenous clearance, and also items in the limited permissible list of raw materials, costing Rs. 5 lakhs or above, with the prior clearance of the Department of Electronics required by electronic industries manufacturing one or more of the following : 1) electronic components (other than ISI, VLSI), 2) electronic items such as instruments, teaching aids and medical equipment, 3) tape recorders, 4) Two-in-ones, 5) Hi-Fi equipments, 6) industrial and process control systems and 7) major sub-systems, radar, navigational aids and communication equipment units manufacturing radar, navigation aids and communication equipment were required to obtain prior

1	2	3	4
			approval of the Department of Electronics, before taking up manufacture. Manufacture of computers was not allowed under this provision. The NRI importers were also allowed to import, the first 12 months' requirements of raw materials, components, consumables and spares for use in the industrial electronic units specified above. In respect of other industries, the NRIs were allowed to import machinery with a value ceiling of Rs. 20 lakhs (landed cost) and the unit in which the imported machinery is used will not have a total capital investment in plant and machinery of a value more than the upper limit fixed for small scale industries. The importers of machinery were also allowed to import raw materials, components, consumables and spares, upto a maximum of Rs. 5 lakhs in c.i.f. value for meeting the first 12 months' requirements with the additional facility to import items under limited permissible list on the basis of a prior clearance from DGTD or the Department of Electronics. The capital goods imported were to be of new manufacture and in case second hand or re-conditioned items, the details regarding the age of the machinery and residual life, the price asked for must be certified by a professional independent chartered engineer of the country from which imported. Further, neither the capital investments and the dividends were allowed repatriation abroad, nor were the imported capital goods allowed to be sold for atleast 5 years. The importers were required to abide by foreign exchange regulations and obtain necessary permission from Reserve Bank of India to retain foreign currency balances abroad as required under the rules in force.
19.	Open General Lincence No. 19	September 1986	Permission for import of 'rejects', manufactured by registered exporters located in Free Trade Zones and Export Processing Zones, into Domestic Tariff Areas, was granted provided such 'rejects' arise due to definite manufacturing defects and sub-standard products (but does not include spares, tools, wastes or bye-products) and therefore not exportable.
20.	Export Trading Houses	April 1986	1. For the purpose of issue of Import-Export Passbooks to registered manufacturer exporters which are valid for 27 months from the date of issue, exports effected by them through other registered exporters during the period of three years would also be taken into account if the same is proved. Further, the registered manufacturer exporter was required to directly export his products once he has received the said passbook. 2. A registered manufacturer exporter who has been issued import licences under the Duty Exemption or Imprest Licensing Schemes, would also be eligible for Import-Export passbooks provided he has exported 75% or more of his total export obligations. 3. The supplies of finished goods manufactured by a passbook licence holder to a unit located in a Free Trade Zone in India or 100% export-oriented units using these goods as intermediate products for their finished goods or supplies of finished goods made to projects in India financed by IDBI/IDA or projects financed by multilateral and bilateral external assistance and ONGC/OIL/GAIL, were treated as 'Deemed Exports' for the purpose of export obligation.

1 2	3	4
21. Imports by Non-Resident Indians	April 1986	Import of raw materials, components and consumables and spares (required for the first 12 months) along with imports of capital goods only for the purpose of setting up a new unit by non-resident Indians were allowed Open End Spinning Machine of speed 60,000 r.p.m. and above were included in the list of capital goods allowed under OGL.
22. Import of Capital Goods	April 1986	Import of second hand capital goods under the OGL and their NC/CNC versions by both 'actual users' (industrial and non-industrial) were not allowed.
23. Import of Machine Tools	April 1986	Imports of second hand machine tools and their NC and CNC versions under OGL were not permitted.
24. Ferro chrome	May 1986	1. Ferrochrome was included in the list of limited permissible items of raw materials. 2. Gibberallic acid was permitted for imports under OGL to persons who possessed a valid registration under the Insecticides Act, 1968. 3. Ferro chrome with carbon less than 0.037 was removed from the OGL list.
25. Wood pulp	May 1986	Wood pulp was removed from the OGL list of imports.
26. Import of Rubber	June 1986	Synthetic rubber except butyl rubber, silicon rubber, Neoprene/Chloroprene/Hypalon/Viton, Bromobutyl/Chlorobutyl, PTFE and EPDM was added to the list of limited permissible items, after being removed from the OGL list.
27. Changes in OGL LIST	June 1986	Oil refineries which were allowed to import iron and steel items under OGL were made ineligible to import them.
28. Reimport of items	June 1986	Re-import of items (other than consumer durables) after repairs abroad free of charge on c.i.f. basis or on payment (c.i.f.) not exceeding 10% of the c.i.f. value of the machinery (30% of the c.i.f. value in the case of imported parts or sub-assemblies of electronic and computer sub-assemblies) or Rs. 1 lakh whichever is lower, should be the same one actually sent for repairs abroad.
29. Import of computer and parts	June 1986	Import of computers/computer sub-systems and computer peripherals were allowed for imports under OGL with the prior clearance of the Dept. of Electronics.
30. List of limited permissible items	June 1986	8 bit micro-processor of type 6,502, versatile interface adaptor of type 6522, Puslo Dialler 2560 G and Disco type ceramic capacitors were added to the list of limited permissible items while ceramic electric, general purpose and solid tantulum capacitors were deleted from this list.
31. Colour TV picture tubes	June 1986	Colour TV picture tubes, other than flat square/full square types, were included in the OGL list.
32. Import Replenishment	August 1986	For the purpose of grant of import replenishment to "deemed exports" supplies at international prices of only raw materials, components, consumables other than minerals, machinery, equipments, instruments, accessories, tools and spares (excluding office machines and consumer

1	2	3	4
			goods) to ONGC, Oil India,Ltd. and Gas Authority of India,Ltd., both for their off-shore and on-shore exploration, drilling and production operations in pursuance of offers/orders/contracts based on such offers/ orders were necessary.
33.	Eligibility for Advance Licence	August 1986	1. Registered exporters of Gold jewellery with a minimum average annual export performance of Rs. 2 crores in the preceding two financial years and registered exporters of gems and jewellery (other than Gold jewellery) with a minimum average annual export performance of Rs. 5 crores in the preceding three financial years and those private and public limited companies which were proprietorship/partnership companies were made eligible for advance licences under the Duty Exemption Scheme. 2. The condition of a minimum value added of 15 per cent being achieved separately both on the total import of Gold, mounting etc. including wastage allowed and on the finished cut and polished diamonds,stones,pearls and precious metals used in the manufacture of plain and studded gold jewellery for exports, for the import of Gold findings, mountings etc. and gold of 18 carats and below. 3. The rate of replenishment on the value of finished, cut and polished diamonds and other stones used in the manufacture of export jewellery was specified.
34.	Imports under OGL	September 1986	Family welfare equipments including LIPPOS' Loop and CU-T 200 and instructional films including vedeo films in a gauge of 16 mm or less and of 800 meters or less in length certified as "predominantly educational" were allowed for imports under OGL.
35.	Import of Capital Goods	September 1986	1. Noise meter/noise level meter and sound level meter were included in the list of capital goods imports under OGL while deleting volumetric displacement meters from this list. 2. A.B.S. Resin/granules/moulding powder (all grades) and brewing hops including hop extracts in any form were included in the list of restricted items. 3. Di-ethylene glycol and mercury/sodium vapour lamps were included in the list of limited permissible items of raw materials. 4. Import of educational films under OGL was allowed subject to the condition that they will be exhibited only in channels other than cinema houses. 5. Levadopa with benserazide capsules and molecular bonding metal, non-toxic and non-flammable comprising of macro molecular substances, atomised steel and aluminium particles were included in the OGL list while deleting lens thickness measure gauge (caliper) from the list.
36.	Sale of 'Rejects'	September 1986	Registered exporters in Free Trade Zones/Export Processing Zones were allowed to sell 'Reject' upto 5% of production to the units located in Domestic Tariff Areas under OGL subject to conditions stipulated.
37.	Changes in Limited permissible list	September 1986	1. Components of footwear excluding unit soles, heels, counters, boot toes, toe puffs and in sales including mid soles and strainers were included in the list of limited permissible items of raw materials.

1	2	3	4
			2. Cinnamon/cassia and cloves were transferred from the OGL list to the list of canalised items.
38.	Dalchini and Lavang	October 1986	Dalchini (Bark) and Lavang, Laung (flower bud) were deleted from the OGL list.
39.	Spares for after-sale services	October 1986	1. Manufacturers of consumer electronic goods/electronic equipment and electronic instruments of all types were allowed to import spares for after-sales services at the rate of 1.5 per cent of the ex-factory value of production in the preceding three financial years. Such imported spares by the manufacturers could be transferred to their service centres/authorised dealers for providing warranty coverage or after sales service. The importers were accountable for proper utilisation of the imported spares. 2. Flint buttons (R.I. - 1.625 to R.I.1.700) other than those required for fusing photochromatic blanks and shellac/seedlac were removed from the OGL list and included in the list of restricted items. However, Flint buttons (R.I.-1.625 to R.I.-1.700) required for fusing photochromatic blanks were allowed under OGL. 3. Acetoacet compounds such as diethylamide, dimethylamide, monomenthylamide, M - Xy lidide, O-Anisidide, Aminophylline and Theophyllines were added to the list of limited permissible items, after being transferred from the OGL list. 4. Import of machinery equipment listing apparatus, tools and implements under OGL were allowed provided the importers were actual users certified by the Gems and Jewellery Export Promotion Council, training laboratories, registered exporters of gem and jewellery and co-operative societies of goldsmiths and artisans. 5. Precision rolling mills for wires and stripes were included in the OGL list.
40.	Merchant Exporters	November 1986	The facility of switching over by the merchant export houses to that of manufacture export house and vice-versa were allowed provided the specified condition of export performance and growth rate as merchant exporter has already been achieved.
41.	Imports under OGL	November 1986	Thirty-three new items of machinery and equipments, accessories and consumables were added to the OGL list of imports.
42.	Registered Exporter s	December 1986	Formic acid (5%), Canvas/cotton/flannel/synthetic lining material, reinforcement tapes, shanks nail pins, consumable tools used in leather industry including silver making refills, sewing machine needles tefflon foot, bobbin case, pressure tool and shuttle (5%) and trimmings and embellishments required for saddlery like buckles, thread, adhesives studs, snaps/surivelwere allowed for imports as material used in the manufacture of export products by registered exporters.
43.	Changes in OGL list	December 1986	1. Glycolethers was transferred from the OGL list to the list of limited permissible items of raw materials and components. 2. Inactivated rabies vaccine prepared from purified chick embryo

1	2	3	4
			cells tissue culture, nitroglycerin injection and 18 other items of life saving and anti-cancer drugs were allowed for imports under OGL.
44.	Registered Exporters	January 1987	Cubic Zirconia which was disallowed under rough synthetic stones by gem and jewellery exporters earlier is now allowed for imports by registered exporters.
45.	Canalised imports	January 1987	Old ships, vessels (other than Indian flag vessels) etc. for breaking were canalised through the Metal Scrap Trade Corporation, Ltd.
46.	Import of Second-hand capital goods	January 1987	The second hand version of the capital goods allowed for imports under OGL were also permitted for imports provided the second hand machinery was not more than 7 years old with a residual life of 5 years and this is certified by a professional independent chartered engineer of the country from which they are imported.
47.	List Attestation Procedure	February 1987	The list attestation procedure hitherto not applicable to small scale units was extended to small scale units whose phased manufacturing programme was approved by DC(SSI). In such units, the list of components will also be approved by the DC(SSI). However, the above procedure will apply only to imports under OGL for manufacture of products for which phased manufacturing programme has been approved.
48.	Duty free licences	February 1987	Designated canalising agencies were made eligible for Bulk Duty Free licences for import of raw materials, components and consumables for supplying to holders of licences under Duty Exemption Scheme/Pass book scheme. The bulk duty free licences are independent of export obligation and imports made under this licence are to be kept in customs bonded warehouses.
49.	Import of Computer systems	February 1987	Imports of computer systems were allowed for 'actual users' provided the same was recommended by the Department of Electronics. Further, the condition of export obligation as recommended by the Inter-ministerial Standing Committee (IMSC) in the Department of Electronics was imposed for the import of the computer system. The importer was required to furnish a bond and a bank guarantee for the value and period as determined by the ISMC.
50.	Import of Computer Softwares	February 1987	Import of computer softwares in any media by actual users including Government departments and computer manufacturers for their own use, by software houses registered with the Department of Electronics and by the Department of Electronics for the purpose of stock and sale were permitted under Open General Licence.
51.	Import of Capital Goods	March 1987	1. Boring spindle diameter 200 mm and above, whirling machine, sharpeners, spring eye grinding machines, tea bag machines for non-heat seal and heat seal paper bags and machinery and equipment for printing machinery and packaging material manufacturing/ packaging machinery were allowed for imports as capital goods under OGL, while tea bag machines for heat seal paper bags were removed from this list. 2. Polyurethane foam/sheets including laminations thereof (excluding polyurethane film/foil below 0.7 mm thickness, coloured or uncoloured grain or plain, for finishing leather), power driven pumps including

1	2	3	4
			high pressure water jetting equipment and precision metering pumps were included in the list of limited permissible items of raw materials and centrifugal pumps upto 100 mm x 100 mm size were removed from this list. 3. In the case of import of Polysilicon, single crystal silicon, wafers and diffused wafers/dices/chips other than metallurgical grade silicon allowed under OGL, the import contracts were to be registered with the Department of Electronics. 4. Power driven pumps including high pressure water jetting equipments and precision metering pumps were included in the list of limited permissible items of raw materials. 5. Hepatitis B vaccine, Meninigocoiel vaccine A + C. Polyestradiol phosphate injection, prednimustive tablets, estounustine phosphate capsules, Ichexil injection and Polyurethane film/ foil below 0.7 mm. thickness coloured or uncoloured grain or plain for finishing leather were added to the OGL list while deleting power driven pumps including high pressure water jetting equipment (other than those in the limited permissible list), silicon wafers other than diffused wafers dices and chips and all components of machine tools, machinery equipments instruments and other engineering items (except consumer durables and electronic components from this list).
52.	Scientific and measuring instruments	March 1987	Theodolites, all types with direct reading of the second or less accurate with or without compensator/compass, all types of electronic/Geodetic distance measuring instruments (infra-red based) range upto 4000 metres, and all types of dumpy levels/engineers levels/builders levels (not automatic) and quick set levels with or without horizontal circles were included in the list of scientific and measuring instruments restricted for imports.
53.	Changes in other lists	March 1987	1. Acrylonitrils were included in the list of limited permissible items of raw materials. 2. Import of caustic soda was canalised through State Trading Corporation of India, after being deleted from the OGL list.
54.	Import of raw materials components etc. by actual users (Industrial)	March 1987	Actual Users (Industrial) with a minimum export of 25 per cent of their production of select products in any of the two previous financial years subject to a minimum of Rs. 10 lakhs in f.o.b. value and who have obtained supplementary licence for the preceding licensing year were allowed the repeat operation of the same licence during that licensing year, for the same value and the same items (excluding those items banned or restricted for exports) with an additional period of shipment of 18 months available for utilisation of repeat value.
55.	Imprest Licence Scheme	March 1987	The value of a licence issued under this scheme was to be debited to the REP entitlement, if any, admissible to exports made in fulfilment of the prescribed export obligation, with a facility for import replenishment to the extent of the balance value of the licence, if any, after the export obligation was fullfilled, imports of restricted/limited permissible items/ canalised items actually effected (other than OGL items) were alone to be computed for calculating the total imports effected. Like-wise registered

1	2	3	4
			exporters who had actually exported in excess of their export obligation were also eligible for full replenishment benefits which could be claimed on the basis of the Excess Entitlement Certificate, which has a validity period of three months, issued by the concerned licensing authority.
56.	Export-Import Passbook Scheme	March 1987	A new scheme of Export-Import Passbook was introduced for the benefit of manufacture exporters and Export/Trading Houses to facilitate duty-free access to imported inputs for export production. The beneficiaries of the scheme were permitted to import consumables and spares duty free, within the overall value of the licence. In the case of passbook issued for "deemed exports", imports of only raw materials and components are allowed and the type of licence for this purpose is known as Special Imprest Import-Export Passbook.

* Importer is required to maintain proper account of consumption and utilisation of the goods imported in the prescribed form and produce such accounts to the authorities within such time as may be specified.

@ A half yearly statement giving the description and value of imports under this licence is required to be sumitted to the sponsoring/licensing authority.

APPENDIX - II
B — CHANGES IN IMPORT DUTIES
(APRIL 1986 to MARCH 1987)

Sr. No.	Items	Date of Announcement/ Effective Date	Duties						Remarks
			Basic		Auxiliary		Countervailing		
			Present	Previous	Present	Previous	Present	Previous	
1	2	3	4	5	6	7	8	9	10
1.	Grape guards	3.4.86	Nil	Nil	Nil	Nil	Nil	Nil	For use in packing of grapes.
2.	X-ray cameras	15.4.86	Nil						
3.	Fatty acids of all sorts	16.4.86	200%	Nil	40%	Nil	Nil		Withdrawal of partial exemption.
4.	Terephthalic acid	16.4.86	150% + Rs.3/- per kg.	150%	40%	40%	Nil	Nil	
5.	Dimethyl terephthalate	16.4.86	150% + Rs. 3/- Per kg.	150%	40%	40%	Nil	Nil	
			140% + Rs. 3/- per kg.	140%	40%	40%	Nil	Nil	
6.	Paraxylene	16.4.86	100%	100%	40%	40%	Nil		For the manufacture of dimethyl terephthalate. Valid till 30.4.87.
7.	Sponge iron	a) 17.4.86	5%	Nil	25%	25%	Nil	Nil	For use in integrated steel plants. Valid till 31.5.87
		b) 4.12.86	20%	Nil	25%	25%	NIl	Nil	For use in electric arc furnace. Valid till 31.5.87
8.	Soda ash	a) 17.4.86	25%	25%	40%	40%	15% + 5% on CVD	15% + 5% on CVD	Valid till 28.2.87
		b) 1.3.87	25%	25%	40%	40%	15% + 5% on CVD	15% + 5% on CVD	Validity extended upto 31.3.88
9.	Crude palm kernel oil	25.4.86	30%	30%	Nil	Nil	Nil	Nil	For the manufacture of fatty alcohols.
10.	Video cassettes & video tapes	24.4.86	Nil	100%	Nil	40%	Nil	35%	For predominantly educational purposes. Conditional.
11.	Lamps black & carbon black	28.4.86	55%	100%	25%	40%			For use in manufacture of printing ink purpose or black paints. Conditional.
12.	Colour jumbo films	28.4.86	50%		25%				For processing into colour cine film. Conditional.
13.	1) X-ray intensifier tube	28.4.86	40%	100%		40%			For the manufacture of X-ray image intensifier system. Conditional.
	2) X-ray image distributor	28.4.86	40%	100%		40%			
	3) 0.95 high speed lens	28.4.86	40%	100%		40%			
14.	D.D.T. formulations	28.4.86	Nil	Nil	Nil	Nil	Nil	Nil	For use exclusively in the National Malaria Eradication Programme. Conditional.
15.	Polytetra Fluoroethylene Tapes	28.4.86	75%	200%	25%	40%	Nil	Nil	
16.	Lead glass tubing and rods	28.4.86	40%	45%	25%	30%	Nil	Nil	For the manufacture of components for electrical lamps & fluorescent tubes. Valid till 30.9.86. Conditional.
17.	Cinematograph films exposed	13.5.86	40%	40%	40%	40%	12%	12%	Conditional.
18.	Components of nickel cadmium cell	26.5.86	40%	100%	25%	40%			For the manufacture of sealed Cylindrical Rechargeable Nickel Cadmium Cell. Conditional.
19.	Coal tar pitch	a) 3.6.86	15%	15%	Nil	Nil	Nil	Nil	Valid till 31.5.87
		b) 1.3.87	25%	15%	Nil	Nil	Nil	Nil	
20.	Filter paper	5.6.86	Nil	100%	Nil		Nil		For the manufacture of Tea bags.
21.	Moulds, Tools and Dies	16.6.86	30%	60%	25%	25%	Nil	Nil	For manufacture of electronic components. Conditional.
22.	Computers	16.6.86	110%	200%	40%	40%	5%	Nil	Conditional.
23.	1) Vacuum tubes/concentrating solar collectors	17.6.86	Nil		Nil		Nil		For the manufacture of solar energy equipment Valid till 31.5.87. Conditional.
	2) Stirling engine	17.6.86	NIL		Nil		Nil		
24.	Cork wood and cork waste	17.6.86	50%	50%	25%	25%	Nil	Nil	For the manufacture of Cricket & Hockey balls. Valid till 30.9.86.
25.	Stainless strips having certain specification	25.6.86	60%		25%				Imported for the manufacture of electric heating elements.
26.	Components for the manufacture of fork lift trucks.	27.6.86	40%	40%	25%	25%			With capacity above 10 tonnes. Valid till 30.6.87. Conditional.

Sr. No.	Items	Date of Announcement/ Effective Date	Duties						Remarks
			Basic		Auxiliary		Countervailing		
			Present	Previous	Present	Previous	Present	Previous	
1	2	3	4	5	6	7	8	9	10
27.	Audio cassettes	3.7.86	Nil		Nil		Nil		Recorded with material from books, newspapers or magazines for blinds.
28.	Dead burnt magnesite	a) 30.7.86	45%	40%	Nil	Nil	12%	12%	Valid till 30.11.86
		b) 28.11.86	55%	45%	Nil	Nil	12%	12%	Valid till 30.6.87
29.	D.C. Micromotors	22.8.86	Rs. 13/- per micro motor				Nil		
30.	1) Equipment carried on board vessels engaged in research on high Seas	7.10.86	Nil	Nil	Nil	Nil	Nil	Nil	Conditional.
	2) Polymetallic nodules collected by such vessels on high Seas	7.10.86	Nil	Nil	Nil	Nil	Nil	Nil	
31.	Titanium dioxide	7.10.86	60%	*			Nil		Valid till 31.3.87. *Rates vary.
32.	Components required for the manufactures of power transmission system for earth moving machinery.	5.11.86	40%	40%	25%	25%			Valid till 31.10.87. Conditional.
33.	Raspberry pulp, strawberry pulp & Cherry pulp.	13.11.86	Nil	100%	25%	40%			Valid till 31.3.88. Conditional
34.	Melting scrap (other than heavy)	4.12.86	20%	Nil			Nil		Valid till 31.5.87. Conditional.
35.	Heavy melting scrap	4.12.86	20%	*			Nil		Valid till 31.5.87. Conditional. *Rates vary
36.	Components including fuel efficient motor cars in semi knocked down and completely knocked down packs.	24.12.86	25%	100%	25%	40%	Nil	12%	For the manufacture of fuel efficient motor car of engine capacity exceeding 1000 c.c. Valid till 31.12.88. Conditional.
37.	Components of fuel efficient motor cars	a) 24.12.86	25%	100%	25%	40%	Nil	12%	Engine capacity exceeding 1000 c.c.
		b) 1.3.87	50%	25%	25%	40%	Nil	12%	Valid till 31.12.88. Conditional.
38.	Computer equipments	24.12.86	60%	200%	Nil	40%	Nil	12%	Conditional.
39.	Wireless apparatus, accessories and components.	29.12.86	25%	Nil	Nil	Nil	Nil	Nil	Valid till 31.12.87. Imported by amateur radio operators.
40.	Goods imported for offshore exploration or exploitation.	30.12.86	Nil	Nil	Nil	Nil	Nil	Nil	Valid till 31.3.88. Conditional.
41.	Components required for manufacture of commercial vehicles.	31.12.86	50%	25%	25%	25%	Nil	Nil	Valid till 31.12.87. Conditional.
42.	Propylene Co-polymers	31.12.86	60%	200%	40%	40%	12%	12%	Valid till 28.2.87.
43.	Steel sheets and blanks	31.12.86	25%	60%	25%	25%	Nil	Nil	Valid till 30.6.87. For the manufacture of fuel efficient van and motor car. Conditional.
44.	1) Rice bran stabilizer	1.1.87	Nil		25%		Nil		Conditional.
	2) High pressure/Bipolar Electroliser for Hydrogen gas.	1.1.87	30%		25%		Nil		
45.	Polyester filament yarn	19.1.87	Nil	Nil	25%	25%	Nil	Nil	
46.	Silver	28.1.87	Nil	Rs. 15 per kg.	Nil		Nil		Under the scheme for export of silver jewellery and articles against silver supplied by the foreign buyer. Conditional.
47.	Denatured ethyl alcohol	1.3.87	35%	Nil	25%	Nil	Nil	Nil	Valid till 29.2.88. For exclusive use for industrial purposes. Conditional.
48.	Fluorspar	1.3.87	35%	100%	40%	40%	Nil	Nil	Valid till 29.2.88
49.	Crude petroleum	1.3.87	Rs. 660 per metric tonne		Rs. 400 per tonne	Rs. 300 per tonne		Nil	
50.	1) Pyrazine Mono Carboxilic acid	1.3.87	30%	70%	40%	40%	Nil	Nil	For the manufacture of pyrazinamide.
	2) Pyrazine Dicarboxilic acid	1.3.87	30%	70%	40%	40%	Nil	Nil	
51.	Di-isobytylene Heptene Nonene	1.3.87	25%	Nil	Nil	Nil	Nil	Nil	Valid till 31.3.88. For the manufacture of oxo-alcohols. Conditional.
52.	P.U. Leather	1.3.87	Nil		Nil		Nil		For the manufacture of footballs. Conditional.
53.	Polyurethane films or foils	1.3.87	200%	200%	40%	40%	40%	35%	For the manufacture of finished leather. Conditional.
54.	Raw wool and waste of wool	1.3.87	30%	20%	Nil	Nil	Nil	Nil	
55.	Woollen rags and synthetic rags	1.3.87	30%	20%	Nil	Nil	Nil	Nil	
56.	Moulds for tyres	1.3.87	25%		Nil		Nil		
57.	1) Power projects of capacity 50 mega watts and below	1.3.87	35%	30%	Nil	25%	Nil	Nil	
	2) Other power projects (including gas turbine power projects)	1.3.87	25%	Nil	Nil	25%	Nil	Nil	

Sr. No.	Items	Date of Announcement/ Effective Date	Duties						Remarks
			Basic		Auxiliary		Countervailing		
			Present	Previous	Present	Previous	Present	Previous	
1	2	3	4	5	6	7	8	9	10
58.	Consumable goods	1.3.87	Nil	Nil	Nil	Nil	Nil	Nil	For the use of research purpose by public funded research, institutes. Conditional.
59.	Four specified textile machinery	1.3.87	25%	25%	Nil	Nil	Nil	Nil	Valid till 31.3.88. Conditional.
60.	Parts containing thermionic valves or transistor or similar semi-conductor devices or light emitting diodes or electronic micro-circuits or capacitors.	1.3.87	110%	60%			Nil		Required for manufacture, maintenance of computers, computer peripherals. Conditional.
61.	Silicon in the form of diffused wafers, discs or chips.	1.3.87	35%		25%		Nil		For the manufacture of semi-conductor devices. Conditional.
62.	33 Specified machinery for gems; and jewellery	1.3.87	35%	25%	Nil	Nil	Nil		Conditional
63.	31 Specified machinery for leather industry.	1.3.87	35%	25%	Nil	Nil		Nil	
64.	Data Communication Equipment	1.3.87	75%		25%		Nil		

Source: Custom Notifications, Department of Revenue, Ministry of Finance, Government of India.

Subject Index

A

Page

Agricultural Credit Stabilisation Fund 243
Agricultural extension 56
Agricultural Finance Corporation 247
Agriculture—institutional finance 215
— direct finance 215
— indirect finance 218
Agricultural implements and machinery 56
Agricultural output—commodity-wise review ... 25
Agro-industries Corporation 56

B

Balance of payments—Developments 380
Bank credit
— Advances to priority sector 168
— Distribution according to interest range ... 180
— Industry-wise deployment 164
— Qualitative changes in distribution 162
— Regional and rural/urban pattern of credit deployment 179
— Sectoral deployment 162
— Credit-Deposit Ratio 173
— Investment + Credit-Deposit Ratio 173
Banking developments 143
— Other 202
— Overall review 143
Banking trends 151
— Expansion in Bank Credit 154
— Deposit growth 152
— Call money market 158
Banking—committees and working groups 205
Banking—working of various schemes 191
Banks
— Branch expansion 181
— Geographical and functional coverage 181
— Offices abroad 183
— Primary (Urban) Co-operative Banks 183
— Scheduled commercial deposits and credit Area-wise and State-wise 176
Budget—Combined position of Central and State Governments 265
— Economic and functional classification of the Central Government 273
Budgetary operations 265
— Central Government 268
— State Governments 282
— Revised estimates, 1986-87 282
— Capital receipts 284, 291
— Revenue receipts 290
— Disbursements 285, 291
— Receipts 283,290
— Budget estimates, 1987-88 285
— Resource mobilisation, additional 292
— Transfer of resources from the Centre 284
— State-wise position 285

C

Page

Capital market 318
Capital issues 319
— Capital raised 322
— Consents for 318
— Developments in policy 322
— Gilt-edged market 326
— Industrial security market 323
Cashew Corporation of India 372
Cement 79
Chemicals and chemical products 99
Coal 76
Coarse grains 29
Cochin Export Processing Zone 374
Coffee 43
Committee on Agricultural Productivity in Eastern India 249
Co-operative structure—strengthening and future development of 233
Cotton 30
Credit Authorisation Scheme 191,238
Credit policy 145
Crop Insurance Scheme 62, 201
Currency and coinage 135
— Demonetisation of notes 136
— Lost, destroyed and mutilated notes 137
— Note forgeries 137
— Issue of notes and coins 137
— Trends in bullion prices 137

D

Department of Posts and Department of Telecommunications—Finances of 301
— Revised estimates, 1986-87 304
— Budget estimates, 1987-88 304
Deposit Insurance and Credit Guarantee Corporation 212
Desert Development Programme 60
Differential Rate of Interest Scheme 193
District Industries Centres 71
Drought Prone Areas Programme 59
Dryland farming 58

E

Electricity 84
Electronics industry 90
Engineering Industries 88
— Electrical 90
— Heavy mechanical 88
— Light mechanical 90
— Electronics industry 90
Exchange control—developments in 423
Exchange rate—developments 395
— Major currencies 420
Export control 364
— Changes in 432
Export Credit Guarantee Corporation of India . 210
Export duties—changes in 1986-87 366,434

	Page
Export-Import Bank of India	343
External assistance	386
Export promotion measure	368
External Debt-Developing countries	422
F	
FALTA Export Processing Zone	374
Fertilisers and manures	53
Foodgrains	18
— Availability	18
— Procurement and buffer stocks	23
— Production and distribution	18
Fiscal developments	265
Foreign investment—policy and developments	383
Foreign Trade Policy	363
Foreign trade agencies, specialised	370
Foreign trade—trends in	349
— Direction of	358
— Exports	354
— Imports	354
Free Trade Zones	373
G	
General Insurance Corporation of India	341
Gold	137
— Domestic market	137
— International markets	138,423
— Spread between domestic and international prices	138
— Trends in bullion prices	137
GATT	378
Generalised System of Preference Scheme	377
H	
Handicrafts and Handloom Export Corporation	372
High-yielding Varieties Programme	48
Housing Development Finance Corporation Ltd.	348
Housing and Urban Development Corporation Ltd.	345
I	
IDA—Eighth Replenishment	411
Import controls	364
Import control—important announcements	438
Import duties—changes in 1986-87	366
Import licences	361
India's financial assistance to other countries	392
India's foreign trade during 1986-87	349
Industrial Credit and Investment Corporation of India	336
Industrial Development Bank of India	328
Industrial Finance Corporation of India	334
Industrial licensing policy	75
Industrial Production	
— Industry group-wise analysis	66
— Trends in	64
Industrial sickness	72
Industrial Reconstruction Bank of India	342
Industries	
— Basic	76
— Capital goods	88
— Consumer goods industries	100
— Intermediate goods	94
— Selected—a review	76
— Small-scale Sector	69
Iron-ore	78
Iron and steel	81
Irrigation	50
— Command Area Development Programme	53
Integrated Rural Development Programme	197,230
International Bank for Reconstruction and Development (IBRD)	409
International Development Association (IDA)	410
International Finance Corporation (IFC)	411
International monetary developments	398
International Monetary Fund (IMF)	
— Special Drawing Rights	418
— Uses of Fund Resources	412
International reserves	419
International trade negotiations	376
International trade and payments	404
Investment	
— Trends in domestic investment	14
— Non-Resident Indians	424
J	
Jute-raw and mesta	32
Jute textiles	94
K	
Kandla Free Trade Zone	373
L	
Lead Bank Scheme	199
M	
Madras export processing zone	374
Metallurgical industries (other than iron and steel)	93
Minerals and Metals Trading Corporation	373
Minority Communities	
— Advances	197
Money—income velocity of	133
— Reserve	129
Monetary developments—overall trends	125
Monetary relationships	131
Money supply:—components	127

Page

— Seasonal trends 129
— Sources of change in 127
Multilateral Investment Guarantee Agency 410

N

National Bank for Agriculture and Rural Development (NABARD) 218
— Resources of 218
— Assistance for non-agricultural sector 234
— and Rural Credit 218
— Uses of funds 218
— Credit limits 220
— Short-term 220
— Medium-term 220
— Long-term 221
— Important Policy changes 221
National income—trends in 7
National Co-operative Development Corporation 244
National Rural Employment Programme 60
Non-banking companies—control over 208
NOIDA export processing zone 374

O

Oilseeds 35
Open market operations 326

P

Paper, paper boards and newsprint 108
Petroleum—crude oil and refinery products 86
Plan outlay—States 293
Plant protection measures 55
Price indices—consumer 117
Price policies 122
Price trends 111
— Fuel, power, light and lubricants 113
— Manufactured products 117
— Primary articles 112
Production—strategy and related developments . 45
Public debt and other liabilities 307
— Borrowings, market—Central 309
— Borrowings, market—State 316
— Capital Investment Bonds 312
— Central Government 307
— External 307
— Internal 309
— Local authorities 313
— Maturity pattern—Rupee debt 313
— Other liabilities 314
— Coupon rates on Central Govt. Loans 311
— Small savings 315
— National Rural Development bonds 312
— Social Security Certificates 312
— National deposit scheme 312
— Promotional measures 315
— Special floating and other loans 314
— Loans and advances from the Centre 316

Page

— Loans from banks and other institutions .. 316
— Market loans and bonds 316
— Treasury bills 313
Pulses 29

R

Railway finances 295
— Revised estimates, 1986-87 295
— Budget estimates, 1987-88 299
— Developmental expenditure, 1987-88 300
— Social obligations—Financial effect of 298
— Budget proposals 301
Regional Rural Banks 188
Rice 25
Rubber and rubber manufactures 96
Rural credit 215
— and commercial banks 241
— Other developments 214
— Other institutions 244
— Study teams/committees 249
Rural Electrification Corporation 246
Rural Landless Employment Guarantee Programme 61

S

Santacruz Electronics Export Processing Zone .. 373
Saving
— Domestic private corporate sector 14
— Household sector 9
— Public sector 14
— Trends in domestic saving 9
Saving and investment—aggregate 8
Seeds 49
Selective credit control 158
Self-employment scheme for educated unemployed youth 197
Self Employment Programme for the urban poor 197
Silver 140
— Domestic market 140
— International markets 140
Soil and Water Conservation Programme 57
State Trading Corporation of India 370
State warehousing corporation 246
Sugar 100
Sugarcane 41

T

Tea 42
Tea trading corporation of India 372
Term-lending institutions 328
Tobacco 43
Textiles—cotton and synthetic 104
Taxation 280

	Page
— Excise duties	280
— Direct	279
— Indirect	280
Trade Negotiations—Multilateral	379
Trade agreements	375
Tobacco	43

U

	Page
Unit Trust of India	337
UNCTAD	376

W

Wheat	27
World Bank Group	408