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

CHDC
Reserve Bank of India
Pune

VOLUME I
ECONOMIC REVIEW
1987-88

Price { Inland Rs. 100.00 (postage free)
Foreign U.S.$ 35.00 (postage free)



339.50954 RBI

2543

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 MRS. N.I. KESWANI AT MODERN ARTS & INDUSTRIES, 151, A-Z INDUSTRIAL ESTATE, GANPAT RAO KADAM MARG, LOWER PAREL, BOMBAY-400 013.

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	**8**
Saving of the Household Sector	9
Saving of the Public Sector	13
Saving of the Domestic Private Corporate Sector	14
Trends in Domestic Investment	14
CHAPTER III: AGRICULTURAL OUTPUT	**17-63**
Production and Distribution	**19**
Foodgrains	**19**
Procurement and Buffer Stocks	**21**
Commodity-wise Review	**23**
Rice	23
Wheat	26
Coarse grains	28
Pulses	28
Cotton	28
Raw Jute and Mesta	30
Oilseeds	33
Sugarcane	43
Tea	44
Coffee	44
Tobacco	45
Production Strategy and Related Developments	**46**
Special Food Production Programme 1988-89 - 1989-90	48
Other Agricultural Development/Production Programmes	49
High-Yielding Varieties Programme	51
Seeds	51
Irrigation	52
Command Area Development Programme	54
Fertilisers and Manures	56
Plant Protection Measures	56
Agricultural Implements and Machinery	57

CONTENTS

	Page
Agro-Industries Corporation	58
Agricultural Extension	58
Soil and Water Conservation Programme	59
Dryland Farming	59
Drought Prone Areas Programme and Desert Development Programme	59
National Rural Employment Programme	60
Rural Landless Employment Guarantee Programme	62
CHAPTER IV: INDUSTRIAL PRODUCTION	**64-102**
Trends in Industrial Production—1987-88	**64**
Overall Trends	64
Small-scale Sector	65
District Industries Centres	68
Industrial Sickness	69
Industrial Licensing Policy	70
Selected Industries: A Review	**74**
Coal	74
Iron Ore	76
Cement	78
Iron and Steel	79
Electricity	81
Crude Oil and Petroleum Refinery Products	82
Engineering Industries	85
Metallurgical Industries (Other than Iron and Steel)	89
Jute Textiles	90
Rubber and Rubber Manufactures	91
Chemicals and Chemical Products	93
Sugar	95
Textile—Cotton and Synthetic	98
Paper, Paper Boards and Newsprint	101
CHAPTER V: PRICE TRENDS AND PRICE POLICY	**103-116**
Price Trends: Main Features	**103**
Commodity/Group-wise Trends	104
i) Primary Articles	104
ii) Fuel, Power, Light and Lubricants	108
iii) Manufactured Products	108
Consumer Price Indices	108
Price Trends During April-June 1988-89	111
Price Policies	**113**

CONTENTS

Page

CHAPTER VI: MONETARY DEVELOPMENTS **117-133**

Overall Trends **117**

Money Supply-Components 118
Sources of Change in Money Supply 118
Seasonal Trends 121
Reserve Money 121
Some Monetary Relatonships 121
Income Velocity of Money 125
Moneytary Trends during April-June 1988 125

Currency and Coinage **125**

Demonetisation of Notes 128
Issue of Notes and Coins 128
Lost, Destroyed and Mutilated Notes 128
Note Forgeries 128
Trends in Bullion Prices 128
Gold 128
Silver 131

CHAPTER VII: BANKING DEVELOPMENTS **134-249**

Overall Review 134
Credit Policy 136
Banking Trends 140
Selective Credit Control 146

Qualitative Changes in Bank Credit Distribution **151**

Sectoral Deployment of Credit 151
Industry-wise Deployment of Credit 153

Advances to Priority Sector **156**

Public Sector Banks 156
Private Sector Banks and Foreign Banks 157
20 Point Programme 158
Regional and Rural/Urban Pattern of Credit Deployment in Terms of Credit-Deposit Ratios 158
Credit-Deposit Ratio According to Sanction and Utilisation 161
Investment + Credit-Deposit Ratio 161
Frequency Distribution of Credit-Deposit Ratio 163
Deposit and Credit of Scheduled Commercial Banks: Area-wise and State-wise 164
Distribution of Deposits by Population Groups/Types of Deposits 164
Credit Deployment 167
Distribution of Credit According to Interest Range 167

Geographical and Functional Coverage of Banks **167**

CONTENTS

	Page
Branch Expansion	167
Indian Banks' Offices Abroad	169
Primary (Urban) Co-operative Banks	171
Regional Rural Banks	175
Branch Expansion Programme	175
Operation of RRBs	175
Working of Various Schemes	**177**
Credit Authorisation Scheme	177
Differential Rate of Interest Scheme	179
Self-Employment Scheme for Educated Unemployed Youth	179
Self-Employment Programme for the Urban Poor	179
Financial Assistance to Ex-Service Men for Self-Employment	179
Advances to Minority Communities	182
Integrated Rural Development Programme	182
Lead Bank Scheme	183
Export Credit	183
Export Credit (Interest Subsidy) Scheme, 1968	183
Duty Drawback Credit Scheme, 1976	184
Housing Finance	184
National Housing Bank	184
Crop Insurance Scheme	185
Other Banking Developments	**186**
Committees and Working Groups Relating to Banking	**189**
Committee of Direction	189
Standing Co-ordination Committee on Co-ordination between Banks and Term Lending Institutions	190
Standing Committee on Co-ordination of Institutional Finance for Sugar Industry	190
Standing Committee on Export Finance	190
All-India Export Advisory Committee	190
Working Group for Project Export	190
Introduction of 'Factoring Services	190
Study Group on Housing Finance Institutions	191
Department of Financial Companies	**191**
Export Credit Guarantee Corporation of India Ltd	**193**
Deposit Insurance and Credit Guarantee Corporation	**194**
Rural Credit	**198**
Institutional Finance for Agriculture	**198**
Finance for Agricultural and Allied Activities	199
Direct Finance	199
Indirect Finance	200
National Bank and Rural Credit—Sources and uses of Funds	**200**
Resources of National Bank	**200**

CONTENTS

	Page
National Bank's Assistance for Agriculture	**204**
Credit Limits	204
Short-term	204
Medium-term	207
Long-term	207
Important Policy Changes	207
Short-term Credit	207
Medium-term Credit	208
Long-term Credit	210
Lending Programme and Resources of SLDBs	211
Rehabilitation Programme of SLDBs	212
National Bank's Long-term Refinance Assistance Under Various Schemes	**212**
Refinance Facilities—Policy Changes	**218**
Strengthening and Future Development of Co-operative Structure	**219**
National Bank's Assistance for Non-Agricultural Sector	**220**
Industrial Co-operatives	**221**
Non-Farm Activities	**221**
Weavers' Finance	**223**
Other Developments	**223**
Commercial Banks and Rural Credit	**227**
Central/State Governments and Co-operative Credit	**228**
Other Institutions in the Field of Rural Credit	231
Study Teams/Committees/Working Groups	235
Annexture—Selective Credit Control	**237**
CHAPTER VIII: FISCAL DEVELOPMENTS	**250-315**
Combined Budgetary Position of Central and State Governments: 1987-88 and 1988-89	250
Budgetary Operations of the Central Government	255

CONTENTS

	Page
Central Finance: 1987-88	255
Pattern of Expenditure and Receipts for 1988-89—Budget Estimates	258
Economic and Functional Classification of the Central Government Budget	**260**
Economic Classification 1987-88	260
Functional Classification 1987-88	263
Savings, Investment and Income Generation	265
Economic Classification 1988-89	266
Functional Classification 1988-89	271
Savings, Investment and Income Generation	272
Budget Proposals—1988-89	273
Drought-Relief Surcharges	273
Direct Taxes	274
Hotel and Tourism Industry	275
Indirect Taxes	275
Budgetary Operations of State Governments	**279**
Revised Estimates: 1987-88	279
Capital Receipts	279
Transfer of Resources from the Centre to the States	282
Disbursements	285
Budget Estimates: 1988-89	285
State-wise Position	285
Receipts	288
Disbursements	290
Annual Plan Outlay for 1988-89	293
Additional Resource Mobilisation	294
Ways and Means Advances from Reserve Bank of India	294
Railway Finances	**295**
Highlights	295
Revised Estimates 1987-88	295
Budget Estimates 1988-89	298
Finances of Department of Posts and Department of Telecommunications	**301**
Public Debt and Other Liabilities	**305**
A. Central Government	305
B. State Governments	314
CHAPTER IX: CAPITAL MARKET	**316-346**
Consents for Capital Issues	**316**
Capital Issues	317
Capital Raised	318
Developments in Policy and Institutional Structure	318
Industrial Security Market	322

CONTENTS

	Page
Open Market Operations	324
Gilt-edged Market	324
Term Lending Institutions	**329**
Industrial Development Bank of India	329
Industrial Finance Corporation of India	332
The Industrial Credit and Investment Corporation of India Ltd.	334
Unit Trust of India	336
Life Insurance Corporation of India	339
General Insurance Corporation of India	341
Industrial Reconstruction Bank of India	341
Export-Import Bank of India	342
Housing and Urban Development Corporation Ltd.	345
Housing Development Finance Corporation Ltd.	345
CHAPTER X: DEVELOPMENTS IN INDIA'S FOREIGN TRADE	**347-380**
India's Foreign Trade during 1987-88 (April-March)	347
Overall Trends	347
Exports	347
Imports	353
Direction of India's Foreign Trade	354
Import Licences	359
Developments in Foreign Trade Policy	**362**
Export Controls	362
Import Controls	363
Changes in Export Duties—1987-88	364
Changes in Import Duties—1987-88	364
Export Promotion Measures	365
Specialised Foreign Trade Agencies	**368**
State Trading Corporation of India	368
Cashew Corporation of India	368
Handicrafts and Handlooms Exports Corporation	370
Tea Trading Corporation of India	370
Trade Development Authority	370
Free Trade Zones	371
Kandla Free Trade Zone	371
Santacruz Electronics Export Processing Zone	371
Madras Export Processing Zone	372
NOIDA Export Processing Zone	372
FALTA Export Processing Zone	372
Cochin Export Processing Zone	372

CONTENTS

	Page
Scheme of 100 Per cent Export Oriented Units	373
Trade Agreements and Economic and Technical Co-operation Agreements	**373**
Import-Export Policy April 1988 to March 1991	**375**
International Trade Negotiations	**377**
GSTP	377
GATT	379
CHAPTER XI: BALANCE OF PAYMENTS AND INTERNATIONAL MONETARY DEVELOPMENTS	**381-436**
Balance of Payments Developments	**381**
Foreign Investment: Policy and Developments	**383**
External Assistance	**385**
India's Financial Assistance to Other Countries	**392**
Exchange Rate Developments	**394**
International Monetay Developments	**396**
Domestic Activity	398
i) Industrial Countries	398
ii) Developing Countries	400
International Trade and Payments	400
Resource Flows	402
World Bank Group	403
International Bank for Reconstruction and Development	404
Multilateral Guarantee Investment Agency	405
The International Development Association	406
The International Finance Corporation	406
Use of Fund Resources	407
Rates of Charges of the Fund and System of Burden Sharing	409
SDR Allocation and SDR Interest Rate	410
IMF Quota Review	410
International Reserves	412
Developments in Exchange Rates of Major Currencies	412
External Debt of Developing Countries	414
Gold in International Markets	414
Developments in Exchange Control	**415**
Annexure—RBI's Spot Rate for Purchase and Sale of Pound Sterling	419

CONTENTS

Page

GRAPHS

1. Net Domestic Saving and Investment 9
2. Production of Foodgrains 19
3. Index Numbers of Wholesale Prices 107
4. Consumer Price Index Numbers (All India) 113
5. M_3 and its Components 117
6. Scheduled Commercial Banks' Business in India 135
7. Scheduled Commercial Banks' Deposits as Percent of Net National Income. ... 141
8. Public Sector Banks' Advances to Priority Sector 156
9. Centre-wise Distribution of Commercial Banks' Offices in India 169
10. Combined Aggregate Revenue and Capital Receipts—Central and State Governments 255
11. Combined Aggregate Revenue and Capital Disbursements—Central and State Governments 257
12. Index Numbers of Security Prices—All India 322
13. Trends in World Exports, India's Exports and Exports of Non-Oil Developing Countries 348
14. Exchange Rate of Indian Rupee 395

APPENDICES

Appendix I – Important Export Control/Promotion Announcements April 1987-March 1988 423

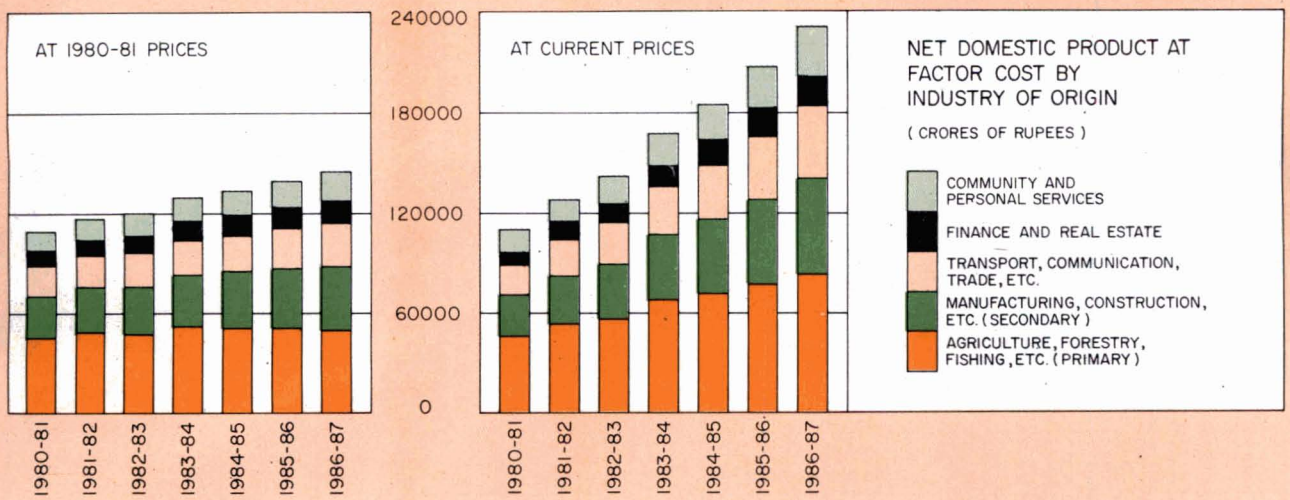
i) Changes in Export Control 423
ii) Changes in Export Duty 426

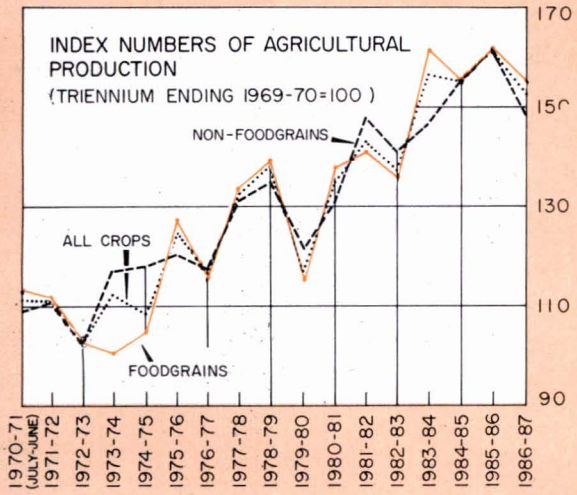
Appendix II – Important Announcements with regard to Import Control Policy April 1987-March 1988 427

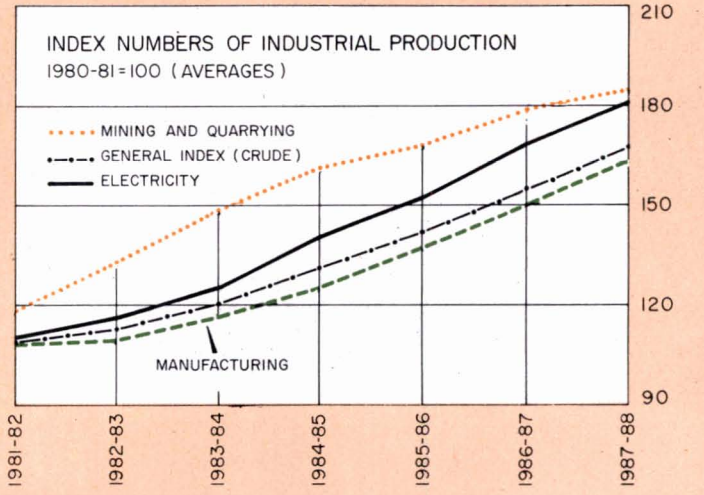
Changes in Import Duties 434

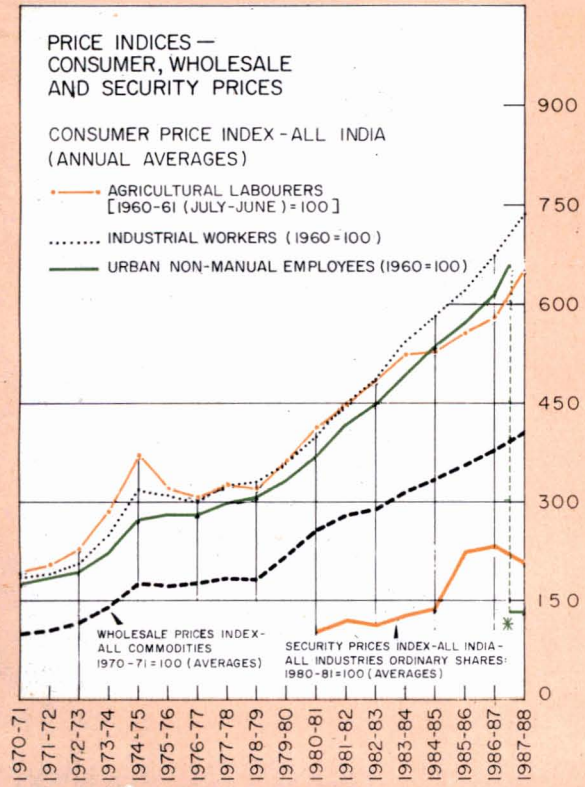
Subject Index 437

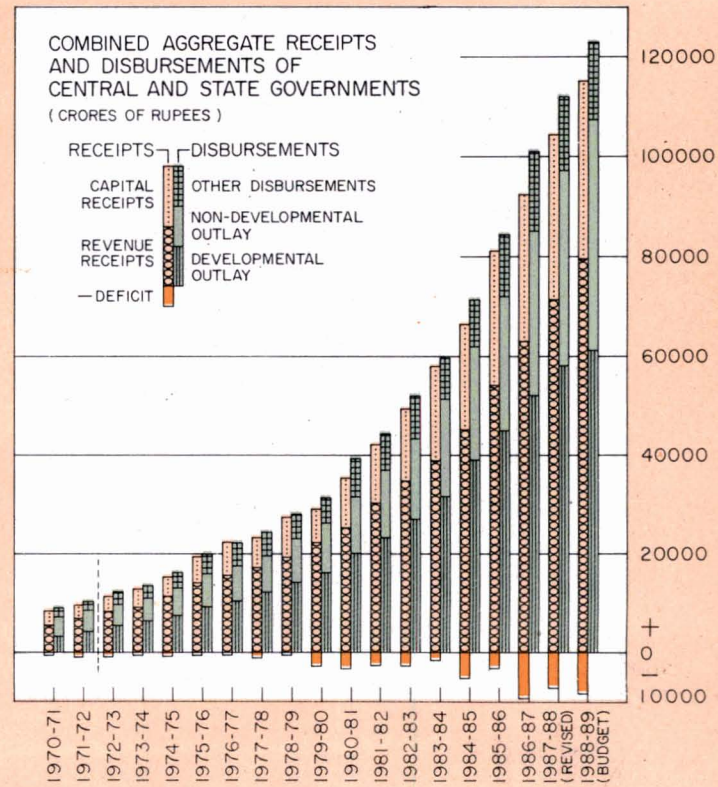
SELECTED ECONOMIC INDICATORS





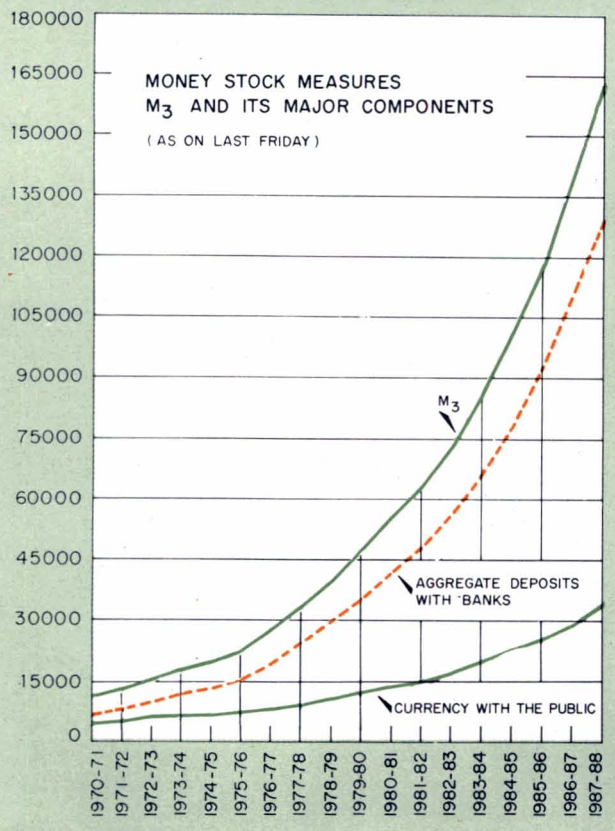


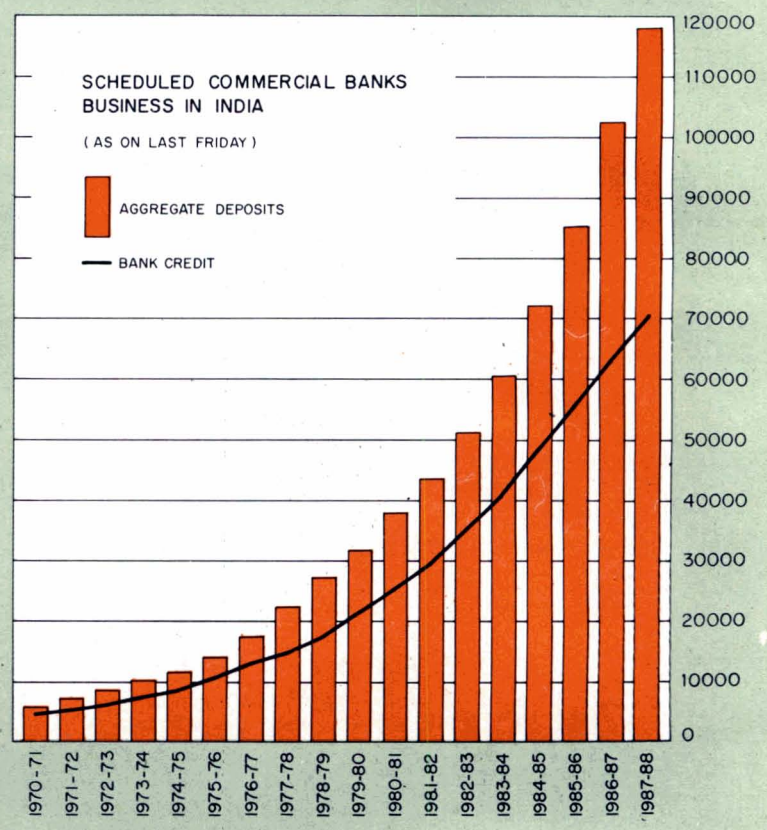


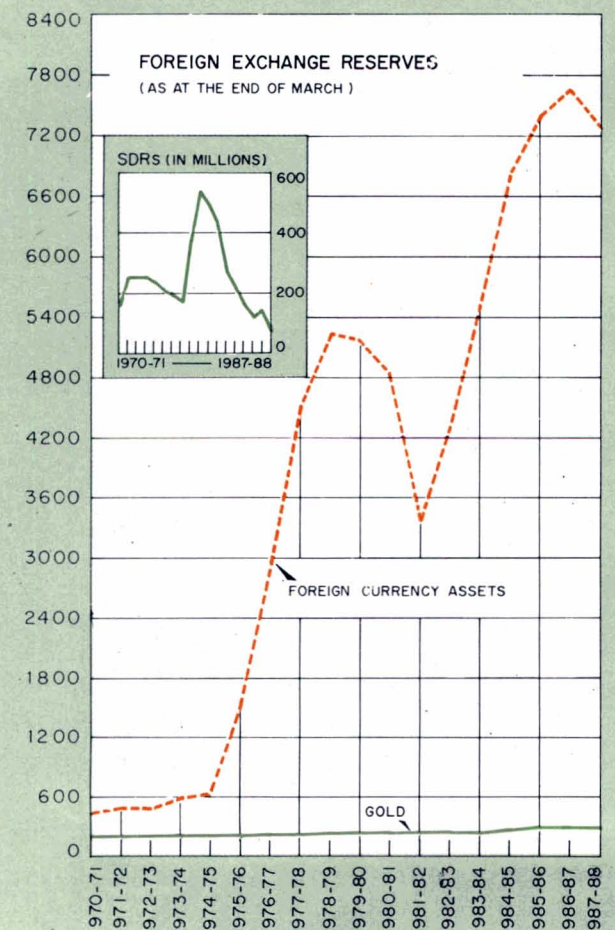


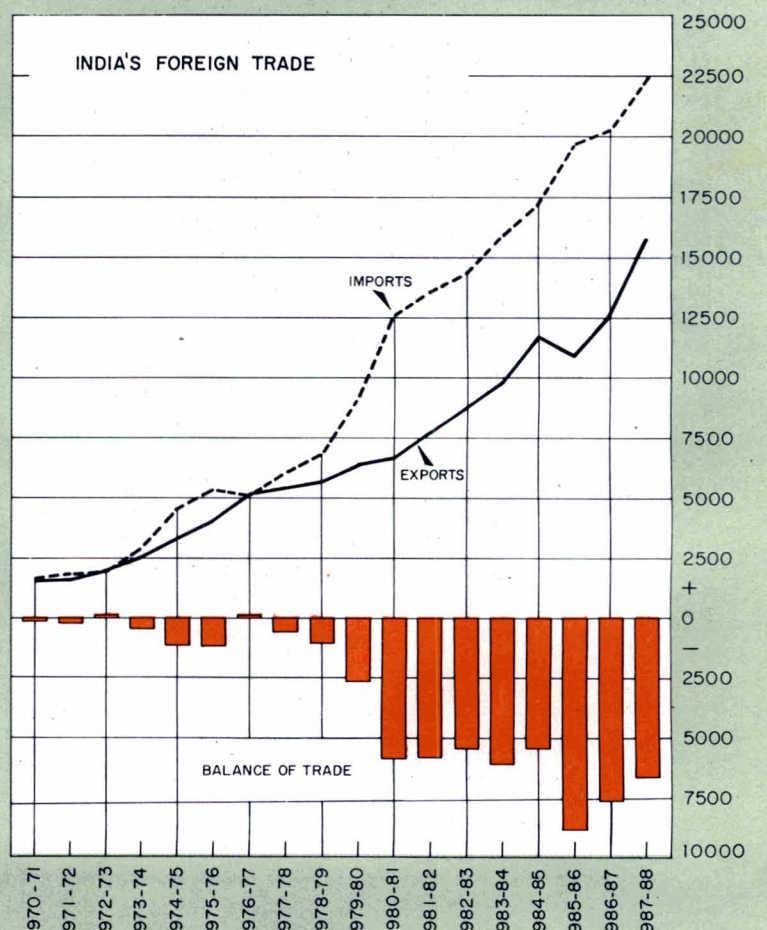
SELECTED ECONOMIC INDICATORS

(CRORES OF RUPEES)









Chapter I

Review and Outlook*

Despite the fact that during 1987-88 the country faced a drought of exceptional magnitude and severity, more recent estimates indicate that real national income during the year recorded a rise of over 3.0 per cent (earlier estimates were that the growth would be around 2.5 per cent). Though the growth of the economy in 1987-88 was below the trend rate of growth of 3.7 per cent during the period 1951-52 to 1985-86, unlike during previous drought years, viz., 1972-73 and 1979-80 when real income showed actual declines, a significant development was that there was some growth in 1987-88. The decline in agricultural output was less sharp than feared earlier. Despite a setback in agriculture, there was a healthy growth in industrial production with infrastructure industries performing well. These are some of the pointers to the resilience that the economy has acquired over the years.

The decline in agricultural production in 1987-88 is mainly attributable to the severe drought in several parts of the country. The fall in agricultural output during 1987-88 was due mainly to a sharp decline in the output of *Kharif* foodgrains, which was only partly made good by an increase in *Rabi* output. The overall decline in foodgrains output during 1987-88 was therefore only 3.5 per cent, a shade lower than the rate of decline in 1986-87.

The monsoon of 1987 turned out to be extremely deficient. Of the 35 meteorological subdivisions, rainfall during 1987 was deficient/scanty in as many as 21 sub-divisions, as against only 14 sub-divisions in the preceding year. In addition, the Eastern region was adversely affected by floods. Foodgrains production during 1987-88 was placed at 138.4 million tonnes as compared with 143.4 million tonnes during 1986-87. Rice production declined by 4.1 million tonnes to 56.4 million tonnes in 1987-88. Overall *Kharif* foodgrains production at 73.9 million tonnes was 6.3 million tonnes lower than that during the preceding year. This decline was partly offset by an increase of about 1.3 million tonnes in *Rabi* production to 64.5 million tonnes. Wheat production in 1987-88, however, was placed at 45.1 million tonnes showing a rise of 0.8 million tonne over the 1986-87 level of production of 44.3 million tonnes. Coarse grains production in 1987-88 declined by 1.0 million tonne to 25.8 million tonnes. Pulses production in 1987-88 at 11.0 million tonnes was 0.7 million tonne lower than the 1986-87 output.

Among commercial crops, production of raw jute (including mesta) declined substantially to 67.8 lakh bales from 86.3 lakh bales in 1986-87. Production of cotton showed sharp decline from 69.0 lakh bales in 1986-87 to 64.3 lakh bales in 1987-88. Sugarcane production, however, was placed higher at 196.7 million tonnes as against 186.1 million tonnes in 1986-87. Production of oilseeds during 1987-88 also was placed higher at 12.4 million tonnes, as compared with 11.3 million tonnes in the preceding year.

Aggregate foodgrains procurement by the public sector agencies was placed at 15.0 million tonnes during 1987-88 as against 19.9 million ton-

* Chapters II to XI incorporate information upto end-June 1988. Chapter I, however, is based on more recent information. Consequent to more recent estimate, which indicates a higher growth rate in national income, the saving rate during 1987-88 may be lower than indicated in Chapter II.

nes in 1986-87. Total rice procured during the 1987-88 *Kharif* marketing season (October 1987 to September, 1988) amounted to 6.9 million tonnes which was 25.2 per cent lower than that of 9.2 million tonnes procured during the corresponding period of 1986-87. Wheat procured during the *Rabi* marketing season of 1987-88 (April-March) at 7.9 million tonnes was 24.8 per cent lower than the procurement of 10.5 million tonnes in 1986-87 due mainly to fall in wheat production in Uttar Pradesh and Haryana and damage to the wheat crop in Punjab due to unseasonal rains. During the 1988-89 *Rabi* marketing season so far (April 1, 1988 to December 30, 1988) wheat procured aggregated 6.5 million tonnes which was lower by about 17.1 per cent than that procured during the corresponding period of the 1987-88 *Rabi* marketing season, viz., 7.9 million tonnes. During the 1988-89 *Kharif* marketing season (upto December 30, 1988) rice procurement at 4.07 million tonnes was 11.2 per cent higher than that in the corresponding period last year (3.66 million tonnes).

With the decline in foodgrains production during 1987-88, demand for foodgrains from the Public Distribution System (PDS) was larger. As a result, total offtake of foodgrains from the Central Pool increased substantially during 1987-88 to 23.0 million tonnes which was 3.4 million tonnes or 17.2 per cent higher than the offtake reported in 1986-87 (19.6 million tonnes). With the step-up in the offtake of foodgrains from the Public Distribution System in the wake of reduced output and with the lower procurement both of rice and wheat, public sector foodgrains stocks declined sharply to 8.9 million tonnes (comprising 5.2 million tonnes of wheat, 3.6 million tonnes of rice and 0.1 million tonne of coarse grains) as at end-November 1988 from 15.1 million tonnes (comprising 9.0 million tonnes of wheat, 6.0 million tonnes of rice and 0.1 million tonne of coarse grains) as at end-November 1987. Drawing down of the buffer stocks of foodgrains for augmentation of essential supplies to the public was a noteworthy feature of the management of the food economy which helped in mitigating the adverse impact of the drought of 1987-88.

Industrial output, despite a severe drought showed a growth of 7.7 per cent as compared with the increase of 9.1 per cent during 1986-87. The after-effects of the drought were, however, visible in the last quarter of the financial year when the growth rate of industrial production slowed down to 3.1 per cent as compared with a 14.7 per cent increase recorded in the corresponding quarter of 1986-87. This deceleration in the growth rate in 1987-88 was noticed in all the three sectors viz., Mining and Quarrying, Manufacturing and Electricity. The growth rate in 'manufacturing sector', which accounts for a weight of 77.11 per cent in the revised series of index of industrial production, showed a deceleration to 8.6 per cent from 9.3 per cent in 1986-87. Production in other two sectors viz., 'mining and quarrying' and 'electricity' (accounting for a weight of 11.46 per cent and 11.43 per cent) decelerated to 3.5 per cent and 7.6 per cent, respectively in 1987-88 from 6.2 per cent and 10.3 per cent in 1986-87. The performance of 'mining and quarrying' sector was affected by the fall in output of petroleum crude, natural gas and iron ore. The deceleration in the growth of electricity, despite the improved performance of thermal and nuclear power generation, was largely the result of a fall in hydro-electric generation due to low levels of water in reservoirs. A redeeming feature was the better than expected performance of coal and oil based generation of power.

The six infrastructure industries (viz., electricity, coal excluding lignite, petroleum crude, petroleum refinery products, saleable steel and cement) with a total weight of 28.77 per cent recorded a lower growth of 6.1 per cent in 1987-88 as compared with that of 7.5 per cent in 1986-87. Among these six infrastructure industries, the growth rate was higher only in the case of coal. Of the remaining five infrastructure industries which showed a deceleration, the rate of increase in production of saleable steel declined from 5.7 per cent in 1986-87 to 4.5 per cent in 1987-88, though in absolute terms there was an increase in output from 82.2 lakh tonnes to 85.9 lakh tonnes. Likewise the growth rate of electricity generation decelerated from 10.3 per cent to 7.6 per cent though in absolute terms there was an increase in production from 1,87,604 million K.W.H. to 2,01,894 million K.W.H. Thermal power generation was higher by 16 per cent and accounted for

three-fourth of total electricity generated. The growth rate of cement production, likewise declined from 10.4 per cent to 8.0 per cent, though in absolute terms, production had increased from 365.9 lakh tonnes to 395.1 lakh tonnes. Production of petroleum refinery products increased from 432.6 lakh tonnes to 451.8 lakh tonnes, though the growth rate showed a decline from 7.5 per cent to 4.5 per cent. Production of crude petroleum also showed a decline in absolute terms from 304.8 lakh tonnes to 303.6 lakh tonnes.

Taking the three years of the Seventh Plan together, it is observed that industrial growth during 1985-86 to 1987-88 has not been uniform among the various industries. In the group of basic industries while 32 industries (weight 35.9 per cent) recorded growth, 10 industries (weight 2.2 per cent) registered declines. In this group steel castings, DMT, and copper/brass sheets recorded increases above 25 per cent, nitrogenous fertilisers and aluminium showed growth rates of more than 12 per cent, while cement and coal recorded growth rates of 7 to 9 per cent. As regards industries in the capital goods sector, 15 industries (weight 5.6 per cent) registered increases and five industries (weight 2.5 per cent) registered declines. In this group, while ball and roller bearings and road rollers registered increases of 15.9 per cent and 12.5 per cent, respectively, power driven pumps and railway locomotives increased their output by 1.7 per cent and 0.7 per cent, respectively. In the same group, production of railway coaches achieved a growth of 4.9 per cent. Industries in the intermediate goods group, showed increases in respect of 21 items (weight 11.4 per cent) whereas 14 industries (weight 4.0 per cent) recorded declines. In respect of consumer goods industries group, while consumer durables (weight 1.5 per cent) showed increases, production in six industries (weight 0.8 per cent) registered declines. In the case of consumer non-durables, 26 industries (weight 14.4 per cent) showed increases while six industries (weight 4.9 per cent) registered declines during the period.

Monetary expansion (M_3) showed a deceleration during 1987-88 to 15.7 per cent from 18.8 per cent in 1986-87. This deceleration was due mainly to the lower growth in aggregate deposits with banks at 15.2 per cent compared with 20.2 per cent in 1986-87. Demand deposits grew by 7.3 per cent in 1987-88 as against 22.3 per cent in 1986-87; the sharp deceleration in demand deposits was attributable to the buy-back arrangements in Government securities. The deceleration in the rate of growth of time deposits was less sharp at 17.2 per cent from 19.7 per cent in 1986-87. Currency with the public surged by 17.7 per cent in 1987-88 as compared with 13.6 per cent in 1986-87.

The deceleration in monetary expansion during 1987-88 was aided by the sizeably lower accretion to net foreign exchange assets of the banking sector and the marginally lower increase in other banks' credit to Government. Accruals to the net foreign exchange assets of the banking sector showed a sharply lower increase of Rs. 673 crores in 1987-88 as compared with the substantial increase of Rs. 1,314 crores in 1986-87. Other banks' credit to Government showed a lower increase of Rs. 5,786 crores (+ 22.7 per cent) in 1987-88 as compared with that of Rs. 5,909 crores (+30.1 per cent) in 1986-87. The increase in net bank credit to Government at Rs. 12,811 crores during the year was marginally higher by Rs. 35 crores over the increase in 1986-87. Net RBI credit to Government expanded by Rs. 7,025 crores in 1987-88 which was larger than that of Rs. 6,867 crores in 1986-87. The increase in bank credit to the commercial sector at Rs. 12,389 crores in 1987-88 was larger by Rs. 1,095 crores over its level in 1986-87.

Against the background of the decline in agricultural production and deceleration in the rate of growth of industrial output, inflationary pressures were aggravated during 1987-88. The wholesale price index, on a point-to-point basis, showed a rise of 10.6 per cent which was double the increase of 5.3 per cent in 1986-87. Given the severity of the drought, the price rise would have been much larger, but was contained to this level by appropriate supply management and controlled monetary expansion. On an average basis, however, the price rise was of a lower order at

7.6 per cent during 1987-88, though it was 2.3 percentage points higher than during 1986-87. The normal seasonal trend in price movement continued to be witnessed during 1987-88. During the first phase, covering the period end-March to end-August 1987, the upswing in prices was sharp at 9.1 per cent as compared with 6.3 per cent during the corresponding period of 1986. During the period end-August 1987 to end-November 1987, wholesale prices declined marginally by 0.9 per cent, which was lower than the fall of 1.2 per cent during the corresponding period of 1986. During the final phase of 1987-88 viz., end-November 1987 to end-March 1988, the price rise was of a higher order at 2.3 per cent as compared with 0.2 per cent during the corresponding period of 1986-87.

Taking 1987-88 year as a whole, the overall increase in the wholesale price index was brought about by all the three major groups, viz., 'primary articles', 'manufactured products' and 'fuel, power, light and lubricants'. In the major group 'primary articles', the sub-group 'vegetables', prices rose sharply by 38.9 per cent in contrast to a decline of 40.9 per cent in 1986-87. The other sub-groups 'condiments and spices' and 'pulses' also showed sharp increases of 45.4 per cent and 32.1 per cent, respectively, in contrast to an almost unchanged level in the case of the former and a decline of 8.9 per cent in the case of the latter in 1986-87. Wheat prices rose by 15.9 per cent in contrast to a fall of 1.8 per cent in 1986-87. In the major group 'manufactured products', prices of sugar, *khandsari* and *gur* and paper and paper products recorded increases of 7.2 per cent and 7.5 per cent in 1987-88 as against declines of 6.2 per cent and 0.3 per cent, respectively, in 1986-87. In the sub-group 'basic metals, alloys and metal products' prices increased by 15.4 per cent in 1987-88 as compared with a modest increase of 3.7 per cent in 1986-87. The overall increase under the major group 'fuel, power, light and lubricants' was largely due to a rise of 17.6 per cent in the price of coal compared to near stagnancy in the preceding year. Similarly, petrol prices rose by 14.5 per cent in 1987-88 as against a decline of 0.5 per cent in 1986-87.

On a point-to-point basis, the consumer price index for industrial workers (CPI) registered an increase of 9.8 per cent during 1987-88 as compared with that of 7.5 per cent during the preceding year. On an average basis, the CPI rose by 9.1 per cent, which was 0.3 percentage point higher than the rise recorded during 1986-87.

As regards the balance of payments, the current account deficit which narrowed down in 1986-87, is expected to be larger in 1987-88. During the financial year 1987-88, India's foreign exchange reserves (consisting of foreign currency assets of the RBI, gold and SDRs) declined by Rs. 465 crores as against an increase of Rs. 331 crores in 1986-87. In SDR terms, these reserves showed a decline of SDR 627 million in 1987-88, only slightly larger than the fall of SDR 615 million during 1986-87.

During 1987-88, for the second year in succession, there has been a strong growth in exports. According to the Directorate General of Commercial Intelligence and Statistics (DGCI&S) data, (partially revised) exports recorded a significant increase of 25.2 per cent in rupee terms on top of an increase of 15.4 per cent in 1986-87. In terms of U.S. dollars, exports were higher by 23.4 per cent and 10.5 per cent respectively. Imports increased by 10.9 per cent during 1987-88 as against an increase of 2.8 per cent in 1986-87. In terms of U.S. dollars they were higher by 9.3 per cent as against a decline of 1.6 per cent in 1986-87. The increase in imports during 1987-88 was mainly due to the substantial rise in oil imports, which went up by 52 per cent as against a fall of 46 per cent in 1986-87. Increase in non-oil imports was substantially lower at 5 per cent during 1987-88 as against a rise of 19 per cent in the previous year. The trade deficit narrowed down to Rs. 6,658 crores in 1987-88 from Rs. 7,632 crores in the previous year. Available information also suggests some improvement on the invisible account due mainly to a rise in travel receipts and perhaps some increase in private transfers. Repurchases from the IMF during 1987-88 amounted to Rs. 1,209 crores, substantially higher than the repurchases of Rs. 672 crores in 1987-88.

On the financing side, the net inflow of external assistance was higher in 1987-88, but resort

to commercial borrowings during the year was somewhat lower than in 1986-87. The net inflow of funds under non-Resident Deposit Schemes amounted to Rs. 1,807 crores in 1987-88 as compared with Rs. 1,650 crores in 1986-87.

Developments in the Indian economy during 1988-89 have to be viewed against the background of extremely favourable weather conditions all over the country. Out of the 35 meteorological sub-divisions in the country, as many as 32 recorded normal or excess rains; even in the remaining 3 sub-divisions, rainfall was only marginally deficient. Although there were floods in the current year in as many as nine States, the estimated damage to foodgrains output is expected to be minimal.

Latest estimates indicate that the target of *Kharif* foodgrains production of 92.5 million tonnes would be realised. The *Rabi* prospects have also improved with good rainfall during the South-West monsoon and retention of sub-soil moisture. Given the assured and increased availability of irrigation facilities, the prospects for the *Rabi* crop are rated fairly good. Emboldened by the progress of the North-East monsoon and good sub-soil moisture the target of *Rabi* foodgrains has been revised upwards to 76.6 million tonnes from 74.0 million tonnes fixed earlier.

As regards commercial crops, prospects are equally encouraging. The groundnut growing areas of Gujarat are reported to have received good rains, raising hopes of a bumper *Kharif* oilseeds harvest of 8.0 million tonnes as against 6.3 million tonnes last year. With good *Rabi* prospects, oilseeds production during 1988-89 could very well be in the range of 15-16 million tonnes as against 12.4 million tonnes in 1987-88. As regards raw cotton, the Cotton Advisory Board expects a substantially higher crop of 102 lakh bales, as against 90 lakh bales during 1987-88. Production of raw jute and mesta is placed at 6–7 million bales as compared with actual production of 6.8 million bales in 1987-88, but substantially lower than the target of 9.2 million bales. The lower than targeted output of raw jute and mesta is ascribed to a decline in the area under cultivation due, perhaps, to lower price realisation. Sugarcane production is likely to exceed the 1987-88 level of 196.7 million tonnes.

Taking both foodgrains and non-foodgrains production, total agricultural production is expected to show a rise of about 20 per cent in 1988-89.

The growth rate of industrial production during 1987-88 decelerated to 7.7 per cent from 9.1 per cent during the preceding year. This deceleration was, to some extent, due to the after-effects of the severe drought. The slowdown in industrial growth was particularly evident in the last quarter of the financial year during which industrial production grew by only 3.2 per cent in contrast to a 14.7 per cent rise in the last quarter of the preceding financial year. Information on trends in industrial production during the current financial year are available only for the first six months viz., April-September. The average of monthly index of industrial production at 173.4 during the first six months (April-September) shows a rise of 9.4 per cent, which is somewhat lower than that of 10.9 per cent during the corresponding period of 1987-88. The sectoral trend in industrial production during this period suggests that with the exception of 'Mining and Quarrying', which showed a marginal acceleration in growth rate from 5.3 per cent to 5.7 per cent, the growth rate in the other two sectors, viz., 'Manufacturing' and 'Electricity' showed sharp deceleration to 10.6 per cent and 6.0 per cent, respectively, compared with 12.2 per cent and 9.3 per cent, respectively, during the corresponding period of 1987-88.

Provisional data available in respect of a few major industries for the period April-August 1988 show that commercial vehicles, cars, scooters, motor cycles and fertilisers recorded substantial improvement in production as compared with levels of production during the corresponding period of 1987. The production of cloth (mill sector) and yarn, however, showed a decline from the levels of production during the corresponding period of 1987.

The overall industrial growth hinges largely on the satisfactory performance of the infrastructure industries which have a weight of 28.77 per cent in the general index. More recent data on the performance of the six infrastructure industries are available for the first eight months (April-November) of the current financial year. The average composite index of production of six infrastructure industries recorded a higher rate of increase of 7.5 per cent during April-November 1988 than the increase of 6.8 per cent witnessed during the same period of 1987. This acceleration is attributable mainly to larger production in petroleum crude, saleable steel and cement. Petroleum crude output recorded a growth rate of 5.5 per cent in contrast to a decline of 1.5 per cent witnessed during the corresponding period of 1987-88. Production of saleable steel however, recorded a sharp increase of 11.5 per cent as compared with 6.8 per cent during the corresponding period of last year. The growth of electricity generation was somewhat lower at 7.5 per cent as compared with 8.2 per cent during the same period of 1987. Hydel power generation had shown a turn-around and recorded a growth of 17.2 per cent during 1988 (April-November) in contrast to a fall of 10.2 per cent during the corresponding period of 1987. The growth of 4.3 per cent in thermal power generation (including nuclear power) was only one fourth of the growth achieved during the period April-November 1987. This was mainly because of less generation on account of the reported low system demand following the good monsoon throughout the country which prompted more thermal units being brought under planned maintenance shutdown during the months of July and August. Though the plant load factor (PLF) improved to 49.0 per cent during October 1988 it was marginally lower than the target for the month of 50.6 per cent as well as the achievement of 55.7 per cent during the corresponding month of 1987.

The prospects of industrial growth for the current year are, however, encouraging in view of the favourable monsoon and the expected increase in agricultural incomes which would generate demand for industrial products. As agricultural production is expected to show substantial increase during the current year, availability of agricultural raw materials for agro-based industries will also show an increase which may enable agro-based industries to attain higher levels of production. The overall improvement in rural incomes may lead to an increase in demand for consumer goods in the latter part of the year. This coupled with continued liberalisation in industrial policies is expected to promote greater competition in industry. In the light of these factors, the rate of growth of industrial production is likely to exceed 9 per cent for 1988-89, as compared with 7.7 per cent attained in 1987-88.

In the fiscal sphere, with the revenue expenditure of the Centre rising at a faster pace than revenue receipts, the deficit on revenue account is estimated to enlarge to Rs. 9,842 crores for 1988-89, as compared with Rs. 8,497 crores in 1987-88. After taking into account the surplus on capital account, the overall deficit is budgeted at Rs. 7,484 crores in 1988-89 as compared with Rs. 6,080 crores in the previous year. The deterioration in the Central finances is mainly due to sharp rise in non-Plan expenditure particularly under interest payments, defence and subsidies. The sharp rise in non-Plan expenditure has resulted in pre-emption of resources that might otherwise be available for Plan expenditure and led to increased borrowings to meet the overall financial requirements.

Preliminary data on collection of tax revenues from major taxes available for the eight months (April-November) of the current financial year show an increase of Rs. 2,635 crores over the corresponding period of the preceding year, constituting 58.9 per cent of the anticipated increase for 1988-89. Collections from direct taxes, i.e. Income and corporation tax were higher by 6.7 per cent over the corresponding period of the last year.

Aggregate collection from direct taxes upto November 1988 accounted for 40.0 per cent of the budget estimates for 1988-89, as compared with 41.5 per cent during the same period of the preceding financial year. The lower collection from direct taxes is partly attributable to changes in the scheme for advance tax payments. Collec-

tions from customs and excise duties were higher by 15.4 per cent and 11.0 per cent, respectively over similar collections in April-November 1987 and accounted for 62.9 per cent of total collections from these taxes assumed in the Budget for 1988-89, as compared with 62.6 per cent assumed in the Budget Estimates for 1987-88.

The expenditure of the Central Government is expected to be higher than that estimated in the Budget. The Central Government has already presented two supplementary demands for grants for an additional expenditure amounting to Rs. 1,318 crores. Of this, the expenditure on non-Plan account would be Rs. 678 crores and the remaining Rs. 640 crores would be on Plan account. In order to contain the increase in expenditure, the Central Government has constituted a high level committee to monitor the expenditure of five Ministries.

The excellent monsoon has raised expectations of better performance of the economy in 1988-89 and improved prospects of an acceleration in new investment activity. Such optimism is corroborated by recent provisional data available in respect of investment indicators. The stock exchanges have turned buoyant in recent months. The average index of equity prices recorded a rise of 6.7 per cent during April-November 1988 in contrast to a decline of 9.8 per cent during the corresponding period of the preceding year. The rise in sensitive index of selected equities traded on the Bombay Stock Exchange has been much sharper and has scaled new peaks in November 1988. Approvals granted by the Controller of Capital Issues for raising fresh capital to non-government public and private limited companies were substantially higher at Rs. 2,110 crores during April-October 1988 than Rs. 1,503 crores in April-October 1987. Fresh capital issues offered by non-government public limited companies during April-December 1988 was also higher at Rs. 1,759 crores as compared with Rs. 1,398 crores during the corresponding period of the previous year. A number of capital issues are in the pipeline and are expected to enter the market during the next few months. Some of the unutilised approvals of capital issues of the earlier years are also likely to materialise in the current year with the result that new capital issues by private sector companies may touch an all-time high. The spurt in investment activity is also reflected in a sharp increase of 77.6 per cent in financial assistance sanctioned by the all-India term-lending institutions during April-September 1988. Though disbursement of assistance is rather slow, it is likely to pick up substantially in the coming months.

The overall growth of liquidity (M_3) during the current financial year upto December 30, 1988 was Rs. 24,179 crores as compared with Rs. 21,207 crores during the comparable period of 1987-88. With buoyant agricultural output following the good monsoon, the growth of real national income in 1988-89 is expected to be of the order of 9 per cent. Monetary policy, therefore, aims at providing adequate credit to both agriculture and industry to facilitate the anticipated increase in production. At the same time, considering the sharp rise of the wholesale price index during 1987-88 and the strong growth in reserve money in recent years, overall expansion of liquidity in 1988-89 has to be contained at a level below the average for the previous three years, which was around 17 per cent. The rate of growth of aggregate monetary resources (M_3) of 14.9 per cent during the current financial year upto December 30, 1988 was about the same as in the comparable period of the previous year (15.1 per cent). In the current financial year so far, there has been a deceleration in the pace of reserve money growth (12.2 per cent against 15.9 per cent). The overhang of large reserve money creation of the previous three years provides a potential for expansion in overall liquidity. Despite the prospects of a recovery in agricultural and industrial output, it would be necessary to continue to pursue a cautious monetary policy in 1988-89.

Scheduled commercial banks' operations during the current financial year so far (upto December 30, 1988) have been characterised by a sharp rise in aggregate deposits. Accretion to aggregate deposits of scheduled commercial banks during the financial year 1988-89 so far (up

to December 30, 1988) was Rs. 21,394 crores (18.1 per cent) as against a rise of Rs. 17,402 crores (16.9 per cent) during the comparable period of 1987-88. Demand deposits showed a sharp increase of Rs. 3,627 crores during the current financial year so far compared with the rise of Rs. 2,505 crores during the corresponding period of 1987-88. Time deposits increased by Rs. 17,767 crores, as compared with an increase of Rs. 14,897 crores during the same period of 1987-88. There has been a large increase in net non-food credit of Rs. 10,420 crores (15.2 per cent) in the financial year 1988-89 (upto December 30, 1988), as compared with an increase of Rs. 8,917 crores (15.3 per cent) in the comparable period of 1987-88. With the continued decline in foodgrains stocks and the rather slow procurement in the current *Kharif* season, food credit declined in the current financial year upto December 30, 1988 by Rs. 832 crores.

As the economy is well poised for an upturn in the overall growth rate, credit requirements, particularly of agriculture, industry and exports are expected to rise. Credit policy for the busy season of 1988-89 has been geared to meet the increased genuine credit needs of these sectors to support the upturn of the economy. The main elements of the credit policy announced on the eve of the busy season in October 1988 were: (i) removal of the ceiling on all lendings on which a 16.5 per cent rate was prescribed; advances to these categories are now subject to a minimum rate of 16.0 per cent. Banks have been advised to use judiciously their discretion to charge differential rates to their borrowers. (ii) Two types of Participation Certificates (PCs) were introduced with a view to providing to the banking system an additional instrument for evening out short-term liquidity. First, the risk sharing PC would be for 91-180 days with interest rates freely determined between the issuing bank and the participating bank, subject to a minimum of 14 per cent per annum; these risk bearing PCs would entail an adjustment of the advances portfolio of banks and as such would not be subject to reserve requirements. Secondly, there would be a without risk sharing PC with a maximum tenure of 90 days, interest on which would be determined by the two banks concerned, subject however to a ceiling of 12.5 per cent per annum; these non-risk bearing PCs would form part of the net demand and time liabilities (DTL) of the borrowing bank and therefore would be subject to reserve requirements. (iii) With a view to providing some flexibility to the money market the Discount and Finance House of India (DFHI) was exempted from the provisions of the ceiling on the rate of interest in the call/notice money market set out by the Indian Banks Association. (iv) Under the Credit Authorisation Scheme the system of prior authorisation by the Reserve Bank of India for sanction of working capital credit limits/term loans was withdrawn. However, all proposals involving sanctions of aggregate working capital limits/term loans beyond Rs. 5 crores would be subjected to post sanction scrutiny by the Reserve Bank. (v) Instructions regarding transfer of borrowal accounts and maximum number of banks permissible in each consortium arrangements were modified. All parties including those enjoying aggregate credit limits in excess of Rs. 5 crores are permitted to transfer their accounts from one bank to another, without obtaining a 'no objection' certificate from existing bank provided the transferee bank agrees to take over the entire liabilities of the party. The restriction on the number of banks to five in consortium advances of the limits upto Rs. 50 crores was removed.

On the external front, the pressures on the balance of payments witnessed in the first three years of the Seventh Plan are expected to continue in 1988-89. Foreign exchange reserves during April to December 1988 declined by Rs. 1,052 crores as against Rs. 528 crores in the corresponding period of 1987. The level of foreign exchange reserves at the end of December 1988 was equivalent to less than three months of imports. The trade deficit, according to DGCI&S provisional data during April to October 1988 widened to Rs. 4,936 crores from Rs. 3,484 crores in the corresponding period of 1987, due mainly to a rise in imports of 28 per cent, which more than offset the increase in exports of 22 per cent. On the invisibles account, the increase in tourist traffic may be somewhat lower than in the preceding year. Inward remittances from NRIs may not

show any increase over the previous year. The net inflow of deposits under the FCNRA scheme during April to December 1988 amounted to Rs. 1,547 crores as against Rs. 946 crores in the same period last year. The scheduled 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 also show an increase.

As for balance of payments, the year 1988-89 is expected to witness a further deterioration in the current account deficit both in absolute terms as well as in relation to GDP. The average ratio of current account deficit to GDP during the first four years of the Seventh Plan will be higher than 1.6 per cent postulated in the Plan. The order of current account deficit experienced during the Seventh Plan period so far has been large. It is necessary that the deficit is reduced in absolute terms so as to ease the pressure on external finance. In this context, exports will have to play a crucial role in containing the current account deficit. A careful watch on the growth in imports is also necessary.

With the favourable monsoon and the prospects of a record harvest, price rise has been substantially lower than that during the corresponding period of 1987-88. On a point-to-point basis, the 'All Commodities' wholesale price index (WPI) rose by 3.6 per cent during the current financial year so far (upto December 31, 1988) which was substantially lower than the increase of 9.9 per cent during the corresponding period of 1987-88. The rise was contributed by 'primary articles', 'manufactured products' and 'fuel, power, light and lubricants'. The index of 'primary articles' advanced by 6.0 per cent this year, as against 12.2 per cent last year. Under food articles, pulses recorded an increase of 30.9 per cent during the current financial year so far as against 31.2 per cent last year. 'Manufactured products' recorded an increase of 2.1 per cent during the current year so far, as compared with 9.7 per cent last year. Among 'manufactured products', index of 'sugar, *khandsari* and *gur*' showed a rise of 3.3 per cent during the current financial year as against 15.9 per cent last year. 'Fuel, power, light and lubricants' showed an increase of 1.9 per cent during the current financial year, as against 4.7 per cent last year. While prices of edible oils have declined sharply from the very high levels attained in the previous year, there is concern at the sharp acceleration in prices of certain vital consumer items like pulses. While the larger crops of foodgrains, cotton and sugar should dampen inflationary pressures, the relatively low level of public sector stocks of foodgrains would call for vigilance about the price situation.

The inflationary pressures have been more pronounced at the retail level than at the wholesale level during the current financial year so far. The price increase on a point-to-point basis under the Consumer Price Index for Industrial Workers (Base: 1960 = 100) upto November 1988 at 10.0 per cent was higher as compared with a rise of 4.2 per cent in WPI for the same period. The moderation in the pace of increase of consumer prices would perhaps, be visible after some time. It may, however, be noted that the increase in CPI in the current financial year upto November 1988 at 10.0 per cent was almost the same as that recorded during the comparable period of 1987-88 (10.1 per cent).

To sum up, the overall picture for 1988-89 points to a sharp recovery in foodgrains production which is likely to increase by about 31 million tonnes in 1988-89 over the level of 1987-88. With improved prospects for other crops the overall agricultural output is also expected to show a sharp increase. The industrial sector is expected to show an upturn with improved availability of agricultural raw materials. Again, with the growth of agricultural income, the demand for industrial products like textiles, sugar and a vast variety of consumer goods as well as certain capital goods like pumpsets and diesel engines, is expected to rise. Accordingly, industrial production in 1988-89 should turn out to be higher than in 1987-88. These developments in the real sector should moderate inflationary pressures, though the relatively low level of public sector

stocks of foodgrains indicates the need for caution. The large budget deficit and the current account deficit remain, areas of concern.

Taking into account the favourable developments in the agricultural sector, continued growth in industry and better availability of power, the growth of real national income is likely to be at least 9 per cent in 1988-89. With this rate of growth of real national income in 1988-89, the average growth for the first four years of the Seventh Plan would work out to 5 per cent and the economy would be well on course to meeting the Seventh Plan target of the overall growth of the economy.

Chapter II

National Income, Saving and Investment

As considered from the related economic indicators, the growth in the national income in real terms (net national product at factor cost at 1980-81 prices) during 1987-88 is tentatively estimated around 2.5 per cent; it was 3.8 per cent in 1986-87. The modest growth rate in real national income in the second successive year is again on account of poor performance of the agricultural sector and slowdown in the growth rate of industrial production from 8.6 per cent in 1986-87 to 7.7 per cent in 1987-88. The aggregate saving-income ratio which had improved a shade from 12.9 per cent in 1985-86 to 13.0 per cent in 1986-87 is estimated to have declined sharply to 12.0 per cent in 1987-88 due largely to a fall in the rate of household sector's saving in financial assets (net) from 9.2 per cent in 1986-87 to 8.3 per cent in 1987-88. The aggregate investment-income ratio also declined from 15.5 per cent in 1986-87 to 14.2 per cent in 1987-88 resulting from a fall in the domestic saving rate as well as marginal drop in the rate of net inflow of foreign resources.*

A. Trends in National Income

1. Estimates for 1986-87

As per the Quick Estimates of the Central Statistical Organisation (CSO), the total national income in real terms (net national product at factor cost at 1980-81 prices) is estimated to have increased by 3.8 per cent to Rs. 1,43,935 crores in 1986-87 as compared with that of 4.7 per cent to Rs.1,38,611 crores in 1985-86 (Table II-1). The real per capita income, however, increased only by 1.8 per cent to Rs. 1,869 in 1986-87 as compared with that of 2.5 per cent to Rs. 1,836 in 1985-86. At current prices, the national income at factor cost increased by 11.5 per cent to Rs.2,29,035 crores in 1986-87 as compared with that of 12.2 per cent to Rs. 2,05,436 crores in 1985-86. Similarly, per capita income at current prices went up by 9.3 per cent to Rs. 2,975 in 1986-87 as compared with that of 9.9 per cent to Rs.2,721 in 1985-86.

The gross domestic product (GDP) at factor cost at 1980-81 prices showed an increase of 4.0 per cent during the year 1986-87 compared to 4.8 per cent in 1985-86. The net domestic product (NDP) at factor cost at 1980-81 prices showed a rise of 3.8 per cent during 1986-87 as against 4.6 per cent in 1985-86.

The modest growth rate in national income during 1986-87 is attributable mainly to a setback in the performance of the agricultural sector. Income generated in this sector (at 1980-81 prices) declined by 3.4 per cent in contrast to a marginal rise of 0.4 per cent in 1985-86. As a result, the share of 'primary sector' in aggregate NDP (at 1980-81 prices) declined from 37.1 per cent in 1985-86 to 34.8 per cent in 1986-87. On the other hand, the 'secondary sector' recorded an impressive growth rate of 8.2 per cent for the second year in succession; its share in the aggregate NDP moved up from 25.2 per cent in 1985-86 to 26.3 per cent in 1986-87. In the 'secondary sector', income generated in (i) manufacturing, (ii) electricity, gas and water supply and (iii) construction registered increases of 9.3 per cent, 11.9 per cent and 2.3 per cent, respectively.

The 'services sector' which accounted for 38.9

* Data received upto end-August 1988 have been incorporated.

per cent of NDP in 1986-87, recorded a growth rate of 6.8 per cent in 1986-87 as compared with 6.9 per cent in the preceding year. The marginal decline in growth rate in 1986-87 was due to a fall in the growth rate in the sub-sector 'finance, real estate and business services' from 7.4 per cent in 1985-86 to 6.2 per cent in 1986-87. In this sub-sector, the segment 'banking and insurance' showed a decline in the growth rate from 12.3 per cent in 1985-86 to 9.1 per cent in 1986-87. Income generated in the sub-sector 'transport, communication and trade' showed an increase of 6.6 per cent while the growth rate in the sub-sector 'community, social and personal services' was 7.7 per cent during 1986-87.

2. Performance during 1987-88

Official estimates of national income for 1987-88 are not yet available. On the basis of expected decline in the agricultural output and slowdown in the growth rate of industrial production from 8.6 per cent in 1986-87 to 7.7 per cent in 1987-88, the growth rate in real national income (at 1980-81 prices) is tentatively estimated around 2.5 per cent as compared with that of 3.8 per cent in 1986-87.

B. Aggregate Saving & Investment

The rate* of net domestic saving which had increased marginally by 0.1 percentage point from 12.9 per cent in 1985-86 to 13.0 per cent in 1986-87, is estimated to have declined sharply by 1.0 percentage point to 12.0 per cent in 1987-88. On the other hand, the sharp fall in the rate of aggregate net investment by 1.3 percentage points from 15.5 per cent in 1986-87 to 14.2 per cent in 1987-88 is the result of a decline in the rate of net domestic saving as well as a fall in the rate of net inflow of foreign resources from 2.5 per cent to 2.2 per cent during the period (Table II-2).

C. Trends in Domestic Saving

Provisional estimates indicate that the net domestic saving stood at Rs. 35,226 crores in 1987-88 as against Rs. 34,148 crores in 1986-87 and Rs. 30,442 crores in 1985-86. The saving-income ratio, which increased marginally from 12.9 per cent in 1985-86 to 13.0 per cent in

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

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

Description	1983-84	1984-85	1985-86	1986-87	1987-88
1	2	3	4	5	6
1. Net National Product (NNP) (Rupees crores)					
At 1980-81 Prices	1,28,922	1,32,367	1,38,611	1,43,935	1,47,559
	(7.8)	*(2.7)*	*(4.7)*	*(3.8)*	*(2.5)*
At Current Prices	1,66,140	1,83,051	2,05,436	2,29,035	2,55,210
	(17.6)	*(10.2)*	*(12.2)*	*(11.5)*	*(11.4)*
2. Per Capita Income (Rupees)					
At 1980-81 Prices	1,781	1,791	1,836	1,869	1,879
	(5.6)	*(0.6)*	*(2.5)*	*(1.8)*	*(0.5)*
At Current Prices	2,295	2,477	2,721	2,975	3,251
	(15.2)	*(7.9)*	*(9.9)*	*(9.3)*	*(9.3)*
3. Net Domestic Product at Current Market Prices (Rupees Crores)	1,87,950	2,07,285	2,35,293	2,62,667	2,93,159
	(17.0)	*(10.3)*	*(13.5)*	*(11.6)*	*(11.6)*

Sources and *Notes*: 1. Estimates upto 1985-86 are provisional and for 1986-87 are Quick Estimates by the Central Statistical Organisation, Government of India.
2. Figures for 1987-88 are tentative and estimated at real growth rate of 2.5 per cent in NNP.
3. Figures in brackets are percentage changes over the previous year.

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

Description	1985-86	1986-87	1987-88
1	2	3	4
1. Domestic Saving	12.9	13.0	12.0
2. Inflow of Foreign Resources	2.4	2.5	2.2
3. Aggregate Investment (1+2)	15.3	15.5	14.2

Note: The estimates presented here differ from those appearing in the Reserve Bank's Annual Report, 1987-88 due to revision in estimates of domestic saving consequent on the availability of fresh data on items of financial assets of the household sector.

1986-87 is estimated to have declined sharply to 12.0 per cent in 1987-88. The decline in the saving rate in 1987-88 is attributable to a fall in the saving rate of the household sector whereas the decline in 1986-87 was on account of higher dissaving in the public sector.

A marked feature of these estimates is that the rate of household sector's saving works out to be higher than the rate of net domestic saving due to continuous dissaving by the public sector. The dissaving of the public sector has increased from Rs. 2,968 crores in 1985-86 to Rs. 5,186 crores in 1986-87 and is expected to be Rs. 5,863 crores in 1987-88. As a result, the share of households in net domestic saving increased from 106.6 per cent in 1985-86 to 113.1 per cent in 1986-87 and further to 114.9 per cent in 1987-88. The share of private corporate sector's saving showed a continuous decline from 3.2 per cent to 2.1 per cent and further to 1.7 per cent during the period 1985-86 to 1987-88. But the deterioration in the share of public sector's saving from (−) 9.8 per cent in 1985-86 to (−) 15.2 per cent in 1986-87 and expectation of (−) 16.6 per cent in 1987-88 is a cause for concern (Table II-3).

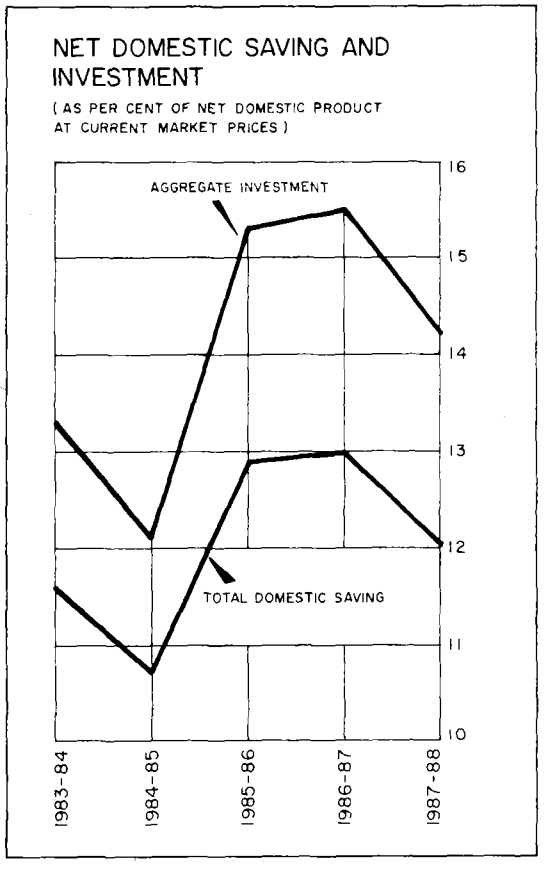
1. Saving of the Household Sector

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 as addition to financial assets net of financial liabilities.

The net saving of the household sector which had shown an increase of Rs. 6,186 crores in 1986-87, increased further by Rs. 1,854 crores to Rs. 40,486 crores in 1987-88. As a proportion of NDP, however, it declined by 0.9 percentage point from 14.7 per cent in 1986-87 to 13.8 per cent in 1987-88 due to a fall in the rate of households' saving in financial assets.

(a) Financial Assets

The household sector's saving in financial assets (net of financial liabilities) showed a small



increase of Rs. 188 crores to Rs. 24,362 crores in 1987-88 compared with a sizeable increase of Rs. 5,701 crores in 1986-87. As a result, its share in net saving of the household sector declined from 62.6 per cent in 1986-87 to 60.2 per cent in 1987-88; it was 56.9 per cent in 1985-86. As a proportion of NDP, it declined from 9.2 per cent in 1986-87 to 8.3 per cent in 1987-88; it was 7.9 per cent in 1985-86.

The acquisition of financial assets (gross) which had jumped up by Rs. 5,118 crores in 1986-87 showed an increase of only Rs. 2,108 crores to Rs. 32,443 crores in 1987-88. As a proportion of NDP, these assets increased from 10.7 per cent in 1985-86 to 11.5 per cent in 1986-87 but fell to 11.1 per cent in 1987-88. The decline in the ratio of financial assets (gross) was due mainly to a sharp decline in households' saving in deposits which was partly offset by increase in currency holdings of the households (Table II-5).

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

(Rupees crores at current prices)

Description	1985-86	1986-87	1987-88
1	2	3	4
1. Public Sector	-2,968	-5,186	-5,863
	(-9.8)	(-15.2)	(-16.6)
Per cent of Net Domestic Product at Market Prices	*-1.3*	*-2.0*	*-2.0*
2. Domestic Private Corporate Sector	964	702	603
(including co-operatives)	(3.2)	(2.1)	(1.7)
Per cent of Net Domestic Product at Market Prices	*0.4*	*0.3*	*0.2*
3. Household Sector	32,446	38,632	40,486
	(106.6)	(113.1)	(114.9)
Per cent of Net Domestic Product at Market Prices	*13.8*	*14.7*	*13.8*
4. Total Domestic Saving (1+2+3)	**30,442**	**34,148**	**35,226**
	(100.0)	**(100.0)**	**(100.0)**
Per cent of Net Domestic Product at Market Prices	*12.9*	*13.0*	*12.0*

Notes: 1. Figures in brackets are percentages to total.

2. 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 the absence of data from the CSO for the year 1987-88, 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	1985-86	1986-87	1987-88
1	2	3	4
1. Financial Assets (Gross)	25,217	30,335	32,443
Per cent of Net Domestic Product at Market Prices	*10.7*	*11.5*	*11.1*
2. Physical Assets	13,973	14,458	16,124
Per cent of Net Domestic Product at Market prices	*5.9*	*5.5*	*5.5*
3. Financial Liabilities	6,744	6,161	8,081
Per cent of Net Domestic Product at Market Prices	*2.8*	*2.3*	*2.8*
4. Total Net Saving	32,446	38,632	40,486
(Net of Financial Liabilities) (1+2-3)			
Per cent of Net Domestic Product at Market Prices	*13.8*	*14.7*	*13.8*

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

(Rupees crores at current prices)

Assets	1985-86	1986-87	1987-88
1	2	3	4
Total Financial Assets	25,217	30,335	32,443
	(100.0)	*(100.0)*	*(100.0)*
Per cent of Net Domestic Product at Market Prices	10.7	11.5	11.1
1. Currency	2,220	3,065	4,888
	(8.8)	*(10.1)*	*(15.1)*
Per cent of Net Domestic Product at Market Prices	0.9	1.2	1.7
2. Deposits	11,766	14,786	13,401
	(46.7)	*(48.7)*	*(41.3)*
Per cent of Net Domestic Product at Market Prices	5.0	5.6	4.6
3. Insurance	1,813	2,116	2,466
	(7.2)	*(7.0)*	*(7.6)*
Per cent of Net Domestic Product at Market Prices	0.8	0.8	0.9
4. Provident/Pension Funds	4,215	5,173	5,985
	(16.7)	*(17.0)*	*(18.5)*
Per cent of Net Domestic Product at Market Prices	1.8	2.0	2.1
5. Claims on Government	3,510	3,208	3,325
	(13.9)	*(10.6)*	*(10.2)*
Per cent of Net Domestic Product at Market Prices	1.5	1.2	1.1
6. Investment in Shares/Debentures including Units of U.T.I.	1,775	2,119	2,260
	(7.0)	*(7.0)*	*(6.9)*
Per cent of Net Domestic Product at Market Prices	0.7	0.8	0.7
7. Trade Debt (Net)	−82	−132	118
	(−0.3)	*(−0.4)*	*(0.4)*
Per cent of Net Domestic Product at Market Prices	—	−0.1	—

Note: Figures in brackets are percentages to total.

(i) Currency

The addition to the amount of currency held by the households showed an increase of Rs. 1,823 crores to Rs. 4,888 crores in 1987-88 compared with a lower increase of Rs. 845 crores in 1986-87. As a result, its proportion to NDP increased by 0.5 percentage point from 1.2 per cent in 1986-87 to 1.7 per cent in 1987-88; it was 0.9 per cent in 1985-86. Its share in total financial assets increased from 8.8 per cent in 1985-86 to 10.1 per cent in 1986-87 and further to 15.1 per cent in 1987-88.

(ii) Deposits

Household sector's saving in the form of deposits with commercial banks, co-operative banks and credit/non-credit societies, and non-banking companies is included under this instrument. Such deposits showed a decline of Rs. 1,385 crores to Rs. 13,401 crores in 1987-88 as against a sharp increase of Rs. 3,020 crores in 1986-87. With the result, the share of deposits in gross financial assets declined from 48.7 per cent in 1986-87 to 41.3 per cent in 1987-88. As a proportion of NDP, there was a sharp fall from 5.6 per cent in 1986-87 to 4.6 per cent in 1987-88.

The fall in deposits in absolute terms in 1987-88 is reflective of slowdown in the growth rate of aggregate deposits with commercial banks. Household sector's deposits with commercial banks, which had shown an impressive rise to Rs. 12,078 crores in 1986-87 from Rs. 9,334 crores in 1985-86, declined to Rs. 10,572 crores in 1987-88. The households' deposits with co-operative sector are estimated to rise marginally from Rs. 1,133 crores in 1986-87 to Rs. 1,138 crores in 1987-88. Similar trend is observed in the deposits with non-banking companies, which were expected to go up from Rs. 1,575 crores in 1986-87 to Rs. 1,691 crores in 1987-88. Even the sharp increase in currency holdings of the households could only partly offset the fall in saving in the form of bank deposits. As a result, the combined share of currency and deposits in gross financial assets declined from 58.8 per cent in 1986-87 to 56.4 per cent in 1987-88.

(iii) Social Security Funds

This instrument includes households' saving through insurance, provident and pension funds and forms the second major segment of financial assets after deposits. Saving in these funds has shown a steady increase from Rs. 6,028 crores in 1985-86 to Rs. 7,289 crores in 1986-87 and further to Rs. 8,451 crores in 1987-88. Accordingly, its share in gross financial assets has risen from 23.9 per cent in 1985-86 to 24.0 per cent in 1986-87 and further to 26.1 per cent in 1987-88. As a proportion of NDP, the increase has been from 2.6 per cent to 2.8 per cent and further to 3.0 per cent during the period.

Saving in the form of insurance comprises changes in the Life Fund of Life Insurance Corporation of India (LIC), postal insurance, state insurance fund and Central Government group insurance fund. Accretions to these increased from Rs. 2,116 crores in 1986-87 to Rs. 2,466 crores in 1987-88. Its share in gross financial assets which had declined from 7.2 per cent in 1985-86 to 7.0 per cent in 1986-87 is estimated to go up to 7.6 per cent in 1987-88. As a percentage to NDP, it was 0.8 per cent in 1985-86 and 1986-87 but went up to 0.9 per cent in 1987-88. Additions to provident and pension funds are estimated to increase by Rs. 812 crores to Rs. 5,985 crores in 1987-88 compared with that of Rs. 958 crores in 1986-87 with their share in gross financial assets rising from 16.7 per cent to 17.0 per cent and further to 18.5 per cent during the period. As a percentage to NDP, these funds increased from 1.8 per cent in 1985-86 to 2.0 per cent in 1986-87 and further to 2.1 per cent in 1987-88.

(iv) Claims on Government

Claims on government comprise small savings instruments, investment in government securities, National Rural Development Bonds, Capital Investment Bonds, National Deposit Scheme, Relief Bonds and Compulsory Deposits. Saving in these instruments which had declined from Rs. 3,510 crores in 1985-86 to Rs. 3,208 crores in 1986-87 is expected to show a nominal increase to Rs. 3,325 crores in 1987-88.

Households' saving in small savings instruments rose from Rs. 3,325 crores in 1985-86 to Rs. 3,515 crores in 1986-87 but is estimated to decline to Rs. 3,300 crores in 1987-88. While investment in government securities in 1987-88 was about Rs. 36 crores, Capital Investment Bonds fetched a small amount of Rs. 4 crores. The repayment of compulsory deposits declined from

Rs. 309 crores in 1986-87 to Rs. 49 crores in 1987-88 but the repayment of National Rural Development Bonds increased from Rs. 51 crores to Rs. 58 crores during the period. As compared to net collections of Rs. 11 crores in 1986-87 under National Deposit Scheme, there was a nominal repayment of Rs. 3 crores in 1987-88. Relief Bonds which were issued during the financial year 1987-88 fetched an amount of Rs. 94 crores. It will thus be seen that among the various instruments of financial savings floated by the government, the small savings instruments continued to attract the bulk of the funds. The contribution from other instruments has either been insignificant or there has been an outgo owing to repayment obligations.

The share of claims on government in gross financial assets showed a declining trend from 13.9 per cent in 1985-86 to 10.6 per cent in 1986-87 and further to 10.2 per cent in 1987-88. As a proportion of NDP, saving in these instruments fell from 1.5 per cent in 1985-86 to 1.2 per cent in 1986-87 and further to 1.1 per cent in 1987-88.

(v) Investment in Shares, Debentures and Units

Household sector's saving in shares and debentures of corporate and co-operative sectors, bonds of public sector enterprises and Units of the Unit Trust of India (UTI) is included under this head. Saving in these instruments is estimated to have shown a small increase of Rs. 141 crores to Rs. 2,260 crores in 1987-88 as compared with that of Rs. 344 crores in 1986-87. Their share in gross financial assets which remained at 7.0 per cent in 1985-86 and 1986-87 declined to 6.9 per cent in 1987-88. As a proportion of NDP, it declined from 0.8 per cent in 1986-87 to 0.7 per cent in 1987-88; it was 0.7 per cent in 1985-86.

Although households' direct investment in joint stock companies (including co-operative non-credit societies) declined sharply from Rs. 774 crores in 1986-87 to an estimate of Rs. 346 crores in 1987-88, this was more than offset by a rise in households' investment in Units from Rs. 943 crores to Rs. 1,535 crores during the period. This indicates that the uncertainty in the stock market has shifted the households' preference to Units of the UTI.

(vi) Trade Debt (Net)

This item comprises the credit extended to the private corporate sector by the households. The net trade debt which was Rs. (−) 82 crores in 1985-86 and Rs. (−) 132 crores in 1986-87 is estimated at Rs. 118 crores in 1987-88. Its share in the gross financial assets which was (−) 0.3 per cent in 1985-86 and (−) 0.4 per cent in 1986-87 is estimated at 0.4 per cent in 1987-88. As a percentage of NDP, it was insignificant in 1987-88 as against (−) 0.1 per cent in 1986-87.

(b) Saving in Physical Assets

Additions to construction, machinery and equipment and inventories in the household sector are treated as saving in physical assets. According to the Quick Estimates of the CSO, saving in this form increased from Rs. 13,973 crores in 1985-86 to Rs. 14,458 crores in 1986-87. However, in terms of NDP, it showed a decline from 5.9 per cent in 1985-86 to 5.5 per cent in 1986-87. In the absence of official estimates for 1987-88, these are estimated at Rs. 16,124 crores which formed 5.5 per cent of NDP (Table II-4).

(c) Financial Liabilities

Financial liabilities comprise households' borrowings from banks (commercial and co-operative), co-operative credit/non-credit societies, LIC, term lending institutions, central and State Governments and others.

These liabilities which had declined from Rs. 6,744 crores in 1985-86 to Rs. 6,161 crores in 1986-87 showed a sharp increase to Rs. 8,081 crores in 1987-88. As a percentage of NDP, these declined from 2.8 per cent in 1985-86 to 2.3 per cent in 1986-87 but went up to 2.8 per cent in 1987-88 (Table II-4).

The major part of liabilities was on account of the household sector's borrowings from the commercial banks which increased from Rs. 4,279 crores in 1986-87 to Rs. 6,107 crores in 1987-88 with their share in total liabilities rising from 69.5 per cent to 75.6 per cent during the same period.

2. Saving of the Public Sector

The net saving of the public sector as given by

the CSO shows a continuous dissaving which is estimated to go up from Rs. 2,968 crores in 1985-86 to Rs. 5,186 crores in 1986-87. Even when the net saving of non-departmental undertakings showed a modest rise of Rs. 222 crores to Rs. 1,484 crores in 1986-87, the dissaving of administrative departments had accelerated from Rs. 4,230 crores in 1985-86 to Rs. 6,670 crores in 1986-87. As a result, the rate of public sector's saving deteriorated from (–) 1.3 per cent of NDP in 1985-86 to (–) 2.0 per cent in 1986-87. In the absence of similar estimates for 1987-88, the net saving of the public sector is placed at Rs. (–) 5,863 crores which accounts for (–) 2.0 per cent of NDP (the same ratio as in the previous year). While the modest saving of the non-departmental undertakings is expected to rise from Rs. 1,484 crores in 1986-87 to Rs. 1,656 crores in 1987-88, the dissaving in administrative departments is expected to increase further to Rs. 7,519 crores (Table II-6).

The share of public sector's saving in net domestic saving which had declined from (–) 9.8 per cent in 1985-86 to (–) 15.2 per cent in 1986-87 is expected to decline further to (–) 16.6 per cent in 1987-88. Thus, any effort to step up the saving rate would depend upon improving the saving rate of the public sector (Table II-3).

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

(Rupees crores at current prices)

Item	Financial Year		
	1985-86	1986-87	1987-88
1	2	3	4
1. Administrative Departments including Departmental Enterprises	–4,230	–6,670	–7,519
2. Non-departmental Financial and Non-financial Undertakings	1,262	1,484	1,656
3. Total (1+2)	**–2,968**	**–5,186**	**–5,863**
Per cent of Net Domestic Product at Market Prices	*–1.3*	*–2.0*	*–2.0*

Note: Details from C.S.O. for the year 1987-88 are not yet available and hence estimated.

3. Saving of the Domestic Private Corporate Sector

Saving of the domestic private corporate sector (including co-operatives) declined from Rs. 964 crores in 1985-86 to Rs. 702 crores in 1986-87 and is estimated to decline further to Rs. 603 crores in 1987-88.

As a proportion of NDP, it declined from 0.4 per cent in 1985-86 to 0.3 per cent in 1986-87 and further to 0.2 per cent in 1987-88. Similarly, its share in net domestic saving declined from 3.2 per cent in 1985-86 to 2.1 per cent in 1986-87 and further to 1.7 per cent in 1987-88. Even though the contribution of private corporate sector to net domestic saving has not been very significant, the continuous decline in its ratio is a matter of concern as it indicates declining profitability in the corporate sector (Table II-3).

D. Trends in Domestic Investment

Aggregate net domestic investment is the sum total of net saving generated in the economy and the net inflow of foreign resources during the year. At current prices, the net domestic investment is estimated to show an increase of Rs. 1,073 crores to Rs. 41,666 crores in 1987-88 compared with a rise of Rs. 4,496 crores in 1986-87. However, as a proportion of NDP, it increased marginally from 15.3 per cent in 1985-86 to 15.5 per cent in 1986-87 but declined to 14.2 per cent

in 1987-88. In real terms (at 1980-81 prices), the investment-income ratio which remained at 14.1 per cent in 1985-86 and 1986-87 declined to 12.6 per cent in 1987-88 (Table II-7).

Table II-7: Net Investment as Percentage of NDP (at 1980-81 prices)
(Tentative Estimates)

(Rupees crores)

Financial Year	Net Investment at Current Prices	Net Investment at 1980-81 Prices	NDP at 1980-81 Market Prices	Ratio of (3) to (4)
1	2	3	4	5
1985-86	36,097	22,740	1,61,305	14.1
1986-87	50,593	23,708	1,68,119	14.1
1987-88	41,666	21,988	1,74,655	12.6

According to the CSO's estimates, the proportion of public sector's investment in aggregate net domestic investment (unadjusted) increased from 46.0 per cent in 1985-86 to 50.7 per cent in 1986-87. As a proportion of NDP, however, it showed a marginal decline from 8.2 per cent in 1985-86 to 8.1 per cent in 1986-87. Similar details are not available for the year under review.

However, on the basis of available data, trends in some of its components are highlighted. While the net direct fixed assets formation of Central

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

(Rupees crores)

Description	1985-86+	1986-87+	1987-88*
1	2	3	4
1. Gross Direct Fixed Assets Formation	4,451	5,817	5,674
2. Increase in Inventories	106	88	240
3. Net Direct Fixed Assets Formation (i.e. gross direct fixed capital formation *minus* expenditure on renewals and replacements)	3,306	4,478	4,307
4. Financial Assistance for Capital Formation	16,919	18,415	20,298
(a) To States, Union Territories	10,054	10,800	12,903
(b) Non-Departmental Commercial Undertakings	6,082	6,523	6,115
(i) Financial Concerns	587	702	956
(ii) Others	5,495	5,821	5,159
(c) Other Parties	783	1,092	1,280
5. Gross Capital Formation in Central Government's Non-departmental Industrial and Commercial Undertakings	10,646	13,522	N.A.
	(100.0)	*(100.0)*	
(1) Gross Fixed Assets	8,524	11,371	N.A.
	(80.1)	*(84.1)*	
(2) Variation in Inventories	2,122	2,151	N.A.
	(19.9)	*(15.9)*	

\+ Accounts.

* Revised Estimates.

Sources: 1. Economic and Functional Classification of Central Government Budget, 1988-89.

2. Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government, 1986-87.

Government (gross direct fixed capital formation *minus* expenditure on renewals and replacements) showed a decline of Rs. 171 crores to Rs. 4,307 crores in 1987-88 in contrast to a sharp increase of Rs. 1,172 crores in 1986-87. On the other hand, accumulation of inventories showed an increase of Rs. 152 crores to Rs. 240 crores in 1987-88 as against a small decline of Rs. 18 crores in 1986-87 (Table II-8).

The estimates of capital formation of the State Governments, Union Territories, local authorities and their non-departmental commercial undertakings are not available. However, it may be noticed that the total financial assistance provided to them by the Central Government for capital formation increased by Rs. 1,889 crores to Rs. 20,298 crores in 1987-88, on top of the rise of Rs. 1,496 crores in 1986-87. The financial assistance to States and Union Territories increased by Rs. 2,103 crores to Rs. 12,903 crores while that to non-departmental commercial undertakings declined by Rs. 408 crores to Rs. 6,115 crores in 1987-88.

As regards gross capital formation in Central Government's non-departmental industrial and commercial undertakings, information is available only upto 1986-87 which reveals that the total gross fixed assets formation increased by Rs. 2,847 crores to Rs. 11,371 crores in 1986-87. However, accumulation of inventories showed a small increase of Rs. 29 crores to Rs. 2,151 crores in 1986-87. As a result, its share in total gross capital formation declined from 19.9 per cent in 1985-86 to 15.9 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	1985-86+	1986-87+	1987-88*
1	2	3	4
I. Gross Fixed Capital Formation	4,451	5,817	5,674
	(97.7)	*(98.5)*	*(95.9)*
1. Building and other construction	2,725	3,544	3,892
Proportion to I above	61.2	60.9	68.6
(a) New outlay	2,034	2,791	2,982
(b) Renewals and replacements	691	753	910
2. Machinery and Equipment	1,726	2,273	1,782
Proportion to I above	38.8	39.1	31.4
(a) New outlay	1,272	1,687	1,325
(b) Renewals and replacements	454	586	457
II. Increase in Inventories	106	88	240
	(2.3)	*(1.5)*	*(4.1)*
III. Gross Capital Formation (I+II)	4,557	5,905	5,914
IV. Gross Capital Formation as Proportion of GDP at Market Prices	1.7	2.0	1.8

\+ Accounts.
* Revised Estimates.
Note: Figures in brackets are percentages to Gross Capital Formation.
Source: Economic and Functional Classification of Central Government Budget, 1988-89.

The asset-wise composition of capital formation of the Central Government indicates that the share of 'building and other construction' in total gross fixed capital formation went up from 60.9 per cent in 1986-87 to 68.6 per cent in 1987-88, while the share of 'machinery and equipment' declined from 39.1 per cent to 31.4 per cent during the same period (Table II-9). The gross capital formation as a proportion of GDP at current market prices declined from 2.0 per cent in 1986-87 to 1.8 per cent in 1987-88.

Chapter III

Agricultural Output

During 1987-88, agricultural production is estimated to have declined by 2.8 per cent over and above a 3.6 per cent decline in the preceding year. With the increase in agricultural production in 1985-86 by 2.4 per cent, agricultural output averaged a decline of 1.3 per cent per annum during the first three years of the Seventh Five Year Plan period as against an envisaged annual agricultural growth of 4 per cent.

The country experienced a severe, widespread drought in 1987. Of the 35 Meteorological sub-divisions, rainfall was deficient/scanty in as many as 21 sub-divisions during the year as compared to only 14 sub-divisions in the preceding year which affected *kharif* output considerably. Besides, there were floods in the Eastern region which affected the standing crops adversely. The severe, widespread drought and floods in the Eastern region resulted in decline in *kharif* production. The major crops affected were rice, coarse grains, oilseeds and raw jute and mesta.

Provisional estimates for 1987-88 placed foodgrains production at 138.3 million tonnes as against the targeted 160.0 million tonnes and actual production in the preceding year of 144.1 million tonnes. In percentage terms, the decline in foodgrains production during 1987-88 was about 4.0 per cent on top of a fall of 4.2 per cent in 1986-87. While *kharif* foodgrains output in 1987-88 at about 73.8 million tonnes was about 9.4 per cent lower than that of the previous year, the *rabi* foodgrains production, estimated at about 64.5 million tonnes was about 3.0 per cent higher than that in 1986-87. The estimated net increase of 1.9 million tonnes in the *rabi* foodgrains output over the preceding year's *rabi* foodgrains output was accounted by rice (2.1 million tonnes) and coarse grains (0.9 million tonnes), offset in part by a decline in wheat (0.3 million tonnes) and pulses (0.8 million tonnes).

Rice production in 1987-88 estimated at 56.0 million tonnes was 4.4 million tonnes lower than that of 60.4 million tonnes in 1986-87; the peak level viz., 63.8 million tonnes was reached in 1985-86. Wheat output estimated at 45.3 million tonnes in 1987-88 was lower by 0.3 million tonne than the 1986-87 output of 45.6 million tonnes, the record wheat output being 47.05 million tonnes in 1985-86. Estimated coarse grains production was placed at about 26.0 million tonnes which was marginally lower (by 0.3 million tonnes) than that in the preceding year. Pulses production, estimated at 11.0 million tonnes was also marginally lower than that of 11.8 million tonnes in 1986-87 due mainly to a decline in *rabi* production (mainly gram) from 7.5 million tonnes in 1986-87 to 6.7 million tonnes in 1987-88 while *kharif* production was the same as last year, viz., 4.3 million tonnes. Among the commercial (non-foodgrains) crops, raw jute and mesta production in 1987-88 was estimated to be sharply lower at 6.8 million bales showing a decline of 1.8 million bales or 21.0 per cent over the production of 8.6 million bales in the preceding year. Earlier in 1985-86, production had peaked to 12.6 million bales. Raw cotton output is placed at 7.1 million bales in 1987-88—marginally higher by 0.1 million bales than the production of 7.0 million bales in 1986-87 but lower by 1.6 million bales than a record 8.7 million bales in 1985-86 season. On the other hand, sugarcane production was estimated to be higher at about 190.9 million tonnes during the year than that of 182.5 million tonnes in 1986-87. Likewise, total oilseeds production in 1987-88 was placed slightly higher at 12.0 million tonnes as compared with 11.5 million tonnes in 1986-87. The decline in *kharif* oilseeds output of 0.6 million tonnes was offset by a rise of 1.1 million tonnes in *rabi* output (Table III-1 & 2).

The decline in agricultural production during 1987-88 would have been higher, had it not been

Table III-1: Agricultural Production

Commodities	Unit	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88 Target	1987-88 Achievement (Tentative)	1988-89 Target
1	2	3	4	5	6	7	8	9	10	11	12
Rice	Million tonnes	53.6	53.2	47.1	60.1	58.3	63.8	60.4	64.0	56.0	68.3
Wheat	"	36.3	37.5	42.8	45.5	44.1	47.0	45.6	50.0	45.3	52.3
Coarse grains	"	29.1	31.1	27.8	33.9	31.2	26.2	26.3	32.0	26.0	34.8
Pulses	"	10.6	11.5	11.8	12.9	11.9	13.4	11.8	14.0	11.0	13.7
Total foodgrains	"	**129.6**	**133.3**	**129.5**	**152.4**	**145.5**	**150.4**	**144.1**	**160.0**	**138.3**	**169.1***
Kharif foodgrains	"	**77.7**	**79.4**	**69.9**	**89.2**	**84.5**	**85.2**	**81.5**	**90.5**	**73.8**	**92.5**
Rabi foodgrains	"	**51.9**	**53.9**	**59.6**	**63.2**	**61.0**	**65.2**	**62.6**	**69.5**	**64.5**	**76.6**
Sugarcane (in terms of cane)	"	154.2	186.4	189.5	174.1	170.3	170.6	182.5	180.0	190.9	195.0
Cotton	Million bales of 170 kgs. each	7.0	7.9	7.5	6.4	8.5	8.7	7.0	8.8	7.1	..
Jute and mesta	Million bales of 180 kgs. each	8. 2	8.4	7.2	7.7	7.8	12.6	8.6	8.6	6.8	9.2
Oilseeds	Million tonnes	9.4	12.1	10.0	12.7	12.9	10.8	11.5	14.0	12.0	15.7
Tea	Million kgs.	569.6	560.0	560.7	581.5	639.9	656.2	624.6	702.0	673.4	734.0
Coffee	"	118.6	150.0	130.0	105.0	195.8	122.0	185.0	162.0	120.0	171.0

* Revised due to upward revision of *rabi* target from 74.1 to 76.6. *Sources*: Ministry of Agriculture, Government of India Tea Board, Coffee Board.

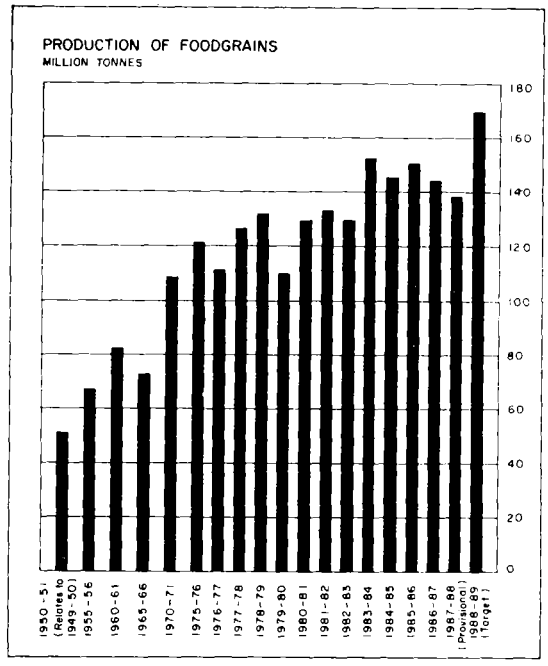
Table III-2: Targets and Actual Production of Foodgrains

(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	63.8	47.0	26.2	13.4	150.4
1986-87					
Target	65.0	49.0	32.0	14.0	160.0
Final	60.4	45.6	26.3	11.8	144.1
1987-88					
Target	64.0	50.0	32.0	14.0	160.0
Achievement*	56.0	45.3	26.0	11.0	138.3
1988-89					
Target original	68.0	52.3	33.0	13.3	166.6
Revised	68.3	52.3	34.8	13.7	169.1@

* Tentative *Source*: Ministry of Agriculture, Government of India.
@ Revised due to upward revision of *rabi* target from 74.1 to 76.6.

for the contingency plan put into operation from the beginning of the monsoon and the optimum use of water resources. Rise in *rabi* production, which was on account of the special efforts taken for increasing the availability of fertilisers and other inputs for the crop also helped to reduce the gap in aggregate foodgrains output. Incidentally, it may be mentioned that on account of these special efforts, consumption of fertilisers showed a rise of 4.2 per cent to 91.1 lakh tonnes in 1987-88 compared to the consumption level of 87.4 lakh tonnes in the preceding year. Certified quality seeds distributed also showed an increase. Further, total area under High Yielding Varieties (HYV) of seeds increased from 54 million hectares in 1986-87 to about 55 million hectares in 1987-88. The area under HYV of wheat had increased by about 2 million hectares to 21 million hectares and coarse grains by 1.5 million hectares to 13 million hectares. However, area under HYV of paddy had declined from 23.5 million hectares in 1986-87 to 21 million hectares in 1987-88 on account of drought.



PRODUCTION AND DISTRIBUTION

FOODGRAINS

The foodgrains production during 1987-88 was placed at 138.3 million tonnes which was 5.8 million tonnes or 4.0 per cent lower than that of 144.1 million tonnes in 1986-87 and 21.7 million tonnes less than the target of 160.0 million tonnes fixed for 1987-88.

Kharif foodgrains production in 1987-88 suffered a sharp setback due to drought. As a result, the output was at 73.8 million tonnes as against 81.5 million tonnes in 1986-87. Rice, the main *kharif* crop at 48.6 million tonnes, was about 6.5 million tonnes lower than the 1986-87 output of 55.1 million tonnes. *Kharif* coarse grains output declined by 2.1 million tonnes to 20.0 million tonnes in 1987-88 from 22.1 million tonnes in 1986-87. *Rabi* foodgrains production, in contrast, increased by 3.0 per cent to 64.5 million tonnes during 1987-88. Estimated production of the main *rabi* foodgrains crop viz., wheat was placed at 45.3 million tonnes as compared with 45.6 million tonnes during 1986-87. *Rabi* rice output increased significantly to 7.4 million tonnes in 1987-88 from 5.3 million tonnes in the preceding year.

Availability of foodgrains

The net availability of foodgrains in the calendar year 1987 at 132.7 million tonnes was only marginally lower than that of 133.1 million tonnes in 1986. The decline in net availability in 1987 was due mainly to a fall of about 6.3 million tonnes in the foodgrain production during the year 1986-87. However, a part of the decline was offset by drawing down the foodgrain stocks with the Government by about 9 million tonnes; during the year 1986, the stocks were drawn down by 2 million tonnes only. After taking into account the growth in population from 766.1 million in 1986 to 781.4 million in 1987, the per capita net availability of foodgrains fell to 465.5 grammes per day from 476.1 grammes in the year 1986. Per capita net availability per day of both cereals and pulses declined marginally from 434.2 grammes and 41.9 grammes in 1986 to 429.3 grammes and 36.2 grammes, respectively, in 1987 (Table III-3).

Public Distribution System (PDS)

The Public Distribution System (PDS) built up over a number of years has emerged as a permanent mechanism for ensuring availability of foodgrains and other essential commodities at

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	0.7	−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	15.7	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	415.6	38.1	453.7	20.1	16.4
1986	150.4	131.6	−0.1	−1.6	133.1	434.2	41.9	476.1	19.7	20.0
1987	144.1	126.1	−0.3	−8.7	132.7	429.3	36.2	465.5	15.7	22.0
1988	138.3	—	—	—	—	—	—	—	—	—

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 per cent 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 FWP/NREP/RLEGP/EGS and open sale of wheat by FCI.

Source: Economic Survey 1987-88.

reasonable prices to the vulnerable sections of the population as also to achieve their equitable distribution. This helps to serve the national objectives of social justice and progressive improvement in the standard of living particularly of the vulnerable sections of the society. It is also the principal instrument of Government policy in mitigating the effects of drought and containing inflation. In view of its growing importance, expansion of PDS has been included in the revised 20-Point Programme. Besides, commencing from 1987-88, this item is included in the Minimum Needs Programme, the objective of which is to establish a network of basic services and facilities of social consumption in all the areas of the country upto nationally accepted norms within a specified time-frame. The programme is expected to help in raising the living standards and in reducing the regional disparities in development.

The system was put to severe test in 1987-88—the year of severe drought. The scale of operations required this year was far greater than that in any of the earlier years. The operation of the scheme during 1987-88 showed that the system had effectively served the role assigned to it by reaching essential commodities to all parts of the country, particularly to areas severely affected by drought.

Under this system, the Central Government has assumed responsibility for procurement and supply of seven essential commodities to State/Union Territories viz., i) wheat, ii) rice, iii) levy sugar, iv) imported edible oil, v) soft coke, vi) Kerosene oil and vii) controlled cloth. Some of the State Governments viz; West Bengal, Orissa, Tamil Nadu, Himachal Pradesh, etc., have also included pulses and a few manufactured items like matches, torch cells, etc., in the list of items to be supplied to the consumer.

Special stress was laid during the year on expansion of the network of fair price shops in areas hitherto uncovered and issuance of ration cards to all, especially in the unserved and underserved areas. The number of fair price shops operating in the country increased from 3.31 lakhs as on September 30, 1986 to 3.43 lakhs at the end of December 1987. Between April and December 1987, about 5,600 additional fair price shops were opened of which as many as 3,100 shops were in drought affected areas with a facility of mobile vans.

The States affected by drought and floods were given extra allocations of foodgrains which resulted in higher offtake in 1987 than in 1986. In calendar year 1987, 18.0 million tonnes of foodgrains (9.5 million tonnes of rice, 8.4 million tonnes of wheat and 0.1 million tonne of coarse grains) were distributed through Public Distribution System (inclusive of the issues under Poverty Alleviation Programmes like NREP, RLEGP and EGS, etc.) as against 15.0 million tonnes (8.5 million tonnes of rice, 6.2 million tonnes of wheat and 0.3 million tonne of coarse grains) in the calendar year 1986. In addition, supply of wheat to Roller Flour Mills and open market sales of wheat were effected by the Food Corporation of India (FCI) (Table III-4).

Procurement and buffer stocks

During the year, the Government continued to purchase foodgrains of prescribed specification offered by the producers at the support prices with a view to avoiding distress sales by the farmers and 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 purchase from farmers, the public agencies mopped up a good part of the marketed surplus of rice as 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) issues to the roller flour mills for conversion into wheat products and (iii) building up of buffer stocks. Since 1985-86 marketing season, National Agricultural Co-operative 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. Despite widespread drought, no restriction had been imposed on the movement of levy/free rice and that of wheat throughout the country on trade account. However, the State Governments were advised to take all measures for maximising procurement of paddy/rice by strictly enforcing

Table III-4: Total Distribution of foodgrains (Central + States + NREP + EGS, etc.)

(Million tonnes)

Year	Rice					Wheat							Coarse-grains PD	Total food-grains
	PD	NREP	EGS	RLEGP	Total	PD	NREP	RLEGP	EGS	Mills	Open sales*	Total		
1982	7.43	0.07	—	—	7.50	3.87	0.02	—	—	3.28	—	7.17	0.10	14.77
1983	7.77	0.08	—	—	7.85	4.96	0.11	—	0.05	3.00	—	8.12	0.23	16.20
1984	6.63	0.08	0.01	0.01	6.73	3.26	0.08	0.02	—	3.14	—	6.50	0.09	13.32
1985	7.12	0.09	—	0.02	7.23	3.24	0.19	0.05	—	5.00	0.64	9.12	0.09	16.44
1986	8.32	0.18	—	0.05	8.55	4.54	1.29	0.33	—	2.50	2.49	11.15	0.29	19.99
1987@	9.05	0.30	—	0.19	9.54	5.85	1.10	0.47	0.99	—	3.93	12.34	0.12	22.00
January-June														
1987	4.10	0.17	—	0.09	4.36	2.36	0.72	0.37	0.72	—	2.04	6.21	0.05	10.62
1988@	4.84	0.10	—	0.05	4.99	3.92	0.35	0.20	0.22	—	1.39	6.08	0.06	11.13

@ : Provisional

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

PD : Public Distribution System

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.

regulatory measures, dehoarding of the foodgrains, etc. The State Governments were also advised to consider the feasibility of bringing wheat and wheat products under licensing and also fix stock holding limits for wheat and rice.

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. This buffer stock policy has been instrumental in ensuring national food security in the country during the period of severe drought in 1987-88. As per the 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), over and above the operational stock, ranging between 6.5 million tonnes (lowest level) on 1st April and 11.4 million tonnes (highest level) on 1st July of the year. The norms prescribed 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 1988 stood at 11.90 million tonnes (comprising 7.55 million tonnes of wheat, 4.16 million tonnes of rice and 0.19 million tonnes of coarse grains) as compared to 23.27 million tonnes at end-June 1987 (comprising 14.86 million tonnes of wheat, 8.35 million tonnes of rice and 0.06 million tonnes of coarse grains). The sharp decline in stock was partly due to the fall in foodgrains production and consequently lower procurement and partly due to the higher offtake of wheat and rice on account of drought conditions.

Commodity-wise review

Rice

There was a sharp decline in rice production during 1987-88 on account of severe drought. *Kharif* rice production in 1987 declined by 6.5 million tonnes or 11.8 per cent to 48.6 million tonnes from 55.1 million tonnes in *kharif* 1986. *Rabi* rice production, however, reached a record level of 7.4 million tonnes, showing a rise of 2.1 million tonnes over 1986-87 *rabi* production of 5.3 million tonnes due to advance planning and the concerted measures taken. Notwithstanding the increase in *rabi* rice output, the total production of rice in 1987-88 at 56.0 million tonnes was lower than the 1986-87 output of 60.4 million tonnes by 4.4 million tonnes or 7.3 per cent. In 1986-87 also production had been affected by adverse weather conditions and consequently rice production had declined by 3.4 million tonnes or 5.3 per cent to 60.4 million tonnes from 63.8 million tonnes in 1985-86.

Increasing the production and productivity of rice, particularly in the Eastern Region, a major component of the 20-Point Programme, continued to receive attention during 1987-88. A Special Rice Production Programme is in operation in selected blocks in the six Eastern States of Assam, Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal. The policies and programmes initiated by the Government of India to secure higher production and productivity of rice in this region have started yielding results.

On the recommendation of Commission for Agricultural Costs and Prices (CACP), the Government enhanced the procurement prices of paddy for the 1987-88 *kharif* marketing season by Rs. 4 per quintal from R. 146 to Rs. 150 for common variety, from Rs. 150 to Rs. 154 for fine variety and from Rs. 154 to Rs. 158 for super fine variety (Table III-6). For 1988-89 season, they were enhanced further by Rs. 10 to Rs. 160 for common variety, by Rs. 16 to Rs. 170 for fine variety and by Rs. 22 to Rs. 180 per quintal for superfine variety. Consequently the issue prices of fine and superfine varieties of rice were raised by Rs. 13 each to Rs. 264 and Rs. 279 per quintal, respectively, effective from October 1, 1987; the price of common variety of rice at Rs. 239 per quintal was, however, not changed (Table III-7).

Rice procured during the 1987-88 *kharif* marketing season (i.e., from October 1, 1987 to June 30, 1988) aggregated 6.80 million tonnes as against 9.11 million tonnes in the corresponding period of the previous season. The State-wise procurement data are presented in (Table III-8).

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	Coarse-grains	Rice	Wheat	Coarse-grains	Rice	Wheat	Coarse-grains
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	Neg.	0.6	2.1	—	6.7	6.5	0.1	7.7	14.7	0.1
1984-85	58.3	44.1	31.2	9.9	10.3	0.2	—	—	—	7.2	9.1	0.1	9.9	15.0	0.2
1985-86	63.8	47.0	26.2	9.8	10.5	0.1	0.01	—	—	8.5	11.2	0.3	9.4	14.1	0.1
1986-87	60.4	45.6	26.3	9.2	7.9	Neg.	—	—	—	9.5	12.5	0.1	6.5	7.5	0.1
1987-88£	56.0	45.3	26.0	6.8	6.5	0.2	—	—	—	5.0	6.4	0.1	4.2	7.6	0.2
				(9.1)	(7.8)	(0.1)				(4.4)	(6.2)	(0.1)	(8.4)	(14.9)	(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.

Source: Economic Survey, 1987-88, Ministry of Food and Civil Supplies, Government of India.

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		1988-89	
	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	Minimum Support Price	Procurement Price
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Paddy-Common		122		132		137		142		146		150		160
Fine		126		136		141		146		150		154		170
Superfine		130		140		145		150		154		158		180
Wheat		142		151		152		157		162		166		173
Jowar		118		124		130		130		132		135		145
Bajra		118		124		130		130		132		135		145
Maize		118		124		130		130		132		135		145
Ragi		118		124		130		130		132		135		145
Barley	N.A.		122		124		130		132		135		135	
Gram	N.A.		235		240		N.A.		260		280		290	
Moong	240		250		275		300		320		325		360	
Urad	230		245		275		300		320		325		360	
Tur	215		245		275		300		320		325		360	

* Marketing season relates 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)

	With effect from								
	1.10.81	1.10.82	16.1.84	10.10.85	1.2.86	1.10.86	1.10.87		
Rice									
Common	175	188	208	217	231	239	239		
Fine	177	200	220	229	243	251	264		
Superfine	202	215	235	244	258	266	279		
	w.e.f.	w.e.f.	w.e.f.	w.e.f.	w.e.f.	w.e.f.	w.e.f.	w.e.f.	w.e.f.
	1.4.81	1.8.82	15.4.83	10.8.84	1.2.86	1.4.86	17.7.86	1.5 87	22.3.88
Wheat									
Public Distribution System	145	160	172	172	190	190	190	195	204
Roller Flour Mills	155	185	208	172	190	220	205	210	
Open market sale					w.e.f.		w.e.f.		w.e.f.
					16.7.86	205	1.5.87		22.3.88
					205		210		240
Coarse grains	w.e.f.	w.e.f.	w.e.f.						
(Jowar, bajra, maize, ragi)	1.1.81	1.10.81	29.12.83 (Bajra only)						
	106	117	157						

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

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	1987-88*
Andhra Pradesh	1100	1629	1484	1789	1573	1468	1500
Haryana	883	706	624	978	1042	680	319
Karnataka	163	110	145	101	82	121	65
Madhya Pradesh	368	182	312	361	571	459	279
Orissa	130	63	117	112	136	123	62
Punjab	3110	3252	3273	4293	4177	4333	3344
Tamil Nadu	575	427	731	807	950	886	534
Uttar Pradesh	726	559	808	1121	1067	1015	605
West Bengal	45	14	80	97	69	49	50
Others	234	105	157	204	168	77	46
Total	**7334**	**7047**	**7731**	**9863**	**9835**	**9212**	**6804**

* For the period upto end-June 1988.

Source: Ministry of Agriculture, Government of India.

Distribution of rice through Public Distribution System (PDS) (including issue for National Rural Employment Programme (NREP), Rural Landless Employment Guarantee Programme (RLEGP)) and Employment Guarantee Scheme (EGS) during the calendar year 1987 aggregated 9.5 million tonnes, as against 8.5 million tonnes in the previous year (Table III-4). During the first six months of 1988 (i.e., January to June 1988), 5.0 million tonnes of rice was distributed through PDS including issues of NREP, etc., as against 4.4 million tonnes during the corresponding period of 1987 (Table III-4). In order to meet the situation arising out of widespread drought in several parts of the country and floods in some others, additional allocations (rice) were made.

During the calendar year 1987, rice was not imported. As regards export, Basmati rice export was allowed under Open General Licence (OGL-3) subject to the prescribed minimum export price of Rs. 7,500/- per tonne f.o.b. Non-basmati rice exports also have been permitted with effect from February 18, 1986 within a limited ceiling.

At end-June 1988, the stocks of rice with the Central and State Government agencies stood at 4.2 million tonnes, substantially lower than the stocks of 8.4 million tonnes a year ago.

Wheat

Wheat, which is the main *rabi* crop recorded a decline of about 0.3 million tonnes in production to 45.3 million tonnes or 0.7 per cent in 1987-88. However, the 1987-88 production was below the target of 50.0 million tonnes fixed for the year, and also the peak level of 47.0 million tonnes reached in 1985-86. (Table III-1).

On the recommendation of Commission for Agricultural Costs and Prices, the Government enhanced the procurement prices of wheat for 1988-89 *rabi* marketing season by Rs. 7 to Rs. 173 per quintal (Table III-6). With effect from February 3, 1988, the issue price of wheat under Public Distribution System was raised by Rs. 9 to Rs. 204 per quintal and the price for open sale by the FCI was also raised from Rs. 210 to Rs. 240 per quintal with effect from February 22, 1988 (Table III-7).

Wheat procured during the 1987-88 marketing season (April 1987-March 1988) aggregated 7.88 million tonnes and was lower by 2.7 million tonnes or 25.2 per cent than the procurement of 10.54 million tonnes in 1986-87 season (Table III-9). A major reason for lower procurement of wheat during the year was the damage caused by unseasonal rains in May 1987. Wheat

procured so far during the 1988-89 marketing season (i.e., April 1, 1988 to July 1988) aggregated 6.5 million tonnes and was 16.4 per cent lower than that in the corresponding period last season (7.79 million tonnes).

During the calendar year 1987, the total off-take of wheat for the Public Distribution System and poverty alleviation programmes together increased substantially to 8.4 million tonnes as against 8.7 million tonnes in 1986. Besides, open market sales of wheat by the FCI totalled 3.9 million tonnes in 1987 as against 2.5 million tonnes in 1986. Thus the total off-take of wheat in 1987 aggregated 12.3 million tonnes as compared with 11.2 million tonnes in 1986. Further, the off-take of wheat during the period January-June 1988 for PDS and NREP, etc., was 4.7 million tonnes as compared with 4.2 million tonnes in the corresponding period of 1987.

Open market sale of wheat upto June 1988 was of the order of 1.39 million tonnes as against 2.04 million tonnes upto June 1987. Thus, the total off-take of wheat during January-June 1988 was 6.08 million tonnes as compared with 6.21 million tonnes in the corresponding period of 1987. Because of widespred drought in several parts of the country and floods in some other parts, off-take increased substantially during the year 1987-88. Further, additional allocations of wheat to the extent of 10-11 lakh tonnes were made to the State drought calamity relief. Under NREP and RLEGP, the Government earmarked 25 lakh tonnes of foodgrains (including 5 lakh tonnes specificially for drought affected areas) during 1987-88. A quantity of 1.05 lakh tonnes of wheat was set apart for additional support to Nutrition Programme for children and expectant and nursing mothers during 1987-88 and a further quantity of 47,500 tonnes of wheat for Drought Nutritional Programme in the States.

Imports and Exports

There was no import of wheat and rice during the year 1987. Export of wheat and wheat products like maida, suji and wholemeal atta was allowed within a limited ceiling. 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 supplied during 1987
By FCI		
North Korea (on USSR account)	Sale	2.93
African countries	Aid	0.42
Vietnam	Commodity Loan	0.34
By STC/MMTC		
Nepal	Sale	0.39
North Korea	Sale	0.79
Iran	Sale	1.55
Total		**6.42**

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	1988-89*
1.	2.	3.	4.	5.	6.	7.	8.	9.
Haryana	1121	1262	1399	1774	1959	2339	2247	1259
Madhya Pradesh	167	65	53	91	14	6	Neg.	—
Punjab	3768	4826	5177	5012	6151	6484	4419	4738
Uttar Pradesh	1496	1380	1445	2152	2174	1598	1152	514
Others	43	185	218	271	49	109	62	—
Total	**6595**	**7718**	**8292**	**9300**	**10347**	**10536**	**7880**	**6511**

* For the period upto end-June 1988.

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

Coarse grains

Production of coarse grains showed wide fluctuations during the Sixth Plan period. In the Seventh Five Year Plan, efforts are being made to stabilise the production of coarse grains. A target of 32.0 million tonnes was fixed for 1987-88 but the achievement fell short of the target due to severe drought in *kharif* season.

Coarse grains production during 1987-88 is placed at 26.0 million tonnes, or 1.1 per cent lower than the production of 26.3 million tonnes in 1986-87 (Table III-1).

Coarse grains procured during 1986-87 *kharif* marketing season were lower at 0.02 million tonne. Procurement during 1987-88 marketing season so far (i.e., from October 1, 1987 to June 30, 1988) totalled 0.20 million tonne. The offtake of coarse grains under PDS during 1987 was placed at 0.1 million tonne as compared with 0.3 million tonne in 1986. Coarse grains stocks with the Central and State Government agencies as at end June 1988 stood at 0.2 million tonne as compared to 0.01 million tonne in the corresponding period of 1987.

Pulses

Production of pulses has ranged between 11 and 13 million tonnes over the years. During 1987-88, production was placed at 11.0 million tonnes or 6.8 per cent lower than the production of 11.8 million tonnes during the preceding year. For achieving a breakthrough in pulses production, a Centrally Sponsored Pulses Development Project was launched in the year 1986-87. The project aimed at increasing production of pulses through location specific technologies; thrust was provided in raising pulses like gram, *arhar*, peas, lentil, moong and urad, in specific areas where potential for these crops existed. The project provided enough scope for adoption of twin technology of production by increasing the area and yield per unit of area. For this programme, an amount of Rs. 5.50 crores representing the Central share was sanctioned for 1987-88.

Cotton

According to the Ministry of Agriculture, production of cotton during the 1987-88 season is expected to be marginally higher at 71.0 lakh bales than that of 70.1 lakh bales during 1986-87, but lower than the target of 88.0 lakh bales fixed for the season. The lower crop production in this season is mainly attributed to drought conditions in the country, though late rains in August-September turned out to be beneficial.

In the Northern States, sowing of irrigated *kharif* cotton was completed on time. But the crop suffered due to drought conditions and was stunted in growth due to moisture stress in the early part of the season. Good rains in the latter part of the season greatly improved the crop prospects particularly in Punjab. In the rainfed cotton areas of Madhya Pradesh, Gujarat, Maharashtra, North Andhra Pradesh, and in South Rajasthan, late rains and drought conditions affected the cotton crop. In Gujarat particularly, very acute and severe drought conditions at the optimum time of sowing affected both the cotton area and production. The crop position however, improved in other rainfed states with the onset of rains in August-September.

In the Southern States cotton sowings were delayed on account of late arrival of rains and deficiency in precipitation. The drought conditions affected the crop in the initial stage; however late rains in August-September benefited the crop, as such the overall production was estimated to be a shade higher than in the preceding season.

The estimate by the Cotton Advisory Board (CAB), at its meeting held on February 11, 1988 placed the 1987-88 crop at 87.0 lakh bales as against 95.0 lakh bales in 1986-87. This estimate, however, was revised upwards to 90.0 lakh bales at the subsequent meeting of the Board held on August 11, 1988. The supply-demand position of cotton as per CAB estimates for the period 1981-82 to 1987-88 are indicated in Table III-10. According to CAB, the 1987-88 season commenced with a lower opening stock of 20.0 lakh bales as against 39.5 lakh bales last season. Taking into account the 1987-88 crop of 90.0 lakh bales, aggregate availability in 1987-88 inclusive of imports of 3.0 lakh bales was placed at 113.0 lakh bales as against 134.5 lakh bales in the preceding season. Total demand during 1987-88 was placed at 97.9 lakh bales which included mill consumption estimated at 92.0 lakh bales, ex-factory consumption at 5.5 lakh bales and

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

(Lakh bales of 170 kgs. each)

Items	SEPTEMBER-AUGUST				
	1983-84	1984-85	1985-86	1986-87	1987-88*
1.	2.	3.	4.	5.	6.
I. Supply	**110.57**	**118.50**	**135.83**	**134.50**	**113.00**
1) Opening Stock	25.41	16.00	28.83	39.50	20.00
2) Production	75.16	101.50	107.00	95.00	90.00
	(63.87)	(85.07)	(87.30)	(70.10)	(71.00)
3) Imports	—	1.00	—	—	3.00
II. Demand	**88.28**	**94.10**	**96.17**	**115.17**	**97.93**
1) Mill Consumption	80.06	86.50	86.57	95.20	92.00
2) Ex-factory Consumption@	4.65	4.65	5.10	5.50	5.50
3) Exports	3.57	2.95	4.50	14.47	0.43
III. Closing Stock	**12.29**	**24.40**	**39.66**	**19.33**	**15.07**

Notes: Figures in brackets represent estimates by the Ministry of Agriculture.
Figures showing opening stocks are different than that of closing stocks of preceding years as the opening stocks are compiled afresh every year.
@ Including Ambar Charka, Surgical Dressing Factories and Waste spinning units.
* As per CAB's meeting held on August 11, 1988.

exports of 0.4 lakh bales. During the 1986-87 season, mill consumption was placed a shade higher at 95.2 lakh bales, but ex-factory consumption at the same level of 5.5 lakh bales. Exports during the 1986-87 season was placed at an all-time high of 14.5 lakh bales; thus total demand during the 1986-87 season were placed at 115.2 lakh bales. The closing stock at the end of the 1987-88 season was placed at 15.1 lakh bales as compared to 19.3 lakh bales at the end of the preceding season.

With the expectation of a short crop at the start of the season (September 1987) and firming up of cotton prices, Government which had announced a long term export policy in October 1986 under which 6 lakh bales of cotton were to be permitted for exports each year for a period of three years, suspended the planned export programme from July 1987 to maintain domestic prices at reasonable levels. Instead, it was decided to allow import of cotton against export of yarn, made ups etc., on an Advance Licensing basis.

The Union Government in a bid to provide relief to the handloom sector from the increased burden of high yarn prices, in May 1988 decided to allow imports of one lakh bales of short and medium staple cotton through the Cotton Corporation of India (CCI) to be supplied to identified Co-operatives/State Sector/NTC spinning mills for production of hank yarn needed by the handloom sector. The National Handloom Development Corporation would be the nodal agency for supply of yarn to the handloom sector.

As regards cotton price policy for the 1987-88 season, emphasis continued to be laid on the twin objectives of assuring remunerative prices to growers and supplies to consumers at reasonable prices. The minimum support price for the 1987-88 marketing season for the two basic varieties of cotton i.e., F-414/H-777 in the medium staple group and H-4 in the long staple group were raised by Rs. 10 each to Rs. 440 per quintal and Rs. 550 per quintal, respectively. For the 1988-89 marketing season,the minimum support prices were further increased to Rs. 500 per quintal and Rs. 600 per quintal, respectively.

Role of Procurement Agencies

The purchase operations of the Cotton Corporation of India (CCI) continued during 1987-88 for meeting (1) the requirements of the textile mills as also the private trade (on a commercial basis), (2) the demand of overseas buyers against the export quota allocated by the Govern-

ment and (3) to provide price support to cotton growers. During the 1987-88 season so far (upto June 30, 1988) CCI purchased 6.5 lakh bales as against 8.2 lakh bales in the same period last year and 8.2 lakh bales in 1986-87. The lower purchases this season may be attributed to higher market prices as also lower crop. 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 under the Government's Monopoly Procurement Scheme. During the 1987-88 season (upto June 30, 1988) MSCCGMF purchased 12.3 lakh bales of cotton as compared with 12.9 lakh bales during the corresponding period last season and 13.0 lakh bales in 1986-87 (Table III-11).

Production Strategy

The production target for cotton fixed for 1987-88 by the Government was 88.0 lakh bales. The production strategy laid special emphasis on (i) increased production of medium and long staple cottons which are in short supply and (ii) setting up kapas grading centres to ensure remunerative prices to farmers. For this the Centrally Sponsored Scheme for Intensive Cotton Development Programme was continued during 1987-88 with the following components,

a) distribution of breeders and foundation seed of medium and long staple cotton,
b) production and distribution of certified seeds of medium and long staple cotton,
c) laying out of demonstrations of medium and long staple cotton in the farmers' fields and
d) establishment of kapas grading centres.

The scheme was implemented in the States of Haryana, Rajasthan, Madhya Pradesh, Gujarat, Maharashtra, Andhra Pradesh and Karnataka. The scheme was not implemented in the States of Punjab and Uttar Pradesh during 1987-88. Gujarat and Rajasthan did not set up kapas grading centres under the scheme. No expenditure was incurred on the scheme in the States of Madhya Pradesh, Maharashtra, Andhra Pradesh and Karnataka. The provision of demonstration and certified seed has been transferred by Gujarat Government to other *items* while Maharashtra Government has spent very large amount on certified seed only.

Raw Jute and Mesta

The estimates of the Ministry of Agriculture placed raw jute and mesta production during 1987-88 (July-June) lower at 6.8 million bales than the production of 8.6 million bales last season and the record production of 12.6 million bales in 1985-86; the target for 1987-88 was set at 8.6 million bales. Reduction in output in 1987-88 season was attributed mainly to damage to the crop by floods in the North Eastern Region of the country covering main raw jute and mesta growing States, of Assam, Bihar and North-Bengal as also decline in acreage under the crop due to dry spell at the sowing time. As such, the area under jute and mesta came down to 9.5 lakh hectares from 10.8 lakh hectares last season and 15.0 lakh hectares in 1985-86.

The demand-supply position of raw jute and mesta for 1987-88 was estimated by the Office of the Jute Commissioner, Calcutta. According to their estimate,production amounted to 63.0 lakh bales as against 75.0 lakh bales in the

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

(Lakh bales of 170 kgs. each)

Agency	September-August				
	1983-84	1984-85	1985-86	1986-87	1987-88
CCI	5.2	6.7	15.6	8.2	6.5* (8.2)
Maharashtra Monopoly Procurement Scheme	7.7	17.9	30.0	13.0	12.3* (12.9)

* Upto June 30, 1988.

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

1986-87 season. Despite lower estimated production,the supply position appeared to be comfortable due to the large carry-over stocks of 45.0 lakh bales. Thus, total availability during 1987-88 was placed at around 108.0 lakh bales as against 127.0 lakh bales in the preceding season. On the demand side, mill consumption was placed lower at about 69.5 lakh bales than that of 77.6 lakh bales in the previous season. The mill consumption was as high as 82.7 lakh bales in the 1985-86 season. The 73 days strike by the National Jute Manufactures Corporation (NJMC) mills during 1987-88 was partially responsible for the lower demand from the mills this season. With village level consumption estimated at 3.0 lakh bales and exports at 0.5 lakh bales, (as against 4.0 lakh bales and 0.5 lakh bales, respectively, in the preceding season), the total season's, demand was expected to be around 73.0 lakh bales in 1987-88 as against 82.1 lakh bales during the 1986-87 season. The closing stock at the end of the 1987-88 season would, therefore, be around 35.0 lakh bales (Table III-12).

As regards price trends, raw jute (W-5 variety) prices in Calcutta continued to show depressed conditions at the commencement of the 1987-88 season, due to comfortable supply position. However, from mid-September 1987 prices started firming up and the growers generally received reasonable prices for the rest of the marketing season. Officially the prices were quoted at the statutory minimum level of Rs. 334.50 per quintal from the start of the season, (July 1987) upto mid-March 1988 and thereafter at Rs. 375 per quintal from April 13, 1988. The price closed for the season a shade higher at Rs. 380 per quintal. The bouyancy in prices towards the latter part of the season was attributable to lower arrivals in anticipation of lower crop during the coming season as also increase in demand by mills.

On the recommendation of the Commission of Agricultural Costs and Prices (CACP), the minimum support price of raw jute for the 1988-89 season was raised to Rs. 250 per quintal for W-5 grade of raw jute ex-Assam,from Rs. 240 per quintal fixed earlier for the 1987-88 season. The corresponding prices for other varieties/ grades were fixed by the Jute Commissioner in the light of normal market price differentials. Besides, the Government withdrew the statutory status to minimum support prices of raw jute.

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

(In lakh bales of 180 kgs. each)

Items	JULY-JUNE			
	1984-85	1985-86	1986-87	1987-88
I. Supply				
1. Opening stock	9.50	7.50	45.00*	45.00
2. Imports	3.00	—	—	—
3. Crops	73.43	127.00	75.00	63.00
	(77.87)	(126.46)	(86.30)	(67.80)
4. Other Sources£	—	—	7.00	Nil
Total Supply (1+2+3+4)	**85.93**	**134.50**	**127.00**	**108.00**
II. Demand				
1. Mill Consumption	74.33	82.68	77.60	69.50
2. Exports	—	1.00	0.50	0.50
3. Other Domestic Consumption	4.00	4.00	4.00	3.00
Total Demand (1+2+3)	**78.33**	**87.68**	**82.10**	**73.00**
III. Closing stock (I-II)	7.60	46.82	44.90	35.00
	or	or	or	
	7.50	46.80	45.00	

* Opening stock figures for the year 1986-87 are taken according to the latest balance sheet issued by Jute Commissioner.
£ Estimated data for arrivals/despatches to and from across the border (Bangladesh).
Note: Figures in brackets represent production data as given by the Ministry of Agriculture.

Source: Jute Commissioner's Office.

The Jute Corporation of India (JCI) commenced procurement operations during 1987-88 at the commencement of the season and procured 5.4 lakh bales of raw jute, as against 22.2 lakh bales during the previous season. Purchases during the 1987-88 season, as in the previous season were all under price support operations (Table III-13).

In order to impart stability to the raw jute sector, a buffer stocking scheme is in operation since April 1, 1986 with 57 mills participating in this scheme and a quantity of around 5.26 lakh bales out of stocks procured by JCI were kept as buffer stock. In order to arrest the uptrend in prices of raw jute since March 1988, it was decided to release 50 per cent of stocks held as buffer from May to July 1988.

No directives were issued to jute mills under the jute (Licensing Control) Order 1961 in respect of minimum and maximum stock holding limits during the season.

During 1987-88 the domestic demand for jute goods declined due to low procurement of foodgrains in the wake of drought. Demand from other important user industries such as cement and fertiliser also declined due to substitution of jute bags by synthetic material. In order to step up demand for jute goods, the Jute Packaging Materials (Compulsory Use in packing Commodities) Act 1987 was passed by the Parliament which came into effect from June 1, 1987. The reservation order under the Act for the use of jute packaging in the supply or distibution of certain specified commodities was issued and made effective from September 1, 1987. The order, however, did not have any significant impact due to several writ petitions filed in the High Courts challenging the constitutional validity of the Act. The Supreme Court had, however, in May 1988 vacated all the stay orders issued by the High Courts in this connection.

The minimum percentage usage of jute packaging material for specified commodities under the order are given below:

(Million tonnes)

Sr. No.	Commodity	% of total production to be packed in jute packing materials
1.	Foodgrains	Hundred per cent
2.	Sugar	Hundred per cent
3.	Cement	Seventy per cent
4.	Fertiliser	Fifty per cent

Development strategy

The Intensive Jute Development Programme (IJDP) remained in operation in nine jute growing States. Subsequently a Special Jute Agricultural Development Programme (SJDP) was launched in 1987-88 for a period of three years to be funded entirely by the Central Government. The programme is to be implemented in all the agronomically and infrastructurally potential blocks in the selected districts of all the major jute/mesta growing States. The main objective of the programme is to improve the quality of fibre and to increase its production, through supply of critical inputs like certified seeds and plant protection chemicals, training of farmers through demonstration of the latest production technology in the field. For improving the quality of fibre, fungal culture packets are distributed

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

(In lakh bales of 180 kgs. each)

Items	JULY-JUNE					
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Total purchases	8.60	8.39	10.15	28.24	22.22	5.40
Price support operations	6.58	—	—	26.83	22.22	5.40
Commercial operations	2.02	8.39	10.15	1.41	—	—

Source: Jute Corporation of India.

and additional retting tanks excavated for storing water. In 1987-88, an outlay of Rs. 6.04 crores (Central share) was provided for implementation of SJDP. Besides, the Centrally Sponsored Scheme on Intensive Jute Development Programme (IJDP) was continued in a modified form, for which an outlay of Rs. 18.69 lakhs (Central share) was provided.

Table III-14: Production of Raw Jute and Mesta

(In lakh bales of 180 kgs. each)

Year	Target	Production
1983-84	83.5	77.2
1984-85	85.0	77.9
1985-86	86.0	126.5
1986-87	85.0	86.3
1987-88	86.0	67.8
1988-89	92.0	

Source: Ministry of Agriculture.

For 1988-89 the raw jute and mesta production target has been fixed at 92.0 lakh bales. In addition to Rs. 19.49 lakhs for staff under IJDP, a provision of Rs. 26.05 lakhs has also been made under Central Sector Scheme. Further, the cost of operating SJDP has been estimated at Rs. 874.47 lakhs. Thus, the total outlay for 1988-89 is about Rs. 920 lakhs.

Oilseeds

The Ministry of Agriculture has estimated that the 1987-88 oilseeds output would be higher at around 120.4 lakh tonnes than the output of 114.5 lakh tonnes in 1986-87 season, but lower than the record output of 129.5 lakh tonnes achieved in 1984-85. The higher oilseeds crop in 1987-88, despite severe drought conditions was attributable mainly to the combined efforts of the Government, Technology Mission and National Dairy Development Board to boost *rabi* oilseeds production. Even though *kharif* oilseeds production declined by about 7.6 per cent to 61.0 lakh tonnes in 1987-88 *rabi* output increased to 59.4 lakh tonnes from 48.5 lakh tonnes in 1986-87. Rains towards the middle of September 1987 in the major oilseeds growing States proved beneficial to crops like soyabean, sunflower, castor and groundnut (at the *pod* formation stage). Rains in the last week of August (in Northern States) also aided sowing of toria in fallow fields where *kharif* crop could not be sown or was damaged due to severe drought. According to the 1987-88 estimates rapeseed/mustard production was at a new record viz., 32.2 lakh tonnes, surpassing the previous peak of 30.7 lakh tonnes in 1984-85. Data on oilseeds production are presented in Table III-15.

Table III-15: Oilseed-wise output

(Lakh tonnes)

Item	1983-84	1984-85	1985-86	1986-87	1987-88
Target	**125.00**	**130.00**	**136.00**	**148.00**	**140.00**
Production	**126.92**	**129.46**	**108.32**	**114.53**	**120.40**
of which:					
a) *Kharif*	72.13	70.48	59.52	66.01	61.00
b) *Rabi*	54.79	58.98	48.80	48.52	59.40
Groundnut (In-shell)	70.85	64.36	51.21	60.59	56.70
Rapeseed/Mustard	26.08	30.73	26.81	26.35	32.20
Sesamum	5.59	5.20	5.01	4.43	4.70
Safflowerseed	5.01	5.15	3.48	3.33	4.50
Nigerseed	1.76	1.48	1.92	1.32	1.80
Sunflowerseed	3.00	4.40	2.81	4.36	6.10
Soyabean	6.14	9.55	10.24	8.35	8.70
Linseed	4.44	3.89	3.76	3.43	3.80
Castorseed	4.05	4.70	3.08	2.37	1.90

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

Support Prices

The Government on the recommendations made by the Commission for Agricultural Costs and Prices (CACP) and in consultation with the State Governments, announced a further increase in minimum support prices of major oilseeds for the 1988-89 marketing season. The support price of fair average quality sunflower seed was raised by Rs. 60 to Rs. 450 per quintal and that of groundnut (in shell) by Rs. 40 to Rs. 430 per quintal. For Soyabean (black) and rapeseed/mustard the support price was raised by Rs. 15 each to Rs. 275 per quintal and Rs. 430 per quintal, respectively. For safflower seed the price was kept unchanged at the last season's level of Rs. 415 per quintal. The National Agricultural Co-operative Marketing Federation (NAFED) was designated as the nodal agency for support price operations. The support prices announced for the 1988-89 marketing season and for the previous seasons are presented in Table III-16.

Imports of Edible Oils

The present level of oilseeds production in the country is insufficient to meet the country's edible oil needs. Therefore, the gap between demand and supply of indigenous edible oils is being bridged by imports on Government account. The bulk of imported quantity of edible oils and their distribution is handled by the State Trading Corporation, though a small quantity of edible oil is also imported by the National Dairy Development Board (NDDB). Imports of edible oils by NDDB represent mostly gift and to a small extent are also on commercial basis. It was during 1986-87 that the NDDB was permitted to import 80,000 tonnes of edible oil on a commercial basis. Details of edible oil imports during the 1987-88 oil year (Nov-Oct) so far (upto June 1988) as also during the 1987-88 financial year from 1981-82 are presented in Table III-17.

Allocation of Imported Edible Oils to PDS and Vanaspati Industry

Imported edible oils are allocated to States/Union Territories by STC for distribution to consumers under the Public Distribution System (PDS) as also to the Vanaspati Industry. Allocation to the PDS is regulated according to the availability of and demand for indigenous oils. Whenever availability of indigenous oils increases, allocation of imported oils to States/UTs is correspondingly reduced. However, in 1987-88 supply of imported oils had to be increased due to fall in overall availability of indigenous oils. Allocation of imported oils to States and Union Territories under PDS was increased from August 1987 upto January 1988 and was thereafter reduced following inflow of *rabi* crop and easiness in prices. The State Governments were also asked to take adequate steps to ensure proper distribution of imported oils to the consumers under PDS.

During the oil year 1986-87 (November-October) 10.44 lakh tonnes of imported edible oil was allocated to States/UTs for PDS as against 8.10 lakh tonnes during the corresponding period last season. During 1987-88, from November 1987 to June 1988, 9.05 lakh tonnes were allocated.

Imported edible oils such as soyabean oil,

Table III-16: Support-Prices for Oilseeds

(Rupees per quintal)

Oilseeds	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Groundnut (in-shell)	315	340	350	370	390	430
Soyabean (Black)	230	240	250	255	260	275
Soyabean (Yellow)	255	265	275	290	300	320
Sunflowerseed	275	325	335	350	390	450
Rapeseed/Mustard*	360	385	400	415	430	460
Safflowerseed*	N.A.	N.A.	400	415	415	440

* For rapeseed/mustard and safflowerseed the support price relates to the marketing season i.e. 1983-84 crop marketed in 1984-85 and so on.

N.A. Not Announced.

Source: Ministry of Agriculture, Government of India.

Table III-17: Imports of Edible Oils

Year	Quantity	Value
	(In lakh tonnes)	(Rs. in crores)
Oil Year (November-October)		
1981-82	9.95	449.69
1982-83	11.50	507.00
1983-84	16.34	1318.99
1984-85	13.68	1122.13
1985-86	11.79	488.95
1986-87	14.97	667.67
1987-88 (November-March 1988)	9.33	457.15
1986-87 (November-March 1987)	4.64	205.58
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	13.07	527.00
1987-88	18.98	905.00

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

Table III-18: Allocation of Imported Edible Oils to Vanaspati Industry

Period	Maximum limit of usage of imported edible oils by vanaspati industry (Percentage)		
	Normal	Commercial	Total
Ist July 1987 to 31st July 1987	60 (At the rate of Rs. 11,500 per tonne)	—	60
Ist August 1987 to 25th August 1987	70 (At the rate of Rs. 15,000 per tonne)	—	70
26th August 1987 to 30th November 1987	70 (At the rate of Rs. 15,000 per tonne)	15 (At the rate of Rs. 18,000 per tonne)	85
Ist December 1987 to 31st January 1988	70 (At the rate of Rs. 15,000 per tonne)	10 (At the rate of Rs. 18,000 per tonne)	80
Ist February 1988 to 30th June 1988	50 (At the rate of Rs. 15,000 per tonne)	30 (At the rate of Rs.19,000 per tonne)	80

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

rapeseed oil and neutralised palm oil are allocated to the vanaspati industry for the manufacture of vanaspati to a limited extent of their requirements which vary from time to time according to the availability of indigenous edible oils. Allocation of imported edible oils to the vanaspati industry was maintained at a high level of 80-85 per cent of its requirement during the 1987-88 oil year so far i.e., upto end-June 1988. The allocation which was 60 per cent at a normal rate of Rs. 11,500/- per tonne as at end-July 1987, was raised to 70 per cent from August 1987; simultaneously the issue price at the normal rate was raised to Rs. 15,000/- per tonne. With effect from August 26, 1987 an additional 15 per cent was allocated at a commercial rate of Rs. 18,000/- per tonne taking the total allocation to 85 per cent on the voluntary assurance from the Vanaspati Manufacturers Association (VMA) and the Indian Vanaspati Producers Association (IVPA) that they would limit the maximum consumer price of a 15 kg pack at Rs. 335 (excluding local taxes) throughout the country. Allocation at 85 per cent of the industry's requirement continued upto end-November 1987. Thereafter for December 1987 and January 1988 the commercial quota was reduced from 15 per cent to 10 per cent bringing the total allocation to 80 per cent. From February 1988 onwards upto end-June 1988, the normal allocation was reduced to 50 per cent (from 70 per cent earlier) whereas the commercial quota was increased to 30 per cent (from 10 per cent earlier), thus maintaining the total allocation at 80 per cent. However, the price of oil allocated at commercial rate was enhanced to Rs. 19,000 per tonne from Rs. 18,000 per tonne fixed earlier. The price of normally allocated oil continued unchanged at Rs. 15,000 per tonne. Details of allocation of imported edible oil for the PDS and to the vanaspati industry during the past few years and during the current year so far are given in Table III-19.

In order to narrow the gap between issue price and the minimum support price equivalent of indigenous oils, the issue price of imported edible oils under PDS were increased from Rs. 9,000 per tonne to Rs. 11,000 per tonne with effect from December 23, 1987.

Other Developments

The usage of expeller rapeseed/mustard oil in the manufacture of vanaspati was banned since May 14, 1987. However, the usage of solvent extracted rapeseed/mustard oil permitted upto 20 per cent in the manufacture of vanaspati since October 1, 1986 remained operative.

The fiscal incentives announced in the 1986-87 Central Budget for usage of minor oils such as rice-bran oil in the manufacture of vanaspati were extended for 1988-89.

In order to ensure equitable distribution and availability of edible oils and oilseeds at fair prices to the consumer as also to protect the interest of the growers, the Government continued to follow certain restrictive measures during the year. These measures are enumerated below:

a) Exports of edible oils/oilseeds were restricted. Export of oilcakes was regulated in consultation with the Ministries of Agriculture and Commerce.

b) Stock limits of oilseeds and edible oils as fixed in the 'Pulses, Edible Oil and Edible Oilseeds (storage control) Order 1977' at the level of wholesalers and retailers were brought down further with effect from September 1987 as part of dehoarding measures. Further, with effect from November 23, 1987, the Government, under the same order imposed restrictions on the number of transactions between wholesalers and also set a time limit (15 days) for clearance of stocks by them. However, following improved availability, the Government withdrew these restrictions with effect from February 26, 1988.

c) 'The Prevention of Blackmarketing and Maintenance of Supplies of Essential Commodities Act 1980', was vigorously implemented in order to check blackmarketing in edible oils/oilseeds and to deal firmly with traders indulging in speculative trading of these commodities.

d) The State Governments/Union Territories were also requested to intensify action against hoarders and other anti-social elements.

e) In order to improve the domestic supply position as also to contain prices, the Government in November 1987, decided to auction 50,000 tonnes of imported edible oil through the State Trading Corporation (STC). However,

Table III-19: Allocation of Imported Edible Oils (Month-wise)

(In tonnes)

Month	States/Union Territories for PDS			Vanaspati Units		
	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88
July	51020 (8000)	70035 (9905)	70400 (20000)	55659	67356	54420
August	57765 (8000)	94580 (12000)	136350 (21350)	51148	**74295**	63463
September	57995 (9000)	101980 (13000)	158800 (20400)	**49987**	68338	70761
October	58045 (9000)	119930 (13000)	185900 (20150)	45948	70214	72995
November	57325 (9000)	81880 (10000)	189400 (20150)	44153	49312	75031
December	48095 (6900)	57580 (12900)	183900 (27350)	48546	16227	76370
January	50395 (6900)	55980 (14930)	149120 (27300)	30049	12797	70614
February	49345 (6850)	55880 (14910)	100635 (30100)	30246	31141	66512
March	47945 (6850)	58830 (15210)	74380 (30510)	31018	34001	75045
April	48845 (6850)	58830 (21700)	62160 (30080)	38924	27876	73546
May	56740 (6800)	58830 (21700)	64380 (N.A.)	35571	41822	68713
June	65575 (9835)	65000 (19900)	76530 (N.A.)	48524	39265	68918
Total	**649090 (93985)**	**879335 (179155)**	**1456955 (247390)**	**509773**	**532644**	**836388**

Note: Figures in bracket indicate supply in small packs.
N.A. Not Available.

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

following a poor response, the STC decided to hold 'open' sales of imported edible oils from November 26, 1987 at its offices in Kandla, Delhi, Calcutta, Bombay, Madras, Bangalore and Vishakhapatnam, only to licensed wholesale dealers and refiners having registered user certificates. The price fixed for (open) sale of refined palm oil was Rs. 19,000 per tonne and for crude solvent extracted rapeseed oil Rs. 18,000 per tonne. The quantity supplied was restricted to 500 tonnes for State Civil Supplies Corporation, 250 tonnes to refiner including vanaspati manufacturers having refining unit and 50 tonnes to wholesaler.

Production Strategy and Measures

Cultivated oilseeds are the principal source of edible and non-edible oils. The major oilseeds growing States are Gujarat, Andhra Pradesh, Uttar Pradesh, Karnataka, Tamil Nadu, Madhya Pradesh, Maharashtra and Rajasthan. Oilseeds production in recent years has remained more or less stagnant at around 10-12 million tonnes while demand has been rising with increase in population. Along with measures to increase domestic availability through imports, the Government has launched concerted efforts to boost oilseeds production and move towards self-sufficiency through the co-ordinated implementation of a number of oilseeds development projects under the Technology Mission mainly to achieve a breakthrough in production and attain the target of 180 lakh tonnes fixed for the terminal year (1989-90) of the Seventh Plan. The Centrally Sponsored Scheme on oilseeds taken up during the Sixth Plan period was continued during the Seventh Plan period also. Besides, a Technology

Mission on Oilseeds started functioning from May 1986 and from the *kharif* season an Oilseeds Production Thrust Project was also launched.

Technology Mission on Oilseeds

Technology Mission on Oilseeds appointed by the Government of India started functioning from May 1986 in order to harness the best of production, processing and management technologies to achieve self reliance in oilseeds by the end of Seventh Plan. The Mission had its immediate aim of producing 16 to 18 million tonnes of oilseeds by 1989-90 and raising the production to 26 million tonnes by the turn of this century from the current level of production of around 12 million tonnes. Similarly the oil recovery level was also targeted to be increased to 5 million tonnes by 2000 AD from the current level of 3.5 million tonnes.

The Mission adopted a strategy more or less similar to the one adopted for foodgrains, cotton, jute and dairy products for achieving self-sufficiency. Basically, it is a four-pronged strategy as presented below:

— firstly, improvement of oilseeds crop technology for stepping up yields and profit to the farmer;
— secondly, improved processing and post-harvest technology which can increase the oil yields from traditional and non-conventional sources of oil, as about 5 lakh tonnes of oil are at present lost annually due to inefficient processing;
— thirdly, strengthening of the services to the farmer particularly in the supply of technology, seeds, fertilisers, pesticides, irrigation, credit, etc.; and
— fourthly, improving institutions for providing post-harvest services including price support to farmer and financial and other support to processing industry.

To achieve the goal of self-sufficiency, Oilseed Missions had been set up in 18 important oilseed growing States. The Mission had prepared plans of operation embracing the four important thrust areas. The Oilseed Mission officials had met the Chief Ministers and senior officials in the States and drawn up detailed plans of operation for achieving the production and other objectives of the State Missions. The States in turn have prepared district-level and block-level plans for implementation of oilseeds production programme.

In order to facilitate co-ordinated action, the Mission at both the National and State levels had been divided into four Mini-Missions for the four important thrust areas. Each mini or micro mission was made responsible for a specified purpose namely (i) crop technology, (ii) post-harvest technology, (iii) inputs and services support to the farmers and (iv) price support, storage, processing and marketing.

The progress made in the field of research in crop and post-harvest technologies was good in recent years. In crop technology, 31 improved varieties/hybrids had been evolved. Production of breeder seeds increased by 34 per cent over the position in 1986-87. A post-harvest processing technology for rice-bran stabilisation and a superior technology for processing sunflower seeds was also evolved. In order to popularise cultivation of certain varieties of oilseeds in the country, 35 tonnes of a promising variety of sunflower seeds were imported during the 1987 *kharif* season. These have been multiplied and made available for use in the *rabi* season of 1987-88. The farmers responded magnificiently to the Mission initiatives. During 1987-88, despite drought conditions, farmers increased the area under oilseeds on the assurances that the Government is committed to provide timely inputs and remunerative prices.

National Oilseeds Development Project

The National Oilseeds Development Project which was commissioned in 1984-85, continued during the Seventh Plan period. This project covers 180 districts in 17 important oilseeds growing States. Fifty per cent of the expenditure on demonstration of improved technology, distribution of seeds and fertilisers, minikits, subsidy to the farmers on seed, fertilisers, rhizobium culture, plant protection and farm equipment is borne by the Government of India. The project also provides 100 per cent assistance to ICAR for production of breeder seeds for distribution to the States free of cost. Under the project, the districts with potential for increased production have been identified and these districts receive particular attention in the provision of various services.

During the Seventh Plan, an amount of Rs. 170 crores was provided of which the Centre's share is Rs. 100 crores.

Emphasis under the project has been laid on production and multiplication of seeds, demonstration, plant protection measures and supply of improved farm implements at concessional rates, etc. During the 1987-88 season the oilseeds production target has been fixed at 140 lakh tonnes. In order to achieve the target, the Government sanctioned Rs. 29.3 crores under the project out of which Rs. 16.5 crores would be provided by the Central Government and Rs. 12.8 crores by participating States to provide the necessary input supply and other support services in the project area.

A provision of Rs. 80 lakhs, out of the total allocation as Central Government's share has been specifically allowed to be spent for the benefit of Scheduled Castes and Scheduled Tribes under the project. The State Governments have been asked to ensure that maximum benefit accrues to the SC/ST people in the form of increased production. To achieve the target envisaged during 1987-88, the following strategy has been adopted.

(i) There is a considerable gap between yield potential of oilseed crops/varieties and on-farm yields. It is, therefore, proposed to bring research and extension closer and intensify their efforts in selected potential areas to narrow down the gap between the potential and actual yields.

(ii) Assigning specific targets for the areas to be brought under different oilseeds in selected command areas and conforming the water management, to the water requirement of the crop.

(iii) For increasing the area under oilseeds, the emphasis and thrust is on:-

(a) Increasing the cropping intensity on arable land through sequential cropping both under rainfed and irrigated conditions and inter-cropping;
(b) Diversion of area from low yielding and low economy crops to oilseed crops;
(c) Introducing oilseed crops in various rainfed farming systems;
(d) Increasing the productivity of oilseed crops through adoption of improved agronomic practices such as varietal replacement, use of quality seeds, application of fertilisers in recommended doses, need-based plant protection measures, irrigation and providing protective irrigation to rainfed crops, wherever possible.
(e) Protection against fall in prices through price support operations.

The broad action programme/incentives and facilities under the NODP during 1987-88 are as follows:—

(i) Increasing production and availability of seed and positioning of plant protection chemicals.

(ii) Distribution of plant protection equipment, improved farm implements, sprinkler sets for rabi/summer groundnut crops.

(iii) Increasing production of rhizobium culture for use in soyabean and groundnut crops.

(iv) Organising seed villages for production of seed of groundnut and soyabean crops.

(v) Demonstrations of improved technology in farmers' fields.

(vi) Distribution of input-kits to weaker sections. Due to widespread drought conditions in 1987-88, there has been considerable short-fall in coverage under the kharif oilseeds particularly under groundnut in the States of Andhra Pradesh, Gujarat, Karnataka, Maharashtra, and Uttar Pradesh. Despite this, the area reported to have been covered under kharif oilseeds is about 93 lakh ha. which is about 14 per cent below normal area. The supply and off-take of various inputs has been affected by widespread drought conditions which is reflected in the crop production.

The progress achieved under the NODP during kharif 1987 season is summarised below:

(i) An area of 80 lakh ha. was covered as against an annual target of 94.6 lakh ha.

(ii) Input-kits worth Rs. 1.87 lakh were distributed as against an annual target of Rs. 1.42 lakh.

(iii) Seed village programmes were organised on an area of 9,864 ha. as against an annual target of 24,500 ha.

(iv) 5,231 improved implements were supplied as against an annual target of 34,000.

(v) About 8,939 large sized demonstrations were organised as against an annual target of 2,428.

(vi) About 11 lakh packets of rhizobium culture were distributed.

(vii) 18,104 plant protection equipments were distributed as against an annual target of 1,13,995.

(viii) 538 sprinkler sets were supplied as against an annual target of 3,100 (distribution of sprinkler sets would be done by the States mostly in *rabi*/summer as the item is sanctioned for *rabi*/summer groundnut crop).

Oilseeds Production Thrust Project (OPTP)

The four oilseed crops, namely, groundnut, rapeseed-mustard, soyabean and sunflower contribute about 85 per cent of the total production. Keeping this in view, from *kharif* 1987 an Oilseeds Production Thrust Project was launched to step up the production of these four oilseeds in 14 States. The project was later extended to *rabi* season also. Under this project, 100 per cent central assistance was provided to the States for seed production, plant protection, demonstrations, application of sulphur and market support to these four crops. The sanctioned outlay on the project is Rs. 18.9 crores i.e., Rs. 6.9 crores for *kharif* 1987 and Rs. 12.0 crores for *rabi* 1987-88. The outlay sanctioned for 1988-89 is Rs. 35 crores. The project covered a total of 246 districts (including 151 NODP districts) in 17 States.

Programme for the year 1988-89

It is proposed to continue NODP during 1988-89 in 17 States. An attempt would be made to encourage cultivation of toria as a catch crop in potential areas and also as an inter crop. Inducements will be given to farmers to cultivate rapeseed-mustard in areas growing wheat where irrigation facilities are limited. Sunflower would be extended to areas having potential for its cultivation. Imported Russian sunflower variety seed would be used. Improved package of practices would continue to receive encouragement with a view to improving productivity of oilseeds. Seed villages programme has been envisaged for production of quality seed of groundnut and soyabean crops which generally fall short of demand due to low multiplication and high seed rate.

It is also proposed to continue Oilseeds Production Thrust Project in 14 States on a similar pattern as being implemented during 1987-88.

The proposed outlays for these projects during 1988-89 are as follows:—

National Oilseeds Development Project	—	Rs. 17.5 crores (Government of India's share)
Oilseeds Production Thrust Project	—	Rs. 41.5 crores (Government of India's share)

Thus the total outlay proposed for the implementation of NODP and OPTP for the year 1988-89 is placed at Rs. 58.5 crores as Government of India's share.

National Dairy Development Board (NDDB): Oilseeds Project

The National Dairy Development Board (NDDB) project was commissioned for "Restructuring of edible oil and oilseeds production and marketing", to help cultivators adopt improved production techniques and induce them to increase production. This aim is sought to be achieved through integrated production, procurement, processing and marketing of oilseeds and vegetable oil through a two-tier co-operative system consisting of Oilseeds Growers' Co-operative Societies at village level and oilseeds Growers' Co-operative Federation at State level. Under this project, State level Oilseeds Growers' Co-operative Federations have been set up in the States of Gujarat, Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Madhya Pradesh and Orissa. These federations have so far organised 3,316 Oilseeds Farmers' Co-operative Societies with 4.5 lakh members having nearly 12 lakh hectares of area. The co-operative societies provide quality seeds, fertiliser, storage facility etc., to their members. After harvest, the societies pro-

cure the produce on payment of attractive prices; profits earned by the co-operatives are shared by the farmer members. NDDB invested about Rs. 250 crores in developing the co-operative infrastructure. An additional 12 lakh farmers with 25 lakh hectares of land spread over a total of nine States are proposed to be covered. The additional investment on this would be of the order of Rs. 450 crores. The NDDB's programme is synchronised with the programmes of the State Agriculture Departments with a view to avoiding duplication of efforts.

The programme at present is being implemented in 7 States, viz., Gujarat, Madhya Pradesh, Maharashtra, Andhra Pradesh, Orissa, Karnataka and Tamil Nadu with the aid of funds generated by sale of gift oil of soyabean received through Co-operative League of USA (CLUSA) and rapeseed-mustard through Co-operative Union of Canada (CUC). The outlay of the project is Rs. 150 crores over a period of 7 years. The project came into existence in July 1979. The gift oil including both soyabean oil and rapeseed oil received from July 1979 to March 31, 1988 reached 3,16,500 tonnes of which upto March 31, 1988, 1,59,535 tonnes has been received from CLUSA and 1,56,965 tonnes of crude rapeseed oil from CUC. The funds generated from sale of oil upto June 30, 1988 amounted to Rs. 328.57 crores, out of which an amount of Rs. 231.93 crores, was utilised/released for the co-operative project purpose. The progress made under the project upto June 30, 1988 is presented in Table III-20.

Coconut

Coconut is one of the most important plantation crops and provides livelihood to more than 10 million people especially in Kerala. As against the target of 6,750 million nuts for the Sixth Plan, the annual production was 6,887 million nuts during 1984-85. It is targeted to produce 8,000 million nuts at the end of the Seventh Five-Year Plan.

The Government of India has sanctioned several schemes prepared by the Coconut Development Board for increasing the production and productivity of coconut in the country. These schemes include expansion of area, production of quality coconut seedlings, establishment of hybrid seed gardens, promotion of primary processing and marketing activities, assistance for irrigation facilities and plantation of coconuts and canal embankments in Orissa and Khaslands in Tripura. The total outlay sanctioned for these projects for the year 1987-88 stood at Rs. 194 lakhs.

During the year 1987-88, the Coconut Development Board has procured and supplied 10.55 lakh quality seed nuts to various States/UTs. Under the project for expansion of area under coconut it is proposed to cover 2,000 ha. during 1987-88. Three lakh seedlings planted on the canal embankments in Tripura in the previous year were well maintained during the year 1987-88. An additional area of 212 ha. has been planted in Khaslands of Tripura with coconut during the year 1987-88. In order to implement development programmes, the Coconut Development Board established regional offices at Bangalore in 1982 and at Patna in 1985. The Government of India have also sanctioned 8 sub-offices under the Board during 1985-86 to intensify its activities in the Eastern and North-Eastern Region.

Oil Palm

In Kerala, oil palm plantation was taken up by Oil Palm India Ltd., a joint venture of the Government of India and Government of Kerala with equity participation in the ratio of 49:51. The company has taken up plantation at Yeroor, Chithara and Mulathapaz in Kerala. The total area brought under oil palm is 3,705 ha. The company produced 1,263 tonnes of palm oil during 1986-87. In Andaman & Nicobar Islands, an area of about 1,493 ha. has been planted under oil palm by the Andaman & Nicobar Islands Plantation and Forest Development Corporation. It is proposed to develop the crop in identified areas of other potential States and also to establish modern processing facilities.

A working group was set up during the year 1986-87 under the chairmanship of Horticulture Commissioner to assess the potentialities of palm cultivation in India and to identify suitable areas in which oil palm could be introduced and to examine other aspects for development of oil palm in the country.

National Oilseeds and Vegetable Oils Development Board

The National Oilseeds and Vegetable Oil Development Board was established in March

Table III-20: Progress of National Dairy Development Board Project

(Upto end-June 1988)

	No. of Oilseeds Growers, co-operative societies at the village level		No. of villages covered		No. of farmer members		Members' Oilseeds area (ha)		Procurement of seeds (in tonnes)	
	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88
1. Gujarat	1,154	1,154	1,714	1,714	1,23,848	1,25,576	3,57,388	3,68,127	1,17,327	85,471
2. Maharashtra	142	206	1,106	2,312	34,687	61,100	53,207	1,18,217	8,598	17,351
3. Madhya Pradesh	716	924	6,747	7,876	88,233	1,05,398	2,96,753	4,15,832	1,44,458	1,84,015
4. Andhra Pradesh	227	238	930	989	30,100	33,713	68,325	69,222	3,923	10,627
5. Karnataka	161	239	914	1,482	26,928	55,113	59,468	1,30,558	10,247	25,411
6. Tamil Nadu	247	324	1,088	1,452	33,489	46,252	63,180	87,305	19,026	18,712
7. Orissa	212	231	1,817	2,033	20,592	22,984	21,619	24,186	8,775	6,253
Total	**2,859**	**3,316**	**14,316**	**17,858**	**3,57,877**	**4,50,156**	**9,19,940**	**12,13,447**	**3,12,354**	**3,47,840**

Source: National Dairy Development Board.

1984 under the National Oilseeds and Vegetable Oils Development Board Act, 1983, with a view to ensuring the integrated development of the oilseeds industry and the vegetable oils industry. During 1987-88, the Board continued to implement its on-going programmes namely diversification of rainfed/low irrigated area under wheat to rapeseed-mustard and programme for popularisation of *rabi*/summer groundnut cultivation in non-traditional areas. The schemes have been instrumental in diversification of areas to oilseeds crops by providing incentives for using scientific package and agronomic practices and raising of productivity of these crops. The Board also took up a pilot project on the same line for diversification of area under rain-fed minor millets to soyabean in Orissa. In addition, the Board imported improved sunflower seed from the Soviet Union for its large scale cultivation in different States in India. The improved Peredovik seed of sunflower imported from Soviet Russia is one of the best quality of seeds, which is being multiplied with a view to making larger quantity available to the farmers in the States of Maharashtra, Karnataka, Andhra Pradesh, Gujarat, Punjab, Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh and Tamil Nadu.

Sugarcane

As per the Ministry of Agriculture's latest estimate sugarcane output during 1987-88 was placed at a record level of 190.9 million tonnes or 8.4 million tonnes higher than the production of 182.5 million tonnes in the previous season. The rise in production in 1987-88 was accounted by Uttar Pradesh where an increase of over 10 million tonnes was reported. Maharashtra, Assam, Gujarat, Bihar and Orissa also contributed to an increase in cane production. However, Karnataka, Haryana and Kerala registered fall in production.

Rise in productivity also contributed to the increase in production in 1987-88. Sugarcane yield in 1987-88 was placed at 61-62 tonnes per hectare as against 60 tonnes per hectare in 1986-87.

On the recommendation of the Commission for Agricultural Costs and Prices (CACP) and taking into account the views of the State Governments, sugar industry and growers, the Government had in November 1986 announced a higher Statutory Minimum Price (SMP) of Rs. 18.00 per quintal linked to a basic recovery of 8.5 per cent with a proportionate premium for higher recoveries. The SMP of sugarcane for the 1986-87 season was fixed at Rs. 17.00 per quintal.However, in view of the severe drought and floods in 1987-88 the Government in December 1987 revised upwards the SMP for the 1987-88 season to Rs. 18.50 per quintal linked to a basic recovery rate of 8.5 per cent and for the 1988-89 season, also the Government simultaneously announced the SMP at Rs. 19.00 per quintal linked to a basic recovery of 8.5 per cent. However, as in earlier years, the State Government advised prices were higher than the statutory minimum prices fixed by the Central Government. The sugarcane prices actually fixed by the States for 1987-88 ranged between Rs. 18.00 and Rs. 32.00 per quintal. The revised sugar policy announced by the Government in the 1986-87 season and the increase in SMP of sugarcane has resulted in increase in sugar production in 1986-87 and 1987-88 to 85.0 lakh tonnes and 92.0 lakh tonnes respectively. The target of sugarcane production for the terminal year of the Seventh Five-Year Plan has been projected at 206 million tonnes.

The State Governments are being advised to adopt the following strategy for increasing sugarcane production:

i) Production and distribution of quality seed;
ii) Improvement in irrigation facilities;
iii) Judicious use of fertiliser application;
iv) Better management of ratoon;
v) Larger coverage under plant protection;
vi) Transfer of technology through various extension systems including demonstrations with companion crops;
vii) Training of sugarcane development personnel; and
viii) Greater participation of sugarcane factories in cane development.

There is no Centrally Sponsored Scheme for development of sugarcane. The Government of India has created a Sugar Development Fund (which is being operated by the Ministry of Food and Civil Supplies) to help sugar factories to undertake rehabilitation and modernisation of factories and sugarcane development programmes. Funds are also provided for research aimed at the development of sugar industry.

Tea

Tea production during 1987 reached a record level of 673.4 million kgs.—48.8 million kgs. higher than the production of 624.6 million kgs. in 1986 and 17.2 million kgs. higher than the previous record of 656.2 million kgs. in 1985. However, production was still lower than the target of 702 million kgs. fixed for 1987. Tea production in North India rose by 42.3 million kgs. or 8.7 per cent to 527.4 million kgs in 1987 from 485.1 million kgs. in 1986. Production in South India at 145.9 million kgs. in 1987 showed an increase of 6.4 million kgs. or 4.6 per cent over the year. Favourable weather conditions at the start of the season aided the increase in tea production.

Production of tea during the first half of 1988 (upto June 1988) at 244.1 million kgs. was higher as compared to 223.1 million kgs. during the corresponding period of 1987. This comprised of 151.5 million kgs. of North Indian teas and a record 92.6 million kgs. of South Indian teas. In the same period of 1987 production of North Indian teas was at 155.8 million kgs. and that of South Indian teas at 67.3 million kgs. Total tea production during 1988 is expected to be a record at 700 million kgs. of which South Indian tea crop might be 160 million kgs. considering the favourable weather conditions now prevailing in this region.

Tea exports in 1987-88 were higher at 207.6 million kgs. as compared to 197.4 million kgs. in 1986-87 but lower than the exports of 214.2 million kgs. in 1985-86 and 217.4 million kgs. in 1984-85. Earnings from tea exports were also higher at Rs. 621.8 crores in 1987-88 than Rs.589.0 crores in 1986-87. The unit value realisation of tea was marginally higher at Rs. 29.96 per kg. than Rs. 29.84 per kg. in 1986-87.

The Union Government in April 1988 announced a three year import-export policy for 1988-91 wherein for the first time import replenishment facility for export of tea in bulk has been provided. This is expected to give a big boost to tea exports from the country. Under the policy, exporters would be able to claim the status of an export or trading house and thus enjoy the benefits granted to the export/trading houses under the scheme. Tea will also no longer be treated as a 'traditional' product but clubbed alongwith 'thrust' export products which are non-traditional. Bulk tea has been given four per cent replenishment and will cover a large share of the country's total tea export.

Coffee

Coffee production during 1987-88 was estimated at 120 thousand tonnes or 37.2 per cent less than the production of 191 thousand tonnes in 1986-87 and also less by 42 thousand tonnes than the plan target of 162 thousand tonnes. Coffee crop faced several ups and down since 1984-85 from the production of 195.1 thousand tonnes to 122.3 thousand tonnes in the subsequent year and from 191 thousand tonnes in 1986-87 to 120 thousand tonnes in 1987-88. A total of 241 thousand hectares of land had been brought under coffee cultivation in the country till 1985-86, including 226 thousand hectares in the traditional area of Karnataka, Kerala and Tamil Nadu. Another 12 thousand hectares are proposed to be covered during 1988-89 and 1989-90. The decline in production during the 1987-88 season is mainly accounted for by the lower Arabica variety production of which is placed at 65 thousand tonnes as compared with 89 thousand tonnes in 1986-87. The shortfall in crop was mainly attributed to poor precipitation of the monsoon and to late showers at the blossom stage. Production of Robusta variety also suffered a setback and was placed at 55 thousand tonnes or 46.1 per cent lower than the production of 102 thousand tonnes in the last season. According to the Coffee Board, prospects of coffee production during 1988-89 appear to be highly satisfactory and is expected to hit a record of around 200 thousand tonnes, comprising of 100 thousand tonnes each of Arabica and Robusta.

On the demand side, domestic consumption during the calendar year 1987 reached a record level of 58.6 thousand tonnes as against 54.4 thousand tonnes in 1986 and 56.1 thousand tonnes in 1983. During 1987-88, export earnings from coffee are expected to be around Rs. 256.00 crores as against Rs. 362.83 crores in 1986-87 and the target of Rs. 300 crores. Export in terms of quantity during 1987-88 is estimated at 92.5 thousand tonnes as against 86.7 thousand tonnes in 1986-87.

The export duty on coffee fixed at Rs. 170 per quintal with effect from May 19, 1987 remained

unchanged till August 17, 1988 and was reduced to Rs. 100 per quintal with effect from August 18, 1988. Subsequently, from August 26, 1988 the export duty on coffee was abolished.

Tobacco

The All-India estimates placed area and production of tobacco during 1986-87 at 383.8 thousand hectares and 460.2 million kgs. respectively, as compared to 397.0 thousand hectares and 441.2 million kgs. in the preceding year. The area under tobacco showed a decline of 3.3 per cent though the production showed an increase of 4.3 per cent over the previous year. Almost all the major tobacco growing States particularly Andhra Pradesh, Gujarat and Karnataka accounted for increase in production. In Tamil Nadu, however, production declined significantly mainly due to reduction in area under cultivation. Official estimates of area and production of tobacco for 1987-88 are not yet available. However, as per the reports received from important tobacco-growing regions, production of tobacco during 1987-88 is anticipated to be much lower than in 1986-87. Tentative estimates place production in 1987-88 at around 300.0 million kgs. In Gujarat, which is presently the largest tobacco producing State, the crop is reported to have been adversely affected by severe drought. Consequently outturn of the crop is estimated to be lower by as much as 50 per cent. Performance of important tobacco-growing States during the last three years upto 1986-87 is given in Table III-21.

The area and production of virginia tobacco in the country during 1986-87 was estimated at 114.1 thousand hectares and 106.7 million kgs. respectively, as compared to 115.9 thousand hectares and 79.6 million kgs. in the previous year. Andhra pradesh mainly accounted for the increase in production of virginia tobacco. During 1987-88 an area of 68.7 thousand hectares was covered under virginia tobacco (53.3 thousand hectares in Andhra Pradesh and 15.4 thousand hectares in Karnataka). Expected production of virginia tobacco from these two States in 1987-88 is 59.2 million kgs—47.5 million kgs. in Andhra Pradesh and 11.7 million kgs. in Karnataka.

Tobacco exports declined significantly during 1987-88. According to provisional estimaes, exports of unmanufactured tobacco from India during 1987-88 are placed at 48.1 million kgs. valued at Rs. 96.98 crores as compared to 66.8 million kgs. valued at Rs. 144.87 crores exported during the previous year. The decline in exports during the year was mainly due to less offtake by USSR, UK and Egypt. The quantum of exports to USSR, one of the major importers of Indian tobacco, in 1987-88 at 14.0 million kgs. was significantly lower as against 25.0 million kgs. in 1986-87. The United Kingdom—the other major importer of tobacco from India also reduced imports from 12.4 million kgs. in 1986-87 to 8.7 million kgs. in 1987-88. Besides, exports to Egypt also came down significantly from 5.2 million kg. in 1986-87 to a negligible quantity of 0.6 million kgs. in 1987-88.

Table III-21: Area and Production of Tobacco in important States

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

State	1984-85		1985-86		1986-87	
	Area	Production	Area	Production	Area	Production
Andhra Pradesh	177.9	170.6	149.3	145.5	142.7	153.5
Gujarat	108.4	173.5	106.2	167.8	110.4	182.8
Karnataka	48.9	31.2	47.2	31.9	46.9	36.9
Tamil Nadu	12.3	25.7	13.2	18.3	7.2	9.8
Uttar Pradesh	19.4	28.1	14.4	21.5	13.6	20.4
West Bengal	15.7	16.5	14.5	14.9	14.1	15.2
Others	54.0	40.3	52.2	41.3	48.9	41.6
Total	**436.6**	**485.9**	**397.0**	**441.2**	**383.8**	**460.2**

The production and marketing of VFC tobacco is statutorily regulated by the Tobacco Board. The Tobacco Board Act provides that the Board may undertake price support operations whenever considered necessary. With a view to protecting the economic interest of growers of virginia tobacco, the Tobacco Board has introduced auction sale of VFC tobacco since 1984-85 and established auction platforms at different centres in Andhra Pradesh and Karnataka. It is obligatory on the part of the exporters, manufacturers and traders to purchase VFC tobacco from the auction platforms set up by the Board. Minimum support prices of various grades of VFC tobacco are notified every year. The minimum support prices announced by the Government for the 1987-88 season and during the previous season for VFC tobacco are given below:

(Rs. per kg.)

Variety	1986-87	1987-88
Black Soil F_2 grade	11.15	11.25
Light Soil L_2 grade	12.00	12.20

On the basis of the above prices and taking into account normal market differentials, the Tobacco Board notifies the support prices for different grades at different auction centres. In order to protect and promote the economic interest of non-virginia tobacco growers, the Government has sponsored and established a National Co-operative Tobacco Growers' Federation (TOBACOFED) at Anand in April 1983. During the first four years of operation, the TOBACOFED had purchased a total quantity of 10.2 million kgs. of tobacco from growers valued at Rs. 6.19 crores. Initially, the Federation was highly successful in its market intervention purchases at notified prices, but could not continue to sustain its operations due to many factors mainly interest burden on borrowing owing to accumulation of unsold stocks. Ultimately, the TOBACOFED in 1986-87 was compelled to stop fresh purchase of tobacco from growers.

The TOBACOFED has since succeeded in liquidating their stocks and has now proposed to undertake market intervention operations through State Level Tobacco Growers' Federation. The Gujarat State Tobacco Growers' Federation Ltd., has already started functioning in Gujarat. Similar Federations have been established in Bihar, Karnataka and Maharashtra. These Federations, it is hoped, can effectively help the non-virginia tobacco growers through timely market intervention. The National Credit Development Corporation (NCDC) has been pursuing the State Governments to strengthen the primary tobacco co-operative marketing societies and for organising and developing more number of primary tobacco co-operative marketing societies. Financial assistance has also been provided to tobacco co-operative societies for storage, processing and marketing of tobacco under an approved pattern. So far the NCDC has sanctioned total financial assistance of Rs. 1.73 crores.

No Central Sector funds have been allotted for tobacco development in the Seventh Plan. There is also no proposal at present to provide any specific subsidy to tobacco growers. The measures taken by the Central Government for tobacco development are at present confined to providing technical guidance to State Governments and farmers to increase productivity and improve the quality of tobacco by popularising an improved package of practices.

Production Strategy and Related Developments

In the first three years of the Seventh Plan, agricutural production—foodgrains and non-foodgrains—on an average showed a decline of about 1.3 per cent per annum as against the growth rate of 4.0 per cent annum envisaged in the Plan period. The foodgrains production in these years has declined from the peak level of 152.37 million tonnes attained in 1983-84. Apart from adverse weather conditions which affected production in 1986-87 and 1987-88, the other factors responsible for the decline were the slow down in the spread of High Yielding Varieties, fertiliser consumption as also in net irrigated area. The Planning Commission pointed out that the attainability of the growth targets of the Seventh Plan depended crucially on determined efforts to reverse these trends; development of irrigation had to be accelerated, the seed supply system revamped and the fertiliser use speeded up.

The Planning Commission in Mid-Term Apprisal of the Seventh Plan advocated that

Table III-22: Trends in Production, Export, Consumption etc., of Non-foodgrain commodities

Year	Oilseeds		Tea (Million kgs)		Coffee ('000 tonnes)			Sugarcane (Million tonnes)		Tobacco (Million kgs)		
	Production (million tonnes) (Nov.-Oct.)	Yield per hectares (Kgs)	Production (Jan.-Dec.)	Exports (Apr.-Mar.)	Production (Oct.-Sept.)	Exports (Apr.-Mar.)	Internal consump-tion (Jan.-Dec.)	Production (Nov.-Oct.)	Yield per hectare (tonnes)	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	58.4	520	116.9	384.1
1982-83	10.0	563	560.7	194.1	130.0	83.8	54.0	189.5	56.4	582	93.9	395.8
1983-84	12.7	679	581.5	202.3	105.0*	71.2	56.1	174.1	56.0	493	90.0	N.A.
1984-85	12.9	684	639.9	217.4	195.1*	68.9	53.5	170.3	57.7	486	74.7	N.A.
1985-86	10.8	570	656.2	214.2	122.3*	99.3	54.9	170.6	59.9	441	64.4	N.A.
1986-87	11.5	613	624.6	197.4	191.0*	86.7	54.4	182.5	59.7	460	66.8	N.A.
1987-88	12.0	N.A.	673.4	207.6*	120.0**	92.5**	58.6**	190.9	61.0–62.0	300**	48.1	N.A.

* : Latest revised estimates.
** : Provisional.
N.A. : Not Available.

agriculture should be accorded highest priority in the remaining two years of the Plan. The target of foodgrains production was revised to 173-175 million tonnes from the original target of 178-183 million tonnes. The target of sugarcane production was also revised downward. The revised targets are indicated in the Table 22A.

The revised targeted levels of agricultural production in respect of key crops are a little lower than the original projections, partly because of the levels realised in the base year. An analysis of supply possibilities indicates that subject to the irrigation development being stepped up to be in line with the Plan targets of 71.4 million hectares, it should be possible to reach the potential output in foodgrains of 175 million tonnes by 1989-90. The Planning Commission has emphasised that the revised target can be achieved if the following measues are implemented:—

i) the input supply and management strategies suggested by the Planning Commission are achieved in the remaining years of the Seventh Plan;
ii) the assistance under the Special Rice Production Programme is continued and in particular, attention is also paid to aspects neglected uptill now e.g., drainage improvements and seed supplies in difficult area;
iii) in the wheat economy, attention is paid to significantly improved yields through genetic breakthroughs and extension effectiveness;
iv) the Technology Mission in oilseeds is given priority;
v) optimal cropping patterns are derived and extension support is provided in rainfed and dryland areas and in the different agro-climatic regions and a major effort made in watershed development schemes;
vi) marketing infrastructure and price support operations are extended to dryland crops particularly pulses and oilseeds; and
vii) in the input supply programmes, particular attention is paid to improved water management.

With a view to raising foodgrains production substantially in the remaining two years of the Plan, a Special Food Production Programme, the details of which are given below, has been continued.

Special Food Production Programme 1988-89—1989-90

Following the Mid-Term Appraisal of the Seventh Five Year Plan, the Prime Minister had set up a Task Force headed by Member (Agriculture) Planning Commission to attain, under all circumstances, the foodgrains production of 169.1 million tonnes in 1988-89 and further to 175 million tonnes in 1989-90 i.e., by the end of Seventh Plan period. The revised agricultural production targets for Seventh Plan are given in the following table. Accordingly, the Task Force has formulated an action plan called the 'Special

Table 22A : Agricultural Production Targets for the Seventh Plan (Major Crops)

(Million tonnes)

Crops	Base 1984-85		Target 1989-90		
	Original	Revised	Original	Revised	
				I	II
1.	2.	3.	4.	5.	6.
Rice	60.0	58.3	73-75	72.7	71.7
Wheat	45.0	44.1	56-57	55.1	54.1
Other Cereals	32.0	31.2	34-35	32.8	32.9
Pulses	13.0	12.0	15-16	14.6	14.5
Foodgrains	150.0	145.5	178-183	175.2	173.2
Major Oilseeds	13.0	12.9	18.0	18.0	16.0
Sugarcane	180.0	170.3	217	206.0	206.0

Source: Seventh Five Year Plan: Mid-Term Appraisal.

Foodgrains Production Programme by identifying 169 potential districts in 14 States as 'thrust districts' so as to concentrate efforts and funds for stepping up the output of rice, wheat, maize, gram and *arhar* during 1988-89 and 1989-90. Thus, the programme is to make up for the production losses suffered during consecutive droughts in the last three years. For this purpose, a six-pronged strategy to be suitably fine-tuned for different agro-climatic zones (cluster of districts) has been suggested. The strategy involves increased use of fertiliser per hectare, use of improved high yielding variety seeds, better management of weeds and timely control of pest and diseases, harnessing ground water through tubewells, completing on-farm development works in command areas and completing the near complete irrigation projects, efficient use of stored water, bonus or incentive for production and procurement of foodgrains and increased flow of short-term and long-term credit. Thus by planning efficient and better management of criticial inputs and transfer of technology through an efficient extension system, the yield per hectare would be increased and the proposed additional production could be achieved. For the success of the programme, proper machinery has been set up for the implementation and monitoring the progress as also for evaluation of the programme at a regular intervals. Among the various steps initiated by the Government are: reductions in prices of fertiliser and pesticide so as to raise their consumption, imports of fungicide, weedicides and insecticides under OGL, reduction in interest rates on crop loans (upto Rs. 7,500) to 10 per cent per annum from the prevailing level of 11.5—12.5 per cent per annum and (above Rs. 7,500 upto Rs. 15,000) to 11.5 per cent per annum from the prevailing rate of 12.5—14 per cent per annum and higher target of direct finance to agriculture by public sector banks.

Further, a separate National Agricultural Credit Relief Fund is proposed to be established to meet the demands of the farmers to provide relief on a systematic basis from the Co-operative Sector to meet the situation arising out of the recurrent crop losses due to droughts and floods. The Government has also proposed to initiate a payment for digging one million wells under National Rural Employment Programme and Rural Landless Employment Guarantee Programme by raising the percentage of allocation of funds for the exclusive benefit of SC/STs from 10 per cent to 20 per cent.

Other Agricultural Development/ Production Programmes

The efforts of the State Governments are being supplemented by the following Centrally Sponsored Schemes/programmes of agricultural development which continued during 1987-88.

For increasing and stabilising agricultural production in the low to medium rainfall region of the rainfed (dry land) areas, the National Watershed Development Programme for Rainfed Agriculture has been launched from 1986-87. Besides, for increasing the productivity of Alkali soils by restoring the crop production of such land, a project 'Reclamation of Alkali Soils in the States of Punjab, Haryana and Uttar Pradesh' was in operation since 1985-86. Further, a scheme 'Assistance to Small and Marginal Farmers for increasing Agricultural Production' has been launched since 1983-84.

For increasing foodgrains production in the country, the expansion of area under the High Yielding Varieties Seeds Programme was continued to be one of the main planks of the strategy. This programme was supported by (i) Minikit Demonstration Programme for popularisation of newly identified/newly released varieties; (ii) Maize Demonstration in Tribal/Backward areas; (iii) State level Training Programme, and (iv) Replacement of rust susceptible wheat varieties in hill areas with rust resistant varieties, etc.

For increasing foodgrains production, the Special Rice Production Programme in Eastern States launched since 1985-86 and the National Pulses Development Project started in 1986-87 continued during 1987-88.

For increasing the commercial crops, the following programmes are in operation (1) The Intensive Cotton Development Programme, (2) The Intensive Jute Development Programme which was supplemented by Special Jute

Table III-23: Some Key Indicators of Agricultural Inputs

Item	Unit	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	
									Target	Likely Achieve-ment
1.	2	3	4	5	6	7	8	9	10	11
A. Seeds										
i) Production of breeder seeds	Thousand Qtls	5.27	3.91	17.07	30.00	29.03	23.64	28.60		25.18
ii) Production of certified seeds	Lakh Qtls	21.86	24.18	36.61	41.26	49.97	44.84	56.51	..	53.42
iii) Distribution certified/ quality seeds	"	25.01	29.81	42.06	44.97	48.46	55.01	55.83	73.00	56.30
B. Fertiliser consumption (NPK)										
i) Total	Lakh tonnes	55.16	60.64	63.88	77.10	82.11	87.37	87.38	103.00	91.15
ii) Per hectare	kgs	31.83	34.25	37.00	42.75	45.53	48.44	48.45	..	..
C. Area under high yielding varieties	Million ha.	43.07	46.49	47.48	53.74	54.14	45.42	54.04	62.42	55.00
D. Consumption of pesticides (Technical Grade Material)	Thousand tonnes	45.00	47.00	50.00	55.00	56.00	52.00	50.00	75.00	75.00

Source: Ministry of Agriculture, Government of India.

Table III-24: 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		1987-88		
	Total Cro-pped area	Area under HYV	Total Cro-pped area	Area under HYV	Total Cro-pped area	Area under HYV	Total Cro-pped area	Area under HYV	Total Cro-pped area	Area under HYV	Total Cro-pped area	Area under HYV	Total Cro-pped area	Area under HYV	
														Target	Actual
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Paddy	40.07	19.7	38.3	18.9	41.2	21.7	41.2	22.8	41.1	23.4	40.8	23.5	..	26.5	21.0
Wheat	22.1	16.7	23.5	17.8	24.7	19.4	23.6	19.1	23.0	19.2	22.8	19.0	..	21.1	21,0
Jowar	16.6	3.9	16.4	4.4	16.4	5.3	15.9	5.1	16.1	6.1	15.6	4.9	..	6.5	6.0
Bajra	11.8	4.6	10.9	4.7	11.8	5.4	10.6.	5.1	10.7	5.0	11.2	4.7	..	5.9	5.0
Maize	5.9	1.6	5.7	1.7	5.9	1.9	5.8	2.0	5.8	1.8	5.9	1.9	..	2.4	2.0
Total	**97.1**	**46.5**	**94.8**	**47.5**	**100.0**	**53.7**	**97.1**	**54.1**	**96.7**	**55.4**	**96.3**	**54.0**	..	**62.4**	**55.0**

Source: Ministry of Agriculture, Government of India.

Agricultural Development Programme during 1987-88. (3) The National Oilseeds Development Project started in 1984-85 and the National Dairy Development Board Project for Restructuring of edible oils and oilseeds production and Marketing which came into operation in July 1979. This programme has been strengthened by the 'Oilseeds Production Thrust Programme' started in 1987-88.

General Programmes

High Yielding Varieties Programmes

Expansion of area under High Yielding Varieties Programme (HYVP) continued to be one of the elements of the strategy for increasing foodgrains production during 1987-88. A target for coverage of 62.4 million hectares under HYV was fixed for the year 1987-88 as against actual increase of 54.0 million hectares during 1986-87. However, due to drought, only 55.0 million hectares are anticipated to have been brought under HYV in 1987-88 (Table III-24).

The HYV Programme is supported by the following Central Sector Schemes viz., i) Minikit Demonstration Programme for popularisation of newly released varieties suitable for different agro-climatic situations, (ii) Maize Demonstrations in Tribal/Backward areas for creating an awareness in the scheduled caste/scheduled trible farmers of the efficacy of new technology in raising maize crop as also 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.

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 at a nominal cost to enable them to grow the new varieties in small areas. About 9.73 lakh seed minikits of rice, wheat and coarse grains were distributed during 1987-88.

During 1987-88, as many as 1,288 maize demonstrations were reported to have been organised in tribal and backward areas against the target of 1,400 demonstrations.

The programme of organising State level training courses in production technology of various crops was continued during 1987-88 and 40 training courses on rice, 35 training courses on millets and 20 training courses on wheat were organised.

In order to check the spread of rust diseases in wheat, the Central Sector Scheme of replacement of rust-susceptible wheat varieties in Hill Areas with rust resistant varieties was continued during 1987-88. Under this scheme, a total quantity of 500 quintals of seeds of rust-resistant varieties of wheat was allotted 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 the main crop season.

Seeds

Production of certified seeds during 1987-88 was placed at 53.42 lakh quintals, showing a decline of 5.5 per cent over the production of 56.51 lakh quintals in 1986-87. The likely production of breeder seeds production was placed at about 0.25 lakh quintals during 1987-88 as against 0.29 lakh quintals in 1986-87. Estimates indicate that 56.30 lakh quintals of certified/quality seeds had been distributed during 1987-88 as compared to 55.83 lakh quintals in 1986-87 (Table III-23). The target for distribution in 1988-89 is fixed at 88.35 lakh quintals.

To ensure adequate availability of foundation seeds, which is the secondary stage in the seed production cycle, the Government of India has instituted a scheme under which the breeder seeds are allocated to private seed producers to ensure rapid multiplication of the same into foundation seeds. The production of foundation seeds of cereals, pulses, oilseeds, fodder seed and fibre crop during 1987-88 was placed at about 4.36 lakh quintals, as compared with 4.29 lakh quintals during 1986-87. Under a scheme introduced in 1978, a buffer stock of seeds is maintained by the Government of India to meet the contingent requirements arising due to natural calamities like floods, drought, disease, etc. The implementation of the scheme has been entrusted to the National Seeds Corporation (NSC) which maintains the reserve stock of different varieties of seeds. However, since 1984-85, State Seeds Corporations

have been allowed to participate in the scheme on trial basis. During the financial year 1987-88, the scheme was modified to enable the participation of State Seeds Corporations, in case they so desire, on 50 per cent cost sharing basis with the Centre. Under the revised scheme, the State Seeds Corporations are allowed to maintains buffer stocks of seeds of oilseeds, pulses and coarse grains. The NSC, however, maintain buffer stocks for meeting the seeds requirements of North-Eastern States, (paddy, maize, oilseeds and pulses.) Under National Seeds Project (NSP)-I and NSP-II completed in December 1984 and December 1985, respectively, infrastructural facilities for seed production, processing, certification, quality control and distribution were created in 9 States (NSP-I: Andhra Pradesh, Haryana, Maharashtra, Punjab; NSP-II: Bihar, Karnataka, Orissa, Rajasthan and Uttar Pradesh). NSP Phase III expected to be assisted by the World Bank is under consideration for providing these services to the States of Assam, West Bengal, Gujarat, Madhya Pradesh and North Eastern Region. Exports of breeder and foundation seeds as also certified seeds of pulses and oilseeds are banned. About 70 to 80 per cent of the seeds supplied to the North Eastern States are used in the *rabi* season. If sent for *kharif* season, there is likelihood of seeds getting destroyed due to heavy rains and humid climate in the absence of air-conditioned storage/ godowns facilities. Since transportation is by road, the transportation cost of seeds becomes prohibitive. For meeting the heavy transportation cost, Government of India provides subsidy on transportation of seeds to North Eastern States on the difference in cost of transportation of seeds by rail and road. In the case of Assam, 50 per cent of the cost difference is subsidised, whereas in the case of six other States in the North-Eastern region the differential cost is fully subsidised for the quantity of seeds transported to these States.

During 1987-88 as many as 68 varieties of seeds were notified and brought under the provisions of the quality control as per the Seeds Act, 1966 and the Rules framed thereunder.

Irrigation

The drought of 1987-88 highlighted the need for early completion of the on-going irrigation projects and full utilisation of the potential already created. In the long-term, however, area under assured irrigation has to be maximised. Accordingly, the Plan allocations for major and medium irrigation projects were augmented, and greater stress was laid on full utilisation of irrigation potential already created. The gross irrigated area in the country was 22.6 million hectares (m.ha.) in 1950-51 which is reported to have increased to 67.5 m.ha. (under reappraisal) by the end of the Sixth Plan. The Seventh Plan set the target of additional irrigation potential at 12.9 m.ha. as against 10.9 m. ha. achieved in the Sixth Plan. The achievements during the two years, 1985-86 and 1986-87 were estimated to be 4.4 m. ha., and the target for 1987-88 was placed at 2.4 m.ha. (Table III-25). The average rate of creation of irrigation potential during the past 34 years (that is, since the inception of the First

Table III-25: Development of Irrigation Potential

(Million hectares)

Item	Ultimate	Created upto VI Plan (1984-85)	VII Plan (1985-86 to 1989-90) (Target)	1985-86 (Achievement)	1986-87 (Anticipated Achievement)	1987-88 (Target)	1987-88 (Anticipated Achievement)
1.	2.	3.	4.	5.	6.	7.	8.
A. Major & Medium	58	30.0	4.3	0.5	0.6	0.7	..
B. Minor Irrigation	55	37.5	8.6	1.6	1.7	1.7	..
(a) Surface Water	15	9.7	1.5	0.3	0.3	0.3	..
(b) Ground Water	40	27.8	7.1	1.3	1.4	1.4	..
Total (A + B)	**113**	**67.5**	**12.9**	**2.1**	**2.3**	**2.4**	..

Source: Ministry of Water Resources, Government of India.

Plan) was about 1.3 m. ha. per annum, which increased to about 2.2 m. ha. per year during the Sixth Plan. In the Seventh Plan the rate is targeted to be enhanced to 2.6 m. ha. per annum. An irrigation potential of 113 m. ha. is envisaged to be created by the year 2010 AD of which about 58 m. ha. will be under the major and medium irrigation sector and 55 m. ha. in the minor irrigation sector. (Table III-26).

In the Seventh Plan, the outlay fixed for major and medium irrigation was Rs. 11,556 crores and for minor irrigation projects at Rs. 6,305 crores. Thus, the total outlay on irrigation projects was placed at Rs. 17,861 crores. Against this, expenditure incurred was Rs. 1,882 crores in 1985-86 and Rs. 2,137 crores in 1986-87 (on major and medium projects) and Rs. 988 crores and Rs. 1,173 crores in 1985-86 and 1986-87, respectively, on minor irrigation. The target outlay for 1987-88 was fixed at Rs. 3,958 crores comprising Rs. 2,573 crores on major and medium and Rs. 1,385 crores on minor irrigation (Table III-27).

Under the scheme for strengthening of Ground water and Surface water Schemes for minor irrigation, Central assistance is given to the State Governments/Union Territories for the purchase of equipments required for the purpose. The cost of machinery is shared between the Centre and the States in the ratio of 50:50. The Seventh Plan allocation for the scheme is Rs. 25 crores. A sum of Rs. 375 lakhs was released to 12 States during 1985-86 and Rs. 420.08 lakhs to 17 States during 1986-87 as Central share. During 1987-88, an amount of Rs. 525 lakhs was proposed to be released but by December 1987, an amount of Rs. 281.8 lakhs only had been released.

Under another Centrally Sponsored Programme which is continuing since Sixth Plan (1982-83), man/animal operated pumps are being encouraged and the programme covers the use of sprinklers/drip system, hydrams and water turbines. Under the scheme, the small and marginal farmers are provided subsidies for installation of water and energy saving devices for irrigation which is shared equally by the Centre and the States. The rates of subsidy are 25 per cent for small farmers, 33⅓ per cent for the marginal farmers and 50 per cent for scheduled caste and scheduled tribe farmers belonging to small and marginal category. The scheme is particularly beneficial to the farmers having undulating terrain where there is water scarcity and in backward areas of the country with no provision of electricity. Seventh Plan allocation for the scheme is Rs. 10 crores. A Central share of Rs. 25 lakhs was released to 3 States during 1985-86 and Rs. 145 lakhs to 6 States during 1986-87. It was proposed

Table III-26: Development of Irrigation Potential and its Utilisation (Cumulative Coverage)

(Million hectares)

Year	Major & Medium Schemes		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	58.2
1983-84	30.0	24.6	35.6	34.0	65.6	58.6
1984-85	30.0	25.3	37.5	35.3	67.5	60.6
1985-86	30.5	25.8	39.1	36.4	69.6	62.2
1986-87 (Anticipated Achievement)	31.2	26.4	40.7	37.8	71.9	64.2
1987-88 Target	31.9	27.0	42.4	39.2	74.3	66.2

Source: Economic Survey.

Table III-27: Financial Outlay on Major & Medium and Minor Irrigation

(Rs. crores)

Item	During Plan period upto end of VI Plan (1980-81 to 1985-86)	VII Plan (1985-86 to 1989-90) (Target)	1985-86 (Actual)	1986-87 (Anticipated)	1987-88 (Target)	1987-88 Anticipated Achievement
1.	2.	3.	4.	5.	6.	7.
A. Major & Medium	14879	11556	1882	2137	2573	..
B. Minor Irrigation	8220	6305	988	1173	1385	..
of which:						
(a) Government Sector	4482	2805	487	589	682	..
(b) Institutional Sector	3738	3500	501	584	703	..
Total (A+B)	**23099**	**17861**	**2870**	**3310**	**3958**	..

Source: Ministry of Water Resources, Government of India.

to release Rs. 195 lakhs during 1987-88 against which an amount of Rs. 27 lakhs was released upto December 1987.

A pilot scheme for rectification of diesel pump sets to increase operational and fuel efficiency introduced during 1985-86 remained operative in 1986-87; the scheme was extended in 1987-88 also. Under this scheme, 100 per cent Central assistance is provided to all selected States where there is a concentration of diesel pumpsets. During 1985-86, an amount of Rs. 4.59 lakhs was released to 7 States as against an amount of Rs. 14.70 lakhs released to 7 States in 1986-87. A Central assistance of Rs. 2.10 lakh has been released to the State of Karnataka during the year 1987-88.

Command Area Development Programme

The Centrally sponsored Command Area Development (CAD) Programme was launched in 1974-75 for bridging the gap between creation and utilisation of irrigation potential and optimise agricultural production from irrigated land. The programme broadly covered on-farm development works like construction of field channels, land levelling, field drains and 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 included supply of inputs and credit, agricultural extension, construction of markets and godowns and development of ground water for conjunctive use. At present the programme extends to 132 selected major and medium irrigation projects with a total culturable command area of 17.3 m. ha. in 19 States and one Union Territory. So far, 50 Command Area Development Authorities have been set up to implement the programme.

The allocation for the CAD programme in the Seventh Plan is Rs. 500 crores in the Central Sector. The expenditure incurred in 1985-86 and 1986-87 amounted to Rs. 70 crores and Rs. 94 crores (anticipated), respectively. For 1987-88, the budgetary outlay of Rs. 90 crores was expected to be utilised in full. For 1988-89 an outlay of Rs. 120 crores has been proposed (Table III-28).

The Seventh Plan targets for coverage of area under field channels, land levelling and *warabandi* in physical levies were 6.81 m. ha., 1.00 m. ha., and 8.04 m. ha, respectively. In 1986-87, the targets set for construction of field channels, land levelling and *warabandi* were 1.32 m. ha 0.23 m. ha. and 1.77 m. ha., respectively, against which the achievements were 0.69 m. ha., 0.07 m. ha. and 0.96 m. ha. respectively.

For 1987-88, the targets set were 1.26 m. ha. under field channels, 0.15 m. ha. under land levelling and 1.58 m. ha., under *warabandi* in addition to 0.24 m. ha. under field drains for

alleviating the problems arising from water logging and salinity (Table III-29).

Crop Insurance Scheme

The Comprehensive Crop Insurance Scheme introduced from 1985 *kharif* season continued to operate during the year 1987-88. 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 was kept unchanged at 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. Under the Scheme, fifty per cent of the premium payable by the small and marginal farmers was subsidised jointly by the Central and State Governments on 50:50 basis. The scheme was, however, temporarily suspended by the Government of India during *kharif* 1988 but subsequently the Government had decided to continue the scheme during the *kharif* 1988 season, subject to the conditions that the sum assured would be reduced from 150 per cent to 100 per cent of the crop loan and its maximum limit will be Rs. 10,000 per farmer.

During 1986-87 *rabi* season, 14 States and 3 Union Territories implemented the scheme. GIC received proposals to the tune of Rs. 242.4 crores as sum insured covering an area of 21.0 lakh hectares benefiting 11.3 lakh farmers. During 1987 *kharif* season, 18 States and 3 Union Territories implemented the Comprehensive Crop Insurance Scheme covering the area of 84.4 lakh hectares and 47.3 lakh farmers. Proposals amounting to Rs. 1,140.0 crores were received.

Under the scheme, the GIC has paid substantial claims amounting to Rs. 82.9 crores, for

Table III-28: Financial Outlay under Command Area Development Programme

Sector	VII Plan (1985-86 - 1989-90)	1985-86 (Actual)	1986-87 (Anticipated)	1987-88 (Budget)	(Actual)
1.	2.	3.	4.	5.	6.
Total	1671	252	316	318	..
of which:					
Central Sector	500	70	94	90*	..

* Budgetary outlay.

Source: Ministry of Water Resources, Government of India.

Table III-29: Achievements Under Command Area Development Programme

(Lakh hectares)

Item	VII Plan (1985-86 - 1989-90) target	1985-86 Achievement	1986-87 Target	1986-87 Achievement	1987-88 Target	1987-88 Achievement
1.	2.	3.	4.	5.	6.	7.
Construction of field channels	68.1	6.8	13.2	6.9	12.6	..
Land levelling/shaping	10.0	1.0	2.3	0.7	1.5	..
Warabandi	80.4	7.1	17.7	9.6	15.8	..
Field drains	..	..	..	..	2.4	..

Source: Ministry of Water Resources, Government of India.

kharif 1985 and Rs. 154.3 crores for *kharif* 1986. The details of the progress of the crop insurance scheme since *kharif* 1985 season, such as the number of farmers covered, area covered, sum insured etc., are given in Table III-30

Fertilisers and Manures

In spite of unprecedented drought in most parts of the country and floods in some areas, fertilizer consumption in 1987-88 was estimated to be around 91.2 lakh tonnes or 4.1 per cent higher than 87.4 lakh tonnes in 1986-87, but lower than target of 103.0 lakh tonnes fixed for the year. (Table III-23 & 31). Various steps were taken during 1987-88 to increase consumption of fertilizers which included ensuring adequate availability at subsidised and uniform prices throughout the country, promotion of sale through the district lead fertilizer system launched from *rabi* 1986-87, extension support by fertilizer industry and Training and Visit (T.V.) system, soil analysis by soil testing laboratories on the judicious use of fertilisers on the basis of soil tests etc.

During the year 1987-88, short-term loans of about Rs. 260 crores at 6 per cent interest were made available to the States for purchase and distribution of agricultural inputs like fertilizers, seeds and pesticides. Of these Rs. 130 crores were released in *kharif* 1987 and another Rs. 130 crores during *rabi* 1987-88.

Bio-fertilizers have been found to be cheap and renewable. The Rhixobium Cultures and Blue Green Algae (BGA) have been found to be very effective in Indian conditions especially the latter as a supplementary source of nitrogen for wet land paddy. Under the National Project on Development and Use of Bio-fertilizers, 40 Blue Green Algae sub-centres have been established for the production of quality blue green Algae culture through field multiplication programme. During the year 1986-87, these centres produced 150 tonnes of Blue Green Algae cultures. Besides a national seminar was held in June 1987 on the development and use of Blue Green Algae.

Plant Protection Measures

During the year 1987-88, the implementation of Integrated Pest Management which is the best mix of pest control tactics and need-based use of selective pesticides continued to receive attention. Pest surveillance for monitoring pests and diseases, on important crops such as paddy, wheat, oilseeds, pulses and biological control by using the parasites and predators to reduce the pest population of identified crops like sugarcane, rice, cotton and gram etc., was taken up. The pest surveillance service was being rendered through 32 Central Plant Protection and Central Surveillance Stations in co-operation with the Agricultural Departments of the concerned States. These stations carried out rapid roving surveys for monitoring pests and diseases on economically important crops like paddy, wheat, oilseeds, pulses, sugarcane, cotton etc. An area of three lakh hectares was scanned through these surveys during *kharif* season and an area

Table III—30: Progress of Crop Insurance Scheme

Season	No. of States & UTs implementing	No. of farmers covered (lakhs)	Area covered (lakh hectares)	Sum insured (Rs. crores)	Total insurance charges (Rs. crores)	Claims paid (Rs. crores)
1	2	3	4	5	6	7
Kharif 1985	11+2	26.4	53.7	542.7	9.4	82.9
Rabi 1985-86	13+3	12.1	23.2	238.4	4.5	3.1
Kharif 1986	15+4	39.6	77.4	856.2	15.0	154.3
Rabi 1986-87	14+3	11.3	21.0	242.4	4.5	2.9
Kharif 1987	18+3	47.3	84.4	1,140.0	19.1	9.0
Rabi 1987-88@	19+1	21.3	32.4	475.4	8.8	..

Notes: .. = Not available.

@ : Figures for rabi 1987-88 season are as on April 30, 1988.

Source: General Insurance Corporation of India.

Table III-31: Consumption of Fertilisers

(Lakh tonnes)

Year (April-March)	Nitrogeneous (N)	Phosphatic ($P_2 0_5$)	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	57.7	21.1	8.6	87.4
1987-88 (Target)	69.5	24.0	9.5	103.0
(Expected Achievement)	59.3	22.6	9.2	91.2

Source: Ministry of Agriculture, Government of India.

of 3.5 lakh hectares was targetted for coverage during 1987-88 *rabi* season. These surveys have helped to detect build up of pests and diseases in the early stages of their development and facilitated adoption of timely plant protection measures against pests. In order to popularise and propagate the scheme, field demonstrations at 16 locations in the farmers' rice growing fields were organised by the field units of Central Directorate of Plant Protection. The Central Biological Control Stations and the Mass Multiplication unit undertook mass breeding and released over 315 million parasites/predators. Some of the pests like pyrilla on sugarcane, pod borer on gram, stem borer on rice and boll worm on cotton were effectively suppressed.

There are 26 Plant Quarantine and Fumigation Stations in the country for keeping vigilance against the clandestine entry of exotic pests and diseases at major international airports, seaports and land frontiers. During the year, screening of about 3,80,132 tonnes and 42,308 numbers of plants and plant materials imported from various countries was done by these stations and 1408 import permits were issued. Similarly, Phytosanitary certification was done in the case of plant materials and agricultural product intended for export.

Under the Centrally sponsored scheme for the Control and Eradication of Pests and Diseases of Agricultural Importance, Central assistance amounting to Rs. 374.09 lakh was disbursed to various States/Union Territories to cover an area of about 47.41 lakh acres.

The demand for pesticides in terms of technical grade material was anticipated at 75,000 tonnes; the reports indicate that availability remained satisfactory throughout the year. In order to improve and supplement the availability position of seven commonly used and indigenously manufactured pesticides, a total quantity of about 13,435 tonnes was allocated to various States/Union Territories.

In the desert area of Rajasthan, Gujarat and Haryana where the locust is an endemic pest, constant vigil was kept through intensive surveys. These surveys were also supplemented by special border surveys and random surveys. Anticipating the possible threat of a locust invasion, as forecast by FAO, all the needed steps were taken to remain in full alertness.

Agricultural Implements and Machinery

Various steps were taken during the year 1987-88 to manufacture, popularise and distribute improved hand tools and agricultural machinery. As tractor continued to occupy an important place in the mechanisation of agriculture, the installed capacity for manufacturer of tractors was increased to 1,14,500 units recording an increase of 4 per cent over the previous year. The production and sale of power tillers was estimated to go up to 3,500 in 1987-88 from about 3,300

in 1986-87. There was a fall in the production and sale of combine harvesters due mainly to adoption of tractor reapers in wheat growing belt. A distinguishing feature of the tractor sales during the year was the shift towards tractors having engine capacity not exceeding 1800 cc. This is largely because of exemption from central excise allowed to the tractors in this range during the year.

The Centrally Sponsored Scheme for "Establishment of Farmers' Agro-Service Centre and Popularisation of Improved Agricultural Implements and Handtools" continued during 1987-88. The scheme envisages an integrated approach for the adoption and popularisation of improved agricultural implements and hand tools amongst the small, marginal and tribal farmers in additional 500 dry-land blocks of 10 States in 1987-88. As against the Central outlay of Rs. 150 lakhs during the year 1987-88, a sum of Rs. 103 lakh was released to States upto October 1987.

Under the Central Farm Machinery Training and Testing Institute, Budni (MP), Northern Region Farm Machinery Training and Testing Institute, Hissar (Haryana) and Southern Region Farm Machinery Training and Testing Institute, Garladinne (A.P.) 1,015 persons were trained in 1987-88 against the target of 1,500 for the year.

Agro-Industries Corporations

Agro-Industries Corporations which were set up in 17 States during Third and Fourth Five Year Plan periods, continued to play a vital role in the manufacture and distribution of improved agricultural implements and handtools, fertilisers, pesticides, hiring of machinery and installation of bio-gas plants, etc. Against a turnover of Rs 675 crores in the previous year, the turnover in 1987-88 of these corporations was expected to be Rs 750 crores. The performance of corporations in Gujarat, Maharashtra, Madhya Pradesh, Himachal Pradesh and Punjab require special mention, as these went ahead in promoting the ancillaries and setting up joint sector projects in collaboration with other units.

Agricultural Extension

Agricultural extension plays an important role in agricultural development through professional extension services transmitting the latest research findings on agricultural technology to the farming community. It provides direction, technical support and co-ordination at various levels of implementation of extension projects and other related activities. During the year 1987-88, national level seminars were organised on various aspects of extension. For the first time, a national level workshop on women in agriculture was held in September 1987. Of the 17 major States where reformed extension under the Training and Visit (T & V) System had been in operation, 10 States had completed their project period of five years. To consolidate their experiences and achievements gained in the first phase of these projects, a National Agricultural Extension Project (NAEP) is now under operation in three separate phases.

Under the NAEP-I, the States of Madhya Pradesh, Rajasthan and Orissa were included in the State sector for further improvement of their reorganised system which commenced since the Sixth Plan. Under the Central sector of this project, the Directorate of Extention was strengthened for effective management and supervision of the extension net work in all the States and Centrally sponsored special subprojects were drawn up from time to time to bridge the perceived gaps in the on-going extension system. The implementation of NAEP-II is entirely in the State sector covering the States of Gujarat, Haryana, Rajasthan and Jammu and Kashmir. NAEP-III, besides covering some Central sector and Centrally sponsored components, covers extension projects in the States of Assam, Bihar, Uttar Pradesh, Himachal Pradesh and Punjab, the first two States taking to the second phase.

During the second year of the Seventh Plan, the Central sector and the Centrally Sponsored Programmes of the Field Extension gained momentum by taking care of additional technical manpower requirement for overseeing the progress of implementation of T & V Projects in the States. It also provided for additional equipment mobility support and provision for civil work. The Directorate of Extension continued to guide the State Departments of Agriculture/Animal Husbandry/Horticulture in planning, coordinating, implementing and evaluating the training programmes for extension personnel, farmers, farm women and farm youths to improve the knowledge, skill and quality of leadership to improve performance. A mid-term review

workshop was also organised to review the progress made during the year 1987-88 and to make mid-term corrections. The Directorate of Extension 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. It brought out monthly journals, leaflets, farm bulletins, news letters, etc., in simple language for the benefit of the farmers, extension workers and students of agriculture. Also in collaboration with the Ministry of Information and Broadcasting, it produces short agricultural instructional and research films and prints them in different regional languages and distributes to all the concerned States and Extension Education Institutes for screening in the rural areas. The Directorate organised exhibitions and fairs in different parts of the country and also participated in 7 National and International fairs for highlighting the progress made by the country in the field of agriculture and export potential of various agricultural commodities. During 1987-88, the National Productivity Council gave away 11 productivity awards for providing the necessary motivation and a healthy competition among the producers in the core sectors of agriculture.

Soil and Water Conservation

The All India Soil and Land Use Survey Organisation continued to provide support to various ongoing programmes by way of identifying priority/responsive watersheds, catchment characteristics, etc., for effective plan formulation, implementation as well as monitoring. The ongoing Centrally Sponsored Schemes of soil conservation in the catchment of River Valley Projects and Integrated Watershed Management in the catchment of Flood Prone Rivers were continued during the year on 827 priority watersheds in 35 catchments spread over 18 States and one Union Territory, which helped in increasing the cropping intensity and production while generating additional employment opportunities and incomes.

The Soil Conservation in Catchments of River Valley Projects Programme has been under implementation since the Third Five Year Plan and presently is in operation in 587 priority watersheds of 27 catchments spread over 17 States and Damodar Valley Corporation (DVC) area.

The scheme of Integrated Watershed Management in the catchment areas of Flood Prone Rivers was launched during the Sixth Plan and it is presently being implemented in 240 watersheds of 8 catchments of Gangetic basin spread over seven States and one Union Territory. During 1987-88, an area of 0.04 million hectares was programmed to be treated with an outlay of Rs. 11.28 crores.

The All India Soil and Land Use Survey Organisation continued to carry out surveys with a view to provide data base for planning Soil Conservation Programme.

Dryland Farming

Under the scheme of dryland agriculture, a National Watershed Development Programme for Rainfed Agriculture was initiated in 1986-87 in selected districts on a pilot basis to be continued during the remaining period of the Seventh Five Year Plan. The programme was launched in 16 States covering 99 districts. The main components of the programme are: land and moisture management works for introduction of improved cropping system, dryland horticulture, fodder production and farm forestry, contingency seeds stocking and supply of seedlings and grass seeds/slips, conducting of adaptive trials, supply of improved tools and equipments, preparation of scientific fields manual, etc. (Table III-32).

The total cost of the scheme for a period of four years is Rs. 239 crores of which Rs. 120 crores is the Central share. Annually 2.32 lakh hectares area is to be covered. For Seventh Plan, the target is 9.28 lakh hectares. During 1986-87, a sum of Rs. 13.25 crores was released to cover 95,865 hectares under works programme. For 1987-88, a sum of Rs. 28 crores (Central share) has been provided for this scheme.

Drought Prone Areas Programme and Desert Development Programme

Both Drought Prone Areas Programme (DPAP) and Desert Development Programme (DDP) are broadly similar in objectives, that is, restoration of ecological balance. However, DPAP aims at integrated area development on a watershed basis for optimum utilisation of land,

Table III-32: Progress of Various Aspects of Dryland Farming

Item	Unit	1986-87	1987-88	
		Achievement	Target	Achievement
1	2.	3.	4.	5.
1. Land Development	Lakh hectares	3.80	..	..
2. Water harvesting/storage structure	Nos.	30,307	..	..
3. Area covered with improved seeds	Lakh hectares	8.84	..	..
4. Area covered with chemical fertilisers	Lakh hectares	8.84	..	..
5. Seedling planted under afforestation	" numbers	..	..	..
6. Area planted under social forestry	Hectates	..	..	..
7. Number of persons trained	Number	17,010	..	..

Source: Ministry of Agriculture, Government of India.

water, livestock and human resources to mitigate the effects of drought while the DDP aims at control of desertification and for improving the economic level of the people in areas covered by the programme.

DPAP is being implemented in 615 blocks of 91 districts in 13 States whereas DDP is being implemented in 131 blocks of 21 districts of 5 States. While DPAP is a Centrally Sponsored Scheme under which allocation is on 50:50 basis to be shared by the Centre and the concerned State, the DDP is wholly a Centrally funded programme. As regards allocation of funds under DPAP, the rate is Rs. 15 lakhs per block while under DDP it has been Rs. 17.5 lakhs per thousand kilometre of area of hot desert and a lumpsum of Rs. 75 lakhs for Himachal Pradesh and over Rs. 112 lakhs for Jammu & Kashmir. It is proposed to step up the allocation of blocks with large geographical area under DPAP.

The major thrust of the DPAP is on achieving drought proofing through concentration on activities relating to soil and moisture conservation, land shaping and development measures, conservation of water resources, afforestation and pasture, fodder and grassland development for which three-fourths of the annual allocation of funds are earmarked. These activities are to be integrated through planning on a mini or micro watershed basis. In the DDP, however, the major thrust is on afforestation with special emphasis on shelter belt plantation, conservation of surface water and recharge of groundwater aquifers and efficient water management through appropriate agronomic practices suited to the areas. Recently, some policy changes have been made for vigorous implementation of the objectives of the programmes. Accordingly, the Central Government has delegated the power to sanction the scheme to State Governments to quicken the pace of development and eliminate bottlenecks. Likewise, sectoral weightage under the two programmes for core activities have been laid down. State Governments have been authorised to work out sectoral weightage of core activities for different districts covered under the programmes taking into account their factor endowments within the overall norms fixed above.

During 1987-88 (till December 1987), the physical progress under DPAP includes 34,900 hectares treated under soil and moisture conservation, 28,700 hectares of irrigation potential created and 49,400 hectares covered under afforestation while under the DDP it was 5,900 hectares, 2,100 hectares and 16,900 hectares, respectively. A high level Committee of experts under the Chairmanship of Member, Planning Commission is proposed to be set up to carry out an appraisal of the impact of these programmes and suggest improvement in the programme contents, methodology of planning, coverage and structure of its implementation. The achievements under the programmes during 1986-87 and 1987-88 are given in (Table III-33 & 34).

National Rural Employment Programme

National Rural Employment Programme (NREP) launched since 1980 aims at substantial reduction in poverty through significant increase in employment opportunities in rural areas and thereby effecting the distribution of income and

Table III-33: Achievement of Drought Prone-Areas Programme

Item	Unit	Achievement				
		1983-84	1984-85	1985-86	1986-87	1987-88
1.	2.	3.	4.	5.	6.	7.
1. Area treated under soil and moisture conservation	000' hectares	54.47	43.8	68.28	34.06	34.90
2. Creation of irrigation potential	"	106.85	25.9	45.40	38.74	28.70
3. Forestry and Pasture	"	76.11	43.5	52.30	41.79	83.66
4. Milk Societies established	Number	1586	538	..	..	..
5. Sheep societies established	"	32	23	..	..	..
6. Number of beneficiaries (families)	In 000'	440.50	616.17	1220.47	2147.62	..
7. Mandays of employment created	In lakhs	173.91	276.17	232.17	233.59	..

Source: Ministry of Agriculture, Government of India.

Table III-34: Achievement of Desert Development Programme

Item	Unit	Achievements		
		1985-86	1986-87	1987-88
1.	2.	3.	4.	5.
1. Soil and moisture conservation	000' hectares	5.12	11.48	59.00
2. Crop husbandry	"	1.44	..	
3. Forestry and pasture development	"	18.66	..	168.60
4. Creation of irrigation potential	"	0.97	0.87	20.97
5. Calves rams born through A-I	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	1949.08	..

Source: Ministry of Agriculture, Government of India.

consumption in favour of poorer sections of the people. The NREP which became an integral part of the Sixth Plan now encompasses the basic priorities of the Seventh Plan such as 'Food', 'Work' and Productivity'. It continues to be implemented as a Centrally Sponsored Programme on 50: 50 sharing basis between the Centre and the States.

Under this programme, resources are allocated to States/Union Territories on the basis of a prescribed criteria giving 50 per cent weightage to agricultural labourers and marginal farmers/ workers and 50 per cent weightage is given to incidence of poverty. Out of the total resources, 10 per cent are earmarked for works of direct and exclusive benefit of scheduled caste/scheduled tribes and 25 per cent for social forestry works.

Earlier, all rural works which resulted in creation of durabale community assets could be taken up under this programme. In view of the drought situation during 1987-88, the programme was modified to include from amongst the list of works permitted under NREP, only those works which are in conformity with the general objectives of drought proofing and the strategies outlined under DPAP. Notwithstanding some drawbacks, the programme made substantial impact in stabilising wages in the rural areas, containing prices of foodgrains, creating wide variety of community assets and raising the level of living of the rural population. Besides supply of foodgrains at cheaper rates, the programme

helped in raising wages of the workers, ensured payment of minimum wages to the rural unorganised labour and provided relief during the drought period by creating additional employment opportunities.

During 1987-88, Rs. 369.40 crores were allocated as Central share to be matched by the State governments; in addition, Rs. 301.81 crores were provided for meeting the expenditure on supply of foodgrains under the programme. The unutilised balance of Rs. 138.75 crores carried over from the year 1986-87 was permitted to be utilised during the year and thus the resource base of the programme was substantially expanded. The utilisation of cash funds reported so far (upto December 1987) was Rs. 365.73 crores. Against the provision of Rs. 672.85 crores as the Central share including the cost of foodgrains and subsidy for handling and transport, funds to the extent of Rs. 656.45 crores were released till December 1987. The actual expenditure reported by the States/Union Territories totalled Rs. 430.81 crores upto December 1987. Against the original allocation of 10 lakh metric tonnes of foodgrains, a quantity of 11.99 lakh metric tonnes were released to States/Union Territories so far (upto December 1987). The reported utilisation of foodgrains upto December 1987 is 6.76 lakh metric tonnes. Against the annual plan target of 290 mandays, the reported achievement upto December 1987 is 208.52 million mandays of which employment generated for SC, ST, landless and women accounted for about 36 per cent, 19 per cent, 38 per cent and 16 per cent respectively, (Table III-35).

Rural Landless Employment Guarantee Programme

Rural Landless Employment Guarantee Programme was launched since 1983 with the objective of generating gainful employment, creating productive assets in rural areas and improving the overall quality of rural life. The preference in employment is given to landless labourers, women, scheduled castes and scheduled tribes. The programme is 100 per cent funded by the Central Government. In resources allocation, 50 per cent weightage is now given to the number of agricultural labourers, marginal farmers and marginal workers and 50 per cent weightage to incidence of poverty.

The components of the programme are as under:

i) Construction of housing units for SCs/STs and freed bonded labourers under Indira Awaas Yojna,
ii) Works of social and farm forestry;
iii) Construction of rural sanitary latrines;
iv) Other works, such as minor irrigation,

Table III-35: Progress of National Rural Employment Programme

Item	Unit	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88*
1.	2.	3.	4.	5.	6.	7.	8.
Foodgrains							
(i) Allocation	Lakh tonnes	3.13	3.22	3.09	7.30	9.51	10.00
(ii) Releases	"	2.48	2.36	3.07	9.56	16.13	11.99
(iii) Utilisation	"	1.72	1.47	1.70	5.81	13.24	6.76
Cash							
(i) Allocation by the Centre	Rs crores	175.76	200.69	230.00	230.00	230.00	369.40
(ii) Allocation by the States	"	173.84	198.59	227.60	227.53	227.50	365.67
(iii) Unutilised balance from previous year	"	130.16	118.25	124.00	93.62	128.84	138.75
(iv) Utilisation	"	393.92	394.00	502.11	531.95	683.94	365.73
Employment Generated	Million Mandays	351.20	302.76	353.12	316.41	395.39	208.52

* Upto December 1987.

Source: Ministry of Agriculture, Government of India.

drainage, soil and water conservation, construction of water harvesting structures, village tanks, land development and reclamation of waste land, construction of primary schools and rural link roads, etc.

During 1987-88, emphasis was laid on the works which were economically productive in nature. Further, in view of the drought situation in the country the focus was on works which were drought proof.

During the Seventh Plan, an outlay of Rs. 1743.78 crores has been fixed with the target of employment generation of 1013 million mandays. The outlay provided for the year 1987-88 is Rs. 725.00 crores. In addition, an amount of Rs. 57.05 crores was provided for allocating additional foodgrains to the drought affected States/Union Territories. As per the figures upto December 1987, a total amount of Rs. 359.98 crores has been utilised by the State/Union Territories with corresponding employment generation of 176.14 million mandays. The Central Government released 10.41 lakh metric tonnes of foodgrains to the State/Union Territories of which 5.10 lakh metric tonnes of foodgrains have been utilised upto December 1987 (Table III-36).

Table III-36: Progress of Rural Landless Employment Guarantee Scheme

Item	Unit	1983-84	1984-85	1985-86	1986-87	1987-88
1.	2.	3.	4.	5.	6.	7.
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) Allocation	Million Mandays	60.00	300.00	205.73	236.45	..
(ii) Releases	"	5.20	252.98	237.98	175.13	..
(iii) Utilisation	Per cent	8.66	84.33	115.67	74.07	..

Source: Ministry of Agriculture, Government of India.

Chapter IV

Industrial Production

Trends in Industrial Production During 1987-88

Overall Trends

For the year 1987-88, the average of monthly index of industrial production at 167.0 recorded a lower growth rate of 7.7 per cent than 9.1 per cent achieved during the preceding year (Table IV-1). A remarkable feature during the year was that the monthly index on a point-to-point basis showed relatively larger variations in the growth rates over that in the corresponding month of the preceding year, ranging from the lowest of 0.6 per cent in January 1988 over January 1987 to the highest of 16.0 per cent during July 1987 over July 1986 and at the end of the year it was 3.9 per cent in March 1988 over March 1987. As a result of deceleration of the annual growth to 7.7 per cent during 1987-88, the average rate of growth of 8.9 per cent attained during the first two years of the Seventh Plan moved down to 8.5 per cent during the first three years of the Seventh Plan period. This growth rate, inspite of deceleration observed in 1987-88, is still higher than targeted growth rate of 8.0 per cent for the Seventh Plan. The growth of industrial production in 1987-88 should be viewed in the context of severe drought conditions that prevailed in various parts of the country during the year. Consequently, the lower availability of hydel power and diversion of power for agricultural purposes and declines in the supply of domestic agricultural inputs and demand for certain manufactured goods adversely affected industrial production, with a time lag, during the year. However, it was noticed that the impact of drought on industrial output was smaller in 1987-88 than in the earlier drought years. In the past, the years of severe drought were accompanied sometimes by even a fall in output. For instance, there was a decline of 1.4 per cent in industrial production during the drought year of 1979-80. The smaller impact of drought on industrial production during 1987-88 than in earlier drought years is attributable among others, to the progressive and liberal industrial policy which brought about a structural change as reflected by the decline in the share of weight of agro-based industries in the total weight of the index of industrial production (base 1980-81 = 100) to 27.27 per cent from 32.99 per cent in the earlier index series (base 1970 = 100). In addition, improvement in the movement of goods by the railways, rise in export demand and availability of imported and synthetic substitutes for domestic agricultural inputs which were in short supply, helped in sustaining industrial output despite adverse effects of drought.

The composite index of the infrastructure industries with a weight of 28.77 per cent in the general index of the industrial production recorded a lower growth of 6.1 per cent during 1987-88 than that of 7.5 per cent in 1986-87. While acceleration in growth rate was observed in the case of coal (excluding lignite), the other four industries viz., electricity, petroleum refinery products, saleable steel and cement recorded deceleration in 1987-88.Besides, the output of crude petroleum declined by 0.4 per cent in 1987-88 from that in the preceding year.

The revenue earning traffic carried by the railways during 1987-88 increased at a lower rate of 4.1 per cent than that of 7.4 per cent recorded during the preceding year. However, the movement of industrial goods increased by 8.3 per cent

Table IV-1: Trends in Index of Industrial Production* (Base: 1980-81 = 100)

(Percentage)

Group	Weight	Increase (+) Decrease (−) over the preceding year April-March		
		1985-86	1986-87	1987-88
1	2	3	4	5
General Index (Crude)	**100.00**	**+ 8.7**	**+ 9.1**	**+ 7.7**
		(100.0)	**(100.0)**	**(100.0)**
1. Mining and Quarrying	11.46	+ 4.2	+ 6.2	+ 3.5
		(6.8)	(9.3)	(6.0)
2. Manufacturing	77.11	+ 9.7	+ 9.3	+ 8.6
		(81.2)	(76.8)	(81.8)
3. Electricity	11.43	+ 8.5	+ 10.3	+ 7.6
		(12.0)	(13.9)	(12.2)

* Provisional.

Note : Figures in brackets represent percentage contribution to the overall growth by each sector.

Source: Index Numbers of Industrial Production released by the Central Statistical Organisation (CSO).

as compared with 7.4 per cent in the previous year.

The lower overall rate of growth of 7.7 per cent in the industrial production reflected the combined effect of deceleration recorded by the three sectors, viz., mining and quarrying, manufacturing and electricity. However, contribution of the manufacturing sector in the overall growth improved to 81.8 per cent in 1987-88 from 76.8 per cent in 1986-87. The available data in respect of seventeen major groups of the manufacturing sector (Table IV-2) for the year 1987-88 showed that only three groups, viz., chemicals and chemical products, electrical machinery and other miscellaneous manufacturing industries having a combined weight of 19.19 per cent in the general index of industrial production achieved higher growth rates than the full manufacturing sector and their contribution in the overall industrial growth was to the extent of 67.5 per cent. On the other hand, the contribution of the other nine groups with a larger weight of 44.66 per cent which recorded positive but lower growth rates than that of the manufacturing sector was only 22.7 per cent. The remaining five groups with a combined weight of 13.26 per cent recorded declines in the output and reduced the overall growth rate of industrial production.

Small-Scale Sector

During 1987-88 (April-March), the small-scale sector sustained the tempo of growth achieved in the preceding year. The number of small-scale units increased at the rate of 7.9 per cent to 15.92 lakhs from 14.76 lakhs in 1986-87. The value of production of goods and services in the small-scale sector was estimated at Rs. 72,880 crores (at 1984-85 prices) in 1987-88 which was higher by 13.0 per cent than that of Rs. 64,500 crores in the previous year. The level of employment therein increased by 5.5 per cent to 107 lakh persons in 1987-88 (Table IV-3) from 101.4 lakh persons in 1986-87.

Total estimated exports of SSI sector at Rs. 3,648 crores during 1986-87 were 31.7 per cent higher than that of Rs. 2,769 crores in 1985-86. The share of SSI sector in total exports also rose to 29.0 per cent in 1986-87 from 25.4 per cent in 1985-86. 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.

Considering the large potential for generating employment in the small-scale sector, the Government introduced a number of new measures during 1987-88. These are viz., (i) reservation of certain new items for exclusive production, (ii) priority in disbursement of loans by the financial institutions, (iii) concessional rate of interest and (iv) extension of fiscal concessions. These measures are expected to induce further growth in this sector. In addition, the Industrial Develop-

Table IV-2: Growth Rates in Major Groups of the Manufacturing Sector*

(percentages)

Sr. No.	Industry Group	Weight	April-March		
			1985-86	1986-87	1987-88
1	2	3	4	5	6
1.	Electrical machinery, apparatus, appliances and supplies and parts	5.78	34.8 (26.3)	27.0 (24.2)	31.6 (38.7)
2.	Other manufacturing industries	0.90	24.3 (2.4)	54.2 (5.8)	15.6 (2.8)
3.	Chemicals and chemical products (except products of petroleum & coal)	12.51	8.1 (12.7)	13.7 (20.6)	14.2 (26.0)
4.	Basic metal and alloys industries	9.80	9.0 (8.4)	8.4 (7.5)	6.9 (7.1)
5.	Textile products (including wearing apparel other than footwear)	0.82	18.0 (1.2)	−22.8 (−1.6)	5.3 (0.3)
6.	Transport equipment and parts	6.39	3.2 (2.4)	6.7 (4.5)	4.8 (3.7)
7.	Food and food products	5.33	4.7 (2.6)	6.0 (3.1)	4.4 (2.6)
8.	Rubber, plastic, petroleum and coal products	4.00	3.9 (2.0)	−2.2 (−1.1)	4.3 (2.2)
9.	Metal products and parts, except machinery and transport equipments	2.29	9.2 (2.0)	8.5 (1.7)	4.2 (1.0)
10.	Leather and leather and fur products (except repair)	0.49	21.1 (1.3)	5.0 (0.3)	4.2 (0.3)
11.	Cotton textiles	12.31	8.0 (8.9)	1.9 (2.0)	4.1 (4.7)
12.	Paper and paper products and printing, publishing and allied industries	3.23	12.6 (4.7)	9.9 (3.7)	1.9 (0.8)
13.	Wood and wood products, furniture and fixtures	0.45	3.1 (0.3)	10.3 (0.8)	−34.3 (−3.1)
14.	Beverages, tobacco and tobacco products	1.57	0.4 (0.1)	−12.1 (−1.7)	−13.8 (−1.8)
15.	Jute, hemp and mesta textiles	2.00	−2.2 (−0.4)	4.0 (0.6)	−9.9 (−1.7)
16.	Machinery, machine tools and parts (except electrical machinery)	6.24	2.0 (1.4)	8.9 (5.6)	−1.6 (−1.2)
17.	Non-metallic mineral products	3.00	13.7 (5.0)	1.9 (0.7)	−1.4 (−0.5)

* Provisional.

Notes: 1. Growth rates have been worked out on the basis of average indices of groups over the corresponding period of the preceding year.

2. Figures in brackets indicate percentage share in the overall rate of growth. The percentage share may not add-up to the total contribution of manufacturing sector due to the rounding off of percentages.

Source: Based on the index numbers of industrial production (base: 1980-81 = 100) published by the Central Statistical Organisation (CSO).

Table IV-3: Small-Scale Sector

Item	April-March			
	1984-85	1985-86	1986-87 (P)	1987-88 (P)
1	2	3	4	5
Number of Units (Lakh Nos.)	12.42	13.56	14.76	15.92
		(+9.2)	(+8.8)	(+7.9)
i) Production (Rupees Crores at 1984-85 Prices)	34065@	57100	64500	72880
			(+13.0)	(+13.0)
ii) Production (Rupees Crores at Current Prices)	50520	61228	72250	NA
Exports (Rupees Crores)	2553	2769	3648	NA
		(+8.5)	(+31.7)	
Employment (Lakh Persons)	90	96	101.4	107
		(+6.7)	(+5.6)	(+5.5)

@ : At 1979-80 prices.
(P) : Provisional.
NA: Not available.
Source: Office of the Development Commissioner, Small-Scale Industries, Ministry of Industry.

ment Bank of India (IDBI) through the Small Industries Development Fund (SIDF) established in May 1986, provided financial as well as non-financial assistance to this sector. The scope of this assistance was expanded to cover the following broad categories:- (a) Refinance assistance covering term loans channelled through institutional network consisting of state-level institutions (SFCs/SIDCs), commercial banks, co-operative banks and regional rural banks. (b) Bills Rediscounting Scheme operated through the banking network covering deferred payment, sales of machinery and other capital equipment. (c) Equity support in the form of seed capital/ special capital assistance. (d) Direct assistance to National Small Industries Corporation and State Small Industries Development Corporations to enable them to finance certain specified types of activities designed to assist SSI units and (e) Support to promotional and extension services.

A National Equity Fund for providing equity support to tiny and small-scale industrial units has been constituted in 1987-88 by IDBI in association with the Government of India. Assistance from the Fund will be provided by way of seed capital in the form of soft loan to eligible small and tiny industrial units. To qualify for assistance under the scheme, the project should be a new industrial project for manufacture, preservation or processing of goods or existing such projects which has turned sick. To be eligible, the project should be located in a village or town with population not exceeding 5 lakhs. However, in case of rehabilitation proposals, the project could be located in towns/villages with population not exceeding 15 lakhs. The limit for finance under the scheme has been prescribed 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.

To meet the long standing demand of the tiny and small industries, the Government has decided to establish a Small Industries Development Bank of India. This will be a subsidiary of the IDBI with a share capital of Rs. 250 crores. The bank will administer both the Small Industries Development Fund and the National Equity Fund for providing equity support to projects in tiny and small scale sector.

An important measure taken to ameliorate the difficulties experienced by tiny and small scale units in securing working capital finance and term loan was the introduction of a new refinance scheme by IDBI in May 1988. Under this scheme SFCs and SIDCs will provide through a single window both term loan for fixed assets and working capital to new tiny and small-scale units

whose project cost does not exceed Rs. 5 lakhs. The facility under the scheme is intended to enable the SSI units to start commercial production expeditiously. Besides providing term loan for fixed assets, SFCs/SIDCs will also now simultaneously provide working capital loans upto Rs. 2.5 lakhs. For assisting the small industries in expeditious collection of payments for the supplies made by them to various purchasers from both the public and private sector, Reserve Bank of India has constituted a Study Group under the Chairmanship of Shri C.S. Kalyanasundram, former Managing Director, State Bank of India, to examine the feasibility and mechanics of starting a 'factoring' organisation or organisations in the country and making recommendations regarding its/their constitution, organisational set up, scope of activities and other related matters.

The fiscal concessions provided to the small industries during 1987-88 include the extension of the MODVAT Scheme of excise concessions introduced in 1986-87 covering 38 chapters of the Central Excise Tariff to all the remaining chapters except those relating to textiles, tobacco and petroleum products. Certain procedural changes have also been made to simplify the operation of MODVAT Scheme. These include: (i) Provision for refunding MODVAT credit in cash in case of exports in certain circumstances; (ii) allowing receipts of inputs directly by the job workers in respect of items covered under MODVAT; (iii) allowing adjustment of MODVAT credit if extra duty is recovered from the manufacturer of inputs due to change in classification in certain circumstances; and (iv) allowing credit for duty paid on inputs lying in stock with a manufacturer at the time of opting for MODVAT.

The manufacturers of finished products were allowed MODVAT credit for inputs purchased from the small-scale units as if full excise duty has been paid even though such units in fact had paid excise duty at concessional rate. This concession has been extended upto 31st March, 1989 at a reduced rate and is limited to a maximum of five per cent *ad valorem*.

District Industries Centres

The District Industries Centres (DICs) programme (in operation since May 1, 1978) was designed to provide all the services and support required by tiny, cottage and village sector industries and to generate larger employment opportunities in the rural and backward areas. The progress reports received from 418 DICs during 1986-87 indicates that 4.22 lakh new industrial units (comprising of 3.16 lakh artisan-based units and 1.06 lakh small scale units) were established. These units generated additional employment opportunities for 13.33 lakh persons during 1986-87 (Table IV-4).

During 1987-88, about 4.40 lakh new industrial units (comprising of 3.28 lakh artisan-based units and 1.12 lakh small scale units) would have been set up providing additional employment opportunities for about 14.11 lakh persons. The credit assistance by financial institutions is likely to amount to Rs. 1,371.50 crores or about 1.5 times the assistance of Rs. 890.80 crores during 1986-87.

The DIC programme will continue to be a centrally sponsored scheme during the Seventh Plan period with the Government of India sharing its expenditure with the State Government on 50:50 basis. In order to make the programme more effective, the organisational set up of the DICs has been restructured keeping its conceptual base intact. State/Union Territory Governments have been requested to complete the process of restructuring. The office of the Development Commissioner, Small Scale Industries (being a co-ordinator at the national level) has also commissioned 5 reputed institutions in the country for in-depth evaluation of the DIC programme in 55 DICs of the country.

DICs have also been assigned operational responsibility of the Central scheme for providing self-employment to educated unemployed youths. The scheme will cover all educated unemployed youths (matriculates and above including ITI passed youths) within the age-group of 18 to 35 years and provide self-employment through industry, service and business routes. The scheme has been modified in July 1986 and accordingly ceiling of income of Rs. 10,000/- per annum per family has been fixed as an eligibility criterion with effect from 1986-87 so as to provide the benefits to the people from relatively lower strata of the society. A minimum of 30 per cent of the total sanctions has been reserved for SC/ST persons. During the year 1986-87, the number of beneficiaries stood at 2.19 lakhs as against the target of 2.5 lakhs per year, the bank credit sanctioned amounted to Rs. 455 12 crores.

Table IV-4: Performance of District Industries Centres

Item	Total Achievements (April-March)			Per DIC Achievements (April-March)		
	1985-86	1986-87	1987-88 (Estimated)	1985-86	1986-87	1987-88
1	2	3	4	5	6	7
1. No. of DICs sanctioned	397	419	422	—	—	—
2. No. of DICs reporting	397	418	422	—	—	—
3. New Registrations done (Nos.)	372,055	374,023	385,286	937	895	913
4. New Units established (Nos.)						
(i) Artisans	265,098	316,169	328,316	668	756	778
(ii) SSI	97,419	106,211	112,252	245	254	266
Total	362,517	422,380	440,568	913	1,010	1,044
5. Sick units assisted (Nos.)	7895	434	—	19.9	1	—
6. Credit assistance provided by financial institutions through DIC (Rupees in crores)	1109.40	890.80	1371.50	2.79	2.13	3.25
7. Additional employment generated (No. of persons)	1223,447	1333,024	1411,168	3,082	3,189	3,344
8. Units given technical and other assistance (Nos.)	47,867	30,810	N.A.	121	74	—

Source: Office of the Development Commissioner, Small Scale Industries.

Industrial Sickness

Increasing incidence of sickness has been a matter of great concern for banks and financial institutions, on account of its far reaching implications for the entire economy and the industrial sector in particular. According to the definition of non-SSI sick units under the Sick Industrial Companies (Special Provisions) Act, 1985 (refer to footnote to Table IV-5) there were 1,057 non-SSI sick industrial units with an outstanding amount of Rs. 2,680.44 crores as at end June 1987 (Table IV-5). State-wise, the sickness was maximum in Maharashtra followed by West Bengal, Gujarat, Tamil Nadu, Uttar Pradesh, Andhra Pradesh, Karnataka, etc. These seven States accounted for 75.6 per cent of the total number of non-SSI sick units and 79.3 per cent of the total amount outstanding as at end June 1987. Industry-wise (among the non-SSI units), sickness was highest in the case of engineering (283) followed by textiles (213), chemicals (122), etc. These three industry groups accounted for 58.5 per cent of the total number of sick non-SSI units and 66.5 per cent of the total amount outstanding as at end June 1987.

As regards the non-SSI weak industrial units, they numbered 655 as at end June 1987 with an outstanding amount of Rs. 1515.19 crores (Table IV-5A). State-wise the number of non-SSI weak units were largest in West Bengal (120) followed by Maharashtra (101), Gujarat (57), Uttar Pradesh (57), etc. Industry-wise,the sickness was more rampant in the case of textiles (153) and engineering (132).

In the small-scale sector,incidence of sickness continued to be high. The number of units identified as sick increased to 1,58,226 as at end June 1987 from 1,28,687 units a year ago (Table IV-5B). Amount outstanding against these units increased to Rs. 1542.25 crores from Rs. 1184.22 crores during that period.

The Board for Industrial and Financial Reconstruction (BIFR) has commenced the process of holding/inquiring into cases of sick industrial companies thereby speeding up the progress in formulation of schemes for rehabilitation of viable sick industrial companies.

The Reserve Bank of India has set up a Working Group to examine the systems and norms relating to advances made to both healthy and sick units by banks in consortium, with or

Table IV-5: State-wise and Industry-wise classification of

State/Union Territories	Textiles		Engineering		Chemicals		Paper		Jute	
	No. of units	Amount out-stand-ing	No. of units	Amount out-stand-ing	No. of units	Amount out-stand-ing	No. of units	Amount out-stand-ing	No. of units	Amount out-stand-ing
Gujarat	47	205.49	30	46.36	14	9.60	8	22.52	—	—
Madhya Pradesh	7	52.35	6	5.57	2	0.84	3	1.46	—	—
Maharashtra	55	362.41	83	275.64	30	52.83	8	14.57	—	—
Goa	1	0.50	3	5.71	1	0.65	—	—	—	—
Daman & Diu	—	—	—	—	—	—	—	—	—	—
Assam	—	—	1	0.29	—	—	2	1.38	—	—
West Bengal	10	16.76	49	140.18	6	9.03	8	23.73	35	108.84
Bihar	3	2.34	7	23.21	1	3.83	1	0.26	—	—
Orissa	3	7.35	2	0.74	3	5.66	—	—	—	—
Tripura	—	—	—	—	—	—	—	—	—	—
Punjab	8	11.20	7	6.03	1	0.82	3	4.99	—	—
Haryana	7	8.23	15	27.04	1	0.61	3	5.76	—	—
Himachal Pradesh	—	—	1	0.83	2	0.38	3	6.11	—	—
Rajasthan	13	23.40	2	1.32	4	3.57	6	6.59	—	—
Uttar Pradesh	11	49.43	13	27.53	11	10.11	10	14.04	—	—
Chandigarh	—	—	—	—	1	0.60	—	—	—	—
Delhi	3	4.75	6	18.07	1	0.86	2	0.30	—	—
Andhra Pradesh	5	22.80	16	18.86	16	23.42	6	18.41	1	0.24
Karnataka	11	26.60	12	30.18	9	3.97	8	9.67	—	—
Tamil Nadu	25	87.45	24	55.05	14	11.60	7	6.03	—	—
Kerala	4	17.47	5	50.68	4	9.66	1	10.91	—	—
Pondicherry	—	—	1	0.37	—	—	1	1.67	—	—
Dadra & Nagar Haveli	—	—	—	—	—	—	—	—	—	—
Meghalaya	—	—	—	—	1	1.24	—	—	—	—
Total	**213**	**898.53**	**283**	**733.66**	**122**	**149.28**	**80**	**148.40**	**36**	**109.08**

without participation of financial institutions, and to make appropriate recommendations to speed up the decision making process and making timely and adequate credit available to borrowers. On the basis of the recommendations of this Working Group in respect of the problems of coordination amongst the all-India financial institutions and commercial banks *vis-a-vis* sick industrial units and their rehabilitation, certain mandatory instructions were issued by the RBI to all scheduled commercial banks in June 1987. The major areas covered by the instructions were monitoring of irregular accounts, training of staff in the area of follow up of advances, analysis of the feed back data, etc., exchange of information between banks and institutions, introduction of a uniform pattern of organisational set-up in banks to facilitate interaction amongst banks involved in any sick unit, association of lead bank in viability study, participation in rehabilitation packages, recall of advances, time-frame for rehabilitation packages, etc.

Industrial Licensing Policy

The progressive liberalisation of industrial licensing policy was imparted added thrust during 1987-88 to achieve the objectives of accelerated growth of industrial output, attaining economies of the scale, improving the utilisation of capacity so as to reduce the cost of production and promoting industrialisation in backward areas. The major policy changes introduced during the year are enumerated below:-

non-SSI sick industrial units as at the end of June 1987

(Rupees crores)

Sugar		Rubber		Electricals		Iron & Steel		Cement		Miscellaneous		Total	
No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding
—	—	—	—	1	0.54	2	11.39	1	0.54	12	21.84	115	318.28
—	—	1	0.26	1	5.18	4	5.55	—	—	6	8.74	30	79.95
6	30.52	6	11.53	10	18.89	11	19.00	1	2.27	28	46.77	238	834.43
—	—	—	—	—	—	2	1.00	—	—	8	13.65	15	21.51
—	—	1	1.93	—	—	—	—	—	—	—	—	1	1.93
1	0.19	—	—	—	—	—	—	—	—	2	1.14	6	3.00
1	1.77	2	8.37	5	7.57	9	9.63	—	—	21	49.03	146	374.91
3	7.18	—	—	—	—	2	2.14	1	2.49	8	14.03	26	55.48
—	—	—	—	—	—	1	9.46	—	—	1	0.63	10	23.84
—	—	—	—	—	—	—	—	—	—	1	0.65	1	0.65
1	1.68	—	—	1	0.21	1	2.81	—	—	8	4.98	30	32.72
—	—	—	—	3	6.96	4	6.19	—	—	8	8.60	41	63.39
—	—	—	—	1	0.90	—	—	—	—	—	—	7	8.22
1	0.76	—	—	2	9.15	2	1.39	1	22.48	5	2.33	36	70.99
9	41.06	2	0.76	1	0.86	1	3.68	1	2.96	8	17.88	67	168.31
—	—	—	—	1	4.95	—	—	—	—	1	0.11	3	5.66
—	—	—	—	2	2.49	1	0.12	—	—	4	8.65	19	35.24
1	3.77	1	0.95	4	5.32	2	1.61	—	—	14	17.98	66	113.36
3	18.49	2	4.18	2	1.39	3	3.18	—	—	12	7.64	62	105.30
—	—	1	0.63	8	15.00	—	—	—	—	26	34.77	105	210.53
—	—	3	50.14	1	2.56	—	—	—	—	9	6.18	27	147.60
—	—	—	—	—	—	—	—	—	—	2	1.28	4	3.32
—	—	—	—	—	—	—	—	—	—	1	0.58	1	0.58
—	—	—	—	—	—	—	—	—	—	—	—	1	1.24
26	**105.42**	**19**	**78.75**	**43**	**81.97**	**45**	**77.15**	**5**	**30.74**	**185**	**267.46**	**1057**	**2680.44**

Note: According to the Sick Industrial Companies (Special Provisions) Act, 1985, a 'sick industrial company' means a medium and large (i.e. non-SSI) industrial company (being a company registered for not less than 7 years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year. This definition does not cover, government companies, shipping companies and small-scale industrial units/anciallary units.

(1) Delicensing

It has been decided to exempt all industrial investments by non-MRTP and non-FERA companies upto a limit of Rs. 50 crores, if they are located in any of the Centrally declared backward areas—and upto a limit of Rs. 15 crores, if they are located outside specified limits of 21 cities.

(2) Scope of Licensing—Reduction in number of industries requiring compulsory licensing

The number of industries for which licences have to be obtained compulsorily has been pruned down to 27 from 56 earlier. This change applies even to small scale industrial units. This 'Special' list of industries requiring licensing, *inter alia*, covers coal, textile units operated with power, milk foods, leather goods, matches, all weaving units, etc. In addition, the small scale units, after obtaining licence, can enter the field of 17 other specified industries which were reserved for public sector units. These cover strategic and sensitive items like atomic energy, iron and steel, arms and ammunitions, heavy castings and forgings, etc.

Table IV-5A: State-wise and Industry-wise Classification of

State/Union Territories	Textiles		Engineering		Iron & Steel		Sugar		Paper	
	No. of units	Amount out-stand-ing	No. of units	Amount out-stand-ing	No. of units	Amount out-stand-ing	No. of units	Amount out-stand-ing	No. of units	Amount out-stand-ing
1	2	3	4	5	6	7	8	9	10	11
Gujarat	30	72.71	9	19.44	—	—	—	—	3	2.28
Madhya Pradesh	7	6.77	4	17.69	—	—	2	0.62	—	—
Maharashtra	39	136.60	24	40.62	3	2.97	1	0.13	3	1.10
Goa	—	—	—	—	—	—	—	—	—	—
Daman & Diu	1	0.12	—	—	—	—	—	—	—	—
Assam	1	0.08	—	—	—	—	1	0.60	1	5.55
Nagaland	—	—	—	—	—	—	—	—	—	—
West Bengal	9	19.69	24	116.65	10	73.00	—	—	3	7.93
Bihar	1	0.80	1	1.33	—	—	2	3.46	1	0.42
Orissa	5	19.95	6	4.44	4	4.47	—	—	1	6.68
Tripura	—	—	—	—	—	—	—	—	—	—
Andaman & Nicobar Islands	—	—	—	—	—	—	—	—	—	—
Punjab	3	3.49	3	4.35	—	—	—	—	—	—
Haryana	4	4.76	9	11.54	—	—	—	—	2	2.85
Himachal Pradesh	2	2.18	1	0.26	—	—	—	—	1	0.40
Rajasthan	6	6.53	3	1.90	—	—	—	—	—	—
Uttar Pradesh	14	100.14	5	14.28	3	3.81	25	78.16	2	0.38
Chandigarh	—	—	1	5.26	—	—	—	—	1	0.88
Delhi	1	1.09	3	1.26	—	—	—	—	—	—
Andhra Pradesh	8	4.69	18	20.58	1	1.54	2	4.59	2	2.95
Karnataka	6	18.03	5	12.17	3	44.55	1	9.25	4	64.71
Tamil Nadu	7	13.96	15	21.60	—	—	2	3.74	1	1.85
Kerala	6	2.59	1	32.86	—	—	—	—	—	—
Pondicherry	3	11.08	—	—	—	—	—	—	—	—
Total	**153**	**425.26**	**132**	**326.23**	**24**	**130.34**	**36**	**100.55**	**25**	**97.98**

(3) Foreign Exchange Requirement

It has also been decided to raise the foreign exchange requirement level of projects exempted from licensing, whereby only projects, which require foreign exchange for imported raw materials and components of more than 30 per cent of the value of ex-factory production from the first year of commercial production will have to obtain licences.

(4) Development of Growth Centres

With a view to promoting industrialisation of backward areas, the industrial policy has stressed the focus on development of growth centres, that would attract industries to backward areas. Such growth centres would be provided with infrastructural facilities such as power, water, telecommunication and banking. At least 100 such growth centres are planned to be developed throughout the country over the next five years and each growth centre would be provided with funds of about Rs. 25-30 crores in order to help them create infrastructure facilities.

(5) Broad-banding

During the year, the scheme of broad-banding was extended to three more industries; conse-

Non-SSI Weak Industrial Units as at the end of June 1987

(Rupees crores)

Electricals		Chemicals		Cement		Jute		Rubber		Miscellaneous		Total	
No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding	No. of units	Amount outstanding
12	13	14	15	16	17	18	19	20	21	22	23	24	25
2	1.12	4	0.54	3	26.04	—	—	—	—	6	2.77	57	124.90
2	1.01	—	—	—	—	—	—	—	—	—	—	15	26.09
8	9.52	10	4.58	—	—	—	—	1	4.65	12	22.48	101	222.65
—	—	—	—	—	—	—	—	1	0.21	5	4.07	6	4.28
—	—	—	—	—	—	—	—	—	—	—	—	1	0.12
—	—	2	1.91	—	—	—	—	—	—	29	39.03	34	47.17
—	—	—	—	—	—	—	—	—	—	1	0.66	1	0.66
4	2.95	9	18.42	—	—	12	30.92	2	20.94	47	69.05	120	359.55
1	0.91	—	—	—	—	1	0.27	—	—	2	7.43	9	14.62
—	—	3	1.51	—	—	1	1.02	—	—	4	5.53	24	43.60
—	—	—	—	—	—	1	2.81	—	—	4	0.78	5	3.59
—	—	—	—	—	—	—	—	—	—	1	1.57	1	1.57
2	1.38	1	4.05	—	—	—	—	—	—	4	2.35	13	15.62
3	4.33	—	—	1	0.43	—	—	—	—	1	1.64	20	25.55
—	—	—	—	—	—	—	—	—	—	—	—	4	2.84
1	0.28	1	1.76	2	3.36	—	—	—	—	5	3.06	18	16.89
2	1.74	—	—	1	10.19	—	—	1	1.73	4	1.20	57	211.63
—	—	—	—	—	—	—	—	—	—	1	1.34	3	7.48
—	—	—	—	—	—	—	—	—	—	1	3.50	5	5.85
—	—	5	2.14	—	—	1	0.33	—	—	11	7.84	48	44.66
4	17.26	2	1.34	1	0.73	—	—	1	0.24	8	4.09	35	172.37
1	2.65	4	4.97	—	—	—	—	—	—	21	28.93	51	77.70
4	10.62	2	3.50	1	0.75	—	—	1	2.01	8	21.34	23	73.67
1	1.05	—	—	—	—	—	—	—	—	—	—	4	12.13
35	**54.82**	**43**	**44.72**	**9**	**41.50**	**16**	**35.35**	**7**	**29.78**	**175**	**228.66**	**655**	**1515.19**

Note: With a view to cover the categories of industrial units (non-SSI sick units), which do not come under the purview of the Sick Industrial Companies (Special Provisions) Act, 1985, the RBI has advised the banks to take the necessary remedial measures in respect of industrial units at the stage of 50 per cent erosion of their net worth. Such units, have been termed as 'weak' units to distinguish them from 'sick industrial companies' as defined in the Act. An industrial undertaking is termed '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.

quently 35 industries would now be eligible for this scheme.

(6) The Economies of Scale

The provision regarding minimum economic scales of operation in terms of Licensed Capacity Per Annum were prescribed in respect of more industrial products bringing the total of item so covered to 74 so far.

(7) Technology Development

The major step initiated for technology development was that the ceiling of Rs. 1 crore prescribed earlier for import of technology and capital goods under the Technology Development Fund (TDF) Scheme—has been relaxed so as to cover even 'peripheral items' like training of Indian personnel abroad, erection, commissioning and supervisory charges and other technical services to be rendered by the technology supplier upto Rs. 2 crores. This relaxation, however, is subject to certain conditions. This liberalisation of the scheme has been effected with a view to making it more feasible and result-oriented.

(8) Endorsement

With effect from April 1, 1988, a new scheme of re-endorsement of capacity has been introduced for certain industries with a view to enhancing the capacity utilisation under which the industrial licences/registrations with technical authorities will automatically be re-endorsed with the maximum production actually achieved by the industrial undertakings in any of the financial years between 1st April, 1988 and 31st March, 1990.

Selected Industries: A Review

The performance of selected industries in four braod groups, viz., basic goods, capital goods, intermediate goods and consumer goods during 1987-88 is briefly reviewed below.

A. Basic Industries

(a) Coal

As against the estimated demand for coal of 192.05 million tonnes (excluding 5.20 million tonnes of washery middling) for 1987-88, the output of coal (excluding lignite) reached an all

Table IV-5B: State-wise Classification of Sick Small-Scale Industrial Units as at end June 1987

(Rupees crores)

No.	State/Union Territories	No. of units	Amount outstanding
	1	2	3
1.	Andhra Pradesh	14064	108.19
2.	Assam	3542	12.66
3.	Bihar	7870	61.12
4.	Gujarat	5211	114.99
5.	Goa	1261	13.57
6.	Haryana	1819	38.44
7.	Himachal Pradesh	665	8.08
8.	Jammu & Kashmir	2290	9.66
9.	Karnataka	5105	95.64
10.	Kerala	11805	92.76
11.	Madhya Pradesh	11053	45.49
12.	Maharashtra	11457	277.55
13.	Manipur	932	0.86
14.	Meghalaya	122	1.56
15.	Nagaland	14	0.13
16.	Orissa	7229	32.50
17.	Punjab	1834	35.51
18.	Rajasthan	8657	39.61
19.	Tamil Nadu	25146	167.48
20.	Tripura	556	0.53
21.	Uttar Pradesh	16287	125.74
22.	West Bengal	18129	167.37
23.	Andaman Nicobar	—	—
24.	Arunachal Pradesh	22	0.02
25.	Dadra Nagarhaveli	5	0.14
26.	Delhi	2577	83.49
27.	Mizoram	—	—
28.	Pondicherry	366	3.31
29.	Sikkim	1	0.01
30.	Chandigarh	204	5.72
31.	Diu & Daman	3	0.12
	Total	158226	1542.25

Note: A 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 on account of cumulative cash losses to the extent of 50 per cent or more of its net worth 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. While both the conditions (a) and (b) should be satisfied in the case of larger SSI units, it would suffice if either alternative (a) or (b) is satisfied in case of the tiny and decentralised sector units.

time high of 180.56 million tonnes, registering a growth rate of 9.0 per cent from the previous all time high of 165.69 million tonnes or 7.4 per cent growth rate achieved during 1986-87. However, the achievement of 1987-88 fell short of the target of 183.50 million tonnes by 1.6 per cent (Table IV-6).

Although the overall production of coal was less than the annual plan target, the coal companies under Coal India Ltd. (CIL) faired well with almost all the subsidiaries of CIL (except North Eastern Coal Fields (NEC)) achieving their production targets. The Coal India Ltd., which accounts for about 90 per cent of the coal production in the country surpassed the production target of 158.00 million tonnes with the production of 159.06 million tonnes of coal during 1987-88 and registered a 9.9 per cent growth over the production of 144.77 million tonnes in 1986-87.

The Output Per Manshift (OMS) in Coal India Ltd., increased from 0.98 tonnes in 1986-87 to 1.08 tonnes in 1987-88 thereby surpassing the target of 1.02 tonnes fixed for the year. However, the OMS in Singareni Collieries Company Ltd., declined from 0.79 tonnes in 1986-87 to 0.78 tonne in 1987-88.

Table IV-6: Performance of Coal Industry

(Million tonnes)

Item	April-March		
	1985-86	1986-87 (P)	1987-88 (P)
1	2	3	4
1. Production			
(a) Coal (i+ii)	**154.30**	**165.69**	**180.56**
	(+4.7)	**(+7.4)**	**(+9.0)**
i) Coking Coal	35.16	38.34	40.03
	(−2.3)	(+9.0)	(+4.4)
ii) Non-Coking Coal	119.14	127.35	140.53
	(+6.9)	(+6.9)	(+10.3)
(b) Lignite	**8.04**	**7.21**	**8.49**
	(+3.1)	**(−10.3)**	**(+17.8)**
2. Imports (Coking Coal)	**2.04**	**2.10**	**1.98**
3. Despatches (i+ii)	**150.90**	**158.02**	**170.04**
	(+11.9)	**(+4.7)**	**(+7.6)**
i) Coking Coal	33.75	35.08	37.92
	(+3.8)	(+3.9)	(+8.1)
ii) Non-Coking Coal	117.15	122.94	132.12
	(+14.4)	(+4.9)	(+7.5)
4. Exports	**0.22**	**0.16**	**0.17**
5. Year-end Pit-head stocks (i+ii)	**28.98**	**28.87**	**33.86**
	(−4.0)	**(−0.4)**	**(+17.3)**
i) Coking Coal	9.61	10.29	11.24
	(−0.9)	(+7.1)	(+9.2)
ii) Non-Coking Coal	19.37	18.58	22.62
	(−5.5)	(−4.1)	(+21.7)

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.

3. The total offtake (which in addition to despatches includes washery middlings and colliery consumption) was at 176.24 million tonnes in 1987-88 and 164.69 million tonnes in 1986-87.

Source: Department of Coal, Ministry of Energy.

The acceleration in overall production of coal industry was due to a number of steps taken such as expeditious acquisition of land for mine construction, provision of necessary infrastructural facilities for opening of new mine projects, modernisation of existing mines, close monitoring of the performance of equipments and overall performance of the collieries at all levels in the company and in the Government and maintaining better industrial relations, etc.

The coal production target for 1988-89 has been fixed at 196.28 million tonnes, as against the estimated demand of 202.0 million tonnes. This gap between demand and supply will be met by import of 3.5 million tonnes by the steel plants and the balance by drawing coal from pit-head stocks.

Alongwith the increased coal output during 1987-88, coal despatches to consuming sectors also moved up. The coal despatches showed a higher growth of 7.6 per cent to 170.04 million tonnes as compared with that of 4.7 per cent to 158.02 million tonnes during the previous year.

The coal companies have a major responsibility to ensure that coal despatches reach consuming points at the right time and in right quantity. The agencies employed for transporting coal are the railways, roadways, merry-go-round system, conveyor belts and rail-cum-sea route carriers.

The railways are the major agency for coal transportation in India as about 67 per cent of the coal is transported by them. During the year under review, the main thrust was on sending more coal to consumers by rail. As a result the daily average coal loading in CIL increased by 4.0 per cent from 11,288 wagons per day in 1986-87 to 11,739 wagons per day in 1987-88, whereas in Singareni Collieries Co. Ltd., the daily average coal loading increased by 7.3 per cent from 1,252 wagons per day in 1986-87 to 1,344 wagons per day in 1987-88.

In spite of higher despatches of coal during 1987-88, the year-end pit-head stocks reached a record level of 33.86 million tonnes and were higher by 17.3 per cent than the pit-head stocks (28.87 million tonnes) as at the end of previous year. The increase in the stocks over the year was the result of larger increase in production than in despatches. Heavy build-up in pit-head stocks, which had occurred in the coal companies in Bengal-Bihar areas was due mainly to mis-match between production and rail movement and also due to heavy rains affecting the coal loading operations.

Continuous efforts are being made to open new mines and expansion of existing coal mines in order to expand the coal production capacity. During 1987-88, 80 coal projects (57 mining and 23 non-mining) with an estimated cost of Rs. 1894.13 crores were sanctioned by the Government of India and coal companies, respectively. The Government sanctioned 6 mining projects and 2 non-mining projects with an estimated cost of Rs. 1045.66 crores. The coal companies sanctioned 51 mining projects and 21 non-mining projects with an estimated cost of Rs. 848.47 crores.

The coal companies had received complaints on quality of coal which mainly related to supply of coal of lower calorific value, presence of extraneous material, supply of over sized coal and short receipts. To overcome these complaints, some of the steps taken relate to the installation of coal handling plants, installation of electronic weighbridges, facility to supervise coal loading and enquiry by Coal Controller, etc. Great stress is being laid on maintaining the quality of coal and for this reason, quality complaints are being monitored regularly.

For modernisation and expansion of coal mines, India has been seeking assistance from technologically advanced countries like USSR, France, UK, Poland, FRG, GDR, Canada and Australia with the aim of improving the planning, designing and management of coal and lignite projects by bringing them upto international standards in key areas like productivity, mine management, safety, etc. The assistance is also obtained to develop large opencast projects and for underground mining in difficult geo-mining conditions.

(b) Iron Ore

Iron ore production during 1987-88 recorded a decline of 7.3 per cent to 48.6 million tonnes (Table IV-7) as against a steep increase of 16.4 per cent to 52.4 million tonnes recorded in 1986-87. The public sector mines produced 26.8 million tonnes and private sector mines 21.8 million ton-

nes in 1987-88. Iron ore production from captive mines of steel plants in both the public and private sectors amounted to 17.5 million tonnes, which formed 36.0 per cent of total output in 1987-88. Goa continued to be the major iron ore producing State contributing nearly 25.0 per cent of the total output in 1987-88 followed by Madhya Pradesh (21.0 per cent), Karnataka (20.0 per cent), Bihar (17.0 per cent) and Orissa (16.0 per cent). The despatches for internal consumption recorded a lower growth of 4.9 per cent (to 19.4 million tonnes) during 1987-88, than that of 8.2 per cent (and a level of 18.5 million tonnes) attained during 1986-87. Exports of iron ore at 28.3 million tonnes rose marginally by 0.7 per cent. Consequently the stocks of iron ore as at the end of March 1988 were larger at 3.7 million tonnes, as compared with that of 2.8 million tonnes a year ago.

The iron ore production in the units of National Mineral Development Corporation Ltd. (NMDC) during 1987-88 increased marginally to 10.2 million tonnes (including 1.63 million tonnes of fines dumped in the mines) from a record high of 10.1 million tonnes achieved during 1986-87 (April-March). The low rise in production during the year under review was due mainly to a fire accident in conveyor belt in Bailadila-14 in April 1987 which affected production for three months. The total quantity of iron ore exported during 1987-88 was 7.8 million tonnes as compared with 8.4 million tonnes during 1986-87 (April-March). A production target of 56.50 million tonnes (including 4.70 million tonnes of concentrates from Kudremukh Iron Ore Company Ltd.) has been planned for the year 1988-89 to meet the domestic requirement of about 21.0 million tonnes and exports amounting to 34.5 million tonnes. For achieving the targets, expansion and modernisation activities are carried out regularly by NMDC. To meet the iron ore requirement of Visakhapatnam Steel Plant and also of exports, the project entitled Bailadila-14 expansion and modification scheme (Bailadila 11C), has been commissioned with the designed capacity of 3.3 million tonnes. Further, the Fine Ore Handling System (Bailadila-5) was commissioned in January 1987 with a handling capacity of 2.8 million tonnes of fine iron ore per year.

The Kudremukh Iron Ore Company Ltd., (KIOCL) produced 27.90 lakh tonnes of iron ore concentrate during April-December 1987 as compared with that of 34.58 lakh tonnes during 1986-87 (April-March). In view of the better marketability of iron ore pellets than iron ore concentrate and being higher value added product, Government sanctioned a plant for conversion of iron ore concentrate into pellets at Mangalore, in May 1981. The plant has commenced production in April 1987 and during April-December 1987, 5.40 lakh tonnes of pellets were produced. For the year 1988-89, production

Table IV-7: Performance of Iron Ore Industry

(Million tonnes)

Item	April-March		
	1985-86	1986-87 (P)	1987-88 (P)
1	2	3	4
Production	45.0	52.4	48.6
	(+4.4)	(+16.4)	(−7.3)
Despatches for internal consumption	17.1	18.5	19.4
	(+4.9)	(+8.2)	(+4.9)
Despatches for Exports	30.2	28.1	28.3
	(+18.4)	(−7.0)	(+0.7)
Year-end stocks	3.4	2.8	3.7
	(−27.7)	(−17.6)	(+32.1)

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.

of 12 lakh tonnes of pellets has been planned. The level of production of KIOCL is tied to the level of exports. As a result of persistent marketing efforts, KIOCL has made steady progress in the sale of their products. Consequently during the period April-December 1987, 21.75 lakh tonnes of concentrate and 5.07 lakh tonnes of pellets have been exported.

(c) Cement

The production of cement during the year 1987-88 at 39.51 million tonnes recorded a lower growth of 8.0 per cent than that of 10.4 per cent achieved in the previous year (Table IV-8). Production during the year under review was also short of the revised target of 40.5 million tonnes by 2.44 per cent. This deceleration was mainly on account of severe power cuts in some of the major cement producing states like Karnataka, Tamil Nadu, Andhra Pradesh, Rajasthan and Madhya Pradesh, strikes and lock-outs in some large size cement plants particularly at Manikgarh and Nimbahera and delay in commissioning of some new plants.

During the year 1987-88, significant additions were made to the installed capacity, raising the overall installed capacity from 48.4 million tonnes as at the end of March 1987 to 56.8 million tonnes as at the end of March 1988 or by 17.5 per cent. Production, however, increased at lower rate of 8.0 per cent, due to heavy production loss suffered by some factories and teething troubles experienced by some new cement plants. Consequently, the average capacity utilisation in the cement industry during the year 1987-88 was lower at 75.1 per cent as against 78.9 per cent during the previous year.

In view of the increase in production, despite at a lower rate, the demand supply gap narrowed down to 9.8 per cent from 11.7 per cent recorded last year. There was no import of cement during the current financial year as against 0.18 million tonnes of import last year. However, the year end (end-March 1988) stocks were lower at 0.45 million tonnes than 0.54 million tonnes as at end March 1987.

Despatches of non-levy cement showed an increase from 59.6 per cent of the total despatches in 1986-87 to 74.0 per cent in 1987-88. Despite this increase in despatch of non-levy cement, total despatches at 37.1 million tonnes recorded a lower growth of 7.1 per cent as compared with that of 8.6 per cent last year. In order

Table IV-8: Performance of Cement Industry

(Million tonnes)

Item	April-March		
	1985-86	1986-87 (P)	1987-88 (P)
1	2	3	4
Installed capacity	44.39	48.37	56.83
	(+8.8)	(+9.0)	(+17.5)
Production	33.13	36.59	39.51
	(+9.7)	(+10.4)	(+8.0)
Despatches	31.92	34.66	37.13
	(+8.3)	(+8.6)	(+7.1)
Average Capacity Utilisation Ratio (Per cent)	77.8	78.9	75.1
Imports	0.33	0.18	Nil
Year-end Stocks	0.60	0.54	0.45

P : Provisional.

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

(i) Data relating to installed capacity, production and capacity utilisation relate to the industry as a whole, while that of despatches are exclusive of mini and white cement plants.

Source: (i)Office of the Development Commissioner for Cement Industry, Ministry of Industry.

to enable the cement industry to sell more in the open market and thereby improve its economic viability and profitability, the excise duty on cement was reduced by Rs. 20 per tonne from March 1988. In addition, the levy obligation on the cement industry was reduced progressively since the introduction of the scheme of partial decontrol of cement in February, 1982. As at the end of March 1988, the levy obligations of the cement industry were as follows:

a) New units commencing production on or after 1-4-86	– 15 per cent of actual production.
b) Cement units which had commenced production between 1-1-82 and 31-3-86	– 20 per cent of actual production.
c) Sick units	– 15 per cent of actual production.
d) Expansion in capacity of old units completed after 1-1-1982	– 20 per cent of actual production.
e) All other units viz. those in production prior to 1-1-1982.	– 30 per cent of actual production.

With a view to enabling mini cement plants to improve their economic viability, those plants achieving at least 80 per cent of licensed capacity were permitted in June 1987 to expand their capacity upto 600 tonnes per day (TPD) with the same kiln by installation of precalcinator/balancing equipments. They were also freed from levy obligation upto 300 TPD; beyond 300 TPD they were, however, subject to a soft levy obligation of 15 per cent of the incremental production.

There were 136 mini cement plants with an installed capacity of 3.35 million tonnes as at the end of March 1988 as against 125 with an installed capacity of 3.14 million tonnes as at the end of March 1987. The share of mini cement plants in cement production improved further to 4.9 per cent in 1987-88 from 4.4 per cent last year.

For minimising loss of production arising from power cuts, Government encouraged the cement industry to set up captive power plants to meet at least 40 per cent of the power requirements of the factories. The units which set-up captive generating sets were given special incentives by making appropriate adjustments in their levy obligations. Consequently, the captive power generating capacity in the cement industry increased substantially to 388.78 MW. In addition to the setting up of captive power plants, steps were also taken by the cement industry to modernise and upgrade technology by conversion of wet process plants into semi dry/dry process plants. Consequently, the share of wet process kiln in the total installed capacity has declined to 28 per cent in 1987 from 65 per cent in 1977.

(d) Iron and Steel

Production of saleable steel in six integrated steel plants (five of Steel Authority of India Ltd. and one of Tata Iron and Steel Co. Ltd.—TISCO) during 1987-88 at 8,588 thousand tonnes registered a lower rate of growth of 4.5 per cent than that of 5.7 per cent recorded last year. The combined production of saleable steel in the five (including Indian Iron and Steel Co. Ltd.—IISCO) integrated steel plants of Steel Authority of India Ltd., (SAIL) during the year under review at 6,674 thousand tonnes was higher by 362 thousand tonnes (5.7 per cent) as compared with their production in the preceding year, but fell short of the target of 7,235 thousand tonnes by 7.8 per cent (Table IV-9). The production of steel ingots in six integrated plants at 9,762 thousand tonnes during 1987-88 increased at the rate of 7.4 per cent as compared with a marginal growth of 0.3 per cent (at the level of 9,086 thousand tonnes) witnessed during 1986-87. The SAIL plants produced 7,485 thousand tonnes of steel ingots during 1987-88 which, however, was short of the target of 8,400 thousand tonnes by 10.9 per cent. The finished steel output witnessed a substantial growth of 14.9 per cent to 6,571 thousand tonnes in 1987-88 as against a marginal fall of 0.3 per cent in 1986-87. The SAIL plants could not achieve their targets in the production of steel ingots and saleable steel during 1987-88 mainly because of internal problems in the plants, such as (i) lower utilisation of blast furnaces at Bokaro Steel Plant (BSP), Rourkela Steel Plant (RSP) and Indian Iron and Steel Co. Ltd. (IISCO) and (ii) lower equipment availability/

utilisation in steel melting shops at RSP and BSL and steam power shortage at RSP. The performance of these plants was also affected by inadequacy of power availability from Damodar Valley Corporation (DVC) in case of Durgapur and Bokaro Steel Plants, particularly during June/July 1987 and from Orissa State Electricity Board (OSEB) in case of Rourkela Steel Plant. However, the shortfall in power supply from these grids is unlikely to pose any serious problem in future with the commissioning of remaining power generating units at these plants. The capacity utilisation of SAIL plants during 1987-88 were 68.6 per cent in respect of the production of steel ingots and 79.5 per cent in respect of the production of saleable steel, as against a respective capacity utilisation of 105 per cent and 110 per cent achieved by TISCO.

Despatches of saleable steel by main producers during the year 1987-88 increased by 4.7 per cent to 8,529 thousand tonnes as compared with that of 8.1 per cent in 1986-87. As a result of a slightly higher increase of despatches of saleable steel than production in six integrated steel plants during 1987-88, the stock of saleable steel declined from 740 thousand tonnes at the end of March 1987 to 689 thousand tonnes at the end of March 1988. A substantial increase of 56.0 per cent in exports to 42.6 thousand tonnes of saleable steel by SAIL during 1987-88 as against 27.3 thousand tonnes in 1986-87 also contributed to the reduction of stocks of saleable steel. Further, as against the import of 73.1 thousand tonnes of saleable steel during 1986-87, there was no import of saleable steel by SAIL during 1987-88.

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										
1985-86	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)
1987-88 (P)	2,471	936	1,114	2,418	2,277	546	9,762	52	151	203
							(+7.4)			(+6.3)
Production of Saleable Steel										
1985-86	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)
1987-88 (P)	2,173	835	1,156	1,968	1,914	542	8,588	39	89	128
							(+4.5)			(−4.5)
Production of Finished Steel										
1985-86	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)
1987-88 (P)	1,660	519	1,101	1,870	985	436	6,571	39	89	128
							(+14.9)			(−4.5)

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

The Electric Arc Furnace (EAF) units (mini steel plants) have made a remarkable progress. Today they are producing all grades of steel including alloy, high carbon and special steel. Presently, there are 199 mini steel plants holding licences/letters of intent with the capacity of 6.12 million tonnes per annum, out of which 164 mini steel plants with the licensed capacity of 4.72 million tonnes have been commissioned. The remaining 35 mini steel plants with licensed capacity of 1.40 million tonnes per annum are yet to start production. During 1987-88, the mini steel plants produced mild steel, medium/high carbon steel, alloy steel and stainless steel amounting to 3.2 million tonnes which was higher by 2.8 per cent than that in the last year. Production of re-rollers on the other hand suffered a setback of 2.0 per cent to 5.3 million tonnes over the last year's production. In order to encourage existing mini-steel plants to undertake modernisation, liberal grants of additional capacities were announced as incentives. Any existing mini-steel plant which after modernisation, would be able to produce sufficient liquid metal for producing at least one lakh tonnes per annum of hot rolled strips/coils would be permitted to set up facilities for the manufacture of hot rolled steel strips/coils in the wider width (600 mm and above).

With a view to meeting the growing demand for steel and bridge the gap between the demand and availability, modernisation and expansion programmes are being carried out in all the SAIL steel plants. During 1987-88, all Phase-I units under 4 million tonnes expansion of Bhilai Steel Plant were commissioned. Out of Phase-II units, blast furnace No. 7 was commissioned and battery No. 9 for heating of coke oven was started in December 1987. Durgapur Steel Plant modernisation plan was approved and the Government has also given approval for modernisation of IISCO. Conversion of open hearth furnace to twin hearth furnace, development of special steel through LD—concast route at Bhilai, dephosphorisation of steel in electric arc furnaces at Alloy Steel Plants and air-injection in open hearth furnace at Burnpur works of IISCO were some of the significant projects implemented during the year.

(e) Electricity

The generation of electricity at 201.9 billion units (kwh) during 1987-88 (April-March), registered a growth rate of 7.6 per cent as against that of 10.3 per cent in the preceding year and was 1.5 per cent short of the target of 205 billion units set for the year. The non-fulfilment of targeted generation was largely attributable to fall in hydel-generation by 11.8 per cent due to failure of monsoon and the delay in the commissioning of some new units in hydel sector, as also non-achievement of target by nuclear power generation (Table IV-10).

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

(Million Kilo Watt Hours)

Source	April-March					
	1985-86		1986-87		1987-88 (P)	
	Power Generation	Percentage	Power Generation	Percentage	Power Generation	Percentage
1	2	3	4	5	6	7
1. Thermal	114,119	67.1	128,818	68.7	149.464	74.0
	(+15.3)		(+12.9)		(+16.0)	
2. Hydel	50,933	30.0	53,764	28.7	47,396	23.5
	(−5.6)		(+5.5)		(−11.8)	
3. Nuclear	4,985	2.9	5,023	2.6	5,034	2.5
	(+22.3)		(+0.7)		(+0.2)	
4. **Total**	**170,037**	**100.0**	**187,605**	**100.0**	**201,894**	**100.0**
	(+8.3)		**(+10.3)**		**(+7.6)**	

P : Provisional.

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

Source: Central Electricity Authority.

According to source-wise classification the thermal units (constituting about 74.0 per cent of the total power generation) registered a higher increase of 16.0 per cent in 1987-88 than of 12.9 per cent in the preceding year. Notably, the thermal generation surpassed the target of 143.0 billion units (kwh) set for the year by 4.5 per cent. The hydel generation on the other hand (accounting for only about 24 per cent of the total power generation) fell short of the target of 56.4 billion units or by 16.0 per cent during the year. Nuclear power generation too was short of the target of 5.6 billion units (kwh) or by 10 per cent on account of prolonged shutdowns by power stations at Tarapur (TAPS) in the Western Region for maintenance, forced outage of a unit at MAPS (Kalpakkam) in Southern Region and a unit at RAPS in the Northern Region.

Unprecedented drought conditions in most parts of the country in 1987-88 caused shortfall in hydel generation. Hence, the overall shortage in power supply as compared with the requirement during 1987-88 increased to 10.9 per cent from 9.4 per cent in 1986-87. Regionwise, the Southern and Eastern regions suffered maximum shortages at 16.9 per cent and 12.2 per cent, respectively.

During the year 1987-88, the Plant Load Factor (PLF) at thermal stations improved to 56.5 per cent from 53.2 per cent in 1986-87 as a result of various measures taken to achieve optimum utilisation of existing thermal capacity. Under a centrally sponsored scheme for renovation and modernisation of thermal power stations, an amount of Rs. 49.97 crores was released upto February 1988 during the year under review. Detailed guidelines in regard to the modalities for implementation of the programme were issued to the State Electricity Board (SEBs). They were advised to constitute a special machinery designed to ensure expeditious execution of the scheme.

The construction of transmission projects continued to be accorded higher priority in the context of evacuation of power from the central generating stations to the beneficiary states. The programme for 1987-88 included construction of 2694 circuit kilometers (ckt-kms) of 400 KV lines and 2730 ckt. kms of 220 KV lines, alongwith the associated sub-stations. However, the achievement was much below the target set for the year, especially in the case of 400 KV lines, where only 1818 ckt. kms of transmission lines could be completed and in case of 220 KV lines 2445 ckt. kms. could be completed.

Region-wise break-up indicates that the thermal power generation recorded highest growth (26.8 per cent) in Northern region followed by North-Eastern region (18.2 per cent) and Southern region (16.4 per cent). As regards hydel power generation, substantial decline was noticed in Southern and Western regions by 17.6 and 17.1 per cent, respectively. The overall growth in power generation during the year was maximum in Northern region (12.6 per cent) while the minimum was recorded in Southern region (1.2 per cent).

Electrification of rural areas continued to receive attention during the year. The targets for rural electrification and energisation of pumpsets for 1987-88 were set at 21,377 villages and 3,98,120 pumpsets; upto January 1988, however, 11,428 villages were electrified and 3,89,625 pumpsets energised. The electrification of tribal villages and Harijan Bastis continued to receive special attention. Upto September 1987, 50,593 tribal villages were electrified and street lighting facility was extended to 1,88,593 Harijan Bastis.

As against the targeted capacity addition of 4801.45 MW for the year 1987-88, actual capacity addition was more at 4981.44 MW. Thus at end March 1988 the total installed capacity of power generation was 54,247 MW comprising 35,652 MW of thermal, 17,265 MW of hydel and 1,330 MW of nuclear power (Table IV-11).

(f) Crude Oil and Petroleum Refinery Products

During 1987-88, crude oil output declined marginally by 0.4 per cent to 30.4 million tonnes from 30.5 million tonnes during the previous year (Table IV-12). This deceleration was mainly on account of decline of off-shore output by 2.2 per cent to 20.2 million tonnes during 1987-88 from that of 20.6 million tonnes achieved during 1986-87. The bulk of the total output of crude oil was from the wells managed by Oil and Natural Gas Commission (ONGC). Out of the total output of 30.4 million tonnes of crude oil, 27.9 million tonnes (91.8 per cent) was from the wells of ONGC, comprising 7.7 million tonnes (25.3 per cent) from its on-shore wells and 20.2

Table IV-11: Installed Plant Capacity

(Mega Watt)

As at the end of March	Thermal	Hydel	Nuclear	Total
1	2	3	4	5
1985-86	29,967	15,472	1,330	46,769
	(+11.5)	(+7.0)	(+21.5)	(+10.2)
1986-87	31,740	16,196	1,330	49,266
	(+5.9)	(+4.7)	(-)	(+5.3)
1987-88 P	35,652	17,265	1,330	54,247
	(+12.3)	(+6.6)	(-)	(+10.1)

P : Provisional.

Note: Figures in brackets indicate percentage variations over the preceding year.

Source: Central Electricity Authority.

million tonnes (66.5 per cent) from its off-shore wells. The balance output of 2.5 million tonnes (8.2 per cent) was from the on-shore wells of Oil-India Ltd (OIL).

The major highlights of the ONGC's continued exploration and production activities were:

i) the striking of oil in GS-16 in Krishna Godavari (KG) off-shore area and Bhuvanagiri in Cauvery basins,
ii) the commencement of production from five new structures viz., Kovilkallapal, South Malpur, North Kathana, Pakhajan and Barsilla,
iii) the drilling of deepest well Madhubani-I to a depth of 5957 meters,
iv) the starting of drilling operations in Kerala-Konkan off-shore area, and
v) using for the first time in India the sub-sea completion system to start production in four wells in Bombay off-shore area.

The crude oil consumption (in terms of refinery throughput) rose by 4.4 per cent to 47.7 million tonnes in 1987-88 from 45.7 million tonnes in the previous year. With a view to meeting this increase in consumption, imports of crude oil were raised by 16.6 per cent to 18.0 million tonnes as compared with that of 15.5 million tonnes in 1986-87. The almost stagnant domestic production and increase in consumption during the year had accounted for this rise in imports.

Output of petroleum refinery products rose by 4.5 per cent to 45.2 million tonnes during the year 1987-88 from 43.3 million tonnes during 1986-87. The installed refining capacity in the country at the end of 1987 was 46.70 million tonnes per annum (MTPA) spread over 12 refineries. In addition, there is a swing capacity of 2.0 MTPA in the Hindustan Petroleum Corporation Ltd. Refinery at Bombay.

For meeting the growing demand for petroleum products, the Government initiated a number of measures during 1987-88 to increase the refining capacity in the country which included viz., (a) to set up a 6.0 MTPA grass root refinery at Karnal in Haryana as a joint venture project with M/s. Indian Oil Corporation as public sector promotor and M/s. Tata Chemicals Ltd., as the private sector co-promotor, and (b) preparation of a project report for 3.0 MTPA Petro-Chemical refinery at Mangalore in Karnataka for a joint sector project between Hindustan Petroleum Corporation and Indian Rayon Industries Ltd. Further, the capacity of Mathura Refinery is being expanded from 6.00 MTPA to 7.5 MTPA, and that of the Koyali Refinery is being expanded from 7.3 MTPA to 9.5 MTPA, the capacity of Bongaigaon Refinery has already been expanded from 1.0 MTPA to 1.35 MTPA by de-bottlenecking measures. The Government has approved the installation of the first Hydro-cracker unit in the country at Koyali Refinery and also given first stage approval for modernisation of the Digboi Refinery, the oldest in the country.

The gross imports of petroleum refinery pro-

ducts rose by 29.0 per cent during 1987-88 to 3.9 million tonnes as against a fall of 21.1 per cent witnessed last year. Simultaneously, the gross exports of petroleum refinery products rose at a higher rate of 36.9 per cent to 3.4 million tonnes during 1987-88, as compared to that of 26.9 per cent to 2.5 million tonnes during 1986-87. Consequently, the net import of petroleum products showed a decline of 6.5 per cent to 0.5 million tonnes in 1987-88, as compared with a substantial fall of 70.7 per cent witnessed in 1986-87.

Availability of Liquified Petroleum Gas (LPG) improved further by 12.6 per cent to 1.7 million tonnes during 1987-88 from 1.5 million tonnes in 1986-87.

Petroleum Conservation Research Association (PCRA) continued its thrust for conservation of petroleum products in industrial, transport, agricultural and domestic sectors by intensifying their efforts through conduct of fuel oil utilisation studies, model depot projects, lift irrigation, pumpset rectification, information dissemination programme and R & D activities. Fuel oil utilisation studies were conducted in 125 industrial units till October 1987. Also follow-up studies were conducted in 515 industries. During 1987-88, an

Table IV-12: Crude Oil and Petroleum Refinery Products

(Thousand tonnes)

Item	(April-March)		
	1985-86	1986-87	1987-88(P)
1	2	3	4
A. Crude Oil			
(a) Production (i + ii)	**30,168**	**30,481**	**30,357**
	(+4.1)	**(+1.0)**	**(−0.4)**
i) On-shore	9,345	9,864	10,193
	(+5.5)	(+5.6)	(+3.3)
ii) Off-shore	20,823	20,617	20,164
	(+3.4)	(−1.0)	(−2.2)
(b) Imports	**15,144**	**15,476**	**18,043**
	(+11.0)	**(+2.2)**	**(+16.6)**
B. Petroleum Refinery Products			
(a) Production	**40,244**	**43,255**	**45,184**
	(+21.1)	**(+7.5)**	**(+4.5)**
of which			
i) Naphtha	4,955	5,137	5,461
	(+42.8)	(+3.7)	(+6.3)
ii) Kerosene	4,030	4,912	5,106
	(+19.8)	(+21.9)	(+3.9)
iii) High Speed Diesel Oil	14,624	15,450	16,297
	(+31.9)	(+5.6)	(+5.5)
(b) Imports	**3,865**	**3,048**	**3,932**
	(−36.6)	**(−21.1)**	**(+29.0)**
of which			
i) Naphtha	—	34	—
	(−)	(−)	(−)
ii) Kerosene	2,568	1,900	2,158
	(−1.6)	(−26.0)	(+13.6)
iii) High Speed Diesel Oil	890	750	1,329
	(−65.4)	(−15.7)	(+77.2)

P : Provisional.

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

Source: Ministry of Petroleum and Natural Gas.

annual saving of over 3.5 lakh kilo litres (kls.) of fuel oil worth Rs. 119 crores is expected to be realised.

In the transport sector, PCRA had previously completed model depot projects in 8 undertakings, resulting in an average diesel fuel saving of about 10 per cent. In the agricultural sector PCRA continued rectification of lift irrigation pumpsets at Gujarat. Till October, 1987, 72 lift irrigation pumpsets were rectified in these demonstration projects resulting in 25 to 30 per cent saving in diesel consumption.

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 indicated a lower increase of 12.4 per cent during 1987-88 as compared with a rise of 13.2 per cent witnessed in the last year. The performance of engineering industry was, however, noteworthy on account of larger rise in production of automobiles and certain other items such as dry cells, domestic refrigerators, power driven pumps, etc.

As regards exports of engineering goods, details are given in Chapter X "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

In this group, output of automobiles recorded a substantial increase of 23.5 per cent during 1987-88 as compared with that of 7.5 per cent in 1986-87 (Table IV-13), due to the higher growth rates in the production of passenger cars (37.6 per cent in 1987-88 as compared with 14.6 per cent in the previous year) and jeeps (13.6 per cent as compared with 2.1 per cent). Production of commercial vehicles, also registered a higher increase of 12.8 per cent during the year as compared with 2.9 per cent in the last year.

The output of scooters, motor cycles and mopeds recorded a lower growth rate of 7.4 per cent as against a steep rise of 16.7 per cent in the preceding year. The decline in the growth rate of production of two wheelers could be attributed to the stoppage of production by two companies and strike in the another. A major problem faced by the industry was the sharp rise in the cost of imported components which resulted in increased cost of production and consequent rise in prices.

For assisting the automobile sector, the Government announced certain concessions in the Union Budget for 1988-89 such as (a) extension of the existing concessional rate of import duty of 55 per cent *ad valorem* on components required for the manufacture of fuel-efficient cars upto 1,000 cc for a further period upto March 31, 1990, (b) the reduction in import duty from 55 per cent *ad valorem* to 40 per cent *ad valorem* as parts imported by auto ancillaries for the manufacture of specified components supplied for the manufacture of fuel efficient two wheelers and light commercial vehicles and (c) excise concession of 15 per cent for components required for fuel efficient cars upto 1,000 cc from March 1, 1988 for two years.

Production of diesel engines (stationary) during the year 1987-88 recorded a decline of 6.5 per cent in contrast to an increase of 8.9 per cent in the previous year. Output of road rollers recorded a further decline of 14.8 per cent over that of 17.1 per cent in 1986-87. Production of railway wagons (in terms of 4 wheelers) registered a smaller increase of 4.0 per cent as compared with a 16.0 per cent rise in 1986-87.

Production of lifts and tractors also showed a similar trend. The growth rate of production of tractors was adversaly affected in the past few years due to stagnation in demand. Recently, tractors below 1,800 cc were exempted fully from the levy of excise duty. NABARD is also playing an active role in providing finance to the farmers for purchase of tractors.

(ii) Light Mechanical Engineering Industries

Among the selected light mechanical engineering industries (Table IV-14), production of bicycles recorded a lower increase of 9.1 per cent during 1987-88 compared with 10.2 per cent in

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

Item	Unit	(April-March)		
		1985-86	1986-87 (P)	1987-88(P)
1	2	3	4	5
1. Automobiles (i+ii+iii)	'000 Nos.	219.3	235.7	291.1
		(+11.8)	(+7.5)	(+23.5)
i) Passanger Cars	"	87.6	100.4	138.2
		(+18.1)	(+14.6)	(+37.6)
ii) Commercial Vehicles	"	103.0	106.0	119.6
		(+6.4)	(+2.9)	(+12.8)
iii) Jeeps	"	28.7	29.3	33.3
		(+13.9)	(+2.1)	(+13.6)
2. Scooters, Motor cycles & Mopeds	"	1,229.3	1,434.7	1,541.0
		(+33.9)	(+16.7)	(+7.4)
3. Structurals	'000 Tonnes	132.1	129.0	140.4
		(+4.7)	(−2.4)	(+8.8)
4. Steel Castings+	"	227.2	238.2	311.1
		(+162.1)	(+4.8)	(+30.6)
5. Diesel Engines (Stationary)+	'000 Nos.	2,053.1	2,235.7	2,091.0
		(+1,105.6)	(+8.9)	(−6.5)
6. Railway Wagons	"	13.1	15.2	15.8
(in terms of four wheelers)		(+0.8)	(+16.0)	(+4.0)
7. Road Rollers	Nos.	750	622	530
		(+69.3)	(−17.1)	(−14.8)
8. Lifts	"	1,510	1,880	1,952
		(+6.2)	(+24.5)	(+3.8)
9. Tractors	'000 Nos.	76.3	80.0	83.2
		(−10.1)	(+4.8)	(+4.0)

P : Provisional.

\+ : Production data from the small scale sector has been included since July 1984 and hence the growth rates are not strictly comparable.

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

Source: Central Statistical Organisation (CSO).

the last year, on account of poor performance of two companies. There are at present eight units on the rolls of the Directorate General of Technical Development (DGTD) engaged in the manufacture of bicycles, with total annual production capacity of 72 lakh bicycles. In addition, registration was granted for a fresh capacity of 56.8 lakh bicycles. Production of typewriters (including manual, electric and electronic) fell steeply by 23.8 per cent in contrast to a marginal rise of 1.2 per cent in 1986-87, largly due to fall in demand for portable typewriters. Production of sewing machines declined by 13.3 per cent during 1987-88 in contrast to a significant increase of 29.4 per cent during last year. Similarly, production of wrist watches recorded a decline of 1.3 per cent in 1987-88 as against a substantial rise of 41.2 per cent in 1986-87. To encourage this industry, the Government allowed the liberal import of watch components and a number of proposals of foreign collaboration with internationally reputed watch manufacturers were approved.

(iii) Electrical Engineering Industries

Among the light electrical engineering goods, output of storage batteries, dry cells and domestic refrigerators recorded increases while that of certain others recorded decline during 1987-88 (Table IV-15).

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

Item	Unit	(April-March)		
		1985-86	1986-87 (P)	1987-88(P)
1	2	3	4	5
1. Typewriters	'000 Nos.	121.5	122.9	93.7
		(+4.9)	(+1.2)	(−23.8)
2. Bicycles	"	5,552.6	6,118.6	6,675.9
		(−5.8)	(+10.2)	(+9.1)
3. Sewing Machines	"	291.4	377.1	327.0
		(−12.1)	(+29.4)	(−13.3)
4. Razor Blades	Mill. Nos.	2,039.9	2,108.4	2,235.0
		(+7.3)	(+3.4)	(+6.0)
5. Wrist Watches	"	5.34	7.54	7.44
		(−3.6)	(+41.2)	(−1.3)

P : Provisional.
Note : Figures in brackets represent percentage variations over the corresponding period of the preceding year.
Source: Central Statistical Organisation (CSO).

Table IV-15: Output of Selected Electrical Engineering Industries

Item	Unit	(April-March)		
		1985-86	1986-87 (P)	1987-88(P)
1	2	3	4	5
A. Light Electrical Engineering				
1. Electrical Lamps				
i) Incandescent	Mill. Nos.	270.5	283.7	256.6
		(−2.2)	(+4.9)	(−9.6)
ii) Fluorescent	"	42.6	47.0	45.8
		(+5.4)	(+10.3)	(−2.6)
2. Electric Fans*	'000 Nos.	6,400	5,260	4,450
		(+33.1)	(−17.8)	(−15.4)
3. Radio Receivers	"	1,161.4	1,248.8	881.6
		(−3.2)	(+7.5)	(−29.4)
4. Storage Batteries	"	2,221.0	2,601.0	2,682.2
		(+11.6)	(+17.1)	(+3.1)
5. Dry Cells	Mill. Nos.	1,188.6	1,167.0	1,681.1
		(+3.5)	(−1.8)	(+44.1)
6. Domestic Refrigerators	'000 Nos.	677.6	590.5	680.3
		(+17.7)	(−12.8)	(+15.2)
B. Heavy Electrical Engineering				
1. Power Transformers	'000 KVA	27,300	28,250	24,730
		(+7.5)	(+3.5)	(−12.5)
2. Electric Motors+	'000 HP	5,250	5,430	3,940
		(+6.3)	(+3.4)	(−27.4)
3. Power Driven Pumps	'000 Nos.	512.2	459.4	515.8
		(+3.2)	(−10.3)	(+12.3)

P : Provisional.
* : Includes production from the small scale sector.
+ : Data relate to DGTD units only.
Note: Figures in brackets represent percentage variations over the corresponding period of the preceding year.
Source: Central Statistical Organisation (CSO).

Output of dry cells and domestic refrigerators recorded a rise of 44.1 per cent and 15.2 per cent during 1987-88 as against a fall of 1.8 per cent and 12.8 per cent, respectively, during 1986-87. The production of storage batteries rose by 3.1 per cent compared with an increase of 17.1 per cent in the preceding year. There was a fall of 15.4 per cent in the number of electric fans produced during 1987-88 in continuation of decline of 17.8 per cent during the previous year. Output of incandescent lamps, fluorescent tubes and radio receivers recorded declines of 9.6 per cent, 2.6 per cent and 29.4 per cent, during 1987-88 as against the increases of 4.9 per cent, 10.3 per cent, 7.5 per cent, respectively, during the last year.

Among selected heavy electrical engineering industries, output of power transformers and electric motors decreased by 12.5 per cent and 27.4 per cent, during the year 1987-88 in contrast to a rise of 3.5 per cent and 3.4 per cent, respectively, during the previous year.

On the other hand, production of power driven pumps, increased by 12.3 per cent during the year 1987-88 in contrast to a decline of 10.3 per cent in the previous year. A scheme of broad categorisation of electrical equipments to provide flexibility of operations to the manufacturers was introduced. The Government have constituted a Development Council for Heavy Electricals and Allied Equipment for regular interaction with the industry.

(iv) Electronics Industry

The electronics industry recorded a high overall growth rate of 36.4 per cent during 1987 (calendar year) (Table IV-16) was shared by all the components except export processing zones which indicated a fall of 9.7 per cent in contrast to an increase of 69.4 per cent in 1986.

During 1987-88, major growth was noticed in the areas of personal computers, high resolution terminals and colour/monochrome monitors, electronic weighing scales, data modems, microprocessor based process instruments, electronic counting machines, electronics information display systems and security systems, etc. A

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

(Rupees crores)

Sector	1985	1986	1987
1	2	3	4
1. Consumer Electronics	1,030.0	1,275.0	1,820.0
	(+75.5)	(+23.8)	(+42.7)
2. Instrumentation and Industrial Electronics	404.0	525.0	685.0
	(+20.6)	(+30.0)	(+30.5)
3. Computers	155.0	280.0	375.0
	(+68.5)	(+80.6)	(+33.9)
4. Communication and Broadcasting	380.0	504.0	710.0
	(+18.6)	(+32.6)	(+40.9)
5. Aerospace and Defence	196.0	222.0	300.0
	(+31.5)	(+13.3)	(+35.1)
6. Components	410.0	510.0	700.0
	(+35.3)	(+24.4)	(+37.3)
7. Export Processing Zones*	85.0	144.0	130.0
	(−17.1)	(+69.4)	(−9.7)
Total	**2,660.0**	**3,460.0**	**4,720.0**
	(+40.7)	**(+30.1)**	**(+36.4)**

* : Domestic Tariff Areas.

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

Source: Department of Electronics, Government of India.

number of specific steps were introduced to boost the growth of entire electronic sector in future, important of which were as follows:

(1) Rationalisation of licensing policy,
(2) No upper limit for capacity,
(3) Specific reservations are made on very special considerations and no sectoral restrictions are contemplated and
(4) Upgradation of technology to achieve economies of scale.

In addition to the above, several budgetary concessions were announced during 1988-89 for assisting the rapid growth of the electronic industry.

(b) Metallurgical Industries (Other than Iron & Steel)

Divergent trends were observed in the production of non-ferrous metals in 1987-88 as in 1986-87 (Table IV-17). Production of aluminium increased appreciably by 7.9 per cent to 2.8 lakh tonnes in 1987-88 as against a decline of 2.8 per cent witnessed last year. This increase is attributable mainly to the commencement of production of National Aluminium Company (NALCO) in the public sector with a licensed capacity of 2.18 lakh tonnes. On the other hand, heavy power cuts affected the smelters of Indian Aluminium Company and Madras Aluminium Company.

Production of copper decreased by 9.9 per cent to 31 thousand tonnes in 1987-88 from 34.4 thousand tonnes in 1986-87. As the indigenous production meets the country's demand only partially, the balance is met by the imports.

For increasing the indigenous production of copper in the immediate future, some of the im-

Table IV-17: Production of Non-Ferrous Metals

(Thousand tonnes)

Item	(April-March)		
	1985-86	1986-87 (P)	1987-88(P)
1	2	3	4
Virgin Metals			
1. Aluminium	264.8	257.3	277.7
	(-4.2)	(-2.8)	(+7.9)
2. Copper	29.7	34.4	31.0
	(-11.3)	(+15.8)	(-9.9)
3. Lead	17.2	19.9	20.2
	(+21.1)	(+15.7)	(+1.5)
4. Zinc	72.8	76.4	60.6
	(+26.4)	(+4.9)	(-20.7)
Semi-Manufactures			
1. Aluminium			
(a) Sheets and Circles Rolled Products	84.3	78.4	67.1
	(+14.9)	(-7.0)	(-14.4)
(b) Wire rods for Aluminium Conductor Steel Reinforced (ACSR)/(AAC)	61.1	58.0	40.8
	(+14.8)	(-5.1)	(-29.6)
2. Copper Sheets and Circles Rolled Products 3. Brass Sheets and Circles Rolled Products	14.5	16.8	29.2
	(-7.6)	(+15.9)	(+73.8)

P : Provisional.
Note : Figures in brackets indicate percentage variations over the preceding year.
Sources: (i) Department of Industrial Development, Ministry of Industry.
(ii) Department of Mines, Ministry of Steel and Mines.
(iii) DGTD.

portant measures undertaken were as follows:

(a) Schemes for removing bottlenecks and modernisation of the smelters and refineries at Indian Copper Complex (ICC) and Khetri Copper Complex were under implementation.
(b) Integrated study of Singhbhum Copper Belt in Bihar was undertaken to formulate long-term strategy for exploitation of copper potential in the area.

In 1987-88 production of lead increased by 1.5 per cent to 20.2 thousand tonnes from 19.9 thousand tonnes in 1986-87, whereas production of zinc at 61 thousand tonnes in 1987-88 witnessed a decline of 20.7 per cent as against a rise of 4.9 per cent last year. As the indigenous production of both the metals falls short of the domestic demand, the gap is met through imports by Minerals and Metals Trading Corporation (MMTC).

C. Intermediate Goods Industries

(a) Jute Textiles

Output of jute textiles at 11.95 lakh tonnes during 1987-88 registered a sharp decline of 14.3 per cent in contrast to an increase of 3.1 per cent in 1986-87 (Table IV-18). The decline was attributable to lower raw jute crop, closure of some units due to uneconomical operations and the reduced off-take of jute bags for packaging on account of decline in 1987 *kharif* crop. Moreover, the production plans of the industry were considerably affected by the disruption in export shipment of jute goods from Calcutta port from May to September 1987 as a result of strike by bargemen and subsequent lock-out by barge owners.

Production of all categories of jute goods registered decline during 1987-88 as compared

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	1985-86	310.9	823.4	30.5	186.9	1,351.7
		(−4.5)	(+2.2)	(−34.5)	(−1.6)	(−1.2)
	1986-87 (P)	348.5	831.1	53.5	160.9	1,394.0
		(+12.1)	(+0.9)	(+75.4)	(−13.9)	(+3.1)
	1987-88 (P)	316.8	680.6	41.5	155.9	1,194.8
		(−9.1)	(−18.1)	(−22.4)	(−3.1)	(−14.3)
Domestic Consumption**	1985-86	131.2	795.4	1.2	166.5	1,094.3
		(+5.4)	(+7.6)		(−2.7)	(+5.8)
	1986-87 (P)	143.4	801.4	2.8	143.4	1,091.0
		(+9.3)	(+0.8)	(+133.3)	(−13.9)	(−0.3)
	1987-88 (P)	146.5	670.5	3.2	139.1	959.3
		(+2.2)	(−16.3)	(+14.3)	(−3.0)	(−12.1)
Year-end Stocks	1985-86	17.0	26.6	10.2	12.8	66.6
		(−10.5)	(−28.5)	(+52.2)	(+18.5)	(−9.6)
	1986-87 (P)	23.1	28.8	8.7	12.5	73.1
		(+35.9)	(+8.3)	(+14.7)	(−2.3)	(+9.8)
	1987-88 (P)	22.2	25.6	9.1	9.2	66.1
		(−3.9)	(−11.1)	(+4.6)	(−26.4)	(−9.6)

P : 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).

with that in the previous year. Hessian output recorded a fall of 9.1 per cent in contrast to a rise of 12.1 per cent during the previous year. The production of sacking and carpet backing at 680.6 thousand tonnes and 41.5 thousand tonnes recorded sharp declines of 18.1 per cent and 22.4 per cent during 1987-88 as against increase of 0.9 per cent and 75.4 per cent, respectively, during the last year. Production of other jute manufactures was also lower by 3.1 per cent over and above the decline of 13.9 per cent witnessed during 1986-87.

Domestic consumption of jute goods during 1987-88 at 9.59 lakh tonnes showed a steep fall of 12.1 per cent as compared with a marginal decline of 0.3 per cent in the previous year. Decline during the year was mainly due to reduced off-take of jute bags on DGS&D account for packing foodgrains by various agencies. In view of the need for increasing the domestic consumption, Jute Packing Materials (compulsory use in packing commodities) Act, 1987 was made effective from June 1, 1987 and a reservation order dated May 29, 1987 for mandatory use of jute packaging material for certain specified sectors upto specified levels of productions within the country became effective from 1st September 1987.

Since fall in production of jute goods was larger than that in their domestic consumption, their stocks at 66.1 thousand tonnes were lower by 7.0 thousand tonnes from the level observed during the previous year. Category-wise, the stocks of hessian declined marginally by 3.9 per cent. However, stocks of sacking and other jute goods moved down faster by 11.1 per cent and 26.4 per cent, respectively. Stocks of carpet backing, on the other hand increased by 4.6 per cent.

Information on exports of jute manufactures including twist and yarn and measures relating to exports implemented by the Government is covered in the Chapter X on "Developments in India's Foreign Trade" of this Report.

For expediting the process of modernisation of jute industry, the Government announced a package of assistance of Rs. 150 crores under the Jute Modernisation Fund Scheme (JMFS). Assistance under JMFS is available not only to healthy units for modernisation at 11.5 per cent rate of interest but also to sick units which are potentially viable. So far, 28 jute mills have submitted loan applications for modernisation and rehabilitation assistance. Eight cases have been sanctioned assistance under this scheme. Besides, under Special Jute Development Fund, the Government have approved disbursement of the entire amount of Rs. 100 crores for financing various identified schemes on the basis of recommendation of four working groups. They included raw jute development programme: (a) Rs. 25 crores assistance to Jute Corporation of India (JCI)/State level cooperative procurement agencies for construction of godowns and other ancillary facilities, (b) Rs. 10 crores for the benefit of jute mill workers, (c) Rs. 53.5 crores for product diversification and (d) Rs. 10 crores for R & D support to the industry.

During 1987-88, a sum of Rs. 6 crores was given to different states through the Ministry of Agriculture for the raw jute productivity scheme. Amount of Rs. 2 crores was released through JCI to state level cooperative agencies to enable them to construct godowns and other facilities for procurement. Funds were released to two institutions by way of R & D support. Two sub-groups were set up to undertake detailed monitoring of the implementation of schemes for industrial as well as agricultural sectors.

(b) Rubber and Rubber Manufactures

Production of natural rubber increased to 235.2 thousand tonnes during 1987-88 from 219.5 thousand tonnes in 1986-87, recording a lower growth rate of 7.2 per cent than that of 9.5 per cent observed in 1986-87 (Table IV-19). This deceleration could be attributed to adverse weather conditions during the initial part of the year. With the improvement in climatic conditions in the latter part of the year, there was a substantial recovery in the output of rubber. The average yield per hectare increased to 950 kgs. in 1987-88 from 930 kgs. in 1986-87.

The consumption of all varieties of rubber including natural rubber, synthetic rubber and reclaimed rubber increased substantially over its level in the previous year. The consumption of natural rubber moved up by 11.7 per cent during the year to 287.5 thousand tonnes as against 257.3 thousand tonnes last year when it had recorded

a rise of 8.4 per cent. This unprecedented rise in consumption in 1987-88 is mainly on account of the significant rise in the manufacture of automobiles in general during 1987-88 particularly in respect of passenger cars, commercial vehicles, jeeps, etc., and absorbtion of more rubber by the non-tyre manufacturing sector. Thus consumption of natural rubber far exceeded the domestic production. Hence, to bridge the gap between demand and supply, 53.7 thousand tonnes of natural rubber was imported during the year.

The year-end stocks of natural rubber at 64.1 thousand tonnes showed a marginal increase of 1.4 thousand tonnes by 2.2 per cent when compared with that of 62.7 thousand tonnes a year ago.

In view of the widening gap between domestic supply of and demand for natural rubber, the Rubber Board has embarked on ambitious scheme aimed at doubling the production of natural rubber by the turn of the century. Multi-pronged schemes that have been evolved to meet

Table IV-19: Rubber

(Thousand tonnes)

Item	(April-March)		
	1985-86	1986-87 (P)	1987-88(P)
1	2	3	4
Production			
Natural	200.5	219.5	235.2
	(+7.6)	(+9.5)	(+7.2)
Synthetic	34.8	38.8	44.5
	(−7.7)	(+11.5)	(+14.7)
Reclaimed	39.2	39.0	40.5
	(+14.6)	(−0.5)	(+3.8)
Imports			
Natural	41.4	45.4	53.7
	(+10.4)	(+9.7)	(+18.3)
Synthetic	39.1	32.6*	30.1*
	(+62.9)	(−16.6)	(−7.7)
Consumption			
Natural	237.4	257.3	287.5
	(+9.1)	(+8.4)	(+11.7)
Synthetic	70.0	71.8	76.4
	(+7.0)	(+2.6)	(+6.4)
Reclaimed	38.2	38.6	41.4
	(+10.4)	(+1.0)	(+7.3)
Year-end stocks			
Natural	55.4	62.7	64.1
	(+2.2)	(+13.2)	(+2.2)
Synthetic	14.5	15.1	13.2
	(+25.0)	(+4.1)	(−12.6)
Reclaimed	3.1	3.6	3.0
	(+47.6)	(+16.1)	(−16.7)

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

the requirements include bringing in additional areas under rubber plantation, popularisation of high-yielding class and a vigorous campaign to pursuade small-growers to go in for replanting at the earliest under the Plantation Development Scheme introduced by the Rubber Board. Rubber growers who come forward to replant are entitled for subsidy plus loan equivalent to Rs. 30,000 per hectare including Rs. 5,000 as cash subsidy, Rs. 2,700 as subsidy for polybagged plants .and Rs. 22,300 as loan from financial institution. In addition, the Rubber Board subsidises interest payment charged on the loan.

Other schemes being implemented by the Rubber Board include, disbursement of high yielding planting materials, supply of certain inputs at concessional rates and encouraging co-operatives by providing financial assistance, for improving the processing and marketing of rubber. About 14,000 hectares were covered by new plantations/replantations during the year with the financial and technical assistance of the Rubber Board.

The Government implemented various measures for the expansion of area under rubber in non-traditional regions. It is estimated that in 1987-88, about 4,560 hectares of additional area was brought under rubber cultivation programme in the north eastern region. Besides, the Government also stressed the need to rehabilitate the old, uneconomic and low yielding rubber holding in the small-scale sector which account for about 77 per cent of the area under rubber cultivation.

Production of synthetic rubber recorded a rise of 14.7 per cent to 44.5 thousand tonnes in 1987-88 as compared with that of 11.5 per cent achieved in the previous year. Its consumption also increased at a higher rate of 6.4 per cent (to 76.4 thousand tonnes) than that of 2.6 per cent (to 71.8 thousand tonnes) in the last year. The reduction in its stocks to 13.2 thousand tonnes at the end of 1987-88 from 15.1 thousand tonnes a year ago could contain the imports at a lower level of 30.1 thousand tonnes in 1987-88 than 32.6 thousand tonnes in 1986-87.

The State Trading Corporation (STC) continued to operate the buffer stock scheme. Recently, a committee has been constituted with the representatives of Commerce Ministry, Rubber Board and STC to monitor the release of imported rubber in the open market in order to stabilise the open market price at Rs. 17 a kg. The reference price under the scheme was revised to Rs. 1,700 (per quintal for RMA-4 grade) in May 1987.

The release and purchase price band were also revised to Rs. 1,750 and Rs. 1,650, respectively. Under the scheme, the monitoring committee would ask STC to release the imported material whenever price exceeds this band or procure domestic rubber whenever the price falls below the floor level.

Production trends in selected rubber goods industries are presented in Table IV-20. The estimated production of auto tyres during 1987-88 at 140.0 lakh number recorded an increase of 10.1 per cent over and above an increase of 3.1 per cent during 1986-87. The acceleration in their output was due to the pick-up in the demand for certain categories of auto tyres since September 1987. Output of auto tubes, however, increased at a lower rate of 10.1 per cent as compared with 25.5 per cent during 1986-87. This deceleration can be attributed to closure of some units and cutting down of production in certain other units. Production of cycle tubes recorded a rise of 10.0 per cent during the year in contrast to a fall of 8.2 per cent during 1986-87. On the other hand production of cycle tyres indicated a further fall of 20.6 per cent in 1987-88 over and above the fall of 17.7 per cent in 1986-87.

(c) Chemicals and Chemical Products

Production of chemicals and chemical products registered higher growth rate of 14.2 per cent during 1987-88 as compared with 13.7 per cent rise recorded in last year. Among selected items in this group, the production of fertilizers (nitrogenous and phosphatic) increased marginally by 0.9 per cent to 71.3 lakh tonnes (April-March) as compared with a rise of 22.8 per cent last year (Table IV-21). Production of nitrogenous as well as phosphatic fertilizers has increased marginally during 1987-88 by 1.0 per cent and 0.3 per cent to 54.66 lakh tonnes and 16.65 lakh tonnes, respectively and was short by 2.4 per cent and 20.7 per cent from the target of 56.00 lakh tonnes and 21.00 lakh tonnes set for the year. Production of nitrogenous and phosphatic fertilizers was affected mainly due to equipment problems,

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
1985-86	123.3	47.9	101.3	361.0	272.3	393.0
	(+7.8)	(+3.7)	(-30.9)	(+15.7)	(+59.4)	(+9.8)
1986-87 (P)	127.1	46.8	127.1	297.0	250.0	419.5
	(+3.1)	(-2.3)	(+25.5)	(-17.7)	(-8.2)	(+6.7)
1987-88 (P)	140.0*	45.4	140.0*	235.9	275.0*	411.6
	(+10.1)	(-3.0)	(+10.1)	(-20.6)	(+10.0)	(-1.9)

P : Provisional.

* : Estimated Production.

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

Sources: Directorate General of Technical Development, Annual Report of the Department of Industrial Development.

power cuts, water shortage and less off-take on account of drought in certain parts of the country and shortage of phosphoric acid. These factors also influenced capacity utilisation in the fertilizer industry during the year which was less than that in the last year for both the nitrogenous and phosphatic fertilizers. The capacity utilisation of the nitrogenous and phosphatic fertilisers was 77.6 per cent and 71.5 per cent, respectively, in 1987-88 as against 79.1 per cent and 80.1 per cent last year. In anticipation of demand of 91 lakh tonnes of nitrogenous fertilizers and 30 lakh tonnes of phosphatic fertilizers by the turn of the VII Plan, a big programme has been launched to achieve an installed capacity of 95 lakh tonnes of nitrogenous fertilizers and 29 lakh tonnes of phosphatic fertilizers by 1989-90.

There are at present, 43 fertilizer units producing a wide range of nitrogenous and complex/phosphatic fertilizers. Besides, there are over 70 smaller units producing single super phosphate and six units producing ammonium sulphate as by-product from steel plants. In addition, 13 fertilizer projects (8 Nitrogenous and 5 Phosphatic) including new and expansion schemes are under implementation.

Production of caustic soda is estimated around 8.00 lakh tonnes in 1987-88 indicating a growth of 7.5 per cent as against 2.5 per cent in the preceding year. The domestic demand for caustic soda is estimated at about 8.3 lakh tonnes. There are at present 41 companies producing caustic soda in the country with an installed capacity of 10.45 lakh tonnes per annum. In order to prevent adverse effect of imports on indigenous production, Government has recently canalised imports of caustic soda.

In 1987-88, output of soda ash is placed at 9.9 lakh tonnes as against the estimated demand of 10.5 lakh tonnes. The demand is increasing necessitating marginal imports. To encourage indigenous production, the Government has delicensed manufacture of soda ash.

Production (in terms of value) of bulk drugs and formulations in 1987-88 is estimated at Rs. 480 crores and Rs. 2350.00 crores, respectively, registering rise of 4.8 per cent and 9.8 per cent, respectively, over last year. The rising production trend in a large number of essential drugs was maintained during 1987-88. Production presently covers a wide range of bulk drugs including antibiotics, vitamins, harmones, sulpha drugs and other synthetic phyto-chemicals and biological products. Recently a number of new drugs like Pyroxicem, Ranitidine, Norfloxacin, etc., have been introduced. The new Drug Price Control Order (DPCO) was announced in August 1987 to stimulate production of drugs and pharmaceuticals in the desired areas and make the price control system more effective. Under the new order, prices of 161 bulk drugs are controlled.

Table IV-21: Production of Major Chemicals & Chemical Products

(Thousand tonnes)

Item	April-March		
	1985-86	1986-87	1987-88@
1	2	3	4
1. Nitrogenous Fertilisers (N Content)	4328	5410	5466
	(+10.5)	(+25.0)	(+ 1.0)
2. Phosphatic Fertilisers (P_2O_5)	1428	1660	1665
	(+12.9)	(+16.2)	(+ 0.3)
3. Caustic Soda	726	744	800
	(+ 6.1)	(+ 2.5)	(+ 7.5)
4. Soda Ash	918	983	990
	(+12.4)	(+ 7.1)	(+ 0.7)
5. Paints and Varnishes (Organised Sector)	140	168	185
	(+ 6.9)	(+20.0)	(+10.1)
6. Soaps (Organised Sector)	342	352	360
	(− 9.3)	(+ 2.9)	(+ 2.3)
7. Synthetic Detergents (Organised Sector)	186	187	200
	(+10.7)	(+ 0.5)	(+ 7.0)
8. Drugs and Pharmaceuticals (Rs. crores)			
(i) Bulk Drugs	409	458	480
	(+12.1)	(+12.0)	(+ 4.8)
(ii) Formulations	1945	2140	2350
	(+ 6.5)	(+10.0)	(+ 9.8)

@ : Estimated production.

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

Sources: (i) Department of Fertilisers, Ministry of Agriculture.
(ii) Department of Chemicals & Petrochemicals, Ministry of Industry.
(iii) Department of Industrial Development, Ministry of Industry.
(iv) D.G.T.D.

D. Consumer Goods Industries

Sugar

Sugar production during the 1987-88 season is expected to reach an all time high of around 91 lakh tonnes, as against the record 85.01 lakh tonnes achieved in the previous 1986-87 season and the earlier high of 84.38 lakh tonnes in 1981-82. Thus despite drought conditions prevalent in most parts of the country, sugar production is expected to reach an all time record mainly due to series of measures initiated by the Government which has steadily pushed up sugar production. Sugar production which had reached a record 84.38 lakh tonnes in 1981-82 and 82.32 lakh tonnes in 1982-83, suffered a setback in the subsequent two seasons 1983-84 and 1984-85 to 59.16 lakh tonnes and 61.43 lakh tonnes, respectively, mainly due to natural factors such as drought conditions in Southern States and low recovery in Northern Regions. Production, however, subsequently improved to reach 70.16 lakh tonnes in 1985-86 and the record 85.01 lakh tonnes in 1986-87. Sugar production during the 1987-88 season so far upto September 15, 1988 at 90.89 lakh tonnes was 6.07 lakh tonnes or 7.2 per cent higher than the production of 84.82 lakh tonnes during the corresponding period last season. Inclusive of sugar imports, total availability in 1987-88 (till September 15, 1988) was 118.13 lakh tonnes as against 113.12 lakh tonnes in the corresponding period of the previous season. Total offtake was around 89.90 lakh tonnes comprising 89.72 lakh tonnes for internal consumption and 0.18 lakh tonnes for exports, as against 82.68 lakh tonnes (82.48 lakh tonnes for internal consumption and 0.20 lakh tonnes for exports)

during the corresponding period last season. Total consumption during the entire 1987-88 season is likely to reach around 94 lakh tonnes as against 86.87 lakh tonnes in the 1986-87 season.

Policy Measures

The general policy of partial control and dual pricing of sugar remained unchanged during the 1987-88 season. The ratio of levy and free sale sugar quota which was revised from 65:35 in 1984-85 to 55:45 in 1985-86 and to 50:50 in 1986-87 was continued during 1987-88. The steady upward revision in the free sale quota was done with a view to improve the viability of sugar factories, besides making available to consumers a larger quantity of sugar in the open market at reasonable prices. Further, the Government continued the practice of announcing the Statutory Minimum Price (SMP) of sugarcane well in advance of the sowing season. The Government in November 1986 announced a higher SMP of sugarcane at Rs. 18.00 per quintal for the 1987-88 season, linked to a recovery of 8.5 per cent or below, with a proportionate premium for higher recoveries. However, in view of the drought and floods in many parts of the country, the Government in December 1987 decided to raise the SMP of sugarcane for the 1987-88 season to Rs. 18.50 per quintal which when compared to SMP for 1986-87 at Rs. 17.00 per quintal was higher by Rs. 1.50 per quintal. The SMP for the 1988-89 season has also been fixed higher at Rs. 19.00 per quinal. However, under the existing practice, the cane growers get much higher price, in view of the fact that the State advised prices are much higher than the statutory minimum prices. The State advised prices during 1987-88 ranged between Rs. 18.00 and Rs. 32.00 per quintal.

Following the enhancement in the SMP of sugarcane from Rs. 17.00 per quintal to Rs. 18.50 per quintal for 1987-88, the ex-factory price of levy sugar (all-India average) worked out on the basis of SMP of sugarcane announced for the season and the conversion cost schedule recommended in the report of the Bureau of Industrial Costs and Prices (1984), was enhanced from Rs. 398.34 per quintal to Rs. 422.00 per quintal. Following the increase in the all-India average ex-factory price of levy sugar for 1987-88, the Government decided to increase the retail issue price of levy sugar (distributed through fair price shops) from Rs. 4.85 per kg. to Rs. 5.10 per kg. with effect from January 1, 1988. The additional levy sugar price of Rs. 26.00 per quintal allowed during the years 1980-81 to 1986-87 to factories

Table IV-22: Availability and Consumption of Sugar
(October–September)

(Lakh tonnes)

Item	1984-85	1985-86	1986-87	1986-87	1987-88
				Oct. 1, 1986 to September 15, 1987	Oct. 1, 1987 to September 15, 1988
1. Opening stock	23.74	15.79	19.06	19.06	26.53
	(0.94)	(1.84)	(1.24)	(1.24)	(3.21)
2. Production	61.43	70.16	85.01	84.82	90.89
3. Imports	11.87	16.19	9.53	9.24	0.71
4. Total supply (1+2+3)	97.04	102.14	113.60	113.12	118.13
5. Internal consumption	80.93	82.72	86.87	82.48	89.72
	(10.97)	(16.79)	(7.56)	(7.18)	(3.60)
6. Exports	0.32	0.36	0.20	0.20	0.18
7. Total offtake (5+6)	81.25	83.08	87.07	82.68	89.90
8. Closing stock (4–7)	15.79	19.06	26.53	30.44	28.23
	(1.84)	(1.24)	(3.21)	(3.30)	(0.32)

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

Source: Indian Sugar Mills' Association.

having capacity below 1250 TCD and plants installed before 1955 was discontinued during the current 1987-88 season.

In a bid to maximise sugar production during the current 1987-88 sugar season, the Union Government decided to give excise incentives to sugar factories for early and late crushing of sugarcane. Rebate in excise duty (Rs. 17 per quintal for levy and Rs. 24 per quintal on free sale) for early crushing was announced in December 1987 and was given on sugar produced in excess during the period October—November 1987 as compared to average production during the corresponding period of the previous three sugar seasons. A similar rebate in excise duty for late crushing was announced in April 1988, for sugar produced in excess during the period May 1, to July 31, 1988 as compared to the average production during the corresponding period of the previous three sugar seasons.

The quantum of levy sugar allocation to State Governments was revised upwards to 3.32 lakh tonnes from February 1987 as against 3.13 lakh tonnes allocated earlier. The revision was made on the per capita availability of 425 gms per head per month based on the projected population as on October 1, 1986. Additional quantity of 50,000 tonnes each were also released for distribution under PDS during the months of September and October 1987. The release of sugar, indigenous and imported, for sale in open market was also higher at 51.70 lakh tonnes in 1986-87 season as compared to 49.10 lakh tonnes during 1985-86. During the current 1987-88 season, the release was higher at 56.15 lakh tonnes. A portion of imported sugar is also distributed through the State Governments and the rest sold by Food Corporation of India (FCI) through auction tenders. A small quantity of imported sugar is also being allotted as levy sugar for distribution under PDS. Data on sugar release both for levy and free sale for the current 1987-88 season and the preceding season to are given in Table IV-23.

With a view to ensuring availability of sugar at reasonable prices to consumers and to supplement availability, Government resorted to sugar imports from 1985 onwards.

However, following various measures taken to increase indigenous production of sugar, dependence on sugar imports has been reduced and a quantity of only 0.71 lakh tonnes was imported during 1987-88 season as against 9.53 lakh tonnes during the 1986-87 (October-September) season and 16.19 lakh tonnes in 1985-86.

The International Sugar Agreement, 1977 of which India is an exporting member expired on

Table IV-23: Sugar Releases during the 1986-87 and 1987-88 Season

(Lakh tonnes)

Month	1986-87			1987-88		
	Levy	Free Sale	Total	Levy	Free Sale	Total
October	3.63	4.50	8.13	3.82	4.75	8.57
November	3.13	4.50	7.63	3.32	4.50	7.82
December	3.13	4.25	7.38	3.32	4.50	7.82
January	3.13	4.00	7.13	3.32	4.90	8.22
February	3.32	4.10	7.42	3.32	4.50	7.82
March	3.32	4.20	7.52	3.32	4.50	7.82
April	3.32	4.20	7.52	3.32	4.50	7.82
May	3.32	4.30	7.62	3.32	4.50	7.82
June	3.32	4.30	7.62	3.32	4.40	7.72
July	3.32	4.30	7.62	3.32	5.00	8.32
August	3.32	4.30	7.62	3.32	5.00	8.32
September	3.82	4.75	8.57	3.32	5.10	8.42
Total	**40.08**	**51.70**	**91.78**	**40.34**	**56.15**	**96.49**
Monthly Average	3.34	4.31	7.65	3.36	4.68	8.04

December 31, 1984. Thereafter, a new International Sugar Agreement, 1984 came into force from January 1, 1985, the terms of which were further extended by the International Sugar Council upto March 31, 1988. A new International Sugar Agreement, 1987 came into force provisionally from April 1, 1988. India continues to be a member of this agreement. Owing to a decline in sugar production in the country, exports in 1987 and 1988 have been restricted to preferential EEC and US quotas, besides some exports to Nepal and Maldives of about 0.36 lakh tonnes and 0.23 lakh tonnes, respectively (upto February 1, 1988) were effected.

Sugar Development Fund

Sugar Development Fund set up under Sugar Development Fund Act, 1982, is funded by transfer of proceeds of sugar cess levied (Rs. 14 per quintal) and collected under Sugar Cess Act, 1982 on sugar produced in the country. During 1987-88 upto December 31, 1987, a sum of Rs. 50 crores has been credited to the fund taking the total amount credited to the fund to Rs. 451 crores. The fund is to be utilised by the Government of India for the purpose of making loans for:

(i) Rehabilitation/modernisation of sugar industry;

(ii) Development of sugarcane by the sugar industry; and

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

Loans on soft terms for Rs. 74.08 crores to 62 sugar mills for development and Rs. 8.99 crores to 11 sugar mills for modernisation/rehabilitation have been sanctioned so far.

Sugar Price Equalisation Fund

The Levy Sugar Price Equalisation Fund Act, 1976 has been in force from April 1, 1976. During the year under report a sum of Rs. 2.84 crores has been recovered from the sugar mills and credited to the Fund bringing the total amount thus credited since the commencement of the Act to Rs 13.08 crores. In addition, Food Corporation of India under orders of Courts of Law have so far collected, by way of such recovery from sugar mills a sum of Rs. 17.17 crores.

The Central Government announced the policy guidelines for licensing of new and expansion of existing sugar factories during the Seventh Five-Year Plan vide press note dated January 2, 1987. After announcement of licensing policy, 36 cases for the establishment of new sugar factories were considered out of which 20 were recommended for grant of letters of intent. Regarding expansion, 62 cases were considered, out of which 57 cases were recommended for grant of letters of intent. These will involve an annual sugar production capacity of 15.66 lakh tonnes. In addition, an expansion capacity of 4.07 lakh tonnes has also been endorsed on industrial licences.

The licensed capacity of sugar industry as on May 31, 1988 was 104.37 lakh tonnes spread over 414 sugar factories. Against this, 386 factories were in operation as on May 31, 1988, of which, 119 were in the private sector, 56 in the public sector and 211 in the co-operative sector with an installed annual sugar production capacity of 80.82 lakh tonnes. Besides 28 new sugar factories and 81 expansion schemes are under various stages of implementation. The progress made by all the licensed factories/expansion schemes is reviewed from time to time with a view to revoke the infructuous capacity.

D. Consumer Goods Industries

(b) Textile—Cotton and Synthetics

The composite index of Cotton Textile group (weight 12.31 per cent) recorded a higher growth rate of 4.1 per cent during 1987-88 than that of 1.9 per cent during the preceding year. The higher rate of growth is the result of increased production in the decentralised sector.

There were 1,045 textile mills (762 spinning and 283 composite) at the end of March 1988 as against 1,027 (744 spinning and 283 composite), at the end of March 1987. The installed capacity of spindles is estimated at about 26.19 million at the end of 1987-88 as against 26.10 million at the end of 1986-87 whereas the installed capacity of looms has remained stagnant at 2.08 lakh. Capacity utilisation of spindles and looms has stagnated at 72 per cent and 61 per cent, respectively, during the year 1987-88. The total number

of closed mills at the end of March 1988 increased to 133 from 90 as at the end of March 1987. This has rendered 34 lakh spindles and 33 thousand looms idle by March 1988 as against 24 lakh spindles and 26 thousand looms, respectively, by March 1987. The primary causes of sickness and consequently closure in the textile industry could be attributed to uncertainties in the raw material market and in particular, fluctuations in the prices of raw cotton, the relative stagnation in the demand for fabrics and low productivity of both machine and labour. The output of yarn increased further in 1987-88. The total production (comprising cotton, blended/mixed and 100 per cent man-made fibre yarn) rose to 1,555 million kgs. from 1,526 million kgs. in 1986-87. However, the rate of growth in output during 1987-88 was lower at 1.9 per cent as compared with 5.0 per cent in the previous year. This could be attributed to the larger number of spinning mills remaining closed (81 as on March 31, 1988 as against 49 as at end of March 1987). All three categories of yarn namely, cotton yarn (1.5 per cent), blended/mixed yarn (5.6 per cent) and man-made fibre yarn (2.5 per cent) showed lower growth rates in 1987-88 than in 1986-87 (Table IV-24).

Table IV-24: Production, Consumption and Stocks Position of Yarn

(Million kgs.)

Item	(April-March)		
	1985-86	1986-87 (P)	1987-88(P)
1	2	3	4
A. Production (i+ii+iii)	**1,454**	**1,526**	**1,555**
	(+5.2)	**(+5.0)**	**(+1.9)**
(i) Cotton Yarn	1,253	1,302	1,321
	(+5.9)	(+3.9)	(+1.5)
(ii) Blended/Mixed Yarn	129	144	152
	(—)	(+11.6)	(+5.6)
(iii) 100 per cent man-made spun yarn	72	80	82
	(+2.9)	(+11.1)	(+2.5)
B. Domestic Consumption (all yarn) (i+ii)	**1,306**	**1,355**	**1,328**
	(+9.6)	**(+3.8)**	**(−2.0)**
(i) Mill Sector+	427	420	383
	(−0.7)	(−1.6)	(−8.8)
(ii) Decentralised Sector £	879	935	945
	(+15.4)	(+6.4)	(+1.1)
C. Year-end Stocks (unsold)	**31.1**	**33.8**	**36.7**
	(+31.8)	**(+8.7)**	**(+8.6)**

P : Provisional.
\+ : 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, Indian Cotton Mills' Federation.

The Government has introduced Hank Yarn Obligation Scheme to assist handloom sector in terms of which it is compulsory for all mills to pack atleast 50 per cent of yarn in hank form of which 85 per cent should be of 40s and below. Domestic consumption of all yarn declined by 2.0 per cent to 1,328 million kgs. from 1,355 million kgs. in 1986-87. This was more than compensated by substantial rise in exports of cotton yarn to 85 million kgs. from 28 million kgs. in the preceding year.

Production of cloth (cotton, blended and mixed and fully man-made fibre fabrics) was only

slightly higher at 12,992 million metres in 1987-88 as compared with 12,988 million metres in 1986-87.

It was remarkable that the increase in textile production was contributed by the decentralised sector as against a decline in mill sector. Of the total cloth production of 12,992 million metres, contribution of the decentralised sector was 9,965 million metres. Cloth production in the decentralised sector has been rising constantly during the last three years (Table IV-25). Domestic consumption of cloth declined by 2.8 per cent to 11,185 million metres from that of 11,512 million metres recorded in 1986-87. On the other hand, exports of cotton textiles including ready-made garments spurted to Rs. 2,539 crores from Rs. 1,819 crores in 1986-87.

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

(Million metres)

Item	(April-March)		
	1985-86	1986-87 (P)	1987-88(P)
1	2	3	4
A. Production (i+ii)	**12,498**	**12,988**	**12,992**
	(+4.0)	**(+3.9)**	**(+0.03)**
(i) Mill Sector (a+b+c)	3,376	3,317	3,027
	(−1.6)	(−1.7)	(−8.7)
(a) Cotton Fabrics	2,587	2,470	2,234
	(−1.2)	(−4.5)	(−9.6)
(b) Blended/Mixed Fabrics	783	838	788
	(−3.1)	(+7.0)	(−6.0)
(c) 100 per cent Man-made Fibre Fabrics	6	9	5
	(+20.0)	(+50.0)	(−44.4)
(ii) Decentralised Sector (a+b+c)	9,122	9,671	9,965
	(+6.3)	(+6.0)	(+3.0)
(a) Cotton Fabrics	6,591	7,052	7,166
	(+2.6)	(+7.0)	(+1.6)
(b) Blended/Mixed Fabrics	554	552	551
	(+17.9)	(−0.4)	(−0.2)
(c) 100 per cent Man-made Fibre Fabrics	1,977	2,067	2,248
	(+16.9)	(+4.6)	(+8.8)
B. Domestic Consumption (all cloth)+	**11,394**	**11,512**	**11,185**
	(+11.6)	**(+1.0)**	**(−2.8)**
C. Year-end Stocks (unsold) (all cloth)++	**160**	**173**	**142**
	(−8.6)	**(+8.1)**	**(−17.9)**

P : Provisional.
\+ : 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, Indian Cotton Mills' Federation.

The Government had announced a new Textile Policy on 6th June 1985 with the aim of developing the three sectors of the industry viz., mills, powerlooms and handlooms in an integrated manner. The main objective of the policy is to enable the industry to increase production of cloth of good quality at reasonable prices for the vast population of the country as well as for export purposes. In 1987-88, a Textile Policy Review Panel was constituted with Shri Abid Hussain, Member of Planning Commission as its chairman to assess the progress of implementation of the 1985 Textile Policy. A Textile Modernisation Fund of Rs. 750 crores was created to

meet the modernisation requirements of the textile industry. The scheme is being operated by the IDBI with effect from 1st August 1986. As on 31st January 1988, a total number of 188 applications for Rs. 737.89 crores have been received for availing of assistance under the scheme. Of these, 96 applications have been sanctioned involving an amount of Rs. 458.91 crores. In 64 cases, a sum of Rs. 149.56 crores has been disbursed. The Textile Policy 1985 has laid down that steps should be taken to identify the causes which lead to sickness of an unit; it has also laid down that steps to revive the sick unit also should be undertaken through rehabilitation programme. A Nodal Agency has come into existence for the purpose. The chairman of IDBI or his nominee is the convener of this Nodal Agency. So far 107 sick textile units in various stages of sickness were examined by the Nodal Agency. Of these, 51 were found to be viable and 47 non-viable. Viability of remaining sick units is being examined. So far, the Nodal Agency has considered rehabilitation package in respect of 60 mills.

In order to make available a larger quantum of cloth at reasonable prices to the poorer sections of the population, the target of annual production of controlled cloth and janata cloth was increased from 650 million sq. metres to 700 million sq. metres in 1987-88 according to the direction given in the new textile policy. The target for the handloom sector was 525 million sq. metres and for NTC mills 175 million sq. metres. At present, four varieties of controlled cloth are being produced by NTC mills namely, dhoties, sarees, long cloth and polyester cotton blended shirting (bleached, light dyed and white ground printed).

(c) Paper, Paper Boards and Newsprint

(i) Paper and Paper Boards

The production of paper and paper boards increased by 5.7 per cent to 19.98 lakh tonnes during 1987-88 as compared with 4.3 per cent in the last year. There were 297 units with an annual installed capacity of 28.51 lakh tonnes at the end of December 1987. The capacity utilisation ratio during 1987-88 thus worked out to around 71.2 per cent, which was marginally higher by 1.2 percentage point than the previous year. The paper industry is presently faced with various problems such as the closure of six units in the integrated sector and 67 units in the small and medium sector (which represent 20 per cent of the total installed capacity), technological obsolescence, etc. The public sector units have been entrusted the responsibility of supplying white printing paper for which they have been given a subsidy at Rs. 2,500 per tonne.

The industry pursued its demand with the Government for reduction in the rate of excise duty on paper and paper board from the present 25 per cent to 15 per cent so as to boost demand for paper and paper board. Besides, the Government is also actively considering the proposal of the industry to allow newspaper industry to buy the ordinary writing and printing paper from the domestic paper mills, to meet part of their newsprint requirement. The definition of newsprint has been changed by the finance bill for 1988-89 to cover "paper intended for printing of newspapers". This would go a long way in stimulating the demand for indigenous paper, besides saving valuable foreign exchange for the country.

The main constraints on further improvement in the level of capacity utilisation of paper mills during the year appears to be technological obsolescence, shortages of raw materials with the degradation of forests and poor profitability, apart from the power cuts witnessed particularly in the south. For increasing the production of paper and the capacity utilisation, the various steps taken by the Government are enumerated below.

(1) The Government has reduced the effective rate of duty on paper and paper boards manufactured out of unconventional raw material by Rs. 100 per tonne in respect of the units with an annual clearing upto 24,000 tonnes and by Rs. 300 per tonne in respect of the units whose annual clearance exceeded 24,000 tonnes. (2) Import of paper grade pulp and wood chips is allowed free of customs duty. (3) All varieties of paper and paper boards including paper grade pulp have been brought under broad-banding, thus allowing full flexibility to the manufacturers. (4) Statutory control over production, price and distribution of white printing paper has been removed from January 1987. (5) The export of printing and writing paper is permitted on decon-

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				
1985-86	267	2,655	1,813.4 (+31.8)	72.6
1986-87 (P)	288	2,758	1,890.9 (+4.3)	69.9
1987-88 (P)	297	2,851	1,997.9 (+5.7)	71.2
B. Newsprint				
1985-86	4	280	249.1 (+23.8)	97.7
1986-87 (P)	4	280	271.0 (+8.8)	96.8
1987-88 (P)	5	300	263.9 (−2.6)	91.0

P : Provisional.

Notes : 1. Capacity utilisation ratio is worked out on the basis of the average installed capacity at the beginning and at the end of the relevant financial year.

2. Data for paper and paper boards includes production in the small scale sector since 1985-86 and hence growth rate in 1985-86 is not strictly comparable.

3. Figures in brackets indicate percentage variations over the corresponding period of the preceding year.

Sources: Central Statistical Organisation (CSO), Indian Paper Mills' Association.

trolled basis from December 1987. Efforts have also been made to ensure uninterrupted supply of coal and power to the paper industry.

(ii) Newsprint

Production of newsprint during 1987-88 at 2.64 lakh tonnes recorded a fall of 2.6 per cent in contrast to an increase of 8.8 per cent during 1986-87. There are at present five units in the country, with an installed capacity of three lakh tonnes, engaged in the production of newsprint. This includes one unit with a capacity of 20,000 tonnes which commenced production during 1987. As indigenous availability of newsprint is not adequate to meet the demand, imports have been resorted to. With a view to reducing dependence on imports, additional capacity of over 7 lakh tonnes has been approved by way of industrial licences/letters of intent.

Chapter V

Price Trends and Price Policy

Price Trends: *The Main Features*

The index of wholesale prices (WPI) for 'All Commodities' (1970-71 = 100) on a point-to-point basis (end-March 1988 over end-March 1987) recorded a rise of 10.6 per cent during the year 1987-88 which was not only twice the increase of 5.3 per cent in 1986-87 but was also the highest recorded in the eighties so far. The price increase during 1987-88 was generalised in character encompassing all the three major groups, viz, 'Primary Articles', 'Manufactured Products' and 'Fuel, Power, Light and Lubricants'. Though on the weekly average basis, the magnitude of rise was lower at 7.6 per cent during 1987-88, it was still higher by 2.3 percentage points than that in 1986-87. The inflation during 1987-88 was mainly accounted for by the rise in the prices of agricultural and agro-based commodities. The inflationary impulse mainly emanated from the shortfall in foodgrains production, the prices of which recorded a marked rise of 19.8 per cent during 1987-88 in contrast to a decline of 1.9 per cent in the previous year. The increase in the administered prices of a number of manufactured products viz., coal, petrol, steel, etc., also acted as a contributory factor. However, viewed against the backdrop of the severity of the drought during 1987-88, the increase in the general price index of more than 10 per cent may be considered as moderate.

An analysis of price behaviour during previous drought years highlights the fact that the price situation during 1987-88 was far less disconcerting than the earlier years of similar drought, viz., 1965-66, 1973-74 and 1979-80 when prices rose by 15.2 per cent, 30.0 per cent and 21.4 per cent, respectively. The accelerated inflation rates in the seventies were partly on account of the oil price shocks. In contrast, the relatively lower rate of inflation during 1987-88 was, *inter alia*, explained by effective demand-supply management rendered possible due to the availability of comfortable buffer stocks of foodgrains with the public distribution system, augmentation of supplies of essential commodities through imports and timely initiation of monetary policy measures to mop up excess liquidity in the economy for effective demand management. The lower inflation rate is also a reflection of the greater resilience of the Indian economy in facing droughts and other natural calamities.

The normal seasonal trends in price movements continued to be witnessed during 1987-88. During the first phase covering the period from end-March to end-August 1987, there was a sharp upswing in prices with the WPI recording an increase of 9.1 per cent as against 6.3 per cent during the preceding comparable period. This was followed by a marginal decline in prices by 0.9 per cent between end-August and end-November 1987 which was lower than the fall of 1.2 per cent during the corresponding period of 1986. During the final phase of 1987-88 (i.e. from end-November 1987 to end-March 1988) the increase in prices by 2.3 per cent was of a very higher magnitude than that of 0.2 per cent in the same period of 1986-87. Accelerated price rise in the last phase of 1987-88 could partly be attributed to inflationary psychology generated by the drought.

A striking aspect of price rise during 1987-88 was that the seasonality was pronounced mainly in the case of major group 'Primary Articles'. A number of commodity groups which pushed up

the price level during the first phase of the year were cereals, pulses, fruits and vegetables, milk and milk products, condiments and spices, fibres—mainly raw cotton, oilseeds, sugar, khandsari and gur, edible oil and electricity. However, the modest increase in the prices of tea, coffee and raw jute and declines in the prices of eggs, fish and meat and jute group of textiles helped to moderate the impact of rising prices. The decline in prices during the second phase was mainly on account of fall in the prices of fruits and vegetables, tea, coffee, raw cotton, oilseeds, sugar, khandsari and gur and edible oils. During the last phase of 1987-88, commodity groups like cereals, fruits and vegetables, fibres, mineral oils, coal mining and electricity accounted for the acceleration in price level. Pulses, oilseeds, edible oils, sugar, khandsari and gur, tea and milk and its products, on the other hand, registered moderate declines.

Commodity/Group-wise Trends

A group-wise analysis of the increase of 10.6 per cent in the general index on a point-to-point basis during the year reveals that though all the three major groups viz., 'Primary Articles', 'Manufactured Products', and 'Fuel, Power, Light and Lubricants' recorded larger increases than those in 1986-87, the magnitude of increase was most pronounced in the case of 'Primary Articles'. The weighted contribution of 'Primary Articles' to general price rise was the highest at 47.6 per cent during the year as against 35.9 per cent in the previous year. While the 'Fuel, Power, Light and Lubricants' group exerted a higher impact on the general price increase during the year as compared to that in 1986-87 (weighted contribution of 8.4 per cent as against 7.6 per cent), the contribution of 'Manufactured Products' group to the total price rise at 44.0 per cent was considerably lower than that of 56.5 per cent in 1986-87 [Table V-1].

Primary Articles

The increase of 13.2 per cent in the index of 'Primary Articles' during the year 1987-88 was more than twice that of 4.9 per cent in the previous year [Table V-2(a)]. Both food articles and non-food articles recorded substantially larger increases of 11.0 per cent and 22.9 per cent as compared with those of 6.5 per cent and 15.4 per cent respectively, in 1986-87. The minerals sub-group, however, witnessed a marginal increase of 1.7 per cent in contrast to a steep decline of 30.9 per cent in the previous year. Increase in the prices of commodity groups viz., cereals (rice, wheat and coarse grains), pulses, and condiments and spices on account of production shortfalls in the wake of adverse weather conditions pushed up the index of food articles. As referred to earlier, the prices of foodgrains recorded a sharp rise of 19.8 per cent in 1987-88 in contrast to a decline of 1.9 per cent in the previous year. The lower order of increase in the prices of fruits and vegetables, milk and milk products and eggs, fish and meat and declines in the prices of other food articles like tea and coffee in contrast to pronounced increases in 1986-87, however, helped to moderate the price rise of food articles to some extent.

In the case of non-food articles, the larger increase was brought about by all the three sub-groups, viz., fibres, oilseeds and other non-food articles. Despite a lower rate of increase in the prices of raw jute as compared to that in the previous season, the fibre group witnessed a

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

(Major Group-wise)

Items	Weight	Percentage variations		Weighted contribution	
		1986-87	1987-88	1986-87	1987-88
1	2	3	4	5	6
ALL COMMODITIES	**1000.00**	**+5.3**	**+10.6**	**100.00**	**100.00**
Primary Articles	416.67	+4.9	+13.2	+35.9	+47.6
Fuel, Power, Light and Lubricants	84.59	+2.8	+6.4	+7.6	+8.4
Manufactured Products	498.74	+6.3	+9.8	+56.5	+44.0

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

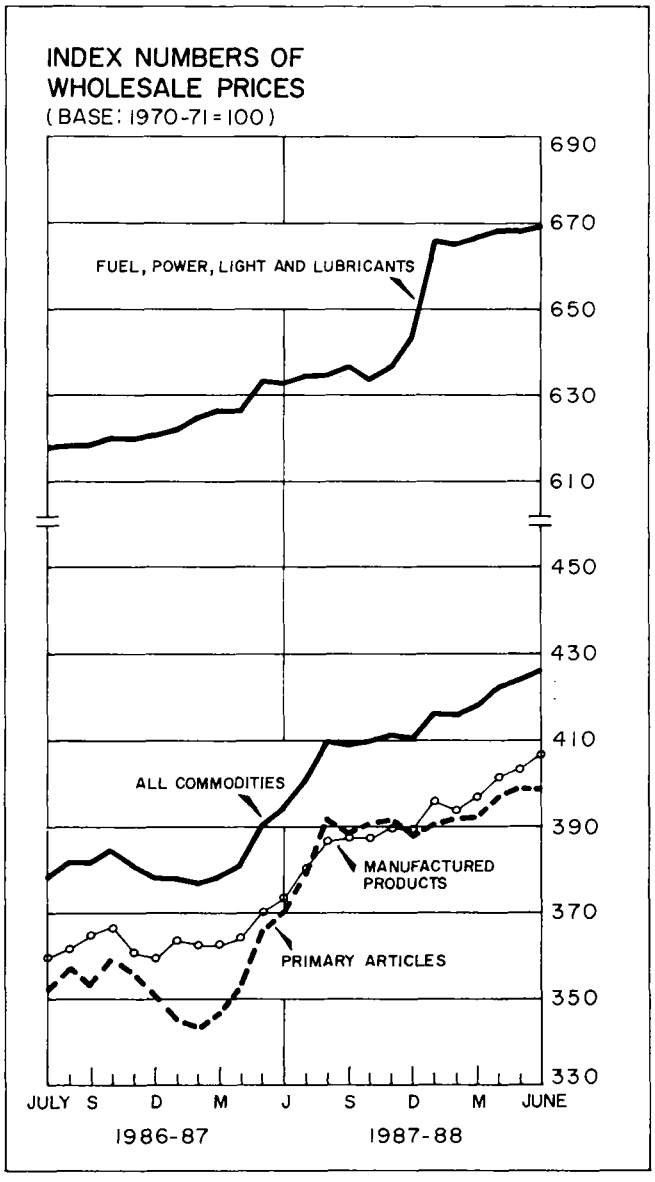
(Base: 1970-71 = 100)

Major Groups, Groups, Sub-Groups and Commodities	Weight	End March 1986	End March 1987	End March 1988	Percentage Variations (Point-to-point basis)		Weighted Contribution (Approximate)	
					End March 1987 Over End March 1986	End March 1988 Over End March 1987	1986-87	1987-88
1	2	3	4	5	6	7	8	9
ALL COMMODITIES	**1000.00**	**359.3**	**378.2**	**418.4**	**+5.3**	**+10.6**	**100.0**	**100.0**
PRIMARY ARTICLES	**416.67**	**330.7**	**347.0**	**392.8**	**+4.9**	**+13.2**	**+35.9**	**+47.6**
A. FOOD ARTICLES	**297.99**	**320.5**	**341.4**	**378.8**	**+6.5**	**+11.0**	**+33.0**	**+27.7**
(i) **FOOD GRAINS**	129.22	303.3	297.6	356.4	−1.9	+19.8	−3.9	+18.9
(a) CEREALS	107.43	274.1	275.3	319.5	+0.4	+16.1	+0.7	+11.8
Rice	51.31	282.2	301.0	341.7	+6.7	+13.5	+5.1	+5.2
Wheat	34.17	249.1	244.6	283.5	−1.8	+15.9	−0.8	+3.3
Jowar	8.39	257.5	256.0	273.7	−0.6	+6.9	−0.1	+0.4
Bajra	5.64	312.8	263.6	346.2	−15.7	+31.3	−1.5	+1.2
(b) PULSES	21.79	447.1	407.5	538.2	−8.9	+32.1	−4.6	+7.1
Gram	10.39	533.0	374.5	514.6	−29.7	+37.4	−8.7	+3.6
(ii) **FRUITS AND VEGETABLES**	61.32	373.4	418.8	437.0	+12.2	+4.3	+14.7	+2.8
Vegetables	24.86	321.8	190.3	264.4	−40.9	+38.9	−17.3	+4.6
Fruits	36.46	408.5	500.4	554.6	+22.5	+10.8	+17.7	+4.9
(iii) **MILK AND MILK PRODUCTS**	61.50	276.8	311.8	341.6	+12.6	+9.6	+11.4	+4.6
(iv) **EGGS, FISH AND MEAT**	18.97	458.8	524.5	525.2	+14.3	+0.1	+6.6	—
Fish	6.31	540.5	663.9	585.2	+22.8	−11.9	+4.1	−1.2
Meat	8.46	539.9	577.2	623.7	+6.9	+8.1	+1.7	+1.0
(v) **CONDIMENTS AND SPICES**	10.94	210.7	211.3	307.2	+0.3	+45.4	—	+2.6
(vi) **OTHER FOOD ARTICLES**	16.04	336.1	383.5	355.0	+14.1	−7.4	+4.0	−1.1
Tea	11.49	356.3	424.8	379.9	+19.2	−10.6	+4.2	−1.3
Coffee	1.61	227.0	250.9	248.9	+10.5	−0.8	+0.2	—

(Contd.)

Table V-2(a) : Index Numbers of Wholesale Prices: Primary Articles *(Concld.)*

Major Groups, Groups, Sub-Groups and Commodities	Weight	End March 1986	End March 1987	End March 1988	Percentage Variations (Point-to-point basis)		Weighted Contribution (Approximate)	
					End March 1987 Over End March 1986	End March 1988 Over End March 1987	1986-87	1987-88
1	2	3	4	5	6	7	8	9
B.NON-FOOD ARTICLES	**106.21**	**277.2**	**319.8**	**393.1**	**+15.4**	**+22.9**	**+23.9**	**+19.4**
(i) **FIBRES**	31.73	187.9	238.7	309.1	+27.0	+29.5	+8.5	+5.6
Raw Cotton	22.46	179.7	239.5	324.0	+33.3	+35.3	+7.1	+4.7
Raw Jute	4.29	162.2	189.4	218.5	+16.8	+15.4	+0.6	+0.3
(ii) **OIL SEEDS**	42.01	278.6	347.3	441.2	+24.7	+27.0	+15.3	+9.8
Groundnuts	18.21	299.6	347.6	486.1	+16.0	+39.8	+4.6	+6.3
Rape and Mustard seed	8.22	241.0	340.1	416.2	+41.1	+22.4	+4.3	+1.6
Copra	4.49	236.6	367.3	445.8	+55.2	+21.4	+3.1	+0.9
(iii) **OTHER NON-FOOD ARTICLES**	32.47	362.4	363.3	412.9	+0.2	+13.7	+0.2	+4.0
Sugarcane	16.42	248.9	253.8	276.1	+2.0	+8.8	+0.4	+0.9
Rubber	1.28	364.6	364.6	365.7	—	+0.3	—	—
Logs, Timber and Bamboo	3.34	845.9	812.4	1060.2	−4.0	+30.5	−0.6	+2.1
Raw Tobacco	8.07	234.3	256.3	263.5	+9.4	+2.8	+0.9	+0.1
C. MINERALS	**12.47**	**1031.3**	**713.1**	**725.4**	**−30.9**	**+1.7**	**−21.0**	**+0.4**
(i) **METALLIC MINERALS**	2.29	330.7	355.4	360.7	+7.5	+1.5	+0.3	—
Iron Ore	1.56	323.9	359.0	359.0	+10.8	—	+0.3	—
(ii) **OTHER MINERALS**	4.16	375.8	381.2	415.3	+1.4	+8.9	+0.1	+0.4
Lime Stone	2.30	394.8	394.8	437.8	—	+10.9	—	+0.2
(iii) **PETROLEUM CRUDE AND NATURAL GAS**	6.02	1752.1	1079.1	1079.1	−38.4	—	−21.4	—



larger rise mainly on account of raw silk and raw cotton which experienced a sharp spurt in prices. The larger increase in the index of oilseeds was accounted for by groundnuts and castorseed which recorded steep increases as compared with those a year ago due to a shortfall in production. Rapeseed and mustardseed indices recorded a lower increase of 22.4 per cent as compared with 41.1 per cent in the previous year. Other non-food articles registered a pronounced increase due to a sizeable increase in the index of logs, timber and bamboo (30.5 per cent as against −4.0 per cent), followed by sugarcane (8.8 per cent as compared with 2.0 per cent). Marginal increase of 1.7 per cent in the minerals sub-group in contrast to a significant decline a year ago stemmed mainly from the marked increase of 8.9 per cent in other minerals (mainly lime stone, kyanite, asbestos, magnesite and dolomite) as against only 1.4 per cent in 1986-87.

Fuel, Power, Light and Lubricants

Under the major group, 'Fuel, Power, Light and Lubricants' the movements in the price indices reflect the changes in administered prices effected from time to time. During 1987-88, the index for this group recorded a more than two-fold increase of 6.4 per cent as against 2.8 per cent in 1986-87 mainly on account of larger increases in coal mining and mineral oils [Table V-2(b)]. The sharp increase of 17.6 per cent in the index for coal during 1987-88 reflects a hike in the administered price of coal with effect from December 23, 1987. Similarly, hike in administered prices of petrol, effective January 9, 1988 resulted in a spurt in its price of the order of 14.5 per cent during the year as against a marginal decline of 0.5 per cent in the previous year. The price index for electricity rose by a smaller magnitude of 7.4 per cent as compared with 11.1 per cent in 1986-87.

Manufactured Products

The index of the major group 'Manufactured Products' recorded a substantially larger increase of 9.8 per cent during the year as compared with 6.3 per cent in 1986-87 [Table V-2(c)]. The accelerated rate of price rise of manufactured products may be traced mainly to higher costs of raw materials and other inputs and increases in administered prices of coal, petrol, iron and steel, etc. In part, under certain items, price increases may be attributed to a shortfall in supplies resulting from a downtrend in industrial production. With the exception of edible oils, beverages, tobacco and tobacco products, rubber and rubber products and non-metallic mineral products which recorded lower price increases, all the other sub-groups under this major group witnessed increases of larger order than those recorded in the previous year. The price index of sugar, khandsari and gur moved up in response to a hike in prices of sugarcane. In the case of edible oil prices, the increase of 11.1 per cent was on top of a spurt of 36.4 per cent witnessed in 1986-87 on account of a shortfall in oilseeds output, particularly groundnuts. Reflecting sharp acceleration in the prices of raw cotton and raw jute, cotton and jute textiles exhibited upward pressure on prices. Basic metals, alloys and metal products sub-group witnessed a sharp rise on account of hike in the prices of pig iron and steel with effect from December 24, 1987. Prices of chemicals and chemical products rose in response to the new Drug Price Control Order announced in August 1987. Other sub-groups such as leather and leather products and paper and paper products also witnessed larger price increases during the year.

Consumer Price Indices

An analysis of trends in consumer price indices during 1987-88 reveals that the pressure on prices at the retail level was somewhat lower than at the wholesale level. The All-India Consumer Price Index (CPI) for Industrial Workers (1960=100) increased significantly on a point-to-point basis from 686 in March 1987 to 753 in March 1988 reflecting an increase of 9.8 per cent over the year as compared with the rise of 7.5 per cent in 1986-87. Likewise, on an average basis also, the increase during 1987-88 at 9.1 per cent was 0.3 percentage point higher than that recorded during the previous fiscal year [Table V-3]. During 1987-88, the CPI continued to witness a persistent uptrend till November 1987 rising from 691 in April to 755 by November. However, the index, which generally exhibited a downtrend thereafter, touched 753 in March 1988.

The centre-wise analysis shows that while all the centres witnessed increases in the CPI, it was the highest in Monghyr (Bihar) (19.0 per cent), followed by Balaghat (Madhya Pradesh) (18.2 per cent), Chickmagalur (Karnataka) (17.1 per cent), Barbil (Orissa) (16.9 per cent), Yamunanagar (Haryana) (16.7 per cent), Jaipur (Rajasthan) (16.6 per cent) and Kodarma (Bihar) (16.4 per cent). Alwaye in Kerala witnessed the lowest rise of 1.4 per cent.

As regards Consumer Price Index for Urban Non-Manual Employees, a new series with base 1984-85=100 (as against the earlier base 1960=100) has come into effect from November 1987. The new index is constructed on the basis of prices prevailing in 59 urban centres (including all the 45 centres used in the old index) and the number of items selected for compiling the index has also been increased.

The Consumer Price Index for Urban Non-Manual Employees (1984-85=100) for the finan-

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 1986	End March 1987	End March 1988	Percentage Variations (Point-to-point basis)		Weighted Contribution (Approximate)	
					End March 1987 Over End March 1986	End March 1988 Over End March 1987	1986-87	1987-88
1	2	3	4	5	6	7	8	9
FUEL, POWER, LIGHT & LUBRICANTS	**84.59**	**609.2**	**626.2**	**666.0**	**+2.8**	**+6.4**	**+7.6**	**+8.4**
A. COAL MINING	11.47	717.1	716.9	833.7	—	+16.3	—	+3.3
Coal	10.39	730.7	730.7	859.6	—	+17.6	—	+3.3
Coke	0.75	606.3	606.3	606.3	—	—	—	—
B. MINERAL OILS	49.12	622.2	622.7	642.7	+0.1	+3.2	+0.1	+2.4
Kerosene	8.35	410.4	410.4	410.4	—	—	—	—
Petrol	8.56	643.8	640.9	734.0	−0.5	+14.5	−0.1	+2.0
Aviation Spirit	4.55	690.5	688.6	691.0	−0.3	+0.3	—	—
Light Diesel Oil	3.44	929.3	929.3	929.3	—	—	—	—
High Speed Diesel Oil	13.74	453.6	450.7	450.7	−0.6	—	−0.2	—
Lubricating Oil	6.48	525.8	541.2	568.1	+2.9	+5.0	+0.5	+0.4
Furnace Oil	4.00	1412.5	1412.5	1412.5	—	—	—	—
C. ELECTRICITY	24.00	531.0	590.1	633.5	+11.1	+7.4	+7.5	+2.6

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 1986	End March 1987	End March 1988	Percentage Variations (point-to-point basis)		Weighted Contribution (Approximate)	
					End March 1987 Over End March 1986	End March 1988 Over End March 1987	1986-87	1987-88
1	2	3	4	5	6	7	8	9
MANUFACTURED PRODUCTS	**498.74**	**340.9**	**362.3**	**397.7**	**+6.3**	**+9.8**	**+56.5**	**+44.0**
A. FOOD PRODUCTS	133.22	338.5	365.0	400.9	+7.8	+9.8	+18.7	+11.9
a) **SUGAR, KHANDSARI AND GUR**	72.41	374.3	351.2	376.6	−6.2	+7.2	−8.9	+4.6
Sugar	21.91	307.4	305.2	319.3	−0.7	+4.6	−0.3	+0.8
Khandsari	4.92	368.6	325.4	351.1	−11.7	+7.9	−1.1	+0.3
Gur	45.58	407.0	376.7	406.9	−7.4	+8.0	−7.3	+3.4
b) **MISCELLANEOUS FOOD PRODUCTS**	49.16	294.5	395.0	447.1	+34.1	+13.2	+26.1	+6.4
i) **EDIBLE OILS**	37.16	297.2	405.5	450.4	+36.4	+11.1	+21.3	+4.2
Vanaspati	7.52	326.9	416.3	433.4	+27.3	+4.1	+3.6	+0.3
Groundnut Oil	14.15	315.2	419.0	476.4	+32.9	+13.7	+7.8	+2.0
Mustard Oil	6.68	243.7	351.8	396.0	+44.4	+12.6	+3.8	+0.7
B. BEVERAGES, TOBACCO AND TOBACCO PRODUCTS	27.08	322.0	366.2	369.2	+13.7	+0.8	+6.3	+0.2
C. TEXTILES	110.26	263.7	285.5	314.8	+8.3	+10.3	+12.7	+8.0
i) **COTTON TEXTILES**	81.02	261.6	274.1	300.6	+4.8	+9.7	+5.4	+5.3
Cotton Yarn	13.82	261.5	278.4	383.6	+6.5	+37.8	+1.2	+3.6
Cotton Cloth (Mills)	38.04	271.4	275.1	284.0	+1.4	+3.2	+0.7	+0.8
ii) **JUTE, HEMP AND MESTA TEXTILES**	12.14	226.2	253.9	298.2	+12.2	+17.4	+1.8	+1.3
D. PAPER AND PAPER PRODUCTS	8.51	392.6	391.6	421.0	−0.3	+7.5	—	+0.6
E. LEATHER AND LEATHER PRODUCTS	3.85	504.7	530.6	599.2	+5.1	+12.9	+0.5	+0.7
F. RUBBER AND RUBBER PRODUCTS	12.07	362.4	385.2	407.7	+6.3	+5.8	+1.5	+0.7
G. CHEMICALS AND CHEMICAL PRODUCTS	55.48	319.2	336.4	366.7	+5.4	+9.0	+5.0	+4.2
a) **FERTILISERS**	12.52	288.9	288.8	288.4	—	−0.1	—	—
H. NON-METALLIC MINERAL PRODUCTS	14.15	443.3	450.4	455.5	+1.6	+1.1	+0.5	+0.2
CEMENT, LIME AND PLASTER	7.07	470.4	467.2	460.1	−0.7	−1.5	−0.1	−0.1
Cement	7.03	471.3	468.1	461.0	−0.7	−1.5	−0.1	−0.1
I. BASIC METALS, ALLOYS AND METAL PRODUCTS	59.74	471.7	489.0	564.2	+3.7	+15.4	+5.5	+11.2
a) **IRON, STEEL AND FERRO ALLOYS**	34.73	541.0	544.9	631.5	+0.7	+15.9	+0.7	+7.5
Pig Iron	1.67	594.0	594.0	691.8	—	+16.5	—	+0.4
Structurals	4.72	544.2	544.2	591.2	—	+8.6	—	+0.6
Steel Plates and Sheets	5.97	507.2	507.2	615.3	—	+21.3	—	+1.6
Bars and Rods	7.31	581.0	581.0	663.1	—	+14.1	—	+1.5
b) **NON-FERROUS METALS AND THEIR ALLOYS**	11.78	400.4	446.6	501.3	+11.0	+12.8	+2.8	+1.7
Aluminium	4.29	437.8	532.6	561.6	+21.7	+5.4	+2.2	+0.3
c) **METAL PRODUCTS**	13.23	353.2	381.8	443.7	+8.1	+16.2	+2.0	+2.0
J. MACHINERY AND TRANSPORT EQUIPMENTS	67.18	346.7	362.2	396.8	+4.5	+9.6	+5.5	+5.8
a) **NON-ELECTRICAL MACHINERY**	30.91	367.9	390.3	416.6	+6.1	+6.7	+3.7	+2.0
b) **ELECTRICAL MACHINERY**	19.54	282.7	287.9	323.1	+1.8	+12.2	+0.5	+1.7
c) **TRANSPORT EQUIPMENTS**	16.73	382.0	396.8	446.2	+3.9	+12.4	+1.3	+2.1
K. MISCELLANEOUS PRODUCTS	7.20	281.9	287.3	312.3	+1.9	+8.7	+0.2	+0.4

cial year 1987-88 reveals that both on a point-to-point and average basis, the increases of 10.3 per cent and 8.9 per cent were higher than those of 6.4 per cent and 7.9 per cent, respectively, recorded during the previous financial year.

A centre-wise analysis reveals that while all the centres witnessed increases in the index, it was highest in Visakhapatnam (24.1 per cent) followed by Jodhpur (22.5 per cent). The lowest increase was recorded in Meerut (3.3 per cent).

Reflecting a sharp uptrend in food prices due to production shortfall in the wake of unprecedented drought, the Consumer Price Index for Agricultural Labourers (base: July 1960—June 1961 = 100) recorded a sharp increase of 9.9 per cent on an average basis in 1987-88 as compared with that of 4.7 per cent in 1986-87.

Price Trends During April-June Quarter of 1988-89

During the first quarter of 1988-89, the WPI on a point-to-point basis increased by 2.3 per cent which was not only less than half the rise recorded during the comparable period of the previous year but the lowest ever in the first quarters of the eighties so far. The deceleration was in evidence in all the three major groups viz., 'Primary Articles' (2.3 per cent as against 7.5 per cent), 'Fuel, Power, Light and Lubricants' (0.5 per cent as against 1.0 per cent) and 'Manufactured Products' (2.8 per cent against 3.6 per cent) (Table V-4). Since high inflation rate witnessed in 1987-88 could mainly be ascribed to supply shortages and inflationary psychology generated by the drought, the satisfactory progress of the South-West monsoon appears to have had a sobering impact on prices.

Among 'Primary Articles', while food articles recorded a lower increase of 3.6 per cent as compared with 5.2 per cent in the comparable period of the previous year, non-food articles registered a modest decline of 0.8 per cent in contrast to a sizeable rise of 15.3 per cent in the same period of the previous year. The minerals group recorded a fractionally lower rise in prices (0.3 per cent rise as compared with 0.5 per cent).

The lower magnitude of increase in the food articles group was on account of lower increases in the prices of cereals and declines in the case of fruits and vegetables in contrast to substantial increases during the first quarter of 1987-88. However, pulses and other food articles witnessed more pronounced increases.

The 'Manufactured Products' group also witnessed a lower increase as a sequel to a smaller rise in the case of textiles and chemicals & chemical products and declines in the prices of edible oils in contrast to increases witnessed during the first quarter of 1987-88. Sugar, khandsari and gur, however, experienced a sharper price increase.

Table V-3 : Consumer Price Indices

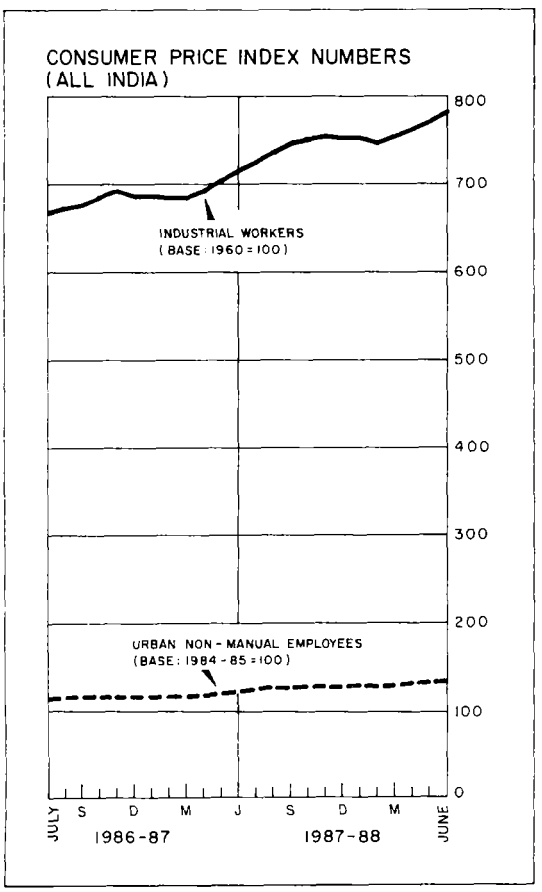
(April-March Average)

	1985-86	1986-87	1987-88
1	2	3	4
1. Consumer Price Index for Industrial Workers (averages) (1960=100)	619.8	674.4	735.5
2. Per cent variation in (1)	+6.4	+8.8	+9.1
3. Consumer Price Index for Industrial workers (Point-to-point basis)	638	686	753
4. Per cent variation in (3)	+8.9	+7.5	+9.8
5. Consumer Price Index for Urban Non-Manual Employees (1984-85=100)	106.9	115.1	125.4
6. Per cent variation in (5)	+6.8	+7.9	+8.9
7. Consumer Price Index for Urban Non-manual Employees (1984-85=100) (Point-to-point basis)	110	117	129
8. Per cent variation in (7) (point-to-point basis)	+7.8	+6.4	+10.3
9. Consumer Price Index for Agricultural Labourers (July 1960-June 1961=100)	546.3	572.1	628.8
10. Per cent variation in (9)	+4.8	+4.7	+9.9

Table V-4 : Variations in Index Number of Wholesale Prices

(Base: 1970-71 = 100)

Items	Weight	Percentage Variations (Point-to-point)	
		1987-88 End-June over End-March	1988-89 End-June over End-March
1	2	3	4
ALL COMMODITIES	**1000.00**	**+ 4.8**	**+ 2.3**
I. Primary Articles	416.67	+ 7.5	+ 2.3
Food Articles	297.99	+ 5.2	+ 3.6
Cereals	107.43	+ 3.7	+ 0.9
i) Rice	51.31	+ 4.5	+ 5.2
ii) Wheat	34.71	- 2.1	- 6.6
Pulses	21.79	+ 7.7	+13.7
Fruits and Vegetables	61.32	+ 9.8	- 2.3
Milk and Milk Products	61.50	+ 2.2	+ 4.6
Other Food Articles	16.05	+ 7.7	+14.2
Tea	11.49	+ 5.9	+15.3
Non-food Articles	106.21	+15.3	- 0.8
Fibres	31.73	+13.2	- 0.1
Raw Cotton	22.46	+17.7	- 0.8
Oilseeds	42.01	+23.9	- 0.2
Minerals	12.47	+ 0.5	+ 0.3
II. Fuel, Power, Light and Lubricants	84.59	+ 1.0	+ 0.5
Coal	10.39	—	-
Mineral Oils	49.12	—	+ 0.3
III. Manufactured Products	498.74	+ 3.6	+ 2.8
Sugar, Khandsari and Gur	72.41	+10.8	+16.8
i) Sugar	21.91	+ 1.7	+ 7.5
ii) Khandsari	4.92	+ 7.8	+16.4
iii) Gur	45.58	+14.4	+20.3
Edible Oils	37.16	+17.1	- 4.0
Textiles	110.26	+ 1.2	+ 1.0
Paper and Paper Products	8.51	+ 3.8	—
Cement	7.03	+ 3.2	+10.1
Chemicals and Chemical Products	55.48	+ 1.4	+ 0.2
Iron, Steel and Ferro Alloys	34.73	—	+ 0.5



During the first quarter of the current financial year i.e., April-June 1988 the Consumer Price Index for Industrial Workers (1960=100) rose from 753 in March 1988 to 782 in June 1988 reflecting a lower rise of 3.9 per cent as against 4.2 per cent in the corresponding period of the previous year. On an average basis, however, the rise during the first quarter of 1988-89 at 9.8 per cent was larger by 1.8 percentage points over that in the corresponding period of 1987-88.

The Consumer Price Index for Urban Non-Manual Employees (Base: 1984-85 = 100) moved up from 129 in March 1988 to 133 by June 1988 or by 3.1 per cent as compared to 3.2 per cent rise recorded in the preceding comparable period.

The Consumer Price Index for Agricultural Labourers (July 1960—June 1961=100) went up by 2.0 per cent from 658 in March 1988 to 671 in June 1988, the increase during the corresponding period last year being higher at 2.6 per cent.

Price Policies

The objective of the price policy during fiscal 1987-88 and also thereafter upto June 1988 continued to be one of moderation of inflationary pressures generated by severe drought during 1987. The price policy was so modulated as to restore the demand-supply balance relating to many critical items which, as referred to earlier, was sought to be achieved through the adoption of demand-supply management and a series of price control measures. Measures initiated to contain prices which gathered momentum around July 1987 when the intensity and dimension of the drought came to focus, included, *inter alia*, strengthening the public distribution system (PDS), raising the procurement prices for augmenting the production of certain critical items, importing pulses on Government account, adjustments in import and export duties keeping in view the developments in the international markets, exchange rates, etc. The changes effected in respect of major items are spelt out below.

The thrust of agricultural price policy continued to be guided by the need for augmenting production, particularly of certain critical items whose demand-supply balance is highly fragile, ensuring remunerative prices to farmers, procuring sufficient quantities of rice and wheat to feed the public distribution system apart from ensuring a desirable inter-crop balance. Accordingly, upward adjustments were effected in the support/procurement prices of major agricultural commodities in the light of the recommendations of the Commission for Agricultural Costs and Prices (CACP). The changes relating to agricultural prices are referred to in Chapter III.

A number of changes were made in the prices of certain industrial products for encouraging indigenous production taking into account escalations in input costs as well as by improving supplies through imports in the case of some agro-based products. Adjustments in excise and custom duties were also effected in respect of certain industrial products.

The Union Industry Ministry announced substantial reliefs to the cement industry through modifications in levy quota as indicated overleaf with effect from March 1, 1988.

A. Pre-1982 factories	Levy Quota*	With Licensed Capacity
i) Normal	30 per cent of production	Upto 100 per cent
ii) Sick Units	15 per cent of production	-do-
iii) Units started production before 1982 but treated to have started commercial production after 1.2.1982 and expansions completed after 1.2.1982	20 per cent of production	-do-
B. New Units		
i) Units commencing production between January 1, 1982 and March 31, 1986	20 per cent of production	-do-
ii) Units commencing production from April 1, 1986 onwards	15 per cent of production	-do-

* In order to provide an incentive to manufacturing units to produce more, it has been stipulated that units whose actual production is between 101 and 125 per cent of the licensed capacity will be required to give only 75 per cent of the normal levy quota.

The Government prohibited the use of expeller mustard/rapeseed oil for vanaspati manufacture effective May 14, 1987, with a view to arresting the uptrend in prices of edible oils and vanaspati.

Further, the Government also announced a hike in the issue price of imported edible oils from Rs. 11,500 to Rs. 15,000 a tonne effective August 1, 1987. With a view to reducing the gap between issue prices of imported oils and the minimum support price-equivalent of indigenous oils, the issue prices of imported edible oils for PDS were increased from Rs. 9,000 per tonne to Rs. 11,000 per tonne for the purpose of bulk supply with effect from December 23, 1987. On August 26, 1987, the Government and the vanaspati industry agreed on a voluntary price control on vanaspati with the result that there was a reduction of about Rs. 2 per kg. for the consumers. Moreover, an additional allocation of imported oils (i.e. upto 15 per cent of requirements) was also made at the commercial rate of Rs. 18,000 per tonne on top of normal allocation upto 70 per cent of the requirements. However, effective December 1, 1987, the allocation of imported edible oils at commercial rates was reduced to 10 per cent of requirements from 15 per cent fixed earlier. The Government provided sizeable fiscal concessions for the use of certain solvent extracted oil in the vanaspati industry. The policy on allocation of imported edible oils to the vanaspati industry was extended till the end of June 1988. In February 1988, the Government decided to allocate imported edible oils to the vanaspati industry to the extent of 50 per cent of the allocation at the subsidised price of Rs. 15,000 per tonne and 30 per cent at the commercial rate of Rs. 19,000 per tonne.

The Union Government announced on August 26, 1987 the new Drug Price Control Order (DPCO) replacing 1979 DPCO. Under the new policy, every company is required to make a specific application to the Government for effecting price revision for controlled drugs on the basis of changed maximum allowable post-manufacturing expenses (MAPE). The new policy has reduced the number of price controlled bulk drugs from 347 to 161. For the purpose of price control, the revised policy has two categories of formulations and bulk drugs in place of present three categories. The twin objectives of the new DPCO are to encourage production by ensuring reasonable rate of return to the producers of bulk drugs and also to restrain excessive rise in prices.

As a result of the new order, the controlled drug prices are expected to rise by 10-20 per cent. Small-scale drug units producing formulations under category II of the new Drug Price Control Order have been exempt from price control subject to certain conditions from November 3, 1987. Prices of some important formulations coming under category I of the new DPCO 1987, have been reduced in the range of 12.2 per cent and 12.5 per cent. The Union Budget for 1988-89 envisaged total exemption from excise duties in respect of formulations and bulk drugs which are included in Category I of the Drug Price Control Order. The Budget also prescribed excise duty of 10 per cent *ad valorem*. Since March 1988, the Union Government has initiated a number of measures to keep a check on prices of bulk drugs and formulations falling outside the purview of DPCO, 1987 and to bring down prices of those decontrolled drugs whose prices have risen sharply in recent months. The Government has also activated the monitoring committee set up by the Union Industry Ministry to review the increase in the prices of decontrolled drugs. As a result, prominent drug companies reduced prices of these drugs with immediate effect.

Effective December 23, 1987, the weighted average price of coal charged by the Coal India Ltd (CIL) was increased to Rs. 219 per tonne from the weighted average realisation of Rs. 190 per tonne. The rise in the administered price of coal has been allowed on the basis of an in-depth study of the cost of production in coal industry by the Bureau of Industrial Costs and Prices (BICP).

Effective January 9, 1988, price of motor spirit (petrol) was raised by one rupee per litre mainly to reduce consumption of this item. Inclusive of local taxes, the revised retail price of petrol is Rs. 8.50 per litre in Delhi, Rs. 9.14 in Bombay, Rs. 8.70 in Calcutta and Rs. 8.98 in Madras. Prices of diesel, kerosene and domestic cooking gas have been kept unchanged.

With effect from December 24, 1987, pig iron and steel prices have been increased by 15.6 per cent on an average by the Joint Plant Committee (JPC). The rise in the administered prices of pig iron and steel was warranted by escalation in the prices of a number of inputs used by the steel industry and the hike in railway freight.

Effective January 19, 1988, as a sequel to the rise in input costs, the average ex-factory sale price of aluminium was revised by the Government from Rs. 23,928 per tonne to Rs. 25,309 per tonne. From October 27, 1987, the Government reduced the customs duty (basic plus auxiliary) on aluminium from Rs. 3,700 a tonne to Rs. 2,000 a tonne in order to minimise the burden on users. The customs duty has further been reduced from Rs. 2,000 a tonne to Rs. 1,000 a tonne with effect from January 15, 1988.

The Government also decided to reduce the price of copper by Rs. 5,000 per tonne with effect from January 1, 1988 following a reduction in its import duty from 140 per cent to 95 per cent, (in response to hike in international prices). Simultaneously, the Government reduced customs duty on copper (scrap) from 145 per cent to 105 per cent.

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

Consequent to an increase in the statutory minimum price of sugarcane for 1987-88 season and higher manufacturing cost of sugar determined for the production of 1987-88 (Sugar Year), the Union Government raised the retail price of levy sugar from Rs. 4.85 to Rs. 5.10 per kg. with effect from January 1, 1988.

The fertilizer industry announced on March 7, 1988 a 7.5 per cent reduction in the price of urea for the *kharif* (1988) season with immediate effect.

With a view to facilitating absorption of increased domestic production, the Union Budget for 1988-89 reduced fiscal levies on man-made fibres and yarn. Accordingly, duty on polyester staple fibre was reduced from Rs. 25 to Rs. 15.66 per kg., on polyester filament yarn from Rs. 83.75 to Rs. 56.12 per kg. and on nylon filament yarn from Rs. 70 per kg. to Rs. 41.76 per kg.

In the case of synthetic fibres a monitoring committee was set up to ensure that prices are

maintained at reduced levels as envisaged in the Budget. The Government has directed manufacturers of drugs and man-made fibres to pass on the benefits of excise concessions immediately to consumers in the form of reduced prices.

With a view to compensating the manufacturers for escalation in the cost of production, the Union Government has allowed indigenous newsprint producers on January 27, 1988 to raise ex-factory prices of indigenous newsprint by 9 to 21.5 per cent.

The new Molasses Control Order and Ethyl Alcohol (price control) announced on September 7, 1987 came into effect from October 1, 1987. The revised policy resulted in raising the price of sugar molasses and khandsari molasses to Rs. 120 per tonne and Rs. 180 per tonne, respectively. Further, Central excise duty on molasses was also raised from Rs. 30 to Rs. 60 per tonne.

Chapter VI

Monetary Developments

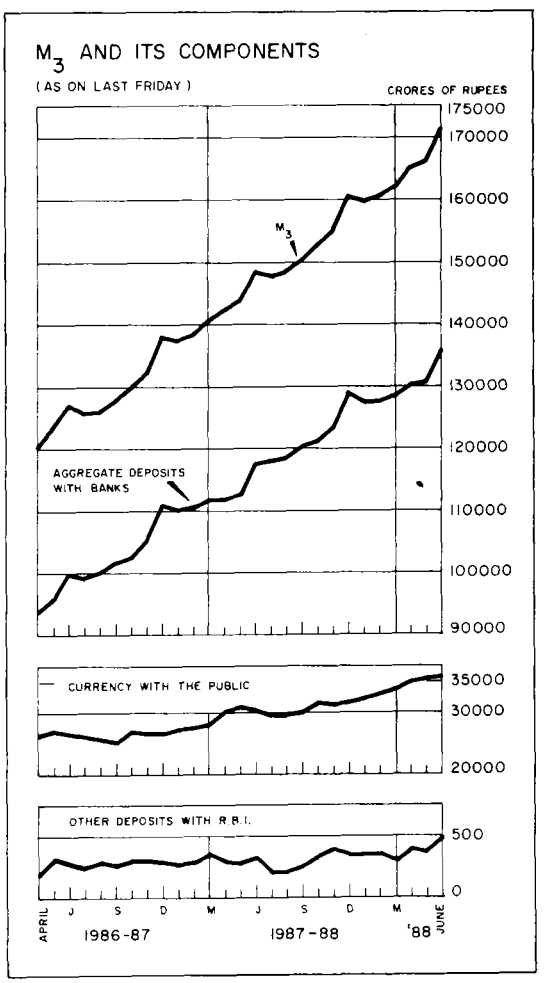
Overall Trends

The year 1987-88 (April-March) witnessed a marked deceleration in the pace of growth in terms of all the four measures of money supply, viz., M_1, M_2, M_3 and M_4 in contrast to an accelerated pace of monetary expansion witnessed in the preceding year. The differential in the growth rates between the two years was, however, more significant in the case of M_1 and M_2. The rate of expansion in each of the four monetary measures ranged between 11.9 per cent and 15.3 per cent during 1987-88 as compared with 16.6 per cent and 18.8 per cent during 1986-87 (Table VI-1). During the five-year period 1983-84 to 1987-88, the average growth rate in M_1 and M_3 worked out to 15.2 per cent and 17.4 per cent, respectively.

The expansion in 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) by Rs. 6,479 crores (12.7 per cent) was substantially lower than that of Rs. 7,578 crores (17.4 per cent) in 1986-87. A similar trend was noticed in the case of aggregate monetary resources or M_3 (comprising M_1 and time deposits with banks) which recorded a lower order of increase of Rs. 21,572 crores (15.3 per cent) as compared with Rs. 22,295 crores (18.8 per cent) in 1986-87.

The growth in M_2 (M_1 and post office savings deposits) at Rs. 6,466 crores (11.9 per cent) was lower than that of Rs. 7,765 crores (16.6 per cent) a year ago. The expansion in M_4 (M_3 and total post office deposits) was also lower at Rs. 21,058 crores (13.8 per cent) as compared with that of Rs. 22,041 crores (16.9 per cent) in 1986-87.

The accretion to reserve money at Rs. 8,453 crores (18.9 per cent) during 1987-88 was higher than that of Rs. 6,955 crores (18.4 per cent) in 1986-87.



Money Supply - Components

The lower growth of monetary aggregates (M_1 and M_3) during 1987-88 was accounted for mainly by deceleration in the pace of growth of demand deposits with banks. A striking aspect of expansion of M_1 in 1987-88 was the large expansion of currency *vis-a-vis* markedly smaller increase in demand deposits. Currency with the public witnessed a sharp increase of Rs. 5,059 crores as compared with that of Rs. 3,417 crores in the previous year. The growth rate of currency at 17.7 per cent during the year was not only much higher than that of 13.6 per cent in 1986-87 but also exceeded the annual average growth rate of 14.6 per cent registered during the five-year period 1982-83 to 1986-87 by a wider margin. The larger currency expansion is, *inter alia*, attributable to factors such as large Government expenditure for drought relief and increased financial assistance by banks to rural sector to alleviate the effects of drought and floods. Besides, inflationary expectations leading to larger speculative transactions could have added to currency demand. The accretion to demand deposits with banks at Rs 1,475 crores (6.6 per cent) during 1987-88 was not only far less than the increase of Rs. 4,060 crores (22.3 per cent) in 1986-87 but was also appreciably lower than the annual average increase of 17.3 per cent during the five-year period 1982-83 to 1986-87. The slackened pace of demand deposits growth was largely attributable to buy-back arrangements in Government and other approved securities entered into by banks with their non-bank clients.

As regards the components of aggregate monetary resources, the share of currency in M_3 witnessed a sharp increase from 15.3 per cent in 1986-87 to 23.5 per cent in 1987-88. The currency component had varied in the range of 15.3 per cent to 22.2 per cent in the earlier four years. Aggregate deposits with banks, on the other hand, witnessed a smaller order of increase of Rs. 16,568 crores or 14.8 per cent as compared with Rs. 18,777 crores or 20.2 per cent in 1986-87. The growth rate during the year was not only the lowest in the past six years but was also well below the annual average growth rate of 18.5 per cent recorded in the five-year period 1982-83 to 1986-87. On a point-to-point basis, the share of aggregate deposits with banks in incremental M_3 which fluctuated in the range of 76.8 to 87.0 per cent during the same five-year period stood at 76.8 per cent in 1987-88. Though in absolute terms, time deposits with banks registered a larger rise of Rs. 15,093 crores than that of Rs. 14,717 crores in 1986-87, its growth rate at 16.9 per cent was lower by 2.8 percentage points than that a year ago. Lower level of savings consequent upon deceleration in income growth due to severe drought coupled with stiff competition faced by bank deposits from alternative savings instruments might have contributed to the lower growth in time deposits during the year. The share of time deposits in incremental M_3 improved from 66 per cent in 1986-87 to 70 per cent in 1987-88; in the preceding four years the ratio ranged between 59.0 per cent and 75.9 per cent. 'Other' deposits with the Reserve Bank declined by Rs. 55 crores in 1987-88 in contrast to a substantial increase of Rs. 101 crores in 1986-87.

Sources of Change in Money Supply

The major factors responsible for the deceleration in the rate of expansion of M_3 during 1987-88 were the smaller growth of net bank credit to Government, bank credit to commercial sector and net foreign exchange assets of the Reserve Bank. Though in absolute terms net bank credit to Government showed a larger increase of Rs. 12,812 crores as compared with that of Rs. 12,776 crores in 1986-87, the growth rate at 18.0 per cent was lower by 3.8 percentage points over the year (Table VI-2). The increase during the year was largely attributable to net Reserve Bank credit to Government which went up by Rs. 7,025 crores as against Rs. 6,867 crores in the previous year; its growth rate at 15.3 per cent, however, worked out lower than 17.7 per cent in 1986-87. The increase in other banks' credit to Government at Rs. 5,787 crores (22.7 per cent) was lower as compared to that of Rs. 5,909 crores (30.1 per cent) in the previous year. While State Governments marginally reduced their indebtedness to the Reserve Bank, Central Government's indebtedness to the Bank recorded a larger increase of Rs. 7,049 crores as against Rs. 6,593 crores in 1986-87.

Bank credit to commercial sector in absolute terms was also higher at Rs. 11,610 crores as compared to Rs. 11,294 crores during 1986-87. However, the growth rate at 12.5 per cent was lower by 1.3 percentage points than in the

Table VI–1 : Money Supply and its Components

(Rupees crores)

Items	Variations during financial year						Out-standing as on the last Friday of March 1988@	Variations during the quarter			
	1985-86		1986-87		1987-88@			April-June 1987		April-June 1988@	
	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)	+3,950	+10.0	+7,578	+17.4	+6,479	+12.7	57,656	+2,243	+4.4	+3,215	+5.6
(a) Currency with the public	+2,504	+11.0	+3,417	+13.6	+5,059	+17.7	33,644	+1,878	+6.6	+1,934	+5.7
(b) Demand deposits with banks	+1,798	+11.0	+4,060	+22.3	+1,475	+6.6	23,715	+390	+1.8	+1,103	+4.7
(c) 'Other' deposits with RBI	−352	−58.4	+101	+40.2	−55	−15.6	297	−25	−7.1	+178	+59.9
Post Office Savings Bank Deposits	+215	+7.6	+187	+6.1	−13	−0.4	3,221	−151	−4.7	—	—
M_2 (M_1 + Post Office Savings Bank Deposits)	+4,165	+9.8	+7,765	+16.6	+6,466	+11.9	60,877	+2,092	+3.8	+3,215	+5.3
Time deposits with banks	+12,431	+20.0	+14,717	+19.7	+15,093	+16.9	1,04,549	+5,490	+6.1	+6,136	+5.9
M_3 (M_1 + Time deposits with banks)	+16,381	+16.1	+22,295	+18.8	+21,572	+15.3	1,62,205	+7,733	+5.5	+9,351	+5.8
Total Post Office Deposits	+1,488	+14.5	−254	−2.2	−514	−4.5	11,004	−271	−2.4	—	—
M_4 (M_3 + Total Post Office Deposits)	+17,869	+15.9	+22,041	+16.9	+21,058	+13.8	1,73,209	+7,462	+4.9	+9,351	+5.4

@ Data are provisional.

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

(Rupees crores)

Items	Variations during financial year						Out-standing as on the last Friday of March 1988@	Variations during the quarter			
	1985-86		1986-87		1987-88@			April-June 1987		April-June 1988@	
	Absolute	Percent-age	Absolute	Percent-age	Absolute	Percent-age		Absolute	Percent-age	Absolute	Percent-age
1	2	3	4	5	6	7	8	9	10	11	12
Sources of Money Stock (M_3) (1+2+3+4–5)	**+16,381**	**+16.1**	**+22,295**	**+18.8**	**+21,572**	**+15.3**	**1,62,205**	**+7,733**	**+5.5**	**+9,351**	**+5.8**
1. Net Bank Credit to Government (A+B)	**+9,572**	**+19.6**	**+12,776**	**+21.8**	**+12,812**	**+18.0**	**84,110**	**+6,212**	**+8.7**	**+7,819**	**+9.3**
A. RBI's net credit to Government (i–ii)	+9,127	+30.7	+6,867	+17.7	+7,025	+15.3	52,793	+4,874	+10.6	+5,740	+10.9
i) Claims on Government (a+b)	+3,881	+11.0	+6,757	+17.3	+7,047	+15.4	52,884	+4,875	+10.6	+5,716	+10.8
(a) Central Government	+5,639	+16.9	+6,487	+16.6	+7,071	+15.5	52,638	+5,061	+11.1	+5,834	+11.1
(b) State Governments	–1,758	–100.0	+270	£	–24	–8.9	246	–186	–68.9	–118	–48.0
ii) Government deposits with RBI (a+b)	–5,246	–96.7	–110	–61.5	+22	+31.9	91	+1	+1.4	–24	–26.4
(a) Central Government	–5,261	–97.0	–106	–66.3	+22	+40.7	76	–1	–1.9	–23	–30.3
(b) State Governments	+15	+375.0	–4	–21.1	–	–	15	+2	+13.3	–1	–6.7
B. Other banks' credit to Government	+445	+2.3	+5,909	+30.1	+5,787	+22.7	31,317	+1,338	+5.2	+2,079	+6.6
2. Bank Credit to Commercial Sector (A+B)	**+11,051**	**+15.6**	**+11,294**	**+13.8**	**+11,610**	**+12.5**	**1,04,756**	**+1,535**	**+1.6**	**+2,444**	**+2.3**
A. RBI's credit to commercial sector*	+301	+10.9	+363	+11.8	+377	+11.0	3,806	–59	–1.7	+41	+1.1
B. Other banks' credit to commercial sector (i+ii+iii)	+10,750	+14.8	+10,931	+13.9	+11,233	+12.5	1,00,950	+1,594	+1.8	+2,403	+2.4
i) Bank credit by commercial banks	+7,118	+14.5	+7,246	+12.9	+7,232	+11.4	70,560	+906	+1.4	+1,690	+2.4
ii) Bank credit by co-operative banks	+1,534	+17.0	+1,408	+13.4	+1,705	+14.3	13,653	+111	+0.9	+30	+0.2
iii) Investments by commercial and co-operative banks in other securities	+2,098	+20.8	+2,277	+18.7	+2,296	+15.9	16,737	+577	+4.0	+683	+4.1
3. Net Foreign Exchange Assets of the Banking Sector (A+B)	**+195**	**+5.9**	**+1,314**	**+37.8**	**+673**	**+14.1**	**5,461**	**–223**	**–4.7**	**–928**	**–17.0**
A. RBI's net foreign exchange assets (i–ii)	+299	+9.8	+1,251	+37.4	+673	+14.6	5,267	–223	–4.9	–928	–17.6
i) Gross foreign assets	+54	+0.7	+631	+8.7	–480	–6.1	7,412	–420	–5.3	–1,213	–16.4
ii) Foreign liabilities	–245	–5.9	–620	–15.8	–1,153	–35.0	2,145	–197	–6.0	–285	–13.3
B. Other banks' net foreign exchange assets	–104	–44.3	+63	+48.1	–	–	194	–	–	–	–
4. Government's Currency Liabilities to the Public	**+163**	**+21.0**	**+252**	**+26.8**	**+158**	**+13.3**	**1,350**	**+69**	**+5.8**	**–**	**–**
5. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (A+B)	**+4,600**	**+21.1**	**+3,341**	**+12.6**	**+3,681**	**+12.4**	**33,472**	**–140**	**–0.5**	**–16**	**neg**
A. Net non-monetary liabilities of RBI	+2,991	+38.9	+2,183	+20.4	+1,019	+7.9	13,879	–314	–2.4	–212	–1.5
B. Net non-monetary liabilities of other banks (residual)	+1,609	+11.4	+1,158	+7.3	+2,662	+15.7	19,593	+174	+1.0	+196	+1.0

@ Data are provisional. £ Increase over near zero.

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

neg – negligible.

previous year. Both Reserve Bank's and other banks' credit to commercial sector were larger at Rs. 377 crores and Rs. 11,233 crores as compared with the increases of Rs. 363 crores and Rs. 10,931 crores respectively, a year ago. Accretion to net foreign exchange assets of the banking sector at Rs. 673 crores (14.1 per cent) was sizeably smaller than the increase of Rs. 1,314 crores (37.8 per cent) in 1986-87 and was solely on account of a smaller increase in net Reserve Bank's foreign exchange assets. Net non-monetary liabilities of the banking sector, an off-setting factor in money supply, registered an increase of Rs. 3,681 crores (12.4 per cent) which was larger than the rise of Rs. 3,341 crores (12.6 per cent) a year ago.

Seasonal Trends

Seasonal variations in M_3, both component-wise and source-wise, during the previous two busy and slack seasons are furnished in Table VI-3. During the slack season of 1987 (end-April to end-October) while M_3 registered a larger increase of Rs. 10,700 crores in absolute terms as compared to Rs. 9,499 crores in the previous slack season, the growth rate at 7.5 per cent was slightly lower by 0.4 percentage point. Of the components, currency with the public witnessed a larger rise compared to that in the 1986 slack season. Aggregate deposits with banks also recorded a larger expansion in absolute terms than in the previous slack season. Source-wise, while net bank credit to Government accounted for a lower rise, bank credit to commercial sector rose by a larger magnitude than in the 1986 slack season. Net foreign exchange assets of the banking sector recorded a markedly lower decline than in the previous slack season.

During the 1987-88 busy season, the increase in M_3 by Rs. 12,343 crores (8.1 per cent) was lower than that of Rs. 12,451 crores (9.6 per cent) in the previous busy season. Of the components, while demand deposits with banks showed a lower increase than in the 1986-87 busy season, currency with the public and time deposits with banks registered larger increases in absolute terms though their growth rates were lower by 1.2 percentage points and 0.9 percentage point, respectively.

Source-wise, net bank credit to Government and bank credit to commercial sector recorded larger expansion than in the previous busy season. Net foreign exchange assets recorded a lower rise.

Reserve Money

There was an acceleration in the pace of growth of reserve money from 18.4 per cent in 1986-87 to 18.9 per cent in 1987-88. The growth rate also exceeded the annual average rate of growth of 17.1 per cent attained during the five-year period 1982-83 to 1986-87. In absolute terms, the increase in reserve money at Rs. 8,453 crores was sizeably larger than that of Rs. 6,955 crores in 1986-87. Component-wise, the expansion during the year was mainly attributable to a faster growth of currency with the public (17.7 per cent as compared with 13.6 per cent in 1986-87). Among the other components, bankers' deposits with the Reserve Bank (22.8 per cent as against 30.1 per cent) witnessed a lower growth (Table VI-4).

Source-wise, though Reserve Bank's claims on Government witnessed a larger increase in absolute terms than in the previous year, its growth rate was lower. Reserve Bank's claims on scheduled commercial banks also recorded a higher rise; accretions to net foreign exchange assets were substantially lower. Net non-monetary liabilities of the Reserve Bank witnessed a lower increase.

Some Monetary Relationships

The ratio of currency to aggregate deposits on a point-to-point basis moved up from 0.256 in 1986-87 to 0.262 in 1987-88. During the same period, the ratio of currency to M_3 also moved forward from 0.203 to 0.207. The ratio of aggregate deposits to M_3 on the other hand, receded marginally from 0.794 in 1986-87 to 0.791 during 1987-88 (Table VI-5). Over the period 1983-84 to 1986-87, the ratios of both currency to aggregate deposits and currency to M_3 which had recorded a gradual but steady decline, witnessed a reversal of trend in 1987-88 owing mainly to larger currency expansion. The ratio of aggregate deposits to M_3 which recorded a steady increase during the period 1983-84 to 1986-87 slided down marginally in 1987-88.

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

(Rupees crores)

Items	Variations during							
	Slack Season				Busy Season			
	1986		1987@		1986-87		1987-88@	
	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8	9
I. M_1(a+b(i)+c)	**+1,827**	**+4.1**	**+1,690**	**+3.2**	**+5,760**	**+12.5**	**+5,251**	**+9.8**
II. M_3(a+b+c)	**+9,499**	**+7.9**	**+10,700**	**+7.5**	**+12,451**	**+9.6**	**+12,343**	**+8.1**
(a) Currency with the public	+695	+2.6	+1,273	+4.2	+3,207	+11.9	+3,358	+10.7
(b) Aggregate deposits with banks (i+ii)	+8,700	+9.3	+9,387	+8.4	+9,240	+9.0	+8,924	+7.4
(i) Demand deposits	+1,028	+5.7	+377	+1.7	+2,549	+13.4	+1,832	+8.3
(ii) Time deposits	+7,672	+10.1	+9,010	+10.0	+6,691	+8.0	+7,092	+7.1
(c) 'Other' deposits with RBI	+104	+55.0	+40	+13.5	+4	+1.4	+61	+18.1
III. Sources of change in M_3 (1+2+3+4–5)								
1. Net Bank Credit to Government(A+B)	**+6,754**	**+11.1**	**+4,943**	**+6.6**	**+7,658**	**+11.4**	**+7,719**	**+9.6**
A. RBI's net credit to Government (i–ii)	+6,925	+18.7	+1,111	+2.3	+4,593	+10.4	+5,698	+11.5
(i) Claims on Government (a+b)	+6,855	+18.4	+1,100	+2.3	+4,599	+10.4	+5,704	+11.4
(a) Central Government	+6,934	+18.7	+1,111	+2.3	+4,474	+10.1	+5,725	+11.5
(b) State Governments	–79	–85.9	–11	–8.0	+125	+961.5	–21	–16.5
(ii) Government deposits with RBI(a+b)	–70	–50.0	–11	–14.5	+6	+8.6	+6	+9.2
(a) Central Government	–73	–58.4	–12	–19.4	+10	+19.2	+5	+10.0
(b) State Governments	+3	+20.0	+1	+7.1	–4	–22.2	+1	+6.7
B. Other banks' credit to Government	–171	–0.7	+3,832	+14.5	+3,065	+13.1	+2,021	+6.7
2. Bank Credit to Commercial Sector (A+B)	**+4,459**	**+5.4**	**+5,858**	**+6.3**	**+6,146**	**+7.1**	**+6,853**	**+7.0**
A. RBI's credit to commercial sector@@	+368	+12.0	+399	+11.7	–30	–0.9	+14	+0.4
B. Other banks' credit to commercial sector (i+ii+iii)	+4,091	+5.2	+5,459	+6.1	+6,176	+7.4	+6,839	+7.2
(i) Bank credit by commercial banks	+2,565	+4.6	+3,158	+5.0	+4,126	+7.0	+4,877	+7.4
(ii) Bank credit by co-operative banks	+394	+3.7	+833	+7.0	+899	+8.2	+1,062	+8.3
(iii) Investments by commercial and co-operative banks in other securities	+1,132	+9.3	+1,468	+10.1	+1,151	+8.6	+900	+5.6
3. Net Foreign Exchange Assets of the Banking Sector (A+B)	**–627**	**–16.0**	**–43**	**–0.9**	**+1,265**	**+38.4**	**+745**	**+16.5**
A. RBI's net foreign exchange assets (i–ii)	–637	–16.8	–43	–1.0	+1,212	+38.4	+745	+17.2
(i) Gross foreign assets	–908	–11.8	–608	–8.0	+841	+12.4	+150	+2.1
(ii) Foreign liabilities	–271	–7.0	–565	+17.4	–371	–10.2	–595	–22.1
B. Other banks' net foreign exchange assets	+10	+7.6	–	–	+53	+37.6	–	–
4. Government's Currency Liabilities to the Public	**+139**	**+14.4**	**+104**	**+8.6**	**+109**	**+9.9**	**+35**	**+2.7**
5. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (A+B)	**+1,226**	**+4.5**	**+162**	**+0.5**	**+2,727**	**+9.6**	**+3,009**	**+9.6**
A. Net non-monetary liabilities of RBI	+1,215	+11.8	–292	–2.3	+965	+8.4	+1,417	+11.6
B. Net non-monetary liabilities of other banks (residual)	+11	+0.1	+454	+2.4	+1,762	+10.4	+1,592	+8.3

@ Provisional.

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

The incremental ratios of both currency to aggregate deposits and currency to M_3 had declined steadily from 0.289 and 0.222 in 1983-84 to 0.176 and 0.153, respectively, in 1985-86. However, while the former ratio improved slightly to 0.182 in 1986-87 and further to 0.305 in 1987-88 the latter ratio remained unchanged at 0.153 in 1986-87 but increased considerably to 0.235 in 1987-88. During the year 1987-88, both the ratios were at the highest level in the past five years.

Both absolute and incremental ratios based on average of months reveal divergent trends. As regards absolute ratios, except for 1984-85, both currency to M_3 and currency to aggregate deposits witnessed a continuous decline over the period 1983-84 to 1987-88. There has been a steady increase in their incremental ratios during the past two years.

Money multiplier, i.e., the ratio of M_1 or M_3 to reserve money worked out both on a point-to-point and on an average basis reveal an apparent degree of stability during the five-year period 1983-84 to 1987-88. On a point-to-point basis, while the ratio of M_1/RM witnessed a secular decline from 1.147 to 1.082, the ratio of M_3/RM increased from 2.980 to 3.045 during the period 1983-84 to 1987-88. Ratios of M_1/RM and M_3/RM, based on average of months witnessed a secular decline during the above period. No definite trend is, however, discernible in the case of incremental ratios of M_1/RM and M_3/RM during the above period both on a point-to-point and on an average basis. The $\Delta M_1/\Delta$ RM ratio varied from 0.619 to 2.480 during 1983-84 to 1987-88 on a point-to-point basis and from 0.799 to 1.163 on an average basis. The $\Delta M_3/\Delta$ RM ratio ranged between 2.281 and 6.050 on a point-

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

(Rupees crores)

Items	Variations during financial year				Outstanding as on the last Friday of March 1988@	Variations during the quarter			
	1986-87		1987-88 @			April-June 1987		April-June 1988@	
	Absolute	Percentage	Absolute	Percentage		Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8	9	10
Reserve Money (1+2+3+4)	**+6,955**	**+18.4**	**+8,453**	**+18.9**	**53,266**	**+4,525**	**+10.1**	**+3,768**	**+7.1**
1. Currency with the public	+3,417	+13.6	+5,059	+17.7	33,644	+1,878	+6.6	+1,934	+5.7
2. 'Other' deposits with RBI	+101	+40.2	−55	−15.6	297	−25	−7.1	+178	+59.9
3. Cash with banks	+78	+6.0	+148	+10.8	1,517	+440	+32.1	+173	+11.4
4. Bankers' deposits with RBI	+3,359	+30.1	+3301	+22.8	17,808	+2,232	+15.4	+1,483	+8.3
Sources of change in Reserve Money (1+2+3−4)									
1. Reserve Bank's claims on (a+b+c+d)	**+7,634**	**+17.3**	**+8642**	**+16.7**	**60,528**	**+4,366**	**+8.4**	**+4,484**	**+7.4**
(a) Government (Net)	+6,867	+17.7	+7025	+15.3	52,793	+4,874	+10.6	+5,740	+10.9
(b) Scheduled commercial banks	+357	+33.4	+720	+50.5	2,145	−157	−11.0	−922	−43.0
(c) State co-operative banks	+3	+9.1	−23	−63.9	13	−7	−19.4	+11	+84.6
(d) Financial institutions (i+ii+iii)	+407	+9.6	+920	+19.8	5,577	−344	−7.4	−345	−6.2
i) NABARD	+44	+3.7	+543	+44.2	1,771	−285	−23.2	−385	−21.7
ii) IDBI	+290	+11.2	+313	+10.8	3,198	−10	−0.3	—	—
iii) Others	+73	+15.5	+64	+11.8	608	−49	−9.0	+40	+6.6
2. Net Foreign Exchange Assets of RBI	**+1,251**	**+37.4**	**+673**	**+14.6**	**5,267**	**−223**	**−4.9**	**−928**	**−17.6**
3. Government's Currency Liabilities to the Public	**+252**	**+26.8**	**+158**	**+13.3**	**1,350**	**+69**	**+5.8**	**—**	**—**
4. Net Non-monetary Liabilities of RBI	**+2,183**	**+20.4**	**+1,019**	**+7.9**	**13,879**	**−314**	**−2.4**	**−212**	**−1.5**

@ Provisional.

Table VI-5: Monetary Ratios

Items	1983-84	1984-85	1985-86	1986-87	1987-88@
1	2	3	4	5	6
A. Point-to-point basis (as on last Friday of March)					
a) Currency/Aggregate deposits	0.296	0.288	0.271	0.256	0.262
b) Currency/M_3	0.228	0.222	0.213	0.203	0.207
c) Aggregate deposits/M_3	0.769	0.772	0.785	0.794	0.791
Incremental Ratios					
a) Currency/Aggregate deposits	0.289	0.246	0.176	0.182	0.305
b) Currency/M_3	0.222	0.194	0.153	0.153	0.235
c) Aggregate deposits/M_3	0.768	0.789	0.869	0.842	0.768
Money Multiplier					
a) M_1/RM*	1.147	1.260	1.152	1.142	1.082
b) M_3/RM*	2.980	3.239	3.126	3.138	3.045
Incremental Money Multiplier					
a) $\Delta M_1/\Delta$ RM*	0.793	2.480	0.619	1.090	0.766
b) $\Delta M_3/\Delta$ RM*	2.281	6.050	2.567	3.206	2.552
B. Average of last Friday of months from April to March					
a) Currency/Aggregate deposits	0.290	0.292	0.273	0.258	0.257
b) Currency/M_3	0.225	0.225	0.214	0.205	0.204
c) Aggregate deposits/M_3	0.773	0.771	0.783	0.793	0.794
Incremental Ratios					
a) Currency/Aggregate deposits	0.264	0.301	0.176	0.179	0.248
b) Currency/M_3	0.208	0.229	0.150	0.152	0.199
c) Aggregate deposits/M_3	0.789	0.760	0.854	0.847	0.800
Money Multiplier					
a) M_1/RM*	1.212	1.199	1.164	1.138	1.080
b) M_3/RM*	3.193	3.154	3.147	3.155	3.056
Incremental Money Multiplier					
a) $\Delta M_1/\Delta$ RM*	1.163	1.134	0.960	0.991	0.799
b) $\Delta M_3/\Delta$ RM*	3.548	2.958	3.108	3.198	2.581

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.

to-point basis and between 2.581 to 3.548 on an average basis.

Taking into consideration adjusted reserve money* i.e., adjusted to policy changes in cash reserve requirements, the movements in money multiplier on a point-to-point basis, presented in the table below reveal wider fluctuations which are more conspicuous in the case of incremental ratios.

	As on the last Friday of				
	1983-84	1984-85	1985-86	1986-87	1987-88 @
1	2	3	4	5	6
Money Multiplier					
M_3/ RM (adjusted)	3.8	4.2	4.0	4.2	3.8
Incremental Money Multiplier					
$\Delta M_3/\Delta$ RM (adjusted)	3.5	11.8	3.0	4.9	2.4

@ Provisional.

* 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 Occassional Papers (Vol. 5 No 1), June 1984.

The adjusted money multiplier worked out thus moved up from 3.8 per cent in 1983-84 to 4.2 per cent in 1984-85 but declined subsequently to 3.8 in 1987-88. The incremental money multiplier based on adjusted reserve money declined from 3.5 per cent in 1983-84 to 3.0 per cent in 1985-86 but subsequently spurted to 4.9 in 1986-87. It stood at 2.4 in 1987-88.

Income Velocity of Money

The income velocity of money, i.e., the ratio of national income at factor cost (at current prices) to average M_1 declined marginally to 4.7 per cent in 1987-88 from 4.9 per cent in 1986-87. It has been declining steadily from 5.5 per cent in 1983-84 to 5.1 per cent in 1984-85 and to 5.0 per cent in 1985-86. The income velocity of M_3 also witnessed a similar trend. It declined by 0.1 point to 1.7 in 1987-88 as compared with that in the previous year. The ratio which was 2.1 per cent in 1983-84 fell to 1.9 per cent in 1984-85 and remained at that level in the following year but fell again in the year 1986-87 to 1.8 per cent (Table VI-6).

Monetary trends during April-June 1988

During the first quarter of the current financial year 1988-89, M_3 recorded a higher increase of Rs. 9,351 crores (5.8 per cent) as against Rs. 7,733 crores (5.5 per cent) in the same period of the previous year. M_1 also witnessed a larger increase of Rs. 3,215 crores (5.6 per cent) as against Rs. 2, 243 crores (4.4 per cent) in April-June 1987. All the components viz., currency with the public, demand deposits with banks and time deposits with banks recorded larger increases of Rs. 1,934 crores, Rs. 1,103 crores and Rs. 6,136 crores as compared with Rs, 1,878 crores, Rs. 390 crores and Rs. 5,490 crores, respectively, in the corresponding period of 1987-88. 'Other' deposits with Reserve Bank witnessed an increase of Rs. 178 crores in contrast to a decline of Rs. 25 crores in April-June 1987.

Source-wise, net bank credit to Government registered a larger rise of Rs. 7,819 crores (9.3 per cent) as against Rs. 6,212 crores (8.7 per cent) in April-June 1987. Bank credit to commercial sector also moved up by Rs. 2,444 crores (2.3 per cent) as compared with an increase of Rs. 1,535 crores (1.6 per cent) in the same period of the previous year. Net foreign exchange assets of the banking sector, however, witnessed a sharp decline of Rs. 928 crores (17.0 per cent) as compared to that of Rs. 223 crores (4.7 per cent) in the comparable period of 1987-88.

The expansion in reserve money during April-June 1988 was sizeably lower at Rs. 3,768 crores (7.1 per cent) as against Rs. 4,525 crores (10.1 per cent) in the same period of 1987-88. The deceleration was mainly on account of lower expansion in bankers' deposits with the Reserve Bank at Rs. 1,483 crores or 8.3 per cent as against Rs. 2,232 crores or 15.4 per cent registered in the corresponding period of the previous year. Of the sources of reserve money, Reserve Bank's claims on scheduled commercial banks and its net foreign exchange assets recorded larger declines than in the previous year. Net Reserve Bank credit to Government, however, registered a larger expansion.

Currency and Coinage

During the financial year 1987-88, currency in circulation (comprising currency with the public and cash with banks) recorded a larger expansion of Rs. 5,208 crores or 17.4 per cent as compared with Rs. 3,495 crores or 13.2 per cent in 1986-87 (Table VI-7).

Notes in circulation, the major component of currency, witnessed an appreciable increase of Rs. 5,050 crores or 17.6 per cent as compared with that of Rs. 3,243 crores or 12.7 per cent in the previous year. Its share in total currency in circulation, however, rose marginally from 96.0 per cent at end-March 1987 to 96.2 per cent by end-March 1988. Circulation of both rupee coins and small coins showed lower increases than in 1986-87. While the share of rupee coins in total currency at 2.4 per cent in 1987-88 retained the previous year's level, that of small coins witnessed a marginal decline from 1.6 per cent at end-March 1987 to 1.4 per cent by end-March 1988.

During the first quarter of the current financial year i.e., 1988-89 (April-June), the expansion in currency in circulation at Rs. 2,106 crores was lower than that of Rs. 2,318 crores in the corresponding period of 1987-88. The share of notes in circulation in total currency, however, moved up from 96.1 per cent in June 1987 to 96.4 per cent by end-June 1988.

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.
1983-84	1,66,140	17.6	18,003	15.9	30,449	14.6	80,185	17.4	9.2	5.5	2.1
1984-85	1,83,051	10.2	21,340	18.5	36,034	18.3	94,758	18.2	8.6	5.1	1.9
1985-86	2,05,436	12.2	23,774	11.4	41,043	13.9	1,10,971	17.1	8.6	5.0	1.9
1986-87	2,29,035	11.5	26,744	12.5	47,102	14.8	1,30,523	17.6	8.6	4.9	1.8
1987-88@	2,55,210	11.4	31,143	16.4	53,954	14.5	1,52,669	17.0	8.2	4.7	1.7

* Average of outstandings as on last Friday of months.
@ Provisional.

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	Variations over the previous year	Out-standing	Variations over the previous year	Out-standing	Variations over the previous year	Out-standing	Variations over the previous year	Out-standing	Variations over the previous year
1	2	3	4	5	6	7	8	9	10	11
1985-86	25,519	+2,431	531	+105	409	+58	26,459	+2,594	1,291	+89
	(96.5)		(2.0)		(1.5)		(100.0)			
1986-87	28,762	+3,243	709	+178	483	+74	29,954	+3,495	1,369	+78
	(96.0)		(2.4)		(1.6)		(100.0)			
1987-88@	33,812	+5,050	839	+130	511	+28	35,162	+5,208	1,517	+148
	(96.2)		(2.4)		(1.4)		(100.0)			
Quarter ended	31,011	+2,249	758	+49	503	+20	32,272	+2,318	1,809	+440
June 1987	(96.1)		(2.3)		(1.6)		(100.0)			
Quarter ended	35,918	+2,106	839	–	511	–	37,268	+2,106	1,690	+173
June 1988@	(96.4)		(2.2)		(1.4)		(100.0)			

@ Provisional.

Notes: 1. Figures in brackets are proportions to total currency.

2. Data relate to last Friday.

During the year the issue of notes (data are provisional and do not cover all issue offices) of all denominations except Rs. 2 was of a higher order as compared with that in 1986-87. Notes in the denomination of Rs. 500 amounting to Rs. 96 crores were issued for the first time by the Bank during the year 1987-88. Notes in the denomination of Rs. 100 increased by Rs. 2,312 crores in contrast to a decline of Rs. 5,324 crores during the previous year. The share of Rs. 100 denomination notes in total currency, however, declined from 56.4 per cent in March 1987 to 54.9 per cent in March 1988 (Table VI-8). The issue of notes in the denomination of Rs. 50 and Rs. 20 increased by Rs. 1,688 crores and Rs. 338 crores, respectively. Their share in the total currency issue also went up by 3.8 percentage points and 0.1 percentage point to 22.4 per cent and 6,9 per cent, respectively, as at end-March 1988. While notes in the denomination of Rs. 10 and Rs. 5 recorded increases of Rs. 26 crores and Rs. 75 crores, respectively, notes in the denomination of Rs. 2 registered a decline of Rs. 30 crores during 1987-88. The share of these notes in the above denominations in the total currency declined from 5.9 per cent, 3.6 per cent and 1.9 per cent in March 1987 to 4.7 per cent, 3.2 per cent and 1.3 per cent respectively, at the end of March 1988.

Table VI–8 : Percentage share of Rs. 2/-, Rs. 5/-, Rs. 10/-, Rs. 20/-, Rs. 50/-, Rs. 100/- and Rs. 500/- Notes in Total Currency Issued*

End of March	Percentage Share							Total
	Rs. 2/-	Rs. 5/-	Rs. 10/-	Rs. 20/-	Rs. 50/-	Rs. 100/-	Rs. 500/-	(1 to 7)
	1	2	3	4	5	6	7	8
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
1988@@	1.3	3.2	4.7	6.9	22.4	54.9	0.4	93.8

* Inclusive of issue of small coins.

@@ Exclusive of figures from Bangalore, Bhubaneswar, Calcutta, Patna and New Delhi.

Demonetisation of Notes

Of the Rs. 145.23 crores of high denomination notes in circulation 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. The value of notes passed for exchange into lower denomination was of the order of Rs. 119.25 crores upto end-March 1988.

Issue of Notes and Coins

Decimal coins of various denominations valued at Rs. 56.51 crores were minted during the financial year 1987-88. For the first time since its inception, the Reserve Bank issued bank notes in the denomination of Rs. 500 bearing the portrait of Mahatma Gandhi and the Ashoka Pillar emblem with effect from October 3, 1987. In respect of coins, the Government of India has decided to issue commemorative coins in the denomination of Rs. 100, Rs. 20, and Re 1 with the theme 'Small Farmers' on the occasion of celebration of the Seventh World Food Day. While the coins in the denomination of one rupee will be issued for regular circulation through the Bank's offices and agencies, the coins in the denomination of Rs. 100, Rs. 20, and Re 1 in proof/uncirculated sets will be sold by the Government Mint at Bombay.

Lost, Destroyed and Mutilated Notes

During 1987-88, about 2.17 lakh claims were received in respect of multilated notes involving 280.41 lakh pieces. The total amount involved in these claims was Rs. 22.96 crores and claims approved for payment amounted to Rs. 21.18 crores. Payments against approved claims (including those received/approved during the previous year) totalled Rs. 23.29 crores (for details please see Statement 127 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 declined from 42,245 pieces in 1986 to 32,998 pieces in 1987. The value of the forged notes during the year came down to Rs. 12.09 lakhs as compared with Rs. 29.15 lakhs in the previous year (for details, reference may be made to Statement 128 of Vol. II).

Trends in Bullion Prices

Gold prices exhibited a distinctly firm trend both in the domestic and international markets during the major part of the financial year 1987-88. The prices in Bombay recorded an increase of 23.1 per cent on a point-to-point comparison of monthly average levels (March 1988 over March 1987) as compared with a rise of 22.5 per cent registered in the previous year. On the basis of financial year averages (of 12 months ended March 1988), however, the price rise was much higher by 32.7 per cent over the year as compared with only 9.3 per cent, a year ago. The premium on monthly average price of gold per 10 grammes, in Bombay over that of London, widened considerably from 53.3 per cent in March 1987 to 73.3 per cent in March 1988, but narrowed to 58.3 per cent by June 1988. Similarly, silver prices in the domestic market also displayed a bullish trend during the year. Based on monthly average levels of March 1988 over March 1987, the prices rose by 29.2 per cent as against 19.5 per cent recorded in the same period, a year ago. The premium on monthly average prices of silver per kilogramme in Bombay over that of New York, widened from 101.9 per cent in March 1987 to 130.7 per cent in March 1988, but narrowed somewhat to 93.2 per cent in June 1988.

Gold

Domestic Market

In the Bombay market, gold prices witnessed a bullish trend during the greater part of the financial year 1987-88. Prices which had opened slightly lower at Rs. 2,560 per 10 grammes on April 1, 1987—the lowest during the year—than the end-March level of Rs. 2,570 per 10 grammes, advanced continuously and touched Rs. 2,920 by April 25. This sudden spurt in gold prices was due to tight supply position and improved investment demand coupled with higher upcountry advices. Prices ruled firm subsequently barring some minor fluctuations and were quoted at Rs. 2,805 per 10 grammes on June 2. A mild reaction was noticed thereafter, when prices ruled at Rs. 2,665 on July 3, due to cautious demand at

higher levels, weak upcountry advices and improved supply position. Later, prices advanced steadily and reached Rs. 2,890 on July 18 owing to acute shortage of floating stocks in the wake of persistent demand. The reduced supply of contraband gold also helped the bullish trend. The yellow metal prices ruled firm for the rest of the period steadily reaching Rs. 3,285 by October 29, 1987. Higher demand for festival season coupled with the uptrend in international prices of gold resulting from the crisis on Wall Street in October 1987 and the diversion of funds into bullion market on account of continued sluggishness in the domestic stock market aided the sentiment. After a brief steady spell, gold prices shot up to a new peak level of Rs. 3,774 per 10 grammes on November 24. Sentiment was favourably influenced by higher demand for festival season in the wake of acute paucity of floating stocks. Stricter vigilance by customs authorities and large scale seizures reportedly reduced the inflow of contraband gold. Gold prices eased thereafter on cautious demand at higher levels coupled with larger arrivals of contraband gold and barring occasional spurts, gold prices eased steadily until quotation declined to Rs. 3,310 by December 17. The prices recovered again and reached Rs. 3,510 on December 31. After ruling generally steady till January 20, 1988, gold prices receded almost continuously and closed at Rs. 3,130 on March 30, 1988. Based on monthly averages, gold prices between March 1987 and March 1988 recorded a slightly higher rise of Rs. 602.67 per 10 grammes (23.1 per cent) as compared to an increase of Rs. 477.99 per 10 grammes (22.5 per cent) recorded in the previous year. The financial year average of gold prices (for the 12 months ended March 1988) at Rs. 3,082.43 was higher by Rs. 758.94 (32.7 per cent) than that of 1986-87, as compared with Rs. 198.02 (9.3 per cent) over that of 1985-86.

International Markets

Gold prices in the London market displayed a generally buoyant trend during the major part of the financial year 1987-88. Prices after opening slightly lower at $ 418.50 per troy ounce on April 1, 1987, which was also the lowest level recorded for the year, as against end-March level of $ 419.00 per troy ounce advanced to $ 479.95 per troy ounce on May 20 on weakening of the US dollar coupled with short-covering. This was followed by a somewhat easy trend as a result of a firming up of the US currency following positive market reaction to the debt provision made by Citi Corporation and prices reacted to reach $ 447.90 per troy ounce by May 27. Thereafter, prices moved narrowly in both directions but the undertone remained firm upto the first week of August and quotation touched $ 476.00 on August 4 on account of increase in crude oil and platinum prices. Tension in the Middle East and strike call by South African National Union of Mine Workers also favourably aided the sentiment. An easy trend prevailed during the major part of August as the US currency surged in anticipation of an improvement in US trade gap and intervention by the major Central Banks of developed countries in currency markets with the prices of yellow metal reaching $ 453.10 on September 1. A steady trend followed later with prices moving in the range of $ 453.10 to $ 464.40 per troy ounce till October 1. However, gold prices, barring minor fluctuations, spurted to $ 481.60 per troy ounce by October 20. Persistent weakening of the US dollar in the international currency markets as well as crash on Wall Street and other major stock markets during October 1987 led to the diversion of investible funds to bullion markets and contributed to the uptrend. After some hesitance, the yellow metal firmed up subsequently on further weakening of US dollar in the wake of increased demand for gold, touching $ 493.90 by November 30 and moved up further to $ 502.75 on December 14, 1987—highest level for the year. Since then, gold prices ruled steady till mid-January 1988 and, excepting minor fluctuations, remained by and large, easy later touching $ 423.75 per troy ounce at end-February. This easiness could be attributed to some strengthening of US dollar as a sequel to improvement in the US trade deficit and reported sale of gold by the Soviet Union and other larger producers. Some firmness was again witnessed later and prices were quoted at $ 458.00 per troy ounce on March 31, 1988 mainly on account of further weakening of US dollar coupled with reported large-scale buying of gold by Japan. Gold prices at London recorded an increase of $ 34.64 (8.5 per cent) over the period March 1987 to March 1988 as compared with $ 62.76 (18.1 per cent) in the corresponding period of the previous year. The financial year average of gold prices (for the 12 months ended March 1988) at $ 458.84 was higher by $ 75.51 (19.7 per cent) over that of 1986-87 as compared with an increase of $ 55.58 (17.0 per cent), a year ago.

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. 906.19 (53.3 per cent) in March 1987 to Rs. 1,357.84 (73.3 per cent) in March 1988. Based on financial year averages, the premium on gold prices in Bombay over that of London per 10 grammes increased from Rs. 746.47 (47.3 per cent) in 1986-87 to Rs. 1,169.89 (61.2 per cent) in 1987-88 (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 (US 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 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
March 1987	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
July "	2,792.68	1,886.49	450.33	+906.19	+48.0
August "	2,930.48	1,937.80	460.95	+992.68	+51.2
September "	3,019.38	1,924.92	460.15	+1094.46	+56.9
October "	3,170.83	1,955.04	465.76	+1215.79	+62.2
November "	3,471.35	1,952.44	468.10	+1518.91	+77.8
December "	3,371.12	2,027.43	487.04	+1343.69	+66.3
January 1988	3,453.10	2,010.17	477.76	+1442.93	+71.8
February "	3,321.54	1,855.75	441.93	+1465.79	+79.0
March "	3,209.09	1,851.25	443.49	+1357.84	+73.3
1988-89					
April 1988	3,178.71	1,915.18	451.56	+1263.53	+66.0
May "	3,149.48	1,933.42	451.32	+1216.06	+62.9
June "	3,177.12	2,006.56	451.66	+1170.54	+58.3

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 US dollar in London and average of Reserve Bank's spot buying and selling rates of sterling.

April-June 1988 Position

The easy trend prevailing in gold prices till March 1988, by and large, continued during the first quarter of the fiscal year 1988-89 in the Bombay bullion market. The subdued trend was due to slack demand and consequent upon lower Madras and overseas advices in the wake of improved arrivals of contraband gold, stockists turned out to be keen sellers. Further, improved supplies from mint also affected the sentiment. Gold prices recovered initially from Rs. 3,110 on April 2 to Rs. 3,270 on April 20, 1988. Barring a few minor fluctuations, the prices of yellow metal showed a declining trend in May and June 1988, closing at Rs. 3,140 per 10 grammes on June 30, 1988—a nominal rise of Rs. 10 (0.3 per cent) over the end-March 1988 level. In the corresponding quarter of the previous year, there was a rise of Rs. 110 (4.3 per cent). In the London market,

till the beginning of June 1988, there was a steady to easy trend in gold prices, the quotation moving in the range of $ 441.95 – 464.85 per troy ounce depending on the strength of US dollar till June 3, but eased thereafter on strengthening of the US dollar and closed at a lower level of $ 436.85 per troy ounce on June 30, 1988, recording a fall of $ 21.15 (4.6 per cent) over the end-March level.

Table VI–10 : Gold Prices in Bombay and London (Financial Year Averages)

(Rupees per 10 grammes)

Year	Bombay	London	London (US dollars per troy ounce)	Spread between Bombay and London prices	
				Absolute	Percentage
1	2	3	4	5	6
1970-71	184.96	88.71	36.81	+96.25	+108.5
1975-76	544.99	416.06	149.48	+128.93	+31.0
1980-81	1,522.44	1,484.67	584.92	+37.77	+2.5
1981-82	1,719.17	1,209.94	420.95	+509.23	+42.1
1982-83	1,722.54	1,250.38	401.43	+472.16	+37.8
1983-84	1,858.47	1,342.06	404.15	+516.41	+38.5
1984-85	1,983.92	1,293.78	340.01	+690.14	+53.3
1985-86	2,125.47	1,289.72	327.75	+835.75	+64.8
1986-87	2,323.49	1,577.02	383.33	+746.47	+47.3
1987-88	3,082.43	1,912.54	458.84	+1169.89	+61.2

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 US 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 1987-88. The white metal prices, which opened higher at Rs. 4,821 per kg. on April 1, as compared to Rs. 4,794 per kg. at the end of March 1987, remained subdued and reached Rs. 4,789 per kg. by April 3, 1987, which was the lowest level recorded during the year. The initial easiness in prices was attributed to weak upcountry advices coupled with improved arrivals of the metal. Subsequently, prices recovered almost steadily and, barring some minor fluctuations during June and July, a distinctly bullish trend was in evidence during October and November, the quotation touching an all-time high of Rs. 6,551 per kg. on November 21, 1987. This buoyancy in silver prices was due to the acute shortage of stocks resulting from strict vigilance by customs authorities on smuggling, sustained seasonal demand and firm upcountry advices. However, prices fell sharply to Rs. 6,380 by November 23 and continued to recede further till the price touched Rs. 5,796 on November 27, 1987. During the first quarter of 1988, prices moved either way in the range of Rs. 6,066 and Rs. 6,262 with an easy undertone which could be attributed to speculative selling, slack demand and higher inflow from upcountry centres. At the close of the year (on March 30, 1988), silver prices were quoted at Rs. 6,066 per kg. Over the year March 1987 to March 1988, monthly average price of silver recorded a substantial increase of Rs. 1,397.45 (29.2 per cent) per kg. as compared to Rs. 779.50 (19.5 per cent) in the previous year. The financial year average prices of silver (for the 12 months ended March 1988) at Rs. 5,538.83 per kg. was higher by Rs. 1,291.73 (30.4 per cent) over that of 1986-87.

International Markets

In the New York market, silver prices came down steadily after an initial spurt, but recorded sizeable gains over the period. After opening slightly lower at 628 cents per ounce on April 1, against the end-March 1987 level of 630.50 cents, silver prices firmed up steadily on sustained speculative demand. Sentiment was also favourably influenced by firmness in platinum and gold prices and Peru's decision to suspend overseas silver sales. Silver prices spurted to 1020 cents per ounce by April 27, 1987—the highest level for the year 1987-88. Subsequently, the white metal ruled generally easy till February 29, 1988 when prices reached 611.50 cents—the lowest level for the period under review. The subdued trend in silver prices was mainly due to profit-taking at higher levels. A mixed trend was witnessed later with occasional upswings as a result of tension prevailing in the Middle East and weakening of US dollar which was aided partly by the shift in investment funds to bullion following the crash on Wall Street in October 1987. The price of silver on March 31, 1988 was quoted at 671.00 cents. Over the year, March 1987 to March 1988, monthly average price of silver rose by 72.30 cents per ounce (12.7 per cent) as compared with a gain of 4.85 cents per ounce (0.9 per cent) in the previous year. The financial year average of silver prices (for the 12 months ended March 1988) at 721.53 cents per ounce was higher by 181.66 cents (33.6 per cent) over that of March 1987.

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 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
March 1987	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
July "	4,945.44	3,217.28	767.82	+1,728.16	+53.7
August "	5,090.90	3,287.54	782.20	+1,803.36	+54.9
September "	5,327.17	3,176.73	759.05	+2,150.44	+67.7
October "	5,461.17	3,174.10	756.16	+2,287.07	+72.1
November "	6,018.61	2,793.72	669.05	+3,224.89	+115.4
December "	6,014.27	2,827.51	679.02	+3,186.76	+112.7
January 1988	6,195.45	2,832.79	673.25	+3,362.66	+118.7
February "	6,204.13	2,657.00	602.60	+3,547.13	+133.5
March "	6,175.95	2,676.86	641.28	+3,499.09	+130.7
1988-89					
April 1988	6,183.96	2,746.35	647.83	+3,437.61	+125.2
May "	6,198.32	2,802.58	654.26	+3,395.74	+121.2
June "	6,040.31	3,126.16	703.68	+2,914.15	+93.2

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 daily average of spot buying and selling rates of US 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 prices in Bombay over that of New York per kg. based on monthly averages widened from Rs. 2,412.10 (101.9 per cent) in March 1987 to Rs 3,499.09 (130.7 per cent) in March 1988. Based on financial year averages, the premium on silver prices in Bombay over that of New York widened (in absolute terms) from Rs. 2,027.07 (91.3 per cent) to Rs. 2,522.13 (83.6 per cent) in 1987-88 (Table 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	New York (Cents per troy ounce)	Spread between Bombay and New York Prices	
				Absolute	Percentage
1	2	3	4	5	6
1970-71	536.08	412.18	170.90	+123.90	+30.1
1975-76	1,169.36	1,221.33	437.36	−51.97	−4.3
1980-81	2,616.63	4,020.30	1,585.14	−1,403.67	−34.9
1981-82	2,636.06	2,627.05	914.52	+9.01	+0.3
1982-83	2,798.34	2,829.74	906.49	−31.40	−1.1
1983-84	3,505.80	3,516.66	1,060.64	−10.86	−0.3
1984-85	3,593.59	2,810.19	740.98	+783.40	+27.9
1985-86	3,918.35	2,396.35	609.00	+1,522.00	+63.5
1986-87	4,247.10	2,220.03	539.87	+2,027.07	+91.3
1987-88	5,538.83	3,016.70	721.53	+2,522.13	+83.6

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 US dollar in London and average of Reserve Bank's spot buying and selling rates of sterling.

April-June 1988 Position

The easiness in silver prices became more pronounced during the quarter ended June 1988. The weakness in white metal could be attributed to increased inflow, speculative selling and lower up-country advices. The downtrend in silver prices became more pronounced in June, when it nosedived by Rs. 274 to close at Rs. 5,887 per kg. on June 30, 1988—a fall of Rs. 179 per kg. (3.0 per cent) over end-March 1988 level. In the New York market, silver prices ruled easy during April and early May and declined to 634.00 cents per ounce by May 4 from the end-March 1988 level of 671.00 cents. The price picked up later to reach 736.50 cents per ounce June 7, 1988. This firmness was in sympathy with strength in platinum prices, fears of inflation and shortfall in supply of silver. However, prices eased subsequently reflecting stronger dollar and weaker crude oil prices and closed at 668 cents per ounce on June 30, 1988, showing a fractional fall of 0.5 per cent over the quarter.

Chapter VII

Banking Developments

OVERALL REVIEW

During the year 1987-88 (April-March) scheduled commercial banks' operations witnessed, on a point-to-point basis, smaller increases in aggregate deposits, bank credit and investments as compared with the previous year. On an average basis, however, aggregate deposits and bank credit recorded larger increases in absolute terms as compared with the preceding year, though in percentage terms they were lower than last year; investments in Government and other approved securities registered larger rise both in absolute and percentage terms than in 1986-87.

The credit policy continued to maintain a cautious stance in view of continued high rate of growth of overall liquidity (M_3) during 1987-88 in the context of slow-down in the economy as a result of severe drought. Additionally, the expansion of monetary aggregates was understated by the prevalance of buy-back arrangements in Government and other approved securities entered into by banks with non-bank clients. Further, emerging price situation which was causing concern also necessitated the continuance of the cautious credit policy. Accordingly, several measures were initiated to contain the overall growth of liquidity in the banking system, while ensuring that banks would be able to meet the needs of productive activity in agriculture, industry, exports and related productive sectors.

In this context cash reserve ratio and statutory liquidity ratio continued to remain the major instruments of credit policy supplemented by selective credit control measures. The Cash Reserve Ratio (CRR) for scheduled commercial banks was raised from 9.5 per cent to 10 per cent of net demand and time liabilities with effect from the fortnight beginning October 24, 1987, and further to 10.5 per cent beginning from July 2, 1988 and further to 11.0 per cent effective July 30, 1988. In view of large increase in the reserve money by early December 1987, Statutory Liquidity Ratio (SLR) was raised from 37.5 per cent to 38.0 per cent of net demand and time liabilities from the fortnight beginning January 2, 1988. The SLR on Foreign Currency Non-resident Accounts (FCNR) and Non-resident External Account (NRE), however, remained unchanged at 25 per cent.

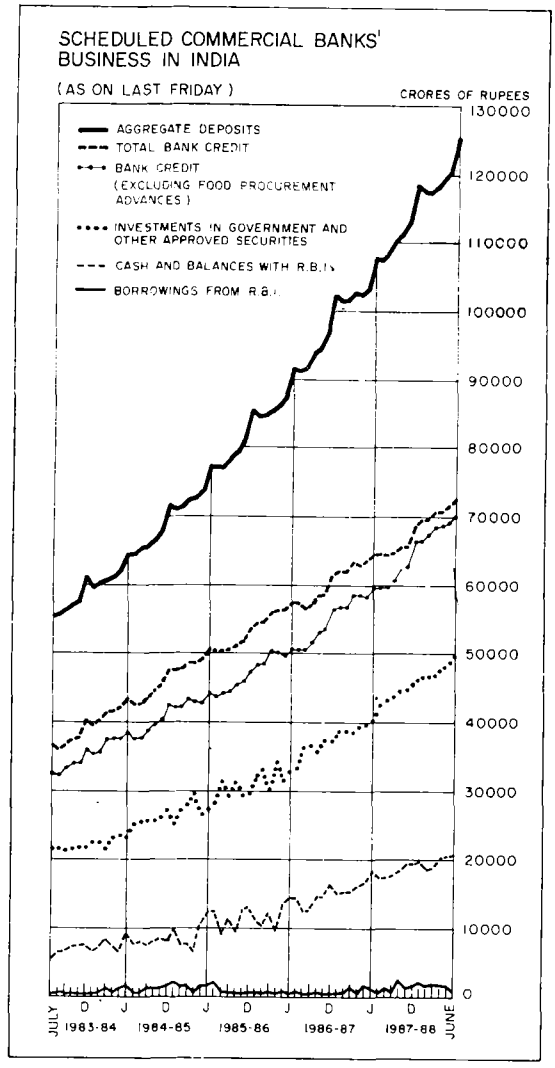
Banks' access to the Reserve Bank under discretionary refinance facility was raised during August 1987 to an amount equivalent to 2 per cent of their average aggregate deposits in 1986-87 from 0.5 per cent of their average aggregate deposits in 1985-86. However, following a review of the liquidity position of banking system, banks access under the discretionary refinance facility was lowered effective December 5, 1987 to 1 per cent of their average aggregate deposits in 1986-87 spread over three tranches and three blocks of four weeks each. The limit of refinance under 182 days Treasury Bills was enhanced, effective August 7, 1987, from 50 per cent to 75 per cent of banks' holdings of these bills, though the rate of interest continued to remain at 10 per cent per annum. Effective March 1, 1988, interest rates on short-term loans to farmers up to Rs. 15,000 were reduced by 1 to 2½ percentage points. Under the credit policy announced in April 1988 which was applicable for the first half of 1988-89, the following measures were included; (i) release on April 23, 1988 of the entire amount of Rs. 744 crores of cash balances under the incremental

CRR maintained during January 1977 to October 1980, which remained impounded with the Reserve Bank; (ii) provision of export refinance to the extent of 100 per cent of the increase in export credit over the monthly average level of 1986 instead of 1984 with effect from August 27, 1988; (iii) prohibition effective April 4, 1988 on buy-back arrangements in government and other approved securities which were to be terminated on the dates they expire or by July 1, 1988 and (iv) refinance limit under 182 days Treasury Bills was made equivalent to 50 per cent of banks' holdings of these bills instead of 75 per cent hitherto, following commencement of operations by Discount and Finance House of India Ltd.

With a view to promoting bill financing, a number of measures were announced on March 31, 1987, whereby banks were advised to ensure that the effective cost of funds under bill financing work out lower than that under the cash credit facility. In order to build up a secondary market in 182 Days Treasury Bills and to impart liquidity to short-term money market instruments, especially commercial bills, the Discount and Finance House of India Ltd., was set up jointly by the Reserve Bank, public sector banks and financial institutions, which commenced operations from April 25, 1988.

The banking system has made further progress in achieving the targets fixed for the deployment of credit. The ratio of priority sector advances to total net bank credit of 50 major banks reached 43.9 per cent at the end of March 1988 as compared with 42.2 per cent a year ago and against a target of 40 per cent set for them. Direct advances to agriculture formed 16.8 per cent of net bank credit at end-December 1987 as against the target of 16.0 per cent set for March 1987 (raised to 17 per cent to be achieved by March 1989).

Total advances granted by public sector banks under the 20-Point Programme amounted to Rs. 8,855 crores in 190 lakh borrowal accounts as on last Friday of March 1988. The share of export credit in non-food gross bank credit was 5.7 per cent at the end of March 1988 as against 5.5 per cent at the end of March 1987. Advances under Differential Rate of Interest Scheme reached Rs. 622 crores by March 1988 constituting 1.0 per cent of the total advances at the end of the preceding year.



The public sector banks have achieved the target of credit-deposit ratio of 60 per cent set for their rural branches, though it was below the target in the case of semi-urban branches. The credit-deposit ratio in respect of rural branches of scheduled commercial banks including RRBs was 64.4 per cent, while for semi-urban branches it was lower at 51.8 per cent as on the last Friday of March 1988.

In the field of branch expansion, commercial banks including RRBs opened 1,124 offices during the period July 1987 to March 1988 bringing the total branch network to 55,015 at the end of March 1988. Out of the new branches opened (1,124) during the year, 1,033 or 92.0 per cent were in unbanked centres.

CREDIT POLICY

In view of the continuing large overhang of reserve money and the consequent building up of inflationary pressures against the backdrop of drought of severe intensity in 1987 the stance of credit policy continued to be one of caution with emphasis on restraining the growth of overall liquidity (M_3) during 1987-88. The growth of M_3 in 1987-88, though moderate, was still large considering a deceleration in the growth of the economy due to severe drought. Though the pace of growth of bank deposits decelerated in 1987-88, the large return flow of food credit underlined the need for initiation of various measures to siphon off the excess liquidity. The emerging price scenario underscored the need for continuation of the cautious stance of credit policy even during 1988-89. Nevertheless, the credit policy for the first half of 1988-89 was geared to ensure adequate credit to facilitate the expected recovery of output both in the agricultural and industrial sectors.

The cash reserve ratio and the statutory liquidity ratio continued to be the major instruments of credit policy during the period under review. In addition, limits under discretionary refinance which scheduled banks could draw from the Reserve Bank were raised in August 1987 and subsequently reduced in December 1987. In the area of refinance, the base for the determination of export credit refinance has also been advanced by two years.

Apprehending a considerable slow-down in the growth rate of the economy following the drought and also the need to keep the overall liquidity in alignment with expected rise in output, several measures were initiated during the period under review to moderate the pace of monetary expansion. The measures taken included, *inter alia*, increase in SLR in January 1988 and an increase in CRR in October 1987 and again twice in July 1988.

The Credit Authorisation Scheme was also liberalised further in July 1987 by permitting the banks to release the entire amount of additional limits sanctioned by their Board of Directors for parties complying with the prescribed norms without the Reserve Bank's prior authorisation.

Conscious efforts were made towards the rationalisation of short-term rate of interest. With a view to providing remunerative rate of return on short-term deposits, the interest rate on deposits for 91 days and above but less than six months was raised from 6.5 per cent to 8 per cent with effect from April 4, 1988. Against the backdrop of changes in interest rates on the U S dollar deposits in the international markets, the interest rates on deposits under Foreign Currency (Non-resident) Account (FCNR) Scheme were revised several times. Effective March 1, 1988, interest rates on short-term agricultural loans sanctioned by scheduled commercial banks including regional rural banks were reduced by 1 to 2½ percentage points. The benefits of reductions in interest rates percolated to a large number of farmers, especially the small and marginal farmers. Details of credit policy measures announced during 1987-88 (July-June) are indicated below.

In view of occasional liquidity problem faced by banks resulting from the effective implementation of daily maintenance of the statutory liquidity ratio, the following changes were effected in response to representations received from banks to enable them to have larger and expeditious access to refinance facilities.

i) Discretionary Refinance Facility

Under the facility to draw discretionary refinance without prior sanction of the Reserve Bank, with effect from August 17, 1987 banks' access was raised to an amount equivalent to 2 per cent of their average aggregate deposits in 1986-87 from 0.5 per cent of their average aggregate deposits in 1985-86. The revised limits were provided under 3 tranches and for 3 blocks of 4 weeks each. The interest rates on such refinance ranged between 14 per cent and 16 per cent depending upon the period and the amount of refinance. Drawing beyond the aforesaid schedule, however, required the prior sanction of the Reserve Bank.

ii) *'182 Days Treasury Bills' Refinance Facility*

Effective August 7, 1987, the limit of refinance under this facility was enhanced from 50 per cent to 75 per cent of banks' holdings of 182 days Treasury Bills; the rate of interest continued to remain at 10 per cent per annum.

October 1987

In view of the prospects of a deceleration in the rate of growth of the economy owing to drought of severe intensity and the need for controlling the inflationary pressure, the main thrust of credit policy for the second half of 1987-88 was so modulated as to meet fully the credit requirements of agriculture, industry and exports while preventing excessive monetary growth. With the twin objectives of moderating the pace of monetary expansion and ensuring that bank credit was not utilised for building up of speculative hoarding of sensitive commodities, the following changes were effected in the credit policy.

i) *Increase in Cash Reserve Ratio*

The cash reserve ratio (CRR) for scheduled commercial banks was raised from 9.5 per cent to 10 per cent with effect from the fortnight beginning October 24, 1987. This notwithstanding, it was expected that the resource position of the banking system would be comfortable enabling them to meet the credit requirements of agriculture, industry and exports.

ii) *Credit to Agriculture*

Banks were directed to give a positive and effective response to the serious problems caused by severe drought and floods and to accord high priority to provision of agricultural credit, in particular, for the *rabi* crops.

iii) *NRE Deposit Rates*

With effect from October 12, 1987 the interest rates on NRE deposits for 6 months and above but less than one year was raised from 8.0 per cent to 8.5 per cent.

November 1987

Following a review of the liquidity position of the banking system, banks' access to the existing discretionary refinance facility without prior sanction from the Reserve Bank was lowered effective December 5, 1987, to one per cent of their average aggregate deposits in 1986-87 spread over three tranches and three blocks of 4 weeks.

December 1987

Statutory Liquidity Ratio

A detailed assessment of the monetary aggregates towards the close of 1987 indicated the presence of excess liquidity within the banking system emanating mainly from sizeable increase in reserve money. This juxtaposed with a sharp reduction in food credit resulting from the drawdown of public sector foodgrain stocks underscored the urgent need to moderate the growth of overall liquidity without affecting the credit requirements warranted by expected growth in output. Accordingly, from the fortnight beginning January 2, 1988, the Statutory Liquidity Ratio was raised from 37.5 per cent to 38.0 per cent of net demand and time liabilities. (The SLR on FCNR and NRE deposits remained unchanged at 25 per cent).

FCNR Deposit Rates

Against the backdrop of changes in interest rates in international markets on US dollar deposits, the interest rates on deposits under Foreign Currency (Non-resident) Account (FCNR) Scheme were revised several times (Details under Section on Lending and Deposit Rates).

March 1988

Interest Rates on Short-term loans to farmers

Effective March 1, 1988, interest rates on short-term agricultural loans upto Rs. 15,000 sanctioned to farmers were reduced by 1 to 2½ percentage points (Details under Section on Lending and Deposits Rates).

April 1988

Against the backdrop of anticipated developments in economic scenario, the credit policy for the first half of 1988-89 was announced in early April 1988. With the expectation of a good monsoon, the agricultural output was expected to show a smart recovery in 1988-89 and industrial output too could be expected to grow at around the previous year's level. The credit policy was geared to provide adequate credit to both agriculture and industry to support and sustain the expected recovery of the economy in 1988-89. In view of the high rate of inflation witnessed in

1987-88 and the expectations of continuing pressure on prices, the credit policy had struck a note of caution through fixing the overall growth of liquidity in 1988-89 to a level somewhat below the average for the previous three years (17 per cent).

In consonance with the expected moderation in the growth of overall liquidity, the working estimate for scheduled commercial banks,deposit growth was estimated at Rs. 20,500 crores (17.4 per cent) in 1988-89. The increase in non-food credit in the first half of 1988-89 was expected to touch Rs. 2,600 crores and was expected to materialise mainly in the quarter July-September 1988. The changes effected in the credit policy for the first half of 1988-89 were as follows:

i) *Release of Impounded Cash Balances*

With a view to accommodating the anticipated seasonal increase in food credit required to support the *rabi* 1988 procurement, the entire amount of Rs. 744 crores of cash balances under the incremental CRR maintained during January 1977 to October 1980 which remained impounded with the Reserve Bank was released on April 23, 1988.

ii) *Cash Reserve Ratio*

In order to partially neutralise the return flow of bank credit, it was announced effective from fortnight beginning July 30, 1988, the cash reserve ratio for scheduled commercial banks was to be raised from 10.0 per cent to 10.5 per cent of their net demand and time liabilities. (This increase would not apply to FCNR/NRE deposits).

iii) *Export Credit Refinance*

Banks would be provided export refinance to the extent of 100 per cent of the increase in export credit over the monthly average level for 1986 instead of 1984 with effect from August 27, 1988.

iv) *Prohibition on Buy-back Arrangements in Government and other Approved Securities*

Effective April 4, 1988, banks were prohibited from entering into buy-back arrangements with non-bank clients in Government and other approved securities as these arrangements could adversely affect the growth of deposits and the profitability of the banking system. All existing arrangements as on that date were required to be terminated on the date they expire or July 1, 1988, whichever was earlier.

Deposit Rates

The term deposit rate for 91 days and above but less than six months was raised with effect from April 4, 1988 from 6.5 per cent to 8.0 per cent with a view to providing a better rate of return on short-term surplus funds. All other deposits rates have been kept unchanged. This change was not made applicable to FCNR/NRE deposits.

'182 days Treasury Bills' Refinance Facility

The refinance limit under this facility was made equivalent to 50 per cent of banks' holdings of 182 days Treasury Bills instead of 75 per cent hitherto due to increase in cut-off yields in recent auctions and commencement of operations by the Discount and Finance House of India Ltd. (DFHI) in April 1988. Interest rates on such refinance was raised from 10.0 per cent to 10.25 per cent per annum.

Measures to Promote Bill Financing

Banks were advised to implement the package of measures announced on March 31, 1987 to promote bill financing and in case of an unavoidable shortfall regarding financing of inland credit sales by way of bills and covering credit purchases by way of bill acceptances, a specific time-bound programme was to be drawn up in consultation with the borrower and intimated to the Reserve Bank. Further, banks were advised to ensure that the effective cost of funds under bill financing worked out lower than under the cash credit facility.

June 1988

Preponement of the Increase in Cash Reserve Ratio

The sequence and timings of the changes in credit policy announced on April 2, 1988 were mainly guided by expected movements in food credit. While the growth of deposits in the first two months of 1988-89 was in accord with the estimates made earlier, food credit actually de-

clined by about Rs. 33 crores between March 25, 1988 and June 1, 1988 as against an expected pick-up of Rs. 1,200 crores in the first quarter. In the context of these developments, the date of increase in the cash reserve ratio from 10 per cent to 10.5 per cent of net demand and time liabilities of scheduled commercial banks was brought forward from July 30 to July 2, 1988. Subsequently, effective July 30, 1988 the cash reserve ratio was raised from 10.5 per cent to 11.0 per cent of domestic net demand and time liabilities and from 9.5 per cent to 10.0 per cent for FCNR liabilities.

Deposits and Lending Rates

With the twin objectives of mobilising financial savings and ensuring viability of the banking system, the Chakravarty Committee had underscored the need for regulation of the structure of interest rates. The year 1987-88 was characterised by rationalisation of the interest rates on short-term deposits and reduction in interest rates on short-term agricultural loans. Further, interest rates on deposits under Foreign Currency (Non-resident) Account (FCNR) were revised on several occasions.

i) Lending Rates

As pointed out earlier, interest rates on short-term agricultural loans upto Rs. 15,000 to farmers sanctioned by scheduled commercial banks including regional rural banks were reduced by 1 to 2½ percentage points with effect from March 1, 1988 (Table VII-1).

Table VII–1: Interest Rates on Short-term Loans to Farmers

(In per cent per annum)

Range of Advances	Effective upto February 29, 1988	Effective from March 1, 1988
i) Upto Rs. 5,000	11.50	10.00
ii) Over Rs. 5,000 and upto Rs. 7,500	12.50	10.00
iii) Over Rs. 7,500 and upto Rs. 10,000	12.50	11.50
iv) Over Rs. 10,000 and upto Rs 15,000	12.50-14.00	11.50
v) Over Rs. 15,000 and upto Rs. 25,000	12.50-14.00	12.50-14.00
vi) Over Rs. 25,000	14.00-15.50	14.00-15.50

ii) Deposit Rates

Domestic

With a view to providing a remunerative rate of return on short-term surplus funds, the term deposit rate for 91 days and above but less than six months was raised effective April 4, 1988, from 6.5 per cent to 8 per cent. As a result of this change, the deposit rate for 91 days and above but less than one year became 8 per cent (Table VII-2).

Interest Rates on NRE Deposits

Rate of interest on deposits under the Non-Resident (External) Account Scheme was raised from 8 per cent to 8.5 per cent per annum with effect from October 12, 1987 for deposits with maturities of 6 months and above but less than one year (Table VII-3).

Interest Rates on FCNR Deposits

Against the backdrop of changes in the interest rates in overseas markets on US dollar deposits, rates were revised on several occasions during 1987-88 in respect of deposits under Foreign Currency (Non-resident) Accounts, as set out in Table VII-3.

Discount and Finance House of India Ltd.

Pursuant to the recommendations of the Working Group on Money Market (Chairman: Shri N. Vaghul), the Discount and Finance House of India (DFHI) set up jointly by the Reserve Bank of India, public sector banks and financial institutions, commenced operations from April 25, 1988. DFHI deals in short-term money market instruments with the primary objective of imparting improved liquidity to such instruments. DFHI has been incorporated under the Companies Act, 1956 with an authorised and paid up capital of Rs. 100 crores, of which a sum of Rs. 51 crores was to be contributed by the Reserve Bank of India, Rs. 33 crores by the public sector banks and Rs. 16 crores by financial institutions.

Initially, DFHI would focus its attention mainly on two money market instruments, viz. 182 days Treasury Bills and rediscounting of short-term commercial bills. DFHI's operations in 182

days Treasury Bills are intended to impart greater flexibility to banks in the management of funds. As regards short-term commercial bills the objective of DFHI is to provide liquidity to commercial bills which have already been discounted/rediscounted by banks and financial institutions by further rediscounting these bills.

It is intended to provide a line of credit of Rs. 200 crores at 12 per cent per annum to DFHI from public sector banks. In an effort to provide sufficient liquidity to DFHI to enable it to perform its functions effectively, the Reserve Bank of India would provide it back-up refinance lines. By varying the quantum and the rate of interest on refinance to DFHI, the Reserve Bank would transmit signals to the short-term money market.

DFHI has been permitted to participate in the call money market (overnight call money and short notice money for periods upto and including 14 days) both as a lender and a borrower subject to the stipulation that it adheres to the Indian Banks Association's ceiling rate of interest of 10 per cent per annum. It will participate in the market alongwith all scheduled commercial banks, co-operative banks, LIC and UTI. DFHI has also been permitted to render service to banks in the money market by levying appropriate service charges.

Table VII–2: Scheduled Commercial Banks' Interest Rates on Deposits (excluding FCNR/NRE)

(Per cent per annum)

	Effective upto April 3, 1988	Effective April 4, 1988
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	8.0
(d) 6 months and above but less than 1 year	8.0	8.0
(e) 1 year and above but less than 2 years	9.0	9.0
(f) 2 years and above	10.0	10.0

BANKING TRENDS

Data relating to variables on banking on a point-to-point basis (relating to scheduled commercial banks) for the financial year 1987-88, reveal a lower order of rise in aggregate deposits, bank credit and in banks' investments portfolio.

An analysis of the data on an average basis, however, indicates that while aggregate deposits and bank credit recorded larger increases in absolute terms as compared to previous year, their growth rate was lower than last year. Investments in government and other approved securities, however, showed a larger rise not only in absolute terms but also in the growth rate than in the preceding year.

Table VII–3: Interest Rates on Non-resident Deposits

(Per cent per annum)

Maturity	FCNR Rates effective from					NRE Rates effective from	
	May 25, 1987	October 12, 1987	November 30, 1987	February 8, 1988	May 23, 1988@	May 27, 1985	October 12, 1987
1. 15 days to 45 days	3.00	3.00	3.00	3.00	3.00	3.00	3.00
2. 46 days to 90 days	4.00	4.00	4.00	4.00	4.00	4.00	4.00
3. 91 days to less than 6 months	6.50	6.50	6.50	6.50	6.50	6.50	6.50
4. 6 months to less than 1 year	8.00	8.50	8.00	7.50	8.25	8.00	8.50
5. 1 year and above but below 2 years	9.50	10.00	9.50	8.50	9.00	10.50	10.50
6. 2 years and above but below 3 years	10.00	10.50	9.75	9.25	9.25	11.00	11.00
7. 3 years and above but below 5 years	10.50*	11.00*	10.00*	9.50*	9.50	12.00	12.00
8. 5 years and above						13.00	13.00

* For 3 years only.

@ Effective July 13, 1988 these rates were further revised upwards by 0.25 percentage point for each of the above category.

Banking Trends (on a point-to-point basis)

Deposit Growth

Accretion to aggregate deposits at Rs. 15,321 crores (14.9 per cent) during the financial year 1987-88 was lower in both absolute and percentage terms than that of Rs. 17,320 crores (20.3 per cent) in 1986-87. The lower growth rate of real national income during the current financial year might have dampened the growth rate of aggregate deposits (Table VII-6).

Quarter-wise, the increase in deposits at Rs. 5,174 crores (5.0 per cent) during the first quarter (April-June) and that of Rs. 8,309 crores (7.5 per cent) in the third quarter (October-December) was lower both in absolute and percentage terms than that of the corresponding quarter of the previous year. In the second quarter, deposit growth was larger both in absolute and percentage terms at Rs. 2,401 crores (2.2 per cent) than that of Rs 1,770 crores (1.9 per cent) during the corresponding quarter a year ago. Deposits, however, declined in the last quarter of the financial year by Rs. 563 crores (−0.5 per cent) in contrast to an increase of Rs. 323 crores (0.3 per cent) during 1986-87 (Table VII-4).

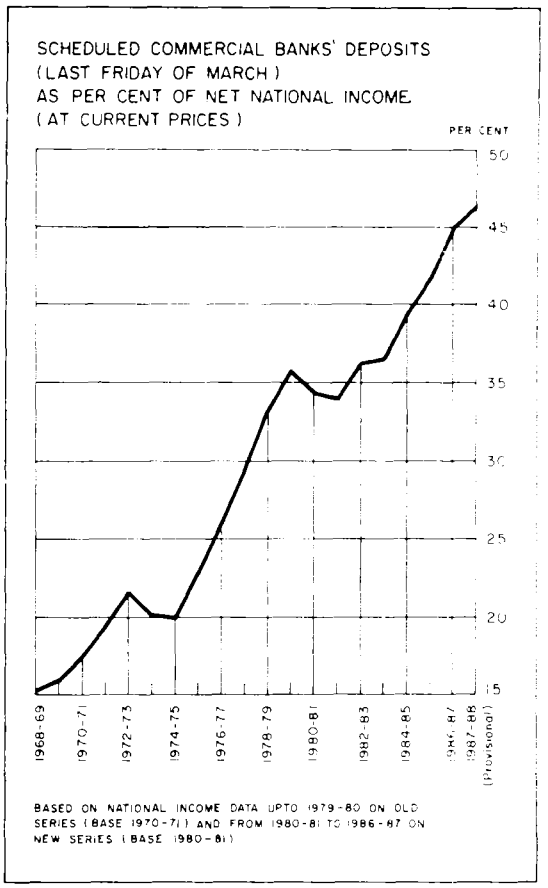


Table VII—4: Quarterly Variations in Deposits

(Rupees crores)

Quarter	Demand Deposits		Time Deposits		Total Deposits	
	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88
April-June	+1,381	+ 55	+5,043	+5,119	+6,424	+5,174
					(+ 7.5)	(+ 5.0)
July-September	+ 121	− 343	+1,649	+2,744	+1,770	+2,401
					(+ 1.9)	(+ 2.2)
October-December	+2,721	+2,337	+6,082	+5,972	+8,803	+8,309
					(+ 9.4)	(+ 7.5)
January-March	− 607	−1,030	+ 930	+ 467	+ 323	− 563
					(+ 0.3)	(− 0.5)
Total	**+3,616**	**+1,019**	**+13,704**	**+14,302**	**+17,320**	**+15,321**
					(+20.3)	**(+14.9)**
	1987-88	1988-89	1987-88	1988-89	1987-88	1988-89
April-June	+ 55	+1,082	+5,119	+6,107	+5,174	+7,189
					(+ 5.0)	(+ 6.1)

Notes: 1. Figures in brackets indicate percentage growth rates.
2. Data for the quarter April-June 1988 are partially revised.

Component-wise demand deposits recorded a substantially lower increase of Rs. 1,019 crores (5.3 per cent) which was almost one-third of the increase of Rs. 3,616 crores (23.2 per cent) in 1986-87. This could be attributed to a large increase in buy-back arrangements in government and other approved securities entered into by banks with non-banking clients. Though time deposits recorded a larger increase in absolute terms at Rs. 14,302 crores in 1987-88 as compared with Rs. 13,704 crores in 1986-87, the growth rate was lower by 2.5 percentage points. The deceleration in growth of time deposits may be attributed to a slow-down of real growth of the economy as well as competition from alternate sources of saving instruments.

The break-up of aggregate deposits for the last six years reveals that the share of demand deposits in total deposits which has been stabilised at a lower level of around 18-19 per cent during the last four years has declined further to 17.2 per cent during 1987-88 as indicated below:

Share of Demand and Time Deposits to Total Deposits
(As on the last Friday of March)

(In percentage)

	1981-82	1982-83*	1983-84	1984-85	1985-86	1986-87	1987-88
Demand	19.2	19.4	18.7	19.6	18.3	18.7	17.2
Time	80.8	80.6	81.3	80.4	81.7	81.3	82.8

* Based on March 31, 1983 figures.

The percentage growth in demand, time and total deposits was lower during 1987-88 compared with that of previous year. Growth in demand deposits on a point-to-point basis continued to follow a sea-saw pattern during the past few years with alternative high and low growth rate.

Percentage Growth in Demand, Time and Total Deposits

	1981-82	1982-83*	1983-84	1984-85	1985-86	1986-87	1987-88
Total Deposits	+15.1	+17.4	+18.0	+19.2	+18.2	+28.2	+14.3
Demand Deposits	+7.5	+19.1	−13.3	+24.9	+10.5	+23.2	+5.3
Time Deposits	+17.1	+17.0	+19.1	+17.9	+20.1	+19.6	+17.1

* Based on March 31, 1983 figures.

Component-wise, analysis of aggregate deposits of all commercial banks for the period end-March 1977 to end-March 1988 on the basis of Form X returns is presented in Table VII-5. It may be observed therefrom that the share of term deposits in total deposits which has been steadily increasing over the years declined from 62.1 per cent by end-March 1987 to 58.6 per cent by end-March 1988. Current deposits also exhibited a similar trend. The share of savings deposits, however, improved to 26.7 per cent by March 1988.

Expansion in Bank Credit

The expansion of Rs. 7,228 crores (11.4 per cent) in bank credit during the year was marginally lower in both absolute and percentage terms as compared to that of Rs. 7,241 crores (12.9 per cent) in 1986-87 (Table VII-6). Food credit

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)	(61.4)	
1987	17,471	22,370	65,194	1,05,035
	(16.6)	(21.3)	(62.1)	
1988	17,551	31,987	70,170	1,19,708
	(14.7)	(26.7)	(58.6)	

Source: Returns in Form X received under Section 27 of the Banking Regulation Act, 1949.

recorded a sizeable fall of Rs. 2,914 crores as compared with that of Rs. 431 crores in the previous year, on account of steep decline in foodgrains stocks held in public sector. Non-food credit on the other hand, registered a larger rise of Rs. 10,142 crores (17.4 per cent) as compared with Rs. 7,672 crores (15.2 per cent) during the preceding year.

An analysis of seasonal variations in bank credit reveals that both during the slack season of 1987 and busy season of 1987-88 there was an increase in non-food credit in contrast to a decline in food credit (Table VII-6). The increase in non-food credit by Rs. 3,949 crores (6.8 per cent) during the slack season of 1987 was higher than that of Rs. 2,939 crores (5.9 per cent) in the slack season of 1986. The increase of Rs. 6,469 crores (10.4 per cent) during the 1987-88 busy season was also larger than that of Rs. 5,379 crores (10.1 per cent) in the previous busy season.

The credit-deposit ratio at 59.8 per cent on March 25, 1988 was lower by 1.8 percentage points as compared with that a year ago. The incremental non-food credit-deposit ratio at end-March 1988 at 65.9 per cent was higher than that of 44.3 per cent a year ago.

Trends in Investments

Investments of scheduled commercial banks in Government and other approved securities at Rs. 7,922 crores or 20.5 per cent during the current year was lower than that of Rs. 8,029 crores or 26.3 per cent in the previous year. The investment-deposit ratio at 39.4 per cent however, was larger by 1.8 percentage points than that a year ago.

Variations in other Assets and Liabilities

Scheduled commercial banks' cash in hand and

Table VII–6: Variations in Scheduled Commercial Banks' Data (Seasonal and Annual)

(Rupees crores)

Items	Seasonal Variations				Annual Variations (April-March)		Quarterly Variations	
	Slack Season 1986	Busy Season 1986-87	Slack Season 1987	Busy Season 1987-88	1986-87	1987-88	April-June 1987	April-June 1988@
	1	2	3	4	5	6	7	8
Aggregate Deposits	+8,041	+8,388	+8,506	+8,703	+17,320 (+20.3)	+15,321 (+14.9)	+5,174 (+ 5.0)	+7,189 (+ 6.1)
(a) Demand deposits	+ 919	+2,162	+ 191	+1,676	+3,616 (+23.2)	+1,019 (+ 5.3)	+ 55 (+ 0.3)	+1,082 (+ 5.3)
(b) Time deposits	+7,122	+6,226	+8,315	+7,027	+13,704 (+19.6)	+14,302 (+17.1)	+5,119 (+ 6.1)	+6,107 (+ 6.2)
Borrowings from the Reserve Bank	+ 132	– 245	+1,855	– 592	+ 339 (+35.5)	+ 460 (+35.6)	– 157 (–12.1)	– 922 (–52.6)
Cash in hand and balances with the Reserve Bank	+4,873	+1,429	+2,390	+1,818	+3,375	+3,407	+2,558	+1,636
Money at call and short notice	+1,673	– 880	– 635	+1,789	– 231	– 473	+ 158	+ 813
Investments in Government & other approved securities	+ 904	+4,092	+5,232	+2,823	+8,029 (+26.3)	+7,922 (+20.5)	+1,900 (+ 4.9)	+2,720 (+ 5.8)
(a) Government securities	– 251	+3,025	+3,764	+1,973	+5,803 (+30.5)	+5,670 (+22.8)	+1,326 (+ 5.3)	+2,057 (+ 6.7)
(b) Other approved securities	+1,155	+1,067	+1,468	+ 850	+2,226 (+19.3)	+2,252 (+16.4)	+ 574 (+ 4.2)	+ 663 (+ 4.1)
Bank Credit	+2,564	+4,122	+3,158	+4,874	+7,241 (+12.9)	+7,228 (+11.4)	+ 905 (+ 1.4)	+1,690 (+ 2.4)
(a) Food procurement advances	– 375	–1,257	– 791	–1,595	– 431 (– 7.8)	–2,914 (–57.1)	– 69 (– 1.4)	– 143 (– 6.4)
(b) Other advances	+2,939	+5,379	+3,949	+6,469	+7,672 (+15.2)	+10,142 (+17.4)	+ 974 (+ 1.7)	+1,833 (+ 2.7)

@ 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 over the previous corresponding period.

Source: Returns submitted by banks under Section 42(2) of the R.B.I. Act, 1934.

balances with the Reserve Bank recorded a marginal rise of Rs. 3,407 crores during the year as compared with that of Rs. 3,375 crores in 1986-87. The cash-deposit ratio at the end of March 1988 was 16.1 per cent as compared with 15.1 per cent a year ago. Banks' recourse to borrowings from the Reserve Bank was higher by Rs. 460 crores as compared to that of Rs. 339 crores in the preceding year.

Trends During the Quarter April-June 1988

During the first quarter of the financial year 1988-89 (March 25, 1988 to June 24, 1988), aggregate deposits recorded a larger increase of Rs. 7,189 crores (6.1 per cent) as compared with that of Rs. 5,174 crores (5.0 per cent) in the comparable period of the preceding year. This may be attributed mainly to a pick-up in demand

deposits which showed an increase of Rs. 1,082 crores (5.3 per cent) as compared with Rs. 55 crores (0.3 per cent) in the corresponding period of the previous year. Growth in time deposits at Rs. 6,107 crores (6.2 per cent) was larger than that of Rs. 5,119 crores (6.1 per cent) in the corresponding period of the preceding year. Bank credit also recorded a marked expansion of Rs. 1,690 crores (2.4 per cent) as compared to a rise of Rs. 905 crores (1.4 per cent) in the same period of the previous year. This acceleration in growth of bank credit during the quarter under review was accounted mainly by higher increase in non-food advances to the tune of Rs. 1,833 crores (2.7 per cent) as against Rs. 974 crores (1.7 per cent) during the corresponding quarter of the previous year. Banks' investments showed a sizeable rise of Rs. 2,720 crores (5.8 per cent) as compared with Rs. 1,900 crores (4.9 per cent) in the corresponding period of the previous year.

Banking Trends (based on averages)

Data on banking variables on the basis of average 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 point-to-point basis. During the current year, aggregate deposits recorded an increase of Rs. 16,193 crores which was larger in absolute terms than that of Rs. 15,264 crores in the year 1986-87. In percentage terms, however, the increase at 17.0 per cent in 1987-88 was lower by 2.1 percentage points than that in the previous year. 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

Table VII–7: Variations in Scheduled Commercial Banks' Data
(Average of last Friday of months)

(Rupees crores)

Items	Outstanding			Variations	
	1985-86	1986-87	1987-88	1986-87	1987-88
Aggregate Deposits	79,862	95,126	1,11,319	+15,264	+16,193
				(+19.1)	(+17.0)
(a) Demand deposits	14,567	17,228	19,167	+2,661	+19,39
				(+18.3)	(+11.3)
(b) Time deposits	65,295	77,898	92,152	+12,603	+14,254
				(+19.3)	(+18.3)
Borrowings from the Reserve Bank	1,018	621	1,365	− 397	+ 744
				(−39.0)	(+119.8)
Cash in hand and balances with the Reserve Bank	10,946	14,028	18,194	+3,082	+4,166
				(+28.2)	(+29.7)
Money at call & short notice	1,291	1,906	1,927	+ 615	+ 21
				(+47.6)	(+ 1.1)
Investments	30,091	35,991	43,615	+5,900	+7,624
				(+19.6)	(+21.2)
(a) Government securities	19,703	23,287	28,590	+3,584	+5,303
				(+18.2)	(+22.8)
(b) Other approved securities	10,388	12,704	15,025	+2,316	+2,321
				(+22.3)	(+18.3)
Bank Credit	51,860	58,883	66,131	+7,023	+7,248
				(+13.5)	(+12.3)
(a) Food procurement advances	6,072	5,773	3,711	− 299	−2,062
				(− 4.9)	(−35.7)
(b) Other advances	45,788	53,110	62,420	+7,322	+9,310
				(+16.0)	(+17.5)

Notes: 1) Data relate to the average of 12 months period that is last Friday of April to last Friday of March.
2) Figures in brackets indicate percentage change over the previous year.

market prices which recorded a steady increase from 25.7 per cent in 1980-81 to 30.7 per cent in 1985-86, improved further to 32.6 per cent in 1986-87 and 34.1 per cent in 1987-88. Both demand and time deposits contributed to the increase; however, the growth rate in demand deposits was lower than that in the previous year. Time deposits recorded large increase in absolute terms; however the growth rate at 18.3 per cent was lower by 1.0 percentage point.

Table VII-8: Percentage of Aggregate Deposits to 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	1,36,157	25.7
1981-82	41,795	1,59,460	26.2
1982-83	48,233	1,76,954	27.3
1983-84	56,923	2,06,328	27.6
1984-85	67,062	2,28,118	29.4
1985-86	79,862	2,60,304	30.7
1986-87	95,126	2,91,358	32.6
1987-88*	1,11,319	3,26,812	34.1

* Estimated.

£ Average of 12 months period i.e. last Friday of April to last Friday of March (fortnightly data).

Note : The data since 1980-81 to 1986-87 are based on new series (1980-81 base) brought out by CSO, from the financial year 1986-87.

Bank credit registered an increase of Rs. 7,248 crores which was larger in absolute terms over that of Rs. 7,023 crores in 1986-87. The growth rate at 12.3 per cent, was however, lower by 1.2 percentage points than that of the previous year. Food credit, however, continued to decline even further to the tune of Rs. 2,062 crores compared to a decline of Rs. 299 crores in the previous year. The increase of Rs. 9,310 crores (17.5 per cent) in non-food credit was larger in both absolute and percentage terms than that of Rs. 7,322 crores (16.0 per cent) in 1986-87. Banks' investments in Government and other approved securities moved up significantly by Rs. 7,624 crores (21.2 per cent) during 1987-88 as against Rs. 5,900 crores (19.6 per cent) in the preceding year. Banks' cash in hand and balances with the Reserve Bank at Rs. 4,166 crores (29.7 per cent) was higher in both absolute and percentage terms compared to Rs. 3,082 crores (28.2 per cent) in the previous year. Banks' borrowings, however, increased by Rs. 744 crores in contrast to a decline of Rs. 397 crores during the preceding year.

Call Money Market

As in the previous year, stringent conditions 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 of both Calcutta and Bombay money markets, though the Bombay market enjoyed occasional spells of easiness between April 1987 and December 1987. The Calcutta market, however, witnessed a distinctly firm trend throughout the year.

SELECTIVE CREDIT CONTROL

Selective credit controls have, in the past two years, been made more responsive to emerging commodity balances and trends in prices. Thus, with the prospects of a deterioration in the supply position of essential commodities following the failure of monsoon, bank advances against paddy and rice, wheat, cotton and kapas and cottonseed and cottonseed oil were brought back under the purview of selective credit controls, minimum margins on bank advances against paddy/rice, wheat, other foodgrains, pulses, oilseeds and vegetable oils were raised and the level of credit ceilings on bank advances against sensitive commodities, wherever applicable, were reduced. The modifications introduced in selective credit control are detailed below:

Measures Introduced in July 1987

Oilseeds and Vegetable Oils

Advances against cottonseed and cottonseed oil which were outside the purview of selective credit controls since April 1986 were brought back under the purview of the controls effective July 15, 1987. With effect from the same date, minimum margins on oilseeds and vegetable oils including vanaspati were raised across the board by 15 percentage points. With these changes, minimum margins on oilseeds (including cottonseed) were fixed at 45 per cent in the case of mills/processing units, 60 per cent for "others" and 45 per cent against warehouse receipts; in the case of vegetable oils (including cottonseed oil and vanaspati), minimum margins were fixed at 45 per cent for mills/processing units, 75 per cent for "others" and 60 per cent against warehouse receipts. The level of credit ceiling on advances against cottonseed and cottonseed oil was fixed, as in the case of other oilseeds and vegetable oils, at 100 per cent of the peak level of credit maintained by a party in any of the three years ended 1984-85 (November-October). All other stipulations/exemptions regarding bank advances against cottonseed and cottonseed oil which were in force prior to April 1986 were also brought back into force.

Measures Introduced in August 1987

(i) Paddy and Rice

Advances against paddy and rice, which were exempted from the provisions of selective credit controls since April 1986, were brought back under the purview of the controls with effect from August 17, 1987. The minimum margins were fixed at 30 per cent in the case of mills/processing units, 45 per cent in the case of 'others' and 30 per cent against warehouse receipts. The level of credit ceiling on such advances was prescribed at 100 per cent of the peak level of credit maintained by a party in any of the three years ended 1984-85 (November-October). All other stipulations/exemptions regarding the bank advances against stocks of paddy/rice which were in force prior to the removal of such controls in April 1986 were brought back into force.

(ii) Cotton and Kapas

Advances against cotton and *kapas* which were completely exempt from the provisions of selective credit controls since April 1986 were brought back under the purview of such controls with effect from August 17, 1987. While mills continued to be exempted from selective credit control measures, minimum margins on bank advances against stocks of cotton and kapas were fixed at 45 per cent for "others" (i.e. parties other than cotton and spinning mills) and 30 per cent against warehouse receipts. The level of credit ceilings on bank advances against the stocks of all varieties of cotton and *kapas* were stipulated at 100 per cent of the peak level of credit maintained by a party in any of the three years ended 1984-85 (November-October). All other stipulations/exemptions regarding bank advances against stocks of cotton and *kapas* which were in force prior to the removal of such controls in April 1986 were also brought back into force.

(iii) Oilseeds and Vegetable Oils

The level of credit ceiling in respect of bank advances against the stock of oilseeds and vegetable oils (including vanaspati) was reduced with effect from August 17, 1987 from 100 per cent to 85 per cent of the peak level of credit maintained by the party in any of the three years ended 1984-85 (November-October).

Measures Introduced in October 1987

Paddy/Rice, Pulses and 'Other Foodgrains'

With effect from October 19, 1987, the minimum margins on bank advances against the stocks of paddy/rice, pulses and 'other foodgrains' (excluding wheat) were raised across the board by 15 percentage points. With these changes, the minimum margins became 45 per cent for mills/processing units and against warehousing receipts and 60 per cent for "others". Advances to wholesale and retail outlets under the fair price distribution system continued to be exempted from the selective credit control stipulations.

Measures Introduced in December 1987

Advances against Sensitive Commodities to New Units.

With a view to enabling the new processing units (established after the base period indicated in the directive on selective credit control) to obtain bank finance for their production efforts, scheduled commercial banks were advised on December 3, 1987 that they may, pending sanction of regular need-based credit limits, allow *ad hoc* credit limits to such units to the minimum extent required for their operations but not exceeding 50 per cent of the regular limits proposed and simultaneously apply to the Reserve Bank of India for its clearance. The *ad hoc* limits so released were subject to compliance of all the provisions of selective credit controls.

Measures Introduced in April 1988

(i) Level of Credit Ceilings

For commodities subject to stipulations on the level of credit ceilings, the relevant base period was brought forward effective April 4, 1988, to three years ended 1985-86 (November-October). Simultaneously, the level of credit ceiling on bank advances against the stocks of paddy/rice, pulses, 'other foodgrains' and cotton and *kapas* was reduced from 100 per cent to 85 per cent of the peak level of credit maintained by the party in any of the three years ended 1985-86 (November-October).

(ii) Wheat

Bank advances against wheat which were exempt from the provisions of selective credit controls from April 1985 in the case of roller flour mills and from October 1985 in the case of all other advances, were brought back within the purview of such controls effective April 11, 1988. Minimum margins on such advances were stipulated at 30 per cent in the case of mills/processing units, 45 per cent in the case of 'others' and 30 per cent against warehouse receipts. The level of credit ceiling was fixed at 85 per cent of the peak level of credit during the base period; roller flour mills remained exempted from this stipulation. All other stipulations/exemptions which were in force prior to the removal of selective credit controls on advances against wheat to roller flour mills in April 1985 and on all other advances against wheat in October 1985 were brought back into force.

With this, effective April 11, 1988 the level of credit ceilings in respect of all commodities subject to such ceiling came to be fixed at 85 per cent of the peak level of credit maintained by a party in any of the three years ended 1985-86 (November-October).

Selective Credit Control in Sikkim

Consequent to the extension of the provisions of Banking Regulation Act, 1949 to the State of Sikkim, the Reserve Bank of India has, effective May 27, 1988, exempted advances granted by scheduled commercial banks in Sikkim against stocks of sensitive commodities from provisions of selective credit control relating to minimum margins, level of credit and rate of interest.

Measures Introduced in June 1988

Minimum margins on bank advances against wheat were raised across the board by 15 percentage points effective June 9, 1988. The new margins on advances against wheat are 45 per cent for mills/processing units (including roller flour mills), 60 per cent for 'others' and 45 per cent against warehouse receipts covering stocks of wheat.

The structure of minimum margins as on June 9, 1988 on advances against the commodities covered by selective credit controls is given in Table VII-9. The provisions of the directives on selective credit control in force as on June 9, 1988 are indicated in the Annexure.

Advances to Sugar Industry for 1987-88 Crushing Season

For 1987-88 season (October-September) scheduled commercial banks were advised on October 19, 1987 to sanction need-based credit limits upto 100 per cent of the maximum amount availed during the previous season (excluding temporary excess drawings) without obtaining Reserve Bank's prior authorisation. These limits were enhanced to 115 per cent on December 31, 1987. The actual drawings on the borrowal accounts were to be regulated on the basis of the

Table VII–9: Minimum Margins on Bank Advances against Stocks of Commodities Covered by Selective Credit Control Effective June 9, 1988

(Percentages)

Commodities	Against Stocks		Against Warehouse Receipts
	Mills/Processing Units	Others	
1. Paddy/Rice	45	60	45
2. Wheat	45	60	45
3. Pulses	45	60	45
4. Other foodgrains	45	60	45
5. Oilseeds (groundnut, rapeseed/mustard, linseed, cottonseed, castorseed and all imported oilseeds)	45	60	45
6. Vegetable Oils (groundnut oil, rapeseed/mustard oil, linseed oil, castor oil, cottonseed oil, vanaspati and all imported oils)	45@	75	60
7. Cotton and *kapas*	x	45	30
8. Sugar			
a) Buffer	0	—	—
b) Unreleased stocks	17.5	—	—
c) Released	60	60	45
9. Gur and Khandasari	30	60	45

@ Applicable to registered oil mills and vanaspati manufacturers.
x Exempt from the stipulations of selective credit controls.
— Not applicable.

deficit as disclosed in the monthly cash budget of mills. While suitable sub-limits could be fixed within the overall drawing limit and allowed as cash credit against stocks of sugar pledged/hypothecated, stores and consumable spares, bills purchased and discounted, etc, 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 prior authorisation.

Advances against Certain Sensitive Commodities*

The outstanding advances of scheduled commercial banks against certain sensitive commodities amounted to Rs. 1636 crores at the end of March 1988 showing an increase of Rs. 312 crores during 1987-88 as compared to that of Rs. 84 crores during 1986-87 (Table VII-10). At this level, such advances formed 2.3 per cent of total scheduled commercial banks' credit as compared to 2.1 per cent a year ago. The increase in advances was shared by all commodities except raw jute, linseed and linseed oil.

Of the outstanding amount as at the end of March 1988, sugar (including khandsari and gur) accounted for 35 per cent, cotton and *kapas* for 28 per cent and foodgrains (excluding food procurement advances) for 25 per cent.

The major borrowers against the security of selected commodities were mills/factories and industrial users; these two categories accounted for 88 per cent of the total advances at the end of March 1988 as compared with 87 per cent at the end of March 1987 (Table VII-11). Commodity-wise, these two categories of borrowers accounted for the entire advances against linseed oil, 98 per cent against sugar and raw jute, 97 per cent against vanaspati, 96 per cent against castor oil and 92 per cent against rapeseed/mustard oil.

* The commodities covered are indicated in Table VII-10.

Table VII—10: Scheduled Commercial Banks' Outstanding Advances against Selected Commodities

(Rupees crores)

Commodities	AS ON THE LAST FRIDAY OF					
	March 1986		March 1987		March 1988*	
	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total
	1	2	3	4	5	6
1. Foodgrains (excluding food procurement advances)	**265.2**	**21.4**	**295.6**	**22.3**	**408.4**	**25.0**
a) Paddy and Rice	165.9	13.4	189.9	14.3	284.4	17.4
b) Wheat	39.6	3.2	41.1	3.1	50.3	3.1
c) Pulses	..	..	..	..	32.1	2.0
d) Other foodgrains	59.7	4.8	64.6	4.9	41.6	2.5
2. Sugar (including *Khandsari* and *Gur*)	**436.6**	**35.2**	**465.0**	**35.1**	**574.1**	**35.1**
a) Sugar	434.0	35.0	462.9	34.9	555.4	33.9
b) Khandsari	..	..	..		16.5	1.0
c) Gur	2.6	0.2	2.1	0.2	2.2	0.1
3. Major Oilseeds	**19.7**	**1.6**	**18.2**	**1.4**	**26.0**	**1.6**
a) Groundnut	6.9	0.6	7.6	0.6	13.1	0.8
b) Rapeseed/Mustard	10.6	0.9	9.0	0.7	10.1	0.6
c) Linseed	0.9	0.1	1.0	0.1	0.6	–
d) Castorseed	1.3	0.1	0.6	—	2.2	0.1
4. Major Vegetable Oils and Vanaspati	**72.9**	**5.9**	**82.6**	**6.2**	**107.6**	**6.6**
a) Groundnut Oil	10.6	0.9	12.7	1.0	16.4	1.0
b) Rapeseed/Mustard Oil	13.1	1.1	12.8	1.0	19.9	1.2
c) Castor Oil	5.1	0.4	5.9	0.4	9.2	0.6
d) Linseed Oil	1.1	0.1	1.3	0.1	0.9	0.1
e) Vanaspati	43.0	3.5	49.9	3.8	61.2	3.7
5. Cotton and Kapas	**379.3**	**30.6**	**397.5**	**30.0**	**460.7**	**28.1**
6. Raw Jute	**67.0**	**5.4**	**65.8**	**5.0**	**59.4**	**3.6**
7. Total	**1240.7**	**100.0**	**1324.7**	**100.0**	**1636.2**	**100.0**

* Data are provisional.

— Nil or negligible.

.. Not available.

Notes: 1. Prior to April 1987, the data for other foodgrains are inclusive of pulses and those of sugar inclusive of khandsari.

2. The data on advances against cotton and *kapas* and raw jute are exclusive of advances to Cotton Corporation of India and Jute Corporation of India, respectively.

Source: Estimates are based on returns received from head offices of banks.

Table VII–11: Security-wise advances to mills/factories and industrial users

(As percentage to total credit against sensitive commodities)

Sr. No.	Commodities	LAST FRIDAY OF March 1988	March 1987
1.	Linseed oil	100.0	92.3
2.	Sugar	98.2	98.7
3.	Raw Jute	97.6	94.8
4.	Vanaspati	97.4	95.2
5.	Castor Oil	95.7	98.3
6.	Rapeseed/Mustard Oil	92.0	93.0
7.	Groundnut Oil	89.6	79.5
8.	Khandsari	87.3	..
9.	Wheat	87.1	89.1
10.	Castorseed	86.4	50.0
11.	Rapeseed/Mustard	84.2	62.2
12.	Linseed	83.3	80.0
13.	Paddy/Rice	82.7	87.7
14.	Cotton & Kapas	78.8	73.4
15.	Pulses	78.5	..
16.	Groundnut	67.9	73.7
17.	Other Foodgrains	65.9	74.0
18.	Gur	45.5	52.4
	All Selected Commodities	**87.8**	**87.0**

.. Not available.

Note: Prior to April 1987, the data for other foodgrains are inclusive of pulses and those of sugar inclusive of khandsari.

Source: Basic Statistical Return.

QUALITATIVE CHANGES IN BANK CREDIT DISTRIBUTION

Sectoral Deployment of Credit

Data relating to the direction and flow of credit in respect of 50 scheduled commercial banks which account for about 95 per cent of bank credit available upto March 1988 are presented in Table VII-12. Gross bank credit of these banks increased by Rs. 7,740 crores during the period April-March 1987-88 as compared with that of Rs. 7,341 crores in 1986-87 (April-March). Of the total outstanding gross bank credit amounting to Rs. 70,294 crores at end-March 1988, the share of priority sector advances continued to be the largest followed by the share of medium and large industries. The shares of these two sectors in gross bank credit increased from 40.1 per cent and 35.1 per cent, respectively, at end-March 1987 to 41.3 per cent and 36.3 per cent at end-March 1988. During the period, the share of other sectors in total gross bank credit was also higher at 14.1 per cent as compared with 11.7 per cent. The share of export credit too was higher at 5.6 per cent at end-March 1988 as against 5.0 per cent a year ago. The most striking feature of the sectoral deployment of credit was a decline of Rs. 2,914 crores in the public food procurement credit during April-March 1988 as compared with a smaller decline of Rs. 431 crores in the comparable period of the preceding year. As a resut, share of food credit in total gross bank credit witnessed a steep decline from 8.2 per cent at end-March 1987 to 3.1 per cent at end-March 1988.

The share of priority sector advances in net bank credit@ was 43.9 per cent at end-March 1988 as against 42.2 per cent a year ago and national target of 40 per cent. Of the total priority sector advances of Rs. 29,062 crores at end-March 1988 the share of agriculture was the largest at 41.3 per cent followed by small-scale industries (37.2 per cent) and other priority sectors (21.5 per cent).

Out of the total incremental non-food gross bank credit of 50 banks amounting to Rs. 10,616 crores during April-March 1987-88 the share of priority sector aggregated Rs. 3,996 crores or 37.6 per cent. Within the incremental priority sector advances, the share of agriculture declined marginally during April-March 1987-88 to 35.5 per cent as compared with 43.8 per cent a year ago. Incremental credit to small-scale industries at Rs. 1,710 crores or 42.8 per cent during April-March 1987-88 showed considerable increase than that in the corresponding period of the preceding year. Incremental credit to medium and large industries during April-March 1987-88 amounted to Rs. 3,506 crores; however, its share in non-food gross bank credit at 33.0 per cent was lower than that in the comparable period of the previous year. Credit to wholesale trade recorded an increase of Rs. 510 crores during April-March 1987-88 as compared with a marginal rise of

@ Net Bank credit equals gross bank credit minus bills rediscounted with RBI, IDBI, EXIM Bank and other approved financial institutions.

Table VII-12: Sectoral Deployment of Gross Bank Credit@
(As on the last Friday)

(Rupees crores)

Sectors	Outstanding			Variations over the year	
	March 1986	March 1987	March 1988	1986-87	1987-88
	1	2	3	4	5
I. Public Food Procurement Credit	**5,535**	**5,104**	**2,190**	**−431**	**−2,914**
	(10.0)	**(8.2)**	**(3.2)**		
II. A. Priority Sectors	**21,566**	**25,066**	**29,062**	**+3,500**	**+3,996**
	(39.0)	**(40.1)**	**(41.3)**		
i) Agriculture	9,058	10,590	12,010	+1,532	+1,420
	(16.4)	(16.9)	(17.1)		
ii) Small-scale industries	7,816	9,106	10,816	+1,290	+1,710
	(14.1)	(14.6)	(15.4)		
iii) Other priority sectors	4,692	5,370	6,236	+678	+866
	(8.5)	(8.6)	(8.9)		
B. Industry (medium & large)	**18,422**	**21,987**	**25,493**	**+3,565**	**+3,506**
	(33.4)	**(35.1)**	**(36.3)**		
C. Wholesale Trade (other than food procurement)	**3,066**	**3,077**	**3,587**	**+11**	**+510**
	(5.6)	**(4.9)**	**(5.1)**		
D. Other Sectors	**6,624**	**7,320**	**9,924**	**+696**	**+2,604**
	(12.0)	**(11.7)**	**(14.1)**		
III. Non-food Gross Bank Credit (A+B+C+D)	**49,678**	**57,450**	**68,104**	**+7,772**	**+10,654**
	(90.0)	**(91.8)**	**(96.8)**		
Export credit (included under item III)	2,409	3,146	3,909		
	(4.4)	(5.0)	(5.6)		
IV. Gross Bank Credit (I+II+III)	**55,213**	**62,554**	**70,294**	**+7,341**	**+7,740**
	(100.0)	**(100.0)**	**(100.0)**		

@ Provisional.

Notes: 1. Data relate to 50 scheduled commercial banks which account for about 95 per cent of bank credit. Further, these data include bills rediscounted with RBI, IDBI, EXIM Bank and other approved financial institutions and participation certificates.

2. Figures in brackets are percentages of gross bank credit.

Source: Credit Planning Cell, R.B.I.

Rs. 11 crores only in the comparable period of 1986-87. Incremental credit to other sectors comprising financial institutions like hire purchase agencies, leasing companies, etc., also showed an increase from Rs. 696 crores (9.0 per cent of incremental non-food credit) to Rs. 2,604 crores (24.5 per cent of incremental non-food credit).

Data on sectoral classification of scheduled commercial banks' advances from the Basic Statistical Returns are available upto June 1986. Sector-wise details of bank credit covering the period June 1983 to June 1986 with comparable data for March 1968 are presented in Table VII-13. A considerable shift in the direction of bank credit is discernible during the period between March 1968 and June 1986. During this period, total credit registered about seventeen fold increase with significant rise in advances to agriculture and allied activities and also to small-scale industries. During this period, while the share of agriculture and allied activities, small scale industries and wholesale trade in total bank credit increased from 2.2 per cent, 6.9 per cent and 17.7 per cent, respectively, to 17.4 per cent, 12.3 per cent and 16.5 per cent, that of large and medium industries declined significantly from 60.6 per cent to 30.4 per cent.

Table VII—13: Sectoral Classification of Scheduled Commercial Banks' Advances

(Rupees crores)

Sectors	Outstanding as on the last Friday of									
	March 31, 1968		June 1983		June 1984		June 1985		June 1986	
	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**	**16,635**	**47.5**	**18,343**	**42.3**	**20,659**	**41.3**	**23,970**	**42.7**
(a) Large & medium industries	1,857	60.6	12,778	36.5	12,931	29.8	14,030	28.0	17,052	30.4
(b) Small-scale industries	211	6.9	3,857	11.0	5,412	12.5	6,629	13.3	6,918	12.3
II. Agriculture and allied activities	**67**	**2.2**	**5,786**	**16.5**	**7,655**	**17.7**	**8,820**	**17.6**	**9,770**	**17.4**
Of which										
(a) Direct finance	—	—	4,260	12.2	6,144	14.3	7,339	14.7	8,312	14.8
(b) Plantations	58	1.9	411	1.2	455	1.1	457	0.9	550	1.0
III. Internal Trade	**588**	**19.2**	**6,574**	**18.8**	**9,400**	**21.7**	**11,687**	**23.4**	**11,942**	**21.3**
(a) Wholesale trade	541	17.7	5,380	15.4	7,652	17.7	9,560	19.1	9,267	16.5
Of which										
Food procurement	109	3.5	3,589	10.2	5,238	12.1	6,765	13.5	6,411	11.4
(b) Retail trade	47	1.5	1,194	3.4	1,748	4.0	2,127	4.3	2,675	4.8
IV. Services	**—**	**—**	**844**	**2.4**	**1,245**	**2.9**	**1,537**	**3.1**	**1,878**	**3.3**
V. Personal loans	**—**	**—**	**1,403**	**4.0**	**1,418**	**3.3**	**1,672**	**3.3**	**2,103**	**3.7**
VI. All others*	**341@**	**11.1**	**3,778**	**10.8**	**5,265**	**12.1**	**5,620**	**11.3**	**6,519**	**11.6**
VII. Total	**3,064**	**100.0**	**35,020**	**100.0**	**43,326**	**100.0**	**49,995**	**100.0**	**56,182**	**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 1986 are provisional.

Source: March 31, 1968 data are based on Survey of Advances of Scheduled Commercial Banks according to purpose. Data for 1983 to 1986 are based on BSR-1 surveys conducted by the Banking Statistics Division, DESACS, R.B.I.

Industry-wise Deployment of Credit

Details of industry-wise deployment of gross credit pertaining to the aforesaid 50 scheduled commercial banks are presented in Table VII-14. During the period April-March 1987-88 outstanding credit to industries—large, medium and small-scale at Rs. 36,309 crores recorded an increase of Rs. 5,216 crores which was higher than that of Rs. 4,855 crores in the comparable period of 1986-87. The flow of credit to industry which constituted 49.7 per cent of the outstanding gross bank credit at end-March 1987 improved to 51.6 per cent at end-March 1988; with the exception of SAFAUNS, flow of credit to all other industries increased during April-March 1987-88, although credit flow was lower than previous year for some industries like Cement,Construction, Iron and Steel, Tea, Jute textiles, Engineering etc. The industries which received the bulk of the incremental credit included, *inter alia*, engineering (Rs. 1,069 crores), chemicals, dyes, paints, drugs and pharmaceuticals (Rs. 560 crores), other textiles (Rs. 368 crores), cotton textiles (Rs. 335 crores), electricity (Rs. 247 crores) and iron and steel (Rs. 207 crores). As compared to the previous period only SAFAUNS continued to record a return flow of credit of the order of Rs. 51 crores during April-March 1987-88.

Data on the share of major industries in the total advances of scheduled commercial banks as on the last friday of June 1983 to 1986 with the

Table VII—14: **Industry-wise Deployment of Gross Bank Credit@**
(As on the last Friday)

(Rupees crores)

Industry	Outstanding			Variations over the year	
	March 1986	March 1987	March 1988	1986-87	1987-88
	1	2	3	4	5
Coal	89	160	248	+71	+88
	(0.2)	(0.2)	(0.4)		
Iron and steel	1,273	1,621	1,828	+348	+207
	(2.3)	(2.6)	(2.6)		
Other metals and metal products	931	1,039	1,261	+108	+222
	(1.7)	(1.7)	(1.8)		
All engineering	6,556	7,884	3,953	+1,328	+1,069
	(11.9)	(12.6)	(12.7)		
Electricity	468	532	779	+64	+247
	(0.8)	(0.8)	(1.1)		
Cotton textiles	2,141	2,440	2,775	+299	+335
	(3.9)	(3.9)	(4.0)		
Jute textiles	262	297	311	+35	+14
	(0.4)	(0.5)	(0.4)		
Other textiles	1,583	1,792	2,160	+209	+368
	(2.9)	(2.9)	(3.1)		
Sugar	531	550	633	+19	+83
	(1.0)	(0.9)	(0.9)		
Tea	305	387	407	+82	+20
	(0.5)	(0.6)	(0.6)		
Vegetable oils (including vanaspati)	323	381	443	+58	+62
	(0.6)	(0.6)	(0.6)		
Tobacco & tobacco products	180	228	243	+48	+15
	(0.3)	(0.3)	(0.4)		
Paper & paper products	650	794	862	+144	+68
	(1.2)	(1.3)	(1.2)		
Rubber & rubber products	449	514	562	+65	+48
	(0.8)	(0.8)	(0.8)		
Chemicals, dyes, paints, drugs and pharmaceuticals etc.	3,094	3,647	4,207	+553	+560
	(5.6)	(5.8)	(6.0)		
Of which: Fertiliser	685	859	903	+174	+44
	(1.2)	(1.4)	(1.3)		
Cement	346	467	515	+121	+48
	(0.6)	(0.7)	(0.7)		
Leather and leather products	362	418	550	+56	+132
	(0.6)	(0.7)	(0.8)		
Construction	271	377	443	+106	+66
	(0.5)	(0.6)	(0.6)		
Petroleum	373	119	163	−254	+44
	(0.7)	(0.2)	(0.2)		
SAFAUNS*	326	282	231	−44	−51
	(0.6)	(0.5)	(0.3)		
Residual	5,725	7,164	8,735	+1,439	+1,571
	(10.4)	(11.5)	(12.4)		
Total Credit to Industry	**26,238**	**31,093**	**36,309**	**+4,855**	**+5,216**
	(47, 5)	**(49.7)**	**(51.6)**		
Total Gross Bank Credit	**55,213**	**62,554**	**70,294**	**+7,341**	**+7,740**
	(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.

comparable data as at the end of March 1968 are presented in Table VII-15. The share of industry in total bank credit declined to 42.7 per cent on the last Friday of June 1986 from 47.5 per cent as on the last Friday of June 1983. Barring cement, drugs and pharmaceuticals, rice, flour and dal industries and other industries the percentage shares of all other industries declined over the period June 1983-86. Table VII-16 presents data on certain ratios relating to inventories and bank borrowings of public limited companies in the private corporate sector. It may be seen that inventory-sales ratio of large companies (each with a paid up capital of Rs. 1 crore and above) at 25.4 per cent in 1986-87 recorded a fractional decline over that of 25.5 per cent in 1985-86. However, the proportion of short-term bank borrowings to total inventories spurted to 45.7 per cent from 42.3 per cent in the previous year. The spurt in bank credit-inventory ratio may be attributed to a faster rise in bank credit in relation to inventories in 1986-87.

Table VII–15: Advances of Scheduled Commercial Banks to Major Industries

(Percentage to total bank credit)

Industry	March 31 1968	As on the last Friday of June 1983	1984	1985	1986
	1	2	3	4	5
Basic metals and metal products	..	7.2	5.2	4.6	4.5
Of which: Iron and steel	3.7	4.8	3.1	2.4	2.4
Beverage and tobacco	..	0.7	0.7	0.7	0.6
Cement	1.3	0.6	0.5	0.6	0.6
Chemicals and chemical products	6.0	5.5	4.8	4.8	5.2
Of which:					
Heavy industrial chemicals	..	0.8	0.7	0.8	0.8
Drugs and pharmaceuticals	..	1.0	1.0	0.9	1.1
Fertilizers	..	1.5	1.0	0.9	1.1
Coal	0.8	0.2	0.2	0.1	0.2
Edible oils and vanaspati	1.4	0.6	0.6	0.6	0.6
Engineering	15.7	8.9	7.8	7.3	8.0
Heavy engineering	8.9	4.1	3.3	2.9	3.4
Light engineering	6.8	2.2	2.0	2.1	1.9
Others	..	2.6	2.5	2.4	2.6
Leather and leather products	..	0.6	0.6	0.6	0.7
Manufacturing of basic minerals	..	1.2	0.5	0.5	0.4
Paper, paper products and printing	1.6	1.7	1.6	1.7	1.6
Rice, flour and dal mills	..	0.7	0.8	0.9	0.9
Rubber and rubber products	0.7	0.8	0.8	0.8	0.8
Sugar	5.3	1.7	1.1	0.7	0.7
Textiles	15.5	7.5	7.0	6.9	6.5
Of which:					
Cotton textiles	10.3	3.7	3.4	3.2	2.9
Jute textiles	3.1	0.5	0.4	0.4	0.4
Vehicles, vehicle parts and transport equipments	..	2.1	2.0	2.2	2.2
Other industries	..	7.5	8.1	8.4	9.2
Total Credit to Industry	**67.5**	**47.5**	**42.3**	**41.3**	**42.7**
Total Bank Credit	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

.. Not available.

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 1986 are provisional.

Source: March 31, 1968 data are based on Survey of Advances of Scheduled Commercial Banks according to purpose. Data for 1983 to 1986 are based on BSR-1 Surveys conducted by Banking Statistics Division, DESACS, RBI.

Table VII—16: Ratio of Inventories to Sales and Bank Borrowings to Inventories (Public Limited Companies in the Private Sector)

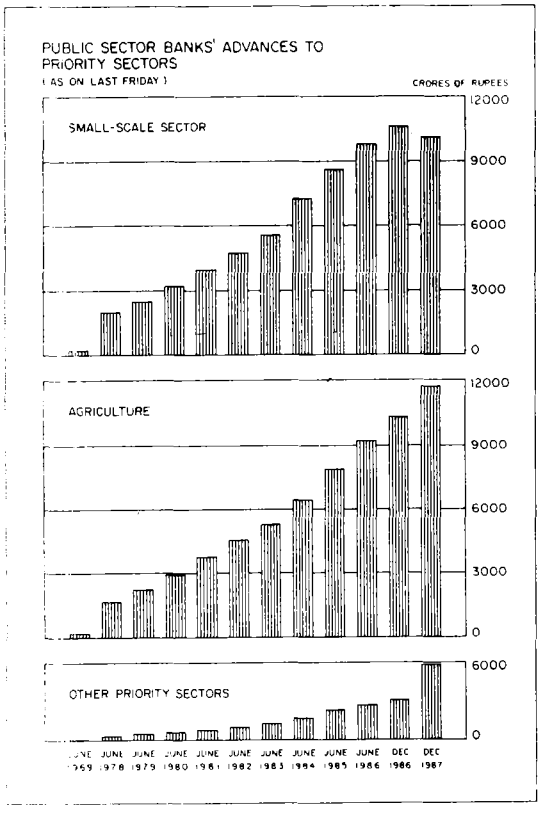
Year	Total Inventories as percentage of sales@	Raw materials and components as percentage of total inventories	Short-term bank borrowings as percentage of total inventories	Total bank borrowings as percentage of total inventories
1857 Public Limited Companies+				
1983-84	26.3	28.3	43.8	57.1
1984-85	24.7	28.5	45.5	58.6
1985-86	25.3	28.4	46.5	59.3
581 Large Public Limited Companies£				
1984-85	24.8	28.8	41.6	54.0
1985-86	25.5	28.9	42.3	54.1
1986-87	25.4	27.7	45.7	57.4

@ : Net of rebates, discounts, excise duty and cess.
\+ : 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.

Advances to Priority Sector

Public Sector Banks

The progress made by public sector banks in financing the priority sectors since nationalisation is indicated in Table VII-17.



The aggregate number of priority sector borrowal accounts of public sector banks moved up from 270 lakhs as at end-December 1986 to 298 lakhs by end-December 1987 and further to 304 lakhs by end-March 1988, priority sector advances of these banks increasing by Rs. 3,725 crores to Rs. 27,810 crores or by 15.5 per cent during the calendar year 1987. The share of priority sector advances in total bank credit increased from 44.1 per cent in December 1986 to 45.4 per cent by December 1987 and further to 45.8 per cent by end-March 1988 and was well above the prescribed target of 40 per cent which was to be achieved by March 1985. The achievement of public sector banks in lending to priority sectors in the post-nationalisation period is particularly noteworthy as such advances constituted only 14.6 per cent of total bank credit in June 1969.

During the calendar year 1987, agricultural advances of public sector banks at Rs. 11,712 crores increased by Rs. 1,405 crores (13.6 per cent) and accounted for 37.7 per cent of the incremental priority sector advances. These advances increased further to Rs. 11,857 crores by March 1988. Direct agricultural advances recorded an increase of 15.2 per cent over the previous year and formed 16.8 per cent of net bank credit at the end of December 1987. Public sector banks had thus not only surpassed the prescribed target of 16 per cent set for direct agricultural advances to be achieved by March 1987 but have almost reached the level of 17 per cent to be attained by March 1989.

Table VII–17: 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 1986	December 1987	March 1988	June 1969	December 1986	December 1987@	March 1988@
	1	2	3	4	5	6	7	8
I. Agriculture	165	17,513	18,807	18.816	162	10,307	11,712	11,857
(i) Direct finance	160	16,558	18,034	18,093	40	8,930	10,287	10,438
(ii) Indirect finance	5	955	773	723	122	1,377	1,425	1,419
II. Small-scale sector*	53	2,428	N.A.	N.A.	257	10,643	N.A.	N.A.
(i) Road & water transport operators	2	616	N.A.	N.A.	6	1,959	N.A.	N.A.
(ii) Small-scale industries	51	1,811	2,171	2,261	25'	8,607	10,166	10,548
(iii) Setting up of industrial estates	—	1	N.A.	N.A.	-	77	N.A.	N.A.
III. Other priority sectors	42	6,690	8,810	9,315	2.	3,010	5,931	6,063
(i) Retail trade & small business	33	4,786	N.A.	N.A.	19	2,122	N.A.	N.A.
(ii) Professional and self-employed persons	8	1,826	N.A.	N.A.	2	834	N.A.	N.A.
(iii) Education	1	69	N.A.	N.A.	1	36	N.A.	N.A.
(iv) Indirect finance to other priority sectors (Lending to SC/ST/ corporations/organisations)	—	9	N.A.	N.A.	—	18	N.A.	N.A.
IV. Housing loans to SC/ST and weaker sections+	—	195	N.A.	N.A.	—	106	N.A.	N.A.
V. Consumption loans+	—	149	N.A.	N.A.	—	19	N.A.	N.A.
Total priority sectors advances	**260**	**26,975**	**29,788**	**30,392**	**441**	**24,085**	**27,810**	**28,468**
VI. Exports	—	—	—	—	204	—	—	—
Total bank credit	—	—	—	—	**3,016**	**54,642**	**61.325**	**62,118**
Percentage of priority sector advances to total bank credit	—	—	—	—	14.6	44.1	45.4	45.8

* Relate to number of units.
@ Data provisional.
— Nil or negligible.
\+ Data available from December 1981 only.
N.A. Not available.
Source: Data for 1969 are from Banking Statistics, Government of India and for subsequent years from Rural Planning and Credit Department, Reserve Bank of India.

Advances to weaker sections within the priority sector at Rs. 7,310 crores at the end of March 1988 formed 11.8 per cent of total outstanding advances. The public sector banks together have thus surpassed the prescribed national target of 10 per cent for borrowers under this category by a comfortable margin.

Advances to SC/ST beneficiaries increased from Rs. 1,814 crores in 71.09 lakh borrowal accounts at end-December 1987 to Rs. 1,957 crores in 72.95 lakh accounts and its share in total priority sector advance worked out to 6.9 per cent as at the end of March 1988.

Within the priority sectors, advances for agriculture and allied activities formed the bulk (41.7 per cent) of total priority sector advances followed by advances to small-scale industries (37.1 per cent).

Private Sector Banks and Foreign Banks

Private sector commercial banks are expected to involve themselves in priority sector lending in the same way as the public sector banks. Accordingly, the same set of guidelines issued to public sector banks regarding lending to priority sectors and for special programmes have been

communicated to private sector banks with instructions to implement the policy guidelines and they were also asked to submit periodical statements indicating the progress made in this regard.

As regards foreign banks, although these guidelines have not been made applicable, they have been advised to show larger involvement in financing small-scale industrial units, professionals and self-employed persons, retail trade, etc.

The priority sector lending of 33 private sector commercial banks as at the end of June 1987 amounted to Rs. 1,113 crores and formed 38.5 per cent of their total advances. While their direct advances for agriculture formed 8.2 per cent of their total advances, their advances to weaker sections constituted 12.5 per cent of their total priority sector lending. The DRI advances constituted 0.4 per cent of their aggregate advances as against the prescribed norm of 1 per cent.

20-Point Programme

It might be recalled that the Government of India had revised the earlier 20-Point Programme in August 1986. Fifteen out of the twenty points have relevance to the banking system. The provisional data indicate that the 28 public sector banks had extended financial assistance under the revised 20-Point Programme to the tune of Rs. 8,855 crores under 190 lakh borrowal accounts as on the last Friday of March 1988 against Rs. 8,600 crores in 189 lakh borrowal accounts as at the end of December 1987 reflecting a rise of 3.0 per cent. The advances under the 20-Point Programme of Rs. 8,855 crores as on the last Friday of March 1988 accounted for 31.1 per cent of their total priority sector advances.

Regional and Rural/Urban Pattern of Credit-Deployment in terms of Credit-Deposit Ratios

With the twin objectives of reducing inter-State and intra-State imbalances and also to restrain the migration of credit from rural areas to urban areas, public sector banks were directed to achieve by March 1979 a credit-deposit ratio of 60 per cent in rural and semi-urban areas separately. This target was subsequently extended to private sector banks also. Though banks have succeeded in attaining the stipulated target in respect of rural branches they have fallen short of the target in the case of semi-urban branches. In both rural and semi-urban areas, the performance of the public sector banks has, however, 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 64.4 per cent as on last Friday of March 1988. Nevertheless, this ratio compared quite favourably with the stipulated national target of 60 per cent (Table VII-18). On the other hand, the performance of banks in semi-urban areas has not been encouraging as the credit-deposit ratio went up from 49.1 per cent on last Friday of March 1980 to only 51.8 per cent on last Friday of March 1988. Despite rapid strides made by the banking system in several critical areas in the post-nationalisation era, wide inter-state, intra-state and inter-regional disparities in credit deployment still persist.

Region-wise and State-wise credit-deposit ratios in respect of rural branches of scheduled commercial banks (including RRBs), further classified according to public and private sector banks and population groups as at the end of December 1987 are presented in Table VII-19. It may be observed therefrom that for the public sector banks (excluding RRBs) the ratios were 58.8 per cent and 49.8 per cent for rural and semi-urban areas while in the case of private sector banks the corresponding ratios were 50.5 per cent and 49.4 per cent, respectively. It is also evident therefrom that bank branches in the southern region alone have achieved the national target of 60 per cent both in rural (100.7 per cent) and semi-urban (65.4 per cent) areas. In the Western region and North-Eastern region, banks have come close to achieving the target in rural areas (59.3 per cent and 59.6 per cent, respectively). They lagged far behind in semi-urban areas (47.8 per cent and 39.5 per cent, respectively). The Northern, Eastern and Central regions also lagged behind the target both in rural (47.2 per cent, 54.7 per cent and 55.1 per cent, respectively) and semi-urban areas (47.6 per cent, 32.3 per cent and 45.1 per cent, respectively).

Table VII–18: Population Group-wise Credit-Deposit Ratio of Scheduled Commercial Banks

(Rupees crores)

Last Friday of March	RURAL			SEMI—URBAN			URBAN			METROPOLITAN			TOTAL		
	Deposit	Credit	Credit Deposit Ratio	Deposit	Credit	Credit Deposit Ratio	Deposit	Credit	Credit Deposit Ratio	Deposit	Credit	Credit Deposit Ratio	Deposit	Credit	Credit Deposit 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	5,793	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
1987	14,698	9,673	65.8	21,698	11,271	51.9	26,232	14,861	56.7	40.485	30,868	76.2	103,112	66,673	64.7
1988	17,382	11,201	64.4	25,822	13,388	51.8	30,517	16,980	55.6	44,956	33,335	74.2	118,678	74,903	63.1

Source: Quarterly Return on Aggregate Deposits and Gross Bank Credit, Banking Statistics Division, DESACS, R.B.I.

Table VII—19: 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 1987)

(Per cent)

Region/State/ Union Territory	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	**45.1**	**34.8**	**47.2**	**47.8**	**40.4**	**47.6**	**51.0**	**70.4**	**52.5**	**49.6**	**63.9**	**50.9**
Haryana	70.9	93.4	73.5	55.2	100.0	55.1	62.6	70.9	62.6	61.9	77.1	62.7
Himachal Pradesh	34.9	—	35.2	41.6	11.1	40.7	—	—	—	37.1	11.1	37.0
Jammu and Kashmir	22.8	29.8	28.3	31.7	48.8	38.6	32.4	70.4	48.4	30.2	55.5	41.5
Punjab	37.3	14.8	37.7	46.3	10.6	46.3	44.8	53.3	45.0	43.2	47.5	43.4
Rajasthan	72.1	54.3	77.6	51.1	39.4	50.3	62.0	47.7	60.2	60.5	46.2	60.7
Chandigarh	82.2	—	82.2	17.3	—	17.3	101.2	33.5	100.3	99.2	33.5	98.3
Delhi	20.8	22.4	20.9	12.4	—	12.4	46.5	75.9	48.9	46.0	75.5	48.4
North-Eastern Region	**53.0**	**35.8**	**59.6**	**39.5**	**26.5**	**39.5**	**47.4**	**41.2**	**47.1**	**45.6**	**35.4**	**47.2**
Arunachal Pradesh	21.4	16.2	21.4	10.6	—	10.6	—	—	—	21.1	16.2	21.1
Assam	60.8	44.6	66.0	40.6	30.4	40.2	55.5	46.5	54.9	50.8	40.4	51.6
Manipur	162.7	—	160.0	108.0	—	108.5	43.7	—	44.8	65.0	—	66.4
Meghalaya	43.4	—	46.9	22.1	53.6	22.8	18.4	12.1	18.0	22.6	14.9	23.1
Mizoram	28.4	—	38.1	21.7	—	24.0	—	—	—	23.2	—	27.7
Nagaland	45.0	—	45.4	43.3	9.1	41.1	—	—	—	43.7	9.1	42.0
Sikkim	36.3	—	36.3	26.6	—	26.6	—	—	—	28.5	—	28.5
Tripura	66.3	—	89.9	62.8	—	67.7	43.1	78.9	45.1	51.2	78.9	62.2
Eastern Region	**46.5**	**24.7**	**54.7**	**31.9**	**30.8**	**32.3**	**50.2**	**80.2**	**52.8**	**45.8**	**76.6**	**49.0**
Bihar	43.3	—	51.6	31.1	23.8	31.2	33.2	29.7	33.1	34.8	28.9	37.2
Orissa	94.7	—	113.7	63.3	—	63.8	80.5	85.6	80.2	78.2	85.6	83.5
West Bengal	36.6	24.7	40.7	24.0	31.5	24.8	52.9	81.3	56.2	47.0	77.7	50.3
Andaman and Nicobar Islands	38.6	—	38.6	33.6	—	33.6	—	—	—	34.7	—	34.7
Central Region	**50.0**	**30.0**	**55.1**	**45.6**	**33.9**	**45.1**	**44.9**	**49.0**	**45.1**	**46.1**	**42.2**	**47.3**
Madhya Pradesh	67.8	—	76.4	52.2	29.6	51.1	60.0	59.1	59.7	59.0	50.0	60.3
Uttar Pradesh	44.4	30.0	48.8	42.6	34.2	42.4	39.2	47.9	39.6	41.2	41.5	42.5
Western Region	**57.2**	**59.9**	**59.3**	**47.6**	**53.7**	**47.8**	**71.3**	**81.8**	**72.6**	**66.4**	**80.3**	**67.9**
Goa	18.8	54.2	18.9	36.9	66.7	37.6	—	—	—	30.8	66.2	31.3
Gujarat	51.5	—	52.6	45.3	28.6	45.3	60.6	50.0	60.4	54.8	49.8	54.9
Maharashtra	76.9	60.0	79.3	56.2	51.9	56.0	74.0	82.2	75.2	72.8	80.8	74.0
Dadra and Nagar Haveli	65.4	—	65.4	—	—	—	—	—	—	65.4	—	65.4
Daman and Diu	35.9	—	35.9	22.5	—	22.5	—	—	—	22.9	—	22.9
Southern Region	**97.2**	**62.3**	**100.7**	**66.6**	**53.2**	**65.4**	**88.8**	**83.4**	**88.1**	**83.2**	**69.3**	**82.9**
Andhra Pradesh	99.8	57.7	107.1	70.2	35.6	69.0	76.9	51.7	75.2	79.2	48.9	79.6
Karnataka	103.1	52.7	108.7	81.9	47.7	78.5	92.5	66.1	89.7	91.9	59.8	90.7
Kerala	69.8	61.0	76.0	49.9	57.2	53.3	82.4	76.6	81.4	61.9	62.4	63.9
Tamil Nadu	98.6	71.8	96.5	76.1	51.1	72.5	98.3	107.7	99.6	93.1	88.6	92.7
Lakshadweep	23.7	—	23.7	—	—	—	—	—	—	23.7	—	23.7
Pondicherry	61.8	38.1	60.9	43.1	30.7	42.7	51.8	35.4	50.3	52.2	35.4	50.9
All India	**58.8**	**50.5**	**63.5**	**49.8**	**49.4**	**50.1**	**62.5**	**78.3**	**64.0**	**59.3**	**71.3**	**61.0**

* Public sector banks comprise State Bank of India, 7 Associates Banks of SBI and 20 Nationalised Banks.

@ Including Regional Rural Banks.

Notes: Data are provisional.

Source: Quarterly Return on Aggregate Deposits and Gross Bank Credit, Banking Statistics Division, DESACS, R.B.I.

State-wise, the performance of banks both in rural and semi-urban areas was very uneven. In the case of rural areas, while many States/Union Territories like Himachal Pradesh, Jammu and Kashmir, Punjab, Delhi, Arunachal Pradesh, Mizoram, Sikkim, Andaman and Nicobar Islands, Goa, Daman and Diu and Lakshadweep had achieved credit-deposit ratios below 40 per cent, 15 States/Union Territories exceeded the 60 per cent target. In the case of semi-urban offices, 12 States/Union Territories had credit-deposit ratios below 40 per cent, only 6 States/Union Territories exceeded the national 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 as on the last Friday of June 1985 and 1986 (Table VII-20). It may be observed therefrom that in terms of credit-deposit ratio according to sanction, North-Eastern, Central and Eastern regions continued to remain below the national average in both the years. The two regions below the national average, namely, Central and Eastern, witnessed further declines in their respective credit-deposit ratios as on the last Friday of June 1986. However, Northern region witnessed a fall from 66.4 per cent in 1985 to 57.3 per cent in June 1986. The magnitude of fall in credit-deposit ratio in respect of Eastern region was about 8 percentage points in 1986 over that in 1985. The modest improvement in the C-D ratio of North-Eastern region may be traced to a significant rise in the ratios between end-June 1985 and end-June 1986 in the case of Assam, Manipur, Meghalaya, Sikkim and Mizoram. Central region showed a marginal fall in the C-D ratio on account of a fall in the ratio from 60.1 per cent to 58.4 per cent between end-June 1985 to end-June 1986 in the case of Madhya Pradesh and from 44.6 per cent to 43.7 per cent in the case of Uttar Pradesh. Some of the States/Union territories in the Northern, North Eastern and Eastern region, viz, Meghalaya, Nagaland, Sikkim, Arunachal Pradesh, Mizoram, Bihar, Andaman and Nicobar Islands and Goa, Daman & Diu and Lakshadweep had credit-deposit ratios below 40 per cent as on last Friday of June 1986. The two features highlighted by the data according to the utilisation of credit are that the credit-deposit ratio for only one out of the four regions whose ratios were below the national average, was Central region whose performance improved as on the last Friday of June 1986 while Northern region withessed a steep decline (i.e. 9.1 percentage points) in credit-deposit ratio, during the same period. As on the last Friday of June 1986, some States/Union Territories having C-D ratio below 40 per cent according to utilisation were Meghalaya, Nagaland, Sikkim, Bihar, Goa, Daman & Diu and Lakshadweep. In all these cases, except for Lakshadweep, the C-D ratio according to utilisation as on the last Friday of June 1986 was higher than that according to sanction.

The lower credit-deposit ratios in certain regions/states may be ascribed to their low credit absorption capacity, resulting from a variety of factors which include, *inter alia*, irregular supply of power, poor infrastructural facilities, unfavourable land tenure and ownership patterns, inadequate investment in agriculture and industry and lack of bankable schemes. Nevertheless, banks have played a major catalytic role in accelerating the growth rates in States where infrastructural facilities are generally satisfactory.

Investment + Credit-Deposit Ratio (CI-D Ratio)

The contribution of the banking system to the development of any State/region cannot be assessed merely in terms of credit-deposit ratio because apart from 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 better than that indicated by credit-deposit ratio alone. This is more so in the case of the economically backward States/regions, viz., the North-Eastern and Eastern regions. For instance, the credit-deposit ratios of the above two regions, according to utilisation in June 1986, were 57.4 per cent and 44.1 per cent, respectively (Table VII-20). For the same period, credit plus investment to deposit ratios (CI-D) for the two regions, according to utilisation, stood much higher at 82.9 per cent and 59.0 per cent, respectively.

Table VII—20: Credit-Deposit Ratio and Investment + Credit-Deposit Ratio of Scheduled Commercial Banks (As on the last Friday of)

(Per cent)

Region/State/ Union Territory	Credit-Deposit Ratio				Investment + Credit-Deposit Ratio			
	June 1985		June 1986*		June 1985		June 1986*	
	Sanction	Utilisation	Sanction	Utilisation	Sanction	Utilisation	Sanction	Utilisation
	1	2	3	4	5	6	7	8
Northern Region	**66.4**	**66.1**	**57.3**	**57.0**	**73.4**	**73.1**	**64.7**	**64.4**
Haryana	82.2	107.9	82.9	104.5	98.1	123.8	99.3	120.9
Himachal Pradesh	52.3	54.6	53.6	55.7	67.3	69.6	68.8	70.9
Jammu & Kashmir	62.1	62.8	48.0	49.8	76.4	77.1	63.4	65.2
Punjab	70.2	80.1	55.8	60.4	75.6	85.5	61.6	66.2
Rajasthan	71.2	73.5	64.5	68.0	97.4	99.7	91.4	94.9
Chandigarh	193.8	114.2	90.8	49.9	194.0	114.4	91.1	50.2
Delhi	51.0	45.6	49.6	44.4	51.3	45.9	50.2	45.0
North-Eastern Region	**42.2**	**65.9**	**43.6**	**57.4**	**66.1**	**89.8**	**69.1**	**82.9**
Assam	44.9	77.1	45.4	61.9	67.0	99.2	70.8	87.3
Manipur	59.5	61.9	76.8	76.9	139.2	141.6	145.8	145.9
Meghalaya	22.8	23.0	27.9	33.5	51.9	52.1	57.9	63.5
Nagaland	37.0	45.5	33.6	38.2	84.1	92.6	70.5	75.1
Sikkim	12.1	28.9	14.8	37.5	12.1	28.9	14.8	37.5
Tripura	75.9	78.2	67.3	69.2	104.8	107.1	93.3	95.2
Arunachal Pradesh	22.0	33.1	36.5	48.5	22.0	33.1	36.6	48.6
Mizoram	14.8	18.8	24.7	57.5	14.8	18.8	24.7	57.5
Eastern Region	**53.8**	**52.6**	**45.7**	**44.1**	**68.0**	**66.8**	**60.6**	**59.0**
Bihar	36.8	39.5	35.3	36.2	54.6	57.3	53.7	54.6
Orissa	85.6	88.7	87.3	90.0	123.7	126.8	128.6	131.3
West Bengal	57.8	54.3	45.7	42.3	67.5	64.0	56.0	52.6
Andaman & Nicobar Islands	38.8	50.3	36.3	42.4	38.8	50.3	36.3	42.4
Central Region	**48.5**	**48.7**	**47.6**	**49.4**	**63.6**	**63.8**	**64.5**	**66.3**
Madhya Pradesh	60.1	61.7	58.4	60.0	78.7	80.3	79.4	81.0
Uttar Pradesh	44.6	44.3	43.7	45.6	58.5	58.2	59.1	61.0
Western Region	**81.5**	**80.3**	**71.8**	**70.6**	**89.4**	**88.2**	**79.7**	**78.5**
Gujarat	52.7	56.4	51.8	55.2	65.6	69.3	65.5	68.9
Maharashtra	93.8	90.8	80.3	77.5	100.3	97.3	86.6	83.8
Dadra & Nagar Haveli	88.5	122.4	67.4	108.3	88.5	122.4	67.4	108.3
Goa, Daman & Diu	34.4	35.5	29.4	30.0	35.6	36.7	30.0	30.6
Southern Region	**77.7**	**78.3**	**78.6**	**79.3**	**89.8**	**90.4**	**92.1**	**92.8**
Andhra Pradesh	75.3	76.1	74.8	75.5	88.3	89.1	89.4	90.1
Karnataka	79.5	80.9	84.7	87.2	91.2	92.6	98.0	100.5
Kerala	66.9	68.4	63.0	64.3	79.2	80.7	77.3	78.6
Tamil Nadu	85.4	84.8	88.0	87.2	97.2	96.6	100.5	99.7
Lakshadweep	21.5	18.7	29.5	25.3	21.5	18.7	29.5	25.3
Pondicherry	56.3	60.8	43.6	45.8	56.4	60.9	43.7	45.9
All India	**67.9**	**67.9**	**62.1**	**78.7**	**62.1**	**78.7**	**73.7**	**73.7**

* Provisional.

Note: For Deposits and Credit (Sanction and Utilisation) BSR-1 & 2 Surveys. The investment figures are estimated based on BSR-5 Survey for March 1985 and 1986, respectively.

Source: Banking Statistics Division, Department of Statistical Analysis and Computer Services, R.B.I.

Frequency Distribution of Credit-Deposit Ratio

The data relating to frequency distribution of districts based on credit-deposit ratios of rural and semi-urban offices as on last Friday of December 1987 as also in the previous two years are furnished in Table VII-21. The credit-deposit ratio in respect of rural branches was 60 per cent or more in 245 districts as on the last Friday of December 1987 which was the same as in the previous year. The average size of deposits per district in this category went up from Rs. 24 crores in 1986 to Rs. 30 crores in 1987. The number of districts with credit-deposit ratio below 40 per cent increased from 89 as on the last Friday of December 1986 to 93 as on the last Friday of December 1987. In the case of semi-urban offices, the number of districts with credit-deposit ratio of 60 per cent and above declined from 141 at the end of December 1986 to 131 as on the last Friday of December 1987.

Table VII—21: Frequency Distribution of Districts Based on Credit-Deposit Ratio of Scheduled Commercial Banks

(As on the last Friday)

(Rupees crores)

Credit-Deposit Ratio	December 1985			December 1986			December 1987		
	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	1,109	146	20	671	103	20	1,139	182
		(46)			(34)			(57)	
20% to 30%	26	938	228	29	1,822	431	33	2,069	501
		(36)			(63)			(63)	
30% to 40%	42	1,932	681	40	2,382	850	40	2,488	904
		(46)			(60)			(62)	
40% to 50%	40	1,333	598	46	1,569	698	53	2,667	1,199
		(33)			(36)			(50)	
50% to 60%	57	1,501	824	59	2,088	1,147	48	1,718	934
		(26)			(35)			(36)	
60% and above	246	5,054	5,160	245	5,843	6,158	245	7,446	7,407
	*(56.6)	(21)		*(56.1)	(24)		*(55.8)	(30)	
Total	**435**	**11,867**	**7,637**	**437**	**14,375**	**9,387**	**439**	**17,527**	**11,127**
Semi-urban Offices									
Upto 20%	20	1,527	259	23	2,203	362	22	1,976	312
		(76)			(96)			(90)	
20% to 30%	50	2,079	514	49	2,181	538	54	3,347	812
		(42)			(45)			(62)	
30% to 40%	57	2,768	997	65	3,510	1,263	77	4,850	1,753
		(49)			(54)			(63)	
40% to 50%	68	3,256	1,470	73	3,693	1,650	87	3,748	1,681
		(48)			(51)			(56)	
50% to 60%	54	2,468	1,337	50	2,909	1,571	52	3,803	2,081
		(46)			(58)			(73)	
60% and above	148	5,987	4,813	141	6,907	5,601	131	7,573	6,025
	*(37.3)	(40)		*(35.2)	(49)		*(32.5)	(58)	
Total	**397**	**18,085**	**9,390**	**401**	**21,403**	**10,985**	**403**	**25,297**	**12,664**

@ Figures in brackets indicate amount of deposits per district under each size class.

* As percentage to total number of districts.

Source: Quarterly Return on Aggregate Deposits and Gross Bank Credit, BSD, DESACS., R.B.I.

Deposit and Credit of Scheduled Commercial Banks: Area-wise and State-wise

The post-nationalisation period is characterised by the phenomenal increase in banking facilities, especially in the unbanked/under-banked centres as is amply corroborated by the performance of the banking system 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 March 1988 stood much higher at 14.6 per cent and 14.9 per cent respectively, as against 3.1 per cent and 1.5 per cent in June 1969, reflecting the significant dent made by rural branches in spheres of deposit mobilisation and credit deployment (Table VII-22). In contrast, share of semi-urban offices in total deposits declined fractionally from 22.0 per cent to 21.8 per cent, while their share in total credit increased from 11.3 per cent to 17.9 per cent during the same period. The share of urban and metropolitan offices taken together both in terms of deposit mobilisation and credit deployment declined from 74.9 per cent and 87.2 per cent, respectively, to 63.6 per cent and 67.2 per cent. The post-nationalisation period witnessed a significant rise in average deposit and bank credit per office in respect of all population groups.

Table VII—22: Distribution of Deposits and Advances of Scheduled Commercial Banks according to Population Groups (As on the last Friday)

(Rupees crores)

Population Group	June 1969		March 1987		March 1988		Increase (June 1969-March 1988)	
	Deposits	Advances	Deposits	Advances	Deposits	Advances	Deposits	Advances
	1.	2.	3.	4.	5.	6.	7.	8.
Rural	**145**	**54**	**14,698**	**9,673**	**17,382**	**11,201**	**17,237**	**11,147**
Percentage to total	3.1	1.5	14.3	14.5	14.6	14.9	15.1	15.6
Average amount per office	0.10	0.04	0.49	0.32	0.57	0.37	—	—
Semi-urban	**1,024**	**407**	**21,698**	**11,271**	**25,822**	**13,388**	**24,798**	**12,981**
Percentage to total	22.0	11.3	21.0	16.9	21.8	17.9	21.8	18.2
Average amount per office	0.31	0.12	2.03	1.06	2.30	1.19	—	—
Urban	**1,209**	**722**	**26,232**	**14,861**	**30,517**	**16,980**	**29,308**	**16,258**
Percentage to total	25.9	20.0	25.4	22.3	25.7	22.7	25.7	22.8
Average amount per office	0.63	0.38	3.43	1.94	3.94	2.19	—	—
Metropolitan	**2,287**	**2,426**	**40,484**	**30,868**	**44,957**	**33,334**	**42,670**	**30,908**
Percentage to total	49.0	67.2	39.3	46.3	37.9	44.5	37.4	43.4
Average amount per office	1.53	1.62	7.54	5.75	8.32	6.17	—	—
Total	**4,665**	**3,609**	**1,03,112**	**66,673**	**1,18,678**	**74,903**	**1,14,013**	**71,294**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**
Average amount per office	0.57	0.44	1.93	1.25	2.16	1.36	—	—

Note: The data for March 1987 and March 1988 are provisional.

Source: Banking Statistics—Volume 2 for June 1969 and Quarterly Return on Aggregate Deposits and Gross Bank Credit for March 1987 and March 1988, Banking Statistics Division, Department of Statistical Analysis & Computer Services, R.B.I.

Distribution of Deposits by Population Groups/Types of Deposits

Data relating to the mobilisation of deposits by scheduled commercial banks classified according to population groups and type of deposits as on the last Friday of June 1986 are furnished in Table VII-23. It is seen therefrom that the number of accounts and total deposits aggregated 2,372 lakhs and Rs. 92,233 crores, respectively, with an average amount of Rs. 3,888 per account. The rural and semi-urban offices taken together accounted for 55.9 per cent of the total number of accounts; their share in savings and term deposit accounts constituted about 58.9 per cent and 50.6 per cent, respectively, whereas in current account, it was lower at 38.4 per cent. Though term deposits accounted for the largest share

Table VII—23: Distribution of Deposits of Scheduled Commercial Banks According to Population Group & Type of Deposits
(As on the last Friday of June 1986*)

(No of acccounts in thousands)
(Amount in rupees lakhs)

Population Group	Current			Savings			Term			Total		
	No. of Accounts	Amount Out-standing	Average per Account (Rs.)	No. of Accounts	Amount Out-standing	Average per Account (Rs).	No. of Accounts	Amount Out-standing	Average per Account (Rs.)	No. of Accounts	Amount Out-standing	Average per Account (Rs.)
	1	2	3	4	5	6	7	8	9	10	11	12
Rural	**12,21**	**872,36**	**7145**	**496,97**	**4951,44**	**996**	**149,55**	**6985,01**	**4671**	**658,73**	**12808,81**	**1944**
Percent to total deposits category	12.6	6.3		30.5	18.2		23.1	13.6		27.8	13.9	
Percent to total deposits	1.9	6.8		75.4	38.7		22.7	54.5		100.0	100.0	
Semi-urban	**24,97**	**1884,44**	**7547**	**643,33**	**6689,91**	**1444**	**177,95**	**10937,45**	**6146**	**666,25**	**19511,80**	**2929**
Percent to total deposits category	25.8	13.7		28.4	24.6		27.5	21.3		28.1	21.1	
Percent to total deposits	3.8	9.7		69.5	34.3		26.7	56.0		100.0	100.0	
Urban	**29.35**	**3537,19**	**12052**	**366,16**	**6635,06**	**1812**	**176,25**	**13521,06**	**7672**	**571,76**	**23693,31**	**4144**
Percent to total deposits category	30.4	25.7		22.5	24.4		27.3	26.4		24.1	25.7	
Percent to total deposits	5.1	14.9		64.1	28.0		30.8	57.1		100.0	100.0	
Metropolitan	**30,20**	**7478,41**	**24763**	**302,34**	**8899,54**	**2944**	**142,80**	**19841,45**	**13895**	**475,34**	**36219,40**	**7620**
Percent to total deposits category	31.2	54.3		18.6	32.8		22.1	38.7		20.0	39.3	
Percent to total deposits	6.4	20.6		63.6	24.6		30.0	54.8		100.0	100.0	
Total	**96,73**	**13772,40**	**14238**	**1628,80**	**27175,95**	**1668**	**646,55**	**51284,97**	**7932**	**2372,08**	**92233,32**	**3888**
Percent to total deposits category	100.0	100.0		100.0	100.0		100.0	100.0		100.0	100.0	
Percent to total deposits	4.1	14.9		68.7	29.5		27.2	55.6		100.0	100.0	

* Data are provisional.

Source: BSR-2 Survey, Banking Statistics Division, DESACS, R.B.I.

(55.6 per cent) in total amount of outstanding deposits, saving deposit accounts continued to claim the highest share (68.7 per cent) in total number of accounts. This feature was discernible in all the population groups (Table VII-23). Both in terms of number of accounts and amount, deposits in current accounts were not significant in rural areas. However, in the case of other areas, current deposits were quite significant in terms of amount outstanding though not in terms of number of accounts indicating thereby that large-sized accounts were held by a limited number of traders and businessmen.

The shares of the Western and Eastern regions in aggregate deposits fell significantly from 33.8 per cent and 18.1 per cent at end-June 1969 to 24.8 per cent and 16.3 per cent on the last Friday of March 1988, respectively; all other regions have, however, increased their shares in bank deposits. Among the important States, there has been a marked fall in the shares of Maharashtra, West Bengal and Gujarat (Table VII-24).

Population group-wise data indicate that urban and metropolitan centres taken together accounted for 63.6 per cent of the total deposits, with the semi-urban and rural offices claiming 21.8 per cent and 14.6 per cent, respectively, as on the last Friday of March 1988. However, in terms of growth rates, the performance of rural offices was more impressive than that of the other groups. Rural deposits increased from Rs. 145 crores to Rs. 17,382 crores during the period from June

Table VII—24: 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	March 1988	Variation	June 1969	March 1988	Variation
	1	2	3	4	5	6
I. Northern Region	**869.78**	**26445.45**	**25575.67**	**493.80**	**13428.29**	**12934.49**
	(18.6)	**(22.3)**	**(22.4)**	**(13.7)**	**(17.9)**	**(18.2)**
(i) New Delhi	449.25	11684.95	11235.70	291.22	5643.01	5351.79
	(9.6)	(9.8)	(9.8)	(8.1)	(7.5)	(7.5)
II. North-Eastern Region	**49.05**	**2077.71**	**2028.66**	**16.90**	**1031.86**	**1014.96**
	(1.1)	**(1.8)**	**(1.8)**	**(0.5)**	**(1.4)**	**(1.4)**
III. Eastern Region	**844.27**	**19386.00**	**18541.73**	**768.62**	**9907.42**	**9138.80**
	(18.1)	**(16.3)**	**(16.3)**	**(21.3)**	**(13.2)**	**(12.8)**
(i) West Bengal	643.45	12011.60	11368.15	699.71	6319.14	5619.43
	(13.8)	(10.1)	(10.0)	(19.4)	(8.4)	(7.9)
IV. Central Region	**476.06**	**16712.68**	**16236.62**	**238.23**	**8502.80**	**8264.57**
	(10.2)	**(14.1)**	**(14.2)**	**(6.6)**	**(11.4)**	**(11.6)**
(i) Uttar Pradesh	364.90	12204.15	11839.25	172.95	5558.25	5385.30
	(7.8)	(10.3)	(10.4)	(4.8)	(7.4)	(7.6)
V. Western Region	**1575.79**	**29448.17**	**27872.38**	**1285.86**	**20685.76**	**19399.90**
	(33.8)	**(24.8)**	**(24.5)**	**(35.6)**	**(27.6)**	**(27.2)**
(i) Gujarat	401.99	7209.79	6807.80	195.43	4136.70	3941.27
	(8.6)	(6.1)	(6.0)	(5.4)	(5.5)	(5.5)
(ii) Maharashtra	1124.42	21244.56	20120.14	1070.62	16239.22	15168.60
	(24.1)	(17.9)	(17.6)	(29.7)	(21.7)	(21.3)
VI. Southern Region	**850.24**	**24608.00**	**23757.76**	**805.45**	**21347.07**	**20541.62**
	(18.2)	**(20.7)**	**(20.8)**	**(22.3)**	**(28.5)**	**(28.8)**
(i) Tamil Nadu	293.49	7455.16	7161.67	380.63	7409.85	7029.22
	(6.3)	(6.3)	(6.3)	(10.5)	(9.9)	(9.9)
All India	**4665.19**	**118678.01**	**114012.82**	**3608.86**	**74903.20**	**71294.34**

Note: Figures in brackets indicate percentage to total.

Source: Banking Statistics Division, Department of Statistical Analysis and Computer Services, Reserve Bank of India.

1969 to March 1988 reflecting a rise of more than 119 fold over the period. Deposits with semi-urban and urban/metropolitan offices moved up from Rs. 1,024 crores and Rs. 3,496 crores to Rs. 25,822 crores and Rs. 75,474 crores, respectively, during the same period (Table VII-22). Data on incremental deposits available upto December 1987 shows that Uttar Pradesh claimed the maximum share in the incremental deposits in respect of rural areas with accretion of Rs. 2,956 crores followed by Punjab (Rs. 1,791 crores), Bihar (Rs. 1,455 crores). Uttar Pradesh claimed the maximum share in the incremental deposits in respect of semi-urban areas with accretion of Rs. 2,962 crores which may perhaps be due to the large inflow of non-resident deposits. Kerala occupied second place in respect of incremental deposit accretions in semi-urban areas with a share of Rs. 2,856 crores followed by Punjab (Rs. 2,057 crores). The share of Maharashtra was the highest at Rs. 17,598 crores in incremental urban/metropolitan deposits aggregating Rs. 71,978 crores. Thus, Maharashtra, West Bengal, New Delhi and Uttar Pradesh accounted for 60 per cent of such incremental deposits in urban and metropolitan deposits.

Credit Deployment

Credit deployment by scheduled commercial banks increased substantially from Rs. 3,609 crores on the last Friday of June 1969 to Rs. 74,903 crores on last Friday of March 1988. Maharashtra occupied the top place in incremental credit (Rs. 15,169 crores), followed by Tamil Nadu (Rs. 7,029 crores), West Bengal (Rs. 5,619 crores), Uttar Pradesh (Rs. 5,385 crores), New Delhi (Rs. 5,352 crores) and Gujarat (Rs. 3,941 crores) (Table VII-24).

During the post-nationalisation period, rural offices made a significant dent in the sphere of credit deployment as is evident from the surge in credit from Rs. 54 crores to Rs. 11,201 crores on the last Friday of March 1988. As in the case of deposits, Uttar Pradesh accounted for the highest share of Rs. 1,481 crores in incremental credit for rural areas followed by Andhra Pradesh with Rs. 1,216 crores.

Credit outstanding of semi-urban offices increased from Rs. 407 crores to Rs. 13,388 crores. Kerala accounted for the highest share (Rs. 1,553 crores) of the incremental credit followed by Uttar Pradesh, Tamil Nadu, Andhra Pradesh, Karnataka, Punjab, Gujarat and Maharashtra.

There was a more than fourteen-fold increase in credit extended by urban and metropolitan offices between June 1969 and March 1988. Of the incremental credit of Rs. 47,167 crores Maharashtra with Rs. 13,485 crores accounted for 28.6 per cent followed by Delhi, Tamil Nadu and West Bengal.

Distribution of Credit According to Interest Range

Data on scheduled commercial banks credit classified according to interest range for the three years ended June 1986 are presented in Table VII-25. This table brings into sharp focus a sea-change in the distribution of credit in favour of middle and lower interest range between June 1983 and June 1986. 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 33.5 per cent as on the last Friday of June 1985 to 33.1 per cent as on the last Friday of June 1986 resulting from the lowering of the maximum lending rate from 18 to 17.5 per cent effective from April 1985. Almost corresponding increases took place under the interest brackets of 12 to 14 per cent which captured 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 1, 1985 to March 31, 1990 (for details please see earlier Reports), Lead Banks were advised to prepare and submit lists of identified growth centres especially in rural and semi-urban areas for opening new bank offices in consultation with respective State Governments. Out of 8,130 centres identified by the Lead Bank Groups/State Governments for opening new offices, 4,958 centres in rural/semi-urban areas found eligible as per norms were allotted to commercial banks including RRBs; 2,046 centres were allotted to RRBs, 2,787 centres to public sector banks and 125 centres to private sector banks.

Table VII—25: Distribution of Loans and Advances* of Scheduled Commercial Banks According to Interest Range (As on the last Friday)

(Rupees crores)

Interest Range	June 1983		June 1984		June 1985		June 1986	
	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	86,176	472.9	63,392	402.4	80,603	556.0	102,999	640.9
	(4.8)	(1.9)	(5.1)	(1.5)	(5.8)	(1.8)	(6.6)	(1.8)
Above 6 and upto 10 per cent	63,579	738.5	47,105	1114.4	58,583	1245.7	74,205	1740.6
	(3.6)	(2.9)	(3.8)	(4.0)	(4.2)	(4.0)	(4.7)	(5.0)
Above 10 and upto 12 per cent	248,751	2641.2	102,338	2540.8	106,899	2725.4	111,271	2850.4
	(13.9)	(10.3)	(8.2)	(9.3)	(7.7)	(8.7)	(7.1)	(8.2)
Above 12 and upto 14 per cent	773,799	6746.5	611,927	8450.9	692,988	10064.9	789,498	10311.6
	(43.3)	(26.4)	(49.1)	(30.8)	(49.7)	(32.3)	(50.3)	(29.5)
Above 14 and upto 15 per cent	235,083	2238.5	117,891	2389.5	121,809	2775.5	117,895	2947.2
	(13.2)	(8.8)	(9.5)	(8.7)	(8.7)	(8.9)	(7.5)	(8.4)
Above 15 and upto 16 per cent	58,484	923.5	41,816	889.5	40,634	999.1	37,863	986.2
	(3.0)	(3.6)	(3.3)	(3.2)	(2.9)	(3.2)	(2.4)	(2.8)
Above 16 and upto 17 per cent	56,095	1483.2	52,253	1473.7	66,872	2362.6	88,231	3907.5
	(3.2)	(5.8)	(4.2)	(5.4)	(4.8)	(7.6)	(5.6)	(11.2)
Above 17 and upto 18 per cent	171,653	7261.6	179,474	9069.1	205,511	9670.4	235,238	11075.7
	(9.6)	(28.4)	(14.4)	(33.0)	(14.8)	(31.0)	(15.0)	(31.7)
Above 18 per cent	97,263	3049.9	30,361	1121.0	19,693	796.4	11,273	494.7
	(5.4)	(11.9)	(2.4)	(4.1)	(1.4)	(2.5)	(0.7)	(1.4)
Total	**1765,883**	**25535.8**	**1246,557**	**27451.4**	**1393,592**	**31195.9**	**1568,473**	**34954.8**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

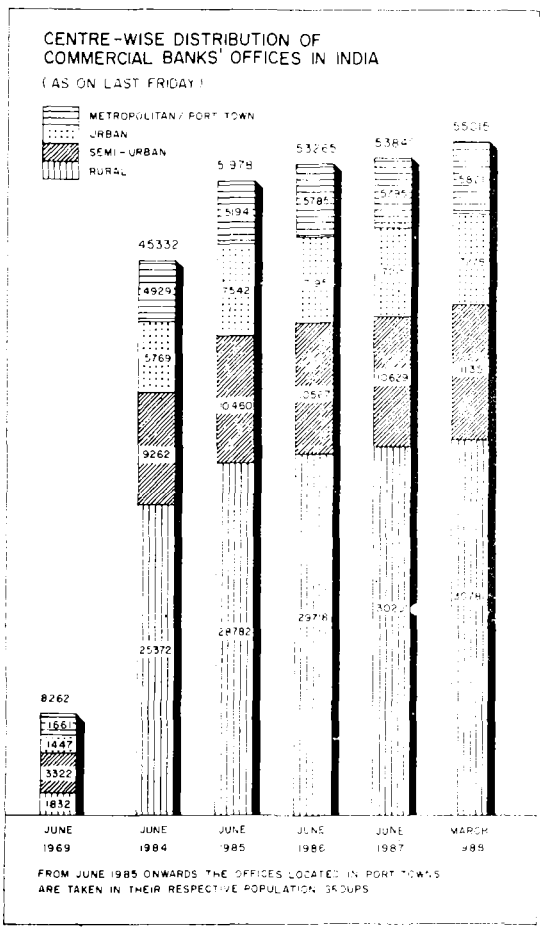
* Relate to accounts with credit limit over Rs. 10,000 upto June 1983 and over Rs. 25,000 from December 1983 onwards; exclude inland and foreign bills purchased and discounted.

Notes: 1) Figures in brackets indicate percentage to total

2) Data for June 1986 are provisional.

Source: Basic Statistical Returns, Banking Statistics Division, Department of Statistical Analysis & Computer Services, Reserve Bank of India.

Besides, banks were allowed to open their branches at 578 urban/metropolitan/port town centres under the policy.



The impressive performance of banks with regard to geographical coverage of branches since nationalisation is evident from the fact that there was more than six-fold increase in the number of offices from 8,262 in June 1969 to 55,015 offices in March 1988 (Table VII-26). Of the total 1,124 branches opened between July 1987 and March 1988 (excluding 51 branches opened prior to June 30, 1987 but reported late by the banks), 1,033 offices or 92.0 per cent were in unbanked centres. Out of 46,694 offices opened since nationalisation, 30,745 offices were opened in unbanked centres.

Data on State-wise average population per bank office as at the end of June 1969, June 1987 and March 1988 are also presented in Table VII-26. 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 1987 and further to 12,000 at the end of March 1988. Of the 675 centres identified as unbanked block headquarters in the country, 644 were covered by branches of commercial banks/RRBs, while 31 such centres are yet to be covered by banks. Table VII-27 indicates that of the total 1,124 offices opened during the period July 1987 to March 1988, 1,028 branches (91.4 per cent) were in rural areas. As at the end of March 1988, 44.7 per cent of all offices of the State Bank of India and its Associates, 46.2 per cent of the total offices of public sector banks and 31.7per cent of the offices of other commercial banks were in rural areas. About 91.9 per cent of the offices of Regional Rural Banks were in rural areas during the above period (Table VII-28).

Indian Banks' Offices Abroad

During the year 1987-88, no new branch was opened abroad by Indian banks. Bank of Baroda closed three of its overseas branches/offices viz. Fujeirah branch in United Arab Emirates, Lakeba branch and Lomawai mobile agency attached to Sigatoka branch both in Fiji Islands. Indian Overseas Bank also closed down its Kowloon branch in Hong Kong. Thus, the number of foreign branches (of 8 public sector banks and one private sector bank) was reduced from 123 to 119, as on June 30, 1988. While the number of representative offices of four Indian banks remained unchanged at 10 as on June 30, 1988, Indian banks had 6 wholly owned subsidiaries (including 3 deposit taking companies in Hong Kong) and 6 joint venture banks/affiliates abroad (having less than 50 per cent share holding) as at the end of June 1988 (Table VII-29).

Foreign Banks' Branches in India

During the year 1987-88, no new branch was opened in India by foreign banks and the number of branches of 21 foreign banks remained at 136 as on June 30, 1988. However, one representative office was opened in India by Generale Bank (Belgium) and one representative office each was closed by Chemical Bank (USA) and The Royal Bank of Canada (Canada). As a result, the number of representative offices of foreign banks numbered 17 at end-June 1988.

Table VII—26: State-wise Distribution of Bank Offices and Population Per Bank Office as at the End of June 1969, June 1987 and March 1988

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 1987	March 1988	1986-87 (July to June)	Of which at un-banked centres	1987-88 (July 87 to March 1988)	Of which at un-banked centres	June 1969	June 1987*	March 1988*
	1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	567	4200	4283	75	71	83	76	75	13	13
Arunachal Pradesh	—	56	56	2	2	—	—	—	11	11
Assam	74	987	1021	12	12	33	31	198	20	19
Bihar	273	4237	4285	6	4	44	40	207	16	16
Goa	85+	261+	253	1	—	2	2	8	4	4
Gujarat	752	3092	3129	9	8	35	32	34	11	11
Haryana	172	1146	1202	35	35	56	55	57	11	11
Himachal Pradesh	42	573	619	18	18	41	40	80	8	7
Jammu & Kashmir	35	728	728	—	—	—	—	114	8	8
Karnataka	756	3959	4006	36	34	47	45	38	9	9
Kerala	601	2720	2761	1	1	40	20	35	9	9
Madhya Pradesh	343	3805	3888	70	64	81	77	116	14	13
Maharashtra	1118	4957	5077	42	23	120	114	44	13	12
Manipur	2	67	65	—	—	—	—	497	21	22
Meghalaya	7	133	133	3	3	—	—	147	10	10
Mizoram	—	50	50	—	—	—	—	—	10	10
Nagaland	2	67	68	—	—	—	—	205	12	12
Orissa	100	1764	1802	21	20	37	34	212	15	15
Punjab	346	2035	2053	32	28	18	15	42	8	8
Rajasthan	364	2711	2783	31	31	72	72	70	13	12
Sikkim	—	19	19	—	—	—	—	—	17	17
Tamil Nadu	1060	3932	4007	11	10	72	68	37	12	12
Tripura	5	137	139	1	1	2	1	276	15	15
Uttar Pradesh	747	7475	7715	133	126	232	218	119	15	14
West Bengal	504	3477	3608	44	38	104	93	87	16	15
Andaman and Nicobar Islands	1	14	15	—	—	1	—	82	13	13
Chandigarh	20	107	107	—	—	—	—	7	4	4
Dadra and Nagar Haveli	—	6	6	—	—	—	—	—	17	17
Daman and Diu	—	—	10	—	—	—	—	—	—	8
Delhi	274	1057	1059	4	—	4	—	10	6	6
Lakshadweep	—	5	5	—	—	—	—	—	8	8
Pondicherry	12	63	63	—	—	—	—	31	10	10
All India Total	**8262**	**53840**	**55015**	**587£**	**529**	**1124@**	**1033**	**65**	**13**	**12**

* Based on 1981 Census.

\+ Includes Daman and Diu.

£ Actual No. of branches opened during July 1986 to June 1987. 12 Administrative offices were treated as branches in the figures for June 1986. Thus the net increase comes to 575.

@ Actual No. of branches opened. 51 offices opened before 30th June 1987 were reported late by the banks during the period 1.7.87 to 31.3.1988. Thus the net increase comes to 1175.

Source: Department of Banking Operations and Development, Reserve Bank of India.

Table VII—27: 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	1882	1217	64.7
1975-76	2490	881	35.4
1980-81	3287	2550	77.6
1983-84*	3253	2694	82.8
1984-85*	6222	5061	81.3
1985-86	1266	936	73.9
1986-87	587	529	90.1
1987-88 (July 1987 to March 1988)	1124	1028	91.4

* Adjusted for the offices closed.

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 the licensing authority to existing/new banks and branches. The Reserve Bank also sanctions credit limits to SCBs on behalf of PCBs for financing the SSI units and conducts their statutory inspections.

The number of PCBs increased from 1,359 at end-June 1987 to 1,371 (which included 95 salary earners' societies) at end-June 1988. As on March 31, 1988, there were 3,141 offices of PCBs operating in the country including 253 offices of salary earners' societies. The deposits mobilised by the PCBs rose from Rs. 3,939 crores at end-June 1986 to Rs. 4,838 crores at end-June 1987, showing an increase of 22.8 per cent over the previous year. The loans outstanding of PCBs rose by 21.2 per cent to Rs. 3,693 crores during the year ended June 1987. During the year 1987-88 (upto January 1988) the deposits and loans outstanding of PCBs increased further to Rs. 5,326 crores and Rs. 4,249 crores, respectively. The progress made by the PCBs over the years is presented in Table VII-30.

Licensing and Inspection

During the period July 1987 to June 1988, 120 banks were issued licences to commence and/or carry on banking business, taking the total number of licensed PCBs to 964 as at the end of June 1988. Permission was granted to 179 PCBs for opening of 223 new places of business. In addition, during the year, 13 banks were granted permission for opening of 14 extension counters. Inspection was conducted in 506 PCBs [under Section 35 of the Banking Regulation Act, 1949 (as applicable to co-operative societies)] as against 386 in the previous year.

Short-term credit limits

During 1987-88 (April-March), short-term credit limits for financing cottage and small-scale industrial units of 22 broad groups at concessional rate of interest, i. e., 2.5 per cent below the Bank Rate, aggregating Rs. 28 crores were sanctioned to State Co-operative Banks on behalf of 57 PCBs as against Rs. 30 crores sanctioned on behalf of 53 PCBs in the previous year. The outstanding borrowings against these limits amounted to Rs. 24 crores as on March 31, 1988 as against Rs. .25 crores a year ago.

Bills Rediscounting Scheme

PCBs with average deposits of Rs. 25 crores and above have been permitted to rediscount

Table VII—28: Bank Group-wise/Population Group-wise Distribution of Commercial Bank Offices in India

Bank Group	Number of Offices as on														
	19.7.1969*					30.6.1987**					31.3.1988				
	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	1571	3590	2062	1063	759	7474	3612	2153	1072	761	7598
	(29.4)	(50.7)	(10.4)	(9.5)	(100.0)	(48.0)	(27.6)	(14.2)	(10.2)	(100.0)	(47.6)	(28.3)	(14.1)	(10.0)	(100.0)
Associate Banks of SBI	358	375	86	75	894	1306	1116	558	382	3362	1318	1171	562	383	3434
	(40.0)	(42.0)	(9.6)	(8.4)	(100.0)	(38.8)	(33.2)	(16.6)	(11.4)	(100.0)	(38.4)	(34.1)	(16.3)	(11.2)	(100.0)
14 Nationalised Banks	703	1465	928	1072	4168	10310	4496	3860	3343	22009	10578	4694	3909	3372	22553
	(16.9)	(35.1)	(22.3)	(25.7)	(100.0)	(46.9)	(20.4)	(17.5)	(15.2)	(100.0)	(46.9)	(20.8)	(17.3)	(15.0)	(100.0)
6 Nationalised Banks@						1530	733	763	583	3609	1542	770	766	585	3663
						(42.4)	(20.3)	(21.1)	(16.2)	(100.0)	(42.1)	(21.0)	(20.9)	(16.0)	(100.0)
Regional Rural Banks						12060	861	129	3	13053	12358	945	134	3	13440
						(92.4)	(6.6)	(1.0)	(–)	(100.0)	(91.9)	(7.1)	(1.0)	(–)	(100.0)
Other Commercial Banks	337	708	279	364	1688	1405	1361	842	725	4333	1373	1402	835	717	4327
	(20.0)	(41.9)	(16.5)	(21.6)	(100.0)	(32.4)	(31.4)	(19.4)	(16.8)	(100.0)	(31.7)	(32.4)	(19.3)	(16.6)	(100.0)
Total	**1860**	**3344**	**1456**	**1661**	**8321**	**30201**	**10629**	**7215**	**5795**	**53840**	**30781**	**11135**	**7278**	**5821**	**55015**
	(22.3)	**(40.2)**	**(17.5)**	**(20.0)**	**(100.0)**	**(56.1)**	**(19.7)**	**(13.4)**	**(10.8)**	**(100.0)**	**(56.0)**	**(20.2)**	**(13.2)**	**(10.6)**	**(100.0)**

* Classification of branches according to population groups is on the basis of 1961 Census.

** Revised figures based on computerised data. Classification of branches according to population group is on the basis of 1981 Census.

@ No. of offices as on 19th July 1969 are included under 'Other Commercial Banks Group'.

Note: Figures in brackets indicate percentage to total in each group.

Source: Department of Banking Operations and Development, R.B.I.

Table VII—29: Offices* of Indian Scheduled Commercial Banks outside India (As at the end of June 1988)

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	9	—	—	—	—	—	—	—	—	9
8. France	—	1	—	—	—	—	1	—	—	2
9. Guyana	1	—	—	—	—	—	—	—	—	1
10. Hong Kong	—	2	—	—	—	5	1	—	2	10
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	6	—	—	—	—	—	—	—	—	6
25. Federal Republic of Germany	—	—	—	—	—	—	1	—	—	1
Total	**48**	**25**	**1**	**1**	**3**	**10**	**23**	**1**	**7**	**119**

* Excluding representative offices, subsidiaries and joint ventures.

Source: Department of Banking Operations and Development, R.B.I.

Table VII-30: Progress of Primary (Urban) Co-operative Banks

(Rupees crores)

Items	Co-operative year (July-June)			
	1984-85	1985-86	1986-87	1987-88
1	2	3	4	5
Total number of PCBs*	1,331	1,346	1,359	1,371
	(102)	(99)	(97)	(95)
Total number of offices of PCBs*	2,897	3,031	3,077	3,141@
	(236)	(245)	(252)	(253)
Deposits	3,255	3,939	4.838	5,326@@
Loans outstanding	2,524	3,046	3,693	4,249@@

* Includes salary earners' societies, figures for which are given in brackets.
@ As on March 31, 1988.
@@ As on January 31, 1988.

genuine trade bills of exchange held by the scheduled banks after the respective State Governments have issued necessary orders under the State Co-operative Societies Acts.

Credit Authorisation Scheme

During 1987-88, 54 proposals were received from 24 banks involving an aggregate of Rs. 40 crores seeking authorisation out of which 34 proposals for an aggregate amount of Rs. 25 crores were approved. In addition, advances aggregating Rs. 7.90 crores by 8 PCBs on consortium basis for financing housing schemes of the Maharashtra State Co-operative Housing Finance Corporation were authorised.

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.

Maximum limit on advances

Based on the recommendations of the Committee appointed by the Reserve Bank to examine the issues raised by the National Federation of Urban Co-operative Banks and Credit Societies, the maximum limit on unsecured advances for housing was enhanced from Rs. 15,000 to Rs. 20,000 in respect of banks with time and demand liabilities of Rs. 1.00 crore and above but less than Rs. 10.00 crores and to Rs. 25,000 in respect of banks with time and demand liabilities of Rs. 10.00 crores and above.

Advances against sensitive commodities

Advances against cotton seed, cotton seed oil, cotton, kapas, paddy/rice were once again brought under the purview of selective credit control in July/August 1987. With effect from April 11, 1988, bank advances against wheat were brought under the purview of selective credit control measures. Further, with a view to curbing the rising trend in prices of turmeric as well as other condiments like spices/chillies etc., PCBs were advised to exercise greater caution while granting advances against these commodities.

Study Teams/Committees

The Committee set-up to examine the issues raised by the National Federation of Urban Co-operative Banks and Credit Societies submitted its report in February 1987. Almost all the recommendations of the committee have been accepted and necessary follow up action has been taken by the Reserve Bank of India. A significant outcome of these recommendations is the decision to accord scheduled status to select

urban co-operative banks. The Government of India have since issued an order for publishing the notification in the official Gazette describing PCBs which are licensed and whose demand and time liabilities are not less than Rs. 50 crores, as financial institutions under sub-clause (iii) of clause (a) of sub-section 6 of Section 42 of Reserve Bank of India Act, 1934. Other recommendations relate to relaxation in the norms for reckoning of advances towards priority sector/ weaker sections, enhancement of the ceiling on housing loans by urban co-operative banks, increase in the maximum limit on advances of certain categories, etc.

Standing Advisory Committee for Urban Co-operative Banks

The Seventh meeting of the Standing Advisory Committee for Urban Co-operative Banks held on May 31, 1988, discussed among others, matters relating to appointment of Chief Executives and other key personnel in Urban Co-operative Banks, rationalisation of recruitment procedures, desirability of conducting the audit of Urban Co-operative Banks by Chartered Accountants, supersession of board of directors and selection of Administrators and progress in the rehabilitation of 'weak' and 'non-viable' banks.

Regional Rural Banks

Branch Expansion Programme

As mentioned in the previous year's Report, the branch expansion programme continued to be operated on the basis of branch licensing policy announced for the period April 1985 to March 31, 1990 (co-terminous with the Seventh Plan) which envisages provision of banking facilities in underbanked rural areas. The branch expansion would be allowed taking into account the need, spatial gaps and financial viability of the proposed branches, special treatment being given to hilly tracts, sparsely populated regions and tribal areas. Priority, however, would continue to be accorded to Regional Rural Banks in the allotment of identified centres in the districts covered by them.

As on June 30, 1988, 196 RRBs were set up covering 363 districts of the country. The names of the sponsor banks and the number of RRBs opened by them 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. UCO 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	
29. The U.P. State Co-operative Bank Ltd	

As at the end of December 1987, RRBs had a network of 13,353 branches. Uttar Pradesh had the largest number of branches (2,905), followed by Bihar (1,777) and Madhya Pradesh (1,512). These three States taken together accounted for 46 per cent of total number of branches. The number of branches varied between 700 and 1,100 in Andhra Pradesh, Karnataka, Orissa, Rajasthan and West Bengal and between 200 and 500 in Assam, Gujarat, Haryana, Jammu & Kashmir, Kerala and Maharashtra. The State-wise position of branches is furnished in Table VII-31.

Operations of RRBs

As at the end of December 1987, the deposits and advances of 196 RRBs aggregating Rs. 2,305 crores and Rs. 2,232 crores (direct and indirect

Table VII—31: State-wise Offices of Regional Rural Banks (As at the end of December 1987)

State/Union Territory	No. of RRBs	No. of districts covered	No. of branches
Andhra Pradesh	16	23	1,052
Assam	5	18	337
Bihar	22	38	1,777
Gujarat	9	15	313
Haryana	4	11	260
Himachal Pradesh	2	4	123
Jammu & Kashmir	3	10	256
Karnataka	13	20	1,034
Kerala	2	6	262
Madhya Pradesh	24	44	1,512
Maharashtra	10	17	486
Manipur	1	8	23
Meghalaya	1	3	42
Nagaland	1	7	8
Orissa	9	13	788
Punjab	5	10	146
Rajasthan	14	27	1,007
Tamil Nadu	3	7	160
Tripura	1	3	77
Uttar Pradesh	40	54	2,905
West Bengal	9	18	737
Arunachal Pradesh	1	4	15
Mizoram	1	3	33
Total	**196**	**363**	**13,353**

advances), respectively, were substantially higher as compared with Rs. 1,714 crores and Rs. 1,784 crores at the end of December 1986. Aggregate advances to the weaker sections accounted for 92 per cent of the total direct advances. Details of outstanding direct advances as at end-December 1987 were as follows:

Purpose	Amount in Rs. crores
Short-term (crop loans)	411
Term loans for agricultural activities	444
Allied activities	374
Rural artisan, village & cottage industries	148
Retail trade and self-employed, etc.	607
Consumption loans	16
Other purposes	193
Total	2,193

During the same period indirect advances amounted to Rs. 39 crores of which sizeable portion accrued to weaker sections. During January to December 1987, RRBs disbursed Rs. 823.80 crores in 29.67 lakhs accounts out of which Rs. 297.16 crores or 36 per cent were disbursed under Government sponsored programmes such as IRDP, DRI,etc. The total loan issued during January to December 1987 was Rs. 22.41 crores which was higher than that of the previous year.

Finance from NABARD

During the year 1987-88 (July to June) the NABARD sanctioned short-term limits aggregating Rs. 307.59 crores to 164 RRBs (including Rs. 11.02 crores for National Oilseeds Development Programme) and non-schematic medium-term (MT) limits of Rs. 97.81 crores to 142 RRBs. The outstandings against these limits were Rs. 253.72 crores on short-term (ST) and Rs. 225.25 crores on (medium-term non-schematic) at end-June 1988. Medium-term (conversion) loans of Rs. 7.11 crores were also sanctioned to 21 RRBs and outstanding balance against the same was Rs. 13.96 crores as at end-June 1988. Further, RRBs also availed of long-term refinance from the NABARD. As at the end of December 1987, 2814 schemes involving NABARD's com-

mitment of Rs. 890.45 crores were sanctioned to RRBs and drawals amounted to Rs. 793.42 crores as on that date as compared to 1850 schemes involving a commitment of Rs. 687.69 crores and drawal of Rs. 564.48 crores at the end of December 1986.

Refinance from Sponsor Banks and Other Institutions

The amount of refinance outstanding against RRBs from their respective sponsor banks amounted to Rs. 227.36 crores as at the end of December 1987 as against Rs. 246.90 crores at end-December 1986. The RRBs also availed of refinance from the IDBI to the tune of Rs. 27.67 crores at end-December 1987 as compared to Rs. 44.85 crores as at end-December 1986.

RRB (Amendment) Bill, 1987

Pursuant to the recommendations of Kelkar Working Group, Regional Rural Banks Act, 1976 was amended by Regional Rural Bank (Amendment) Bill 1987. Some of the important recommendations incorporated in the aforesaid Bill are:

(1) Enhancement of authorised capital of RRBs from Rs. 1 crore to Rs. 5 crores and paid-up share capital from Rs. 25 lakhs to Rs. 1 crore. (2) The Chairman of RRB is to be appointed by the concerned sponsor bank in consultation with the NABARD. (3) Apart from subscribing to the share capital, sponsor banks are to aid and assist the RRBs in greater measure by imparting training to the personnel and providing managerial and financial assistance to the RRBs during the first five years of their operation. (4) A provision has also been made for amalgamation of RRBs in consultation with NABARD, concerned State Government and sponsor bank taking into account public interest, development of area and interest of RRBs. (5) Sponsor banks have been empowered to monitor progress of their sponsored RRBs and also to arrange inspection, internal audit and scrutiny and to suggest corrective measures to RRBs whenever necessary.

Committees/Conferences

The fourth meeting of the Steering Committee, which was presided by the Chairman of NABARD was held on July 17, 1987. Some of the important decisions taken were:

(a) RRBs have been allowed to finance upto 5 per cent of their total advances for purchase of power tillers and tractors subject to guidelines issued by NABARD from time to time. These lendings should be on schematic basis only.

(b) RRBs have been allowed to finance medium transport vehicles in the North-Eastern region, the hilly States of Jammu & Kashmir, Himachal Pradesh and Hilly districts of Uttar Pradesh upto a ceiling of 10 per cent of the outstanding loans as against 5 per cent at present.

WORKING OF VARIOUS SCHEMES

A synoptic review of several schemes in respect of which banks were directed to pay special attention is spelt out below:

(a) Credit Authorisation Scheme

The process of liberalisation of Credit Authorisation Scheme (CAS) continued during 1987-88. As mentioned in the last year's Report, the Reserve Bank advised the banks in July 1987 that the parties who broadly adhered to the prescribed norms should be treated differently from those who did not do so.

During the year, the norms for levels of inventory/receivables for certain industries were revised, while for certain others, specific norms were fixed for the first time. The cut-off point of Rs. 1 crore for prior authorisation in respect of term loans/deferred payment guarantees (DPGs) and acceptance limits on deferred terms has been raised to Rs. 2 crores effective from June 1988. Banks have also been advised that they may sanction loans/DPGs/acceptance limits on deferred terms for amounts upto Rs. 25 lakhs each for acquisition of one or more items of equipment (generator etc.) which do not form a part of a project and such sanctions will not require prior authorisation of the Reserve Bank of India. Where the total facilities (including the outstandings under existing loan/DPGs/acceptance facilities) exceed the revised cut-off point of Rs. 2 crores, such transactions should, however, be reported to the Reserve Bank of India with full details. With a view to ensuring the effective implementation of CAS discipline, further instructions have been

issued for ensuring submission of statements under Quarterly Information System (QIS). Thus, banks were advised in April 1988 to fix the primary responsibility for regular and prompt collection and analysis of statements under the QIS at the branch level. The Regional/Head Office will, however, be responsible for overseeing compliance by branches. Further, banks were advised to invariably charge penal interest rate of at least 1 per cent per annum for a period of one quarter on the outstandings under various working capital limits sanctioned to a borrower who fails to submit any of the statements under QIS within the prescribed time. In cases where the default is of a serious or persistent nature, banks may charge, at their discretion, a rate higher than the prescribed minimum penal rate of 1 per cent per annum and could also freeze the account. In case, the lending is under formal consortium arrangements, the responsibility for ensuring timely receipt of the statements and the accountability thereof will rest with the lead bank. On the borrower's failure to comply with the QIS requirements, the concerned lead bank has to intimate other member banks about the default and the decision to charge penal interest rate. Where a borrower has availed credit facilities from more than one bank without formal consortium arrangements, each financing bank should ensure compliance with the discipline prescribed for submission of QIS statements and initiate stipulated penal measures. Further, banks have also been advised about the desirability of adopting a uniform approach in this regard and the financing banks should get in touch with one another to exchange information and appraise others of the action taken.

Working of Credit Authorisation Scheme

During the year 1987-88, the number of cases covered under the Scheme increased from 629 as at end-March 1987 to 712 at the end of March 1988. Total limits in force (including term finance and sale of machinery on deferred payment basis) declined from Rs. 21,137 crores to Rs. 20,936 crores (Table VII-32). Out of 712 parties, 189 were public sector undertakings accounting for about 57 per cent of the total limits. While working capital (including packing credit and bills) con-

Table VII—32: Distribution of Credit Limits by Type of Credit

(Rupees crores)

Type of Credit	As on March 31					
	1986		1987		1988	
	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*	20211	13133	19728	13065	19491	11399
of which	(93.3)	(96.2)	(93.3)	(96.2)	(93.1)	(95.5)
a) Bills purchased and discounted	1095	324	989	322	995	333
	(5.1)	(2.4)	(4.7)	(2.4)	(4.8)	(2.8)
b) Export finance	868	135	785	127	898	168
	(4.0)	(1.0)	(3.7)	(3.3)	(4.3)	(1.4)
Sales of machinery on deferred payment basis	270	58	232	55	228	55
	(1.2)	(0.4)	(1.1)	(0.4)	(1.1)	(0.4)
Term finance	1190	458	1177	460	1217	485
	(5.5)	(3.4)	(5.6)	(3.4)	(5.8)	(4.1)
Total limits in force	**21671**	**13649**	**21137**	**13580**	**20936**	**11939**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**
No. of parties	843	202	629	177	712	189

* 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.

tinued to claim a lion's share (93.1 per cent) of the total limits in force, term finance and sale of machinery on deferred payment basis constituted only 5.8 per cent and 1.1 per cent, respectively.

Occupation-wise, distribution of total working capital limits in force (public and private sector) as on March 31, 1988 indicated that the share of industry was the largest (63.7 per cent). More than one half of it was accounted for by engineering, chemicals and chemical products and cotton textiles industries (Table VII-33). Out of aggregate working capital limits sanctioned to the public sector, the share of industry was 44.6 per cent while that of trade was much higher at 53.6 per cent accounted mainly by public sector food procurement (32.3 per cent).

Applications received for authorisation by the Reserve Bank decreased from 749 in 1986-87 (April-March) to 616 in 1987-88, presumably due to the continued liberalisation of the Scheme. These included 172 applications received from public sector borrowers as against 204 applications received in the previous year. Applications approved numbered 444 during 1987-88 including 128 from public sector borrowers. Authorisations for an aggregate amount of Rs. 4,220 crores including Rs. 3,065 crores for public sector borrowers were sanctioned during the year (Table VII-34).

(b) Differential Rate of Interest Scheme

The performance of public sector banks in financing the weaker sections of the community under the Differential Rate of Interest (DRI) Scheme since its inception in 1972 has been impressive (Table VII-35).

Aggregate advances of public sector banks under the DRI Scheme stood at Rs. 597.65 crores in 48.14 lakh borrowal accounts as at the end of December 1987 as against Rs. 561.78 crores in 47.17 lakh accounts in December 1986, showing an increase in advances of 6.4 per cent over the year. This has been further increased to Rs. 621.52 crores in 48.08 lakh borrowal accounts by end March 1988. Almost all public sector banks have complied with the target of one per cent of the outstanding advances as at the end of the previous year set under the scheme.

As regards the requirement that at least 40 per cent of the advances under the DRI Scheme are to be sanctioned to the scheduled castes/scheduled tribes, the performance of banks has been impressive. As at the end of December 1987, the amount of advances outstanding under the scheme to beneficiaries belonging to these categories of borrowers stood at Rs. 295.47 crores, constituting 49.4 per cent of total DRI advances. These advances increased further to Rs. 306.35 crores as at the end of March 1988 constituting 49.3 per cent of total DRI advances.

(c) Self-employment Scheme for Educated Unemployed Youth (SEEUY)

As mentioned in the last year's Report, the above scheme was introduced by the Government of India during 1983-84 with the objective of encouraging the educated unemployed youths to undertake self-employment ventures in industry, service and business sectors. The scheme which is being continued on a year to year basis from 1983-84 has since been extended to cover the entire Seventh Plan period. According to available data, 1.01 lakh beneficiaries were sanctioned an aggregate credit of Rs. 207.93 crores during the year 1987-88 as against the target of 1.25 lakh beneficiaries set for 1987-88.

(d) Self-Employment Programme for Urban Poor (SEPUP)

A reference was made in the last year's Report to the programme which was introduced by the Government of India from September 1986 for providing self-employment opportunities to the urban poor. The scheme covers all cities/towns of the country not covered under IRDP. The programme was in operation during 1987-88 and has been extended to cover 1988-89. During 1987-88, 3.63 lakh beneficiaries were sanctioned loans aggregating Rs. 131.74 crores under the scheme.

(e) Financial Assistance to Ex-Servicemen for Self-Employment (PEXSEM)

During 1987-88, the Government of India extended the above scheme to 4 more districts viz., Guntur (Andhra Pradesh), Rohatak (Haryana), Jodhpur (Rajasthan) and Darjeeling (West Bengal). Further, at the instance of the Government of Andhra Pradesh, the Central Government decided to implement the scheme during 1987-88 in Vishakapatnam in place of Chittoor.

Table VII—33: Occupation-wise Distribution of Total Working Capital Limits in Force (As on March 31, 1988)
(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	**132.07**	**0.7**	**23.94**	**0.2**
1. Agriculture	**15.45**	**0.1**	**15.45**	**0.1**
(i) Direct finance	6.50	--	6.50	—
(ii) Indirect finance	8.95	—	8.95	0.1
(a) Distribution of fertilisers	8.95	—	8.95	0.1
(b) Others	—	—	—	—
2. Plantations	**116.62**	**0.6**	**8.49**	**0.1**
(i) Tea	116.62	0.6	8.49	0.1
(ii) Others	—	—	—	—
II. Industry	**12,424.82**	**63.7**	**5,081.44**	**44.6**
A. Mining & quarrying	**352.98**	**1.8**	**316.22**	**2.8**
(i) Coal mining	245.17	1.3	237.17	2.1
(ii) Iron ore	65.31	0.3	37.55	0.3
(iii) Others	42.50	0.2	41.50	0.4
B. Manufacturing	**11,664.97**	**59.9**	**4,426.30**	**38.8**
(i) Sugar	640.40	3.3	188.24	1.7
(ii) Edible oils and vanaspati	203.50	1.0	48.50	0.4
(iii) Food manufacturing and processing	34.46	0.2	—	—
(iv) Tobacco processing and tobacco product manufacturing	124.70	0.6	—	—
(v) Cotton textiles	1,338.25	6.9	312.55	2.8
(vi) Jute textiles	127.35	0.7	12.65	0.1
(vii) Silk and synthetic fibres	646.50	3.3	12.00	0.1
(viii) Wool and woollen textiles	127.60	0.7	59.98	0.5
(ix) Other textiles	17.50	0.1	—	—
(x) Paper and paper products	153.89	0.8	42.23	0.4
(xi) Leather and leather products	39.56	0.2	—	—
(xii) Rubber and rubber products	228.10	1.2	—	—
(xiii) Manufacturing of chemicals and chemical products	2,353.42	12.1	1,247.15	11.0
(a) Heavy industrial chemicals	292.52	1.5	96.63	0.9
(b) Fertilisers (production)	1,308.68	6.7	1,056.62	9.2
(c) Drugs and pharmaceuticals	269.37	1.4	40.00	0.4
(d) Plastic and plastic products	67.55	0.4	—	—
(e) Others	415.30	2.1	53.90	0.5
(xiv) Petroleum	697.66	3.6	697.66	6.1
(xv) Cement	183.10	0.9	16.00	0.1
(xvi) Basic metals and metal products	1,005.67	5.1	608.59	5.3
(a) Iron and steel	829.00	4.2	549.62	4.8
(b) Others	176.67	0.9	58.97	0.5
(xvii) Engineering (except transport equipment)	2,751.96	14.1	945.72	8.3
(a) Heavy engineering	1,600.59	8.2	804.83	7.1
(i) Machinery (except electrical machinery)	990.49	5.1	405.55	3.6
(ii) Electrical machinery	610.10	3.1	399.28	3.5
(b) Light engineering (including metal products)	1,151.37	5.9	140.89	1.2
(xviii) Manufacture of transport equipment	805.96	4.1	225.53	2.0
(i) Railway equipment industry	62.61	0.3	53.85	0.5
(ii) Others	743.35	3.8	171.68	1.5
(xix) Manufacturing—others	185.39	1.0	9.50	0.1
C. Electricity generation and distribution	**369.37**	**1.9**	**318.17**	**2.8**
D. Construction companies	**37.50**	**0.2**	**20.75**	**0.2**
III. Trade	**6,627.17**	**34.0**	**6,114.85**	**53.6**
(i) Foodgrains	3,682.60	18.9	3,682.60	32.3
(ii) Fertilisers	995.03	5.1	883.97	7.7
(iii) Mineral oils	—	—	—	—
(iv) Raw cotton	303.00	1.6	303.00	2.7
(v) Raw jute	374.00	1.9	374.00	3.3
(vi) Others	1,272.54	6.5	871.28	7.6
IV. Transport—Public Utilities and Finance	**182.81**	**0.9**	**80.43**	**0.7**
(i) Transport and communications	65.42	0.3	51.07	0.4
(ii) Financial and development institutions	109.41	0.6	21.38	0.2
(iii) Hotels, restaurants and tourism	—	—	—	—
(iv) Municipalities and administrative bodies	7.98	—	7.98	0.1
V. All others	**124.51**	**0.6**	**97.96**	**0.9**
Total	**19,491.38**	**100.0**	**11,398.62**	**100.0**

Note: Working capital includes cash credit/overdrafts, bills purchased and discounted and export finance.
Source: Industrial and Export Credit Department, R.B.I.

Table VII-34: Particulars of Applications Received, Approved, Rejected and Authorisations Granted etc. under Credit Authorisation Scheme (April-March)

Particulars	1985-86		1986-87		1987-88	
	Total	Of which Public Sector	Total	Of which Public Sector	Total	Of which Public Sector
	1	2	3	4	5	6
Applications received@	730	178	749	204	616	172
Applications approved	322	98	316	117	444	128
Applications rejected	23	4	21	6	40	6
Reporting cases	304	78	234	63	335	64
Authorisation granted by RBI (Rupees crores)	4,455	3,877	5,146	4,509	4,220	3,065
Amount involved in applications rejected (Rupees crores)	111	25	123	60	172	56
Limits reported by banks* (Rupees crores)	−2,747	−2,822	−4,376	−4,420	−4,457	−4,731

@ 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.

Source: Industrial and Export Credit Department, RBI.

Table VII-35: Progress of Lending under the DRI Scheme (Public Sector Banks)

As at the end of of December	No of borrowal Accounts (000's)	Amount outstanding (Rupees crores)	Percentage of DRI advances to total advances at the end of the previou 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	4717	561.78	1.17
1987*	4814	597.65	1.09
March 1988	4808	621.52	1.00

* Provisional.

Source: Rural Planning and Credit Department, RBI.

The PEXSEM Scheme is operative now in 18 districts of the country.

(f) Advances to Minority Communities

As referred to in last year's Report, banks were advised in July 1986, to take certain steps to ensure adequate flow of credit to certain minority communities, including among others, setting up of separate cells in the banks. Accordingly, all the public sector banks have set up special cells at head offices and designated officers in their lead districts to exclusively look after various aspects relating to credit flow to minority communities. As at the end of December 1987, advances from public sector banks, in the 40 identified districts having concentration of minority communities amounted to Rs. 428.61 crores in 7.88 lakh accounts.

(g) Integrated Rural Development Programme (IRDP)

Sustained efforts of banks continued during the year in providing finance under the IRDP, a major poverty-alleviation programme, to the families falling below the poverty line. A target of 20 million families (including 10 million families assisted during the Sixth Plan period who would be given a second dose of assistance) has been set for the Seventh Plan for assistance under this Scheme. Against this, during the first three years of the Plan period, 11.06 million families were assisted, of which 4.90 million belonged to SC/ST category and 1.70 million were women beneficiaries.

The Second round of Concurrent Evaluation of IRDP (January to June 1987) undertaken by Department of Rural Development, Government of India, revealed that 47 per cent of the assisted families belonged to the lowest income group i.e., income upto Rs. 2,265 per annum, while 13 per cent of the assisted beneficiaries crossed the revised poverty line criterion of Rs. 6,400 annual family income.

During the financial year 1987-88, 4.25 million families had been assisted and term loans amounting to Rs. 1,175.35 crores were disbursed by banks as against 3.75 million beneficiaries and term loans of Rs. 1,014.88 crores during 1986-87. Of the total beneficiaries assisted in 1987-88, 18.99 lakhs (44.7 per cent) belonged to the SC/ST category and 8.30 lakhs (19.5 per cent) were women beneficiaries (Table VII-36).

The need for relaxation in security norms for IRDP loans was reviewed by the Reserve Bank and it was decided in July 1987 to raise the ceiling on investment loans from Rs. 5,000 to Rs. 10,000 for agriculture and allied activities under IRDP for which no security was to be insisted.

Banks were also advised that it would be sufficient if in these cases the assets created with the help of bank assistance were hypothecated to them as security and they should also not ask for any collateral security or third party guarantee.

Table VII-36: Progress in Assistance Provided by Banks under IRDP

	VII Five Year Plan period Financial Year		
	1985-86	1986-87	1987-88*
1. Subsidy allocated@ (Rupees crores)	407.36	543.83	613.38
2. Subsidy utilised@ (Rupees crores)	441.10	613.38	727.44
3. Term loans disbursed (Rupees crores)	730.15	1,014.88	1,175.35
4. Number of SC/ST families assisted (In lakhs)	13.23	16.80	18.99
5. Total number of families assisted (In lakhs)	30.61	37.47	42.47
6. Target—number of families to be assisted (In lakhs)	24.71	35.00	39.64
7. No. of women beneficiaries	3.03	5.67	8.30

* Provisional.

@ Indicates share of Central and State Governments.

Source: Government of India, Ministry of Agriculture, Department of Rural Development.

Committees and Working Groups Relating to Banking

Consequent upon the proposal made in the meeting of the High Level Committee on Credit Support for IRDP held in November 1986, the Government of India have set up a Committee under the Chairmanship of Secretary, Ministry of Agriculture, Government of India in January 1987 to review the procedure for financing under IRDP. The terms of reference for the Committee, *inter alia*, are (i) to review the present procedure regarding identification/selection of beneficiaries, sanction of loans and completion of documents and procurement and distribution of assets to the beneficiaries and follow-up by bank and Government officials; (ii) to examine the feasibility of introducing a single window system and (iii) to clearly identify the responsibilities of various agencies and to suggest modalities for reducing the number of visits of beneficiaries to block and bank.

The Committee at its meeting held on April 27, 1988 took decisions on certain issues for implementation by banks. These relate to use of new format of IRDP loan applications by banks, streamlining the formats of documents required to be executed by IRDP beneficiaries, prompt disposal of loan applications, strict adherence to the instructions for observance of non-public business working day, etc. The Committee also recommended continuance of existing system of organising credit camps and that cases upto the stage of sanction may be finalised at such camps. These recommendations were communicated to banks in August 1988 for implementation.

(h) Lead Bank Scheme

As per the guidelines issued by the Reserve Bank, the lead banks prepared and implemented the Annual Action Plans (AAPs) for 1987. As at the end of June 1988, the Lead Bank Scheme covered a total number of 440 districts of the country. All the public sector banks are actively involved in the implementation and launching of Lead Bank Scheme. The lead banks have also taken necessary action for the preparation of the Fourth Round of District Credit Plans 1988-90 and AAPs 1988 in all the districts of the various States, for which guidelines have been issued by the Reserve Bank in March/April 1987.

Recovery of Agricultural Advances

A number of measures were initiated to improve recovery of agricultural advances by commercial banks. In this connection, banks were advised to create separate "Recovery Cells" for a cluster of nearby branches for continuous and effective supervision and recovery where overdues exceed 50 per cent of demand and agricultural advances are sizeable. Lead Banks have been advised to effectively utilise the forums of State Level Bankers' Committee for discussing problems of recovery and to elicit proper support from State Government machinery in dealing with wilful defaults.

The recovery performance of the public sector banks in respect of their direct agricultural advances has been encouraging as is evident from the fact that the recovery for the year ended June 1987 (latest available) was 57.1 per cent of demand as compared with 56.5 per cent for 1985-86 and 54.2 per cent for 1984-85.

Pass Book System for Rural Borrowers

Banks were advised to introduce the system of issuing loan pass books to the borrowers in rural areas, as in the case of IRDP loans where the system is already in vogue.

(i) Export Credit

During 1987-88 (April-March) outstanding export credit of 50 scheduled commercial banks (which account for about 95 per cent of bank credit) showed a significant increase of Rs. 763 crores to Rs. 3,909 crores as compared with that of Rs. 737 crores during the preceding year. Export credit constituted 5.7 per cent of non-food gross bank credit as at the end of March 1988 as compared with 5.5 per cent a year ago.

Export Credit (Interest Subsidy) Scheme, 1968

During 1987-88 (April 1, 1987 to March 31, 1988) out of the Marketing Development Assistance of the Government of India, Ministry of Commerce, the Reserve Bank disbursed interest subsidy to the tune of Rs. 44.87 crores to commercial banks and eligible co-operative banks at the rate of 3 per cent per annum on the export credit extended by them to exporters. The corresponding figure for the period April 1, 1988 to

June 30, 1988 is Rs. 29.98 crores. On behalf of the Ministry of External Affairs, the Reserve Bank also disbursed, at varying rates, special subsidy amounting to Rs. 46.78 lakhs in respect of certain special lines of credit extended to Bangladesh for its imports from India.

Duty Drawback Credit Scheme 1976

For the year (November 1987 to October 1988) as prescribed under the Duty Draw back Credit Scheme, limits aggregating Rs. 17.25 crores have been sanctioned to 21 banks. During the quarter (February 1988 to April 1988) refinance to the extent of Rs. 6.08 crores was availed of by the banks and the outstanding amount as at the end of April 1988 aggregated Rs. 5.14 crores.

(j) Housing Finance

The overall quantum earmarked for housing finance to be provided by the banking system to the various categories of borrowers remained unchanged at Rs. 150 crores. Besides, banks were asked to provide additional amount of Rs. 10 crores to the Housing Development Finance Corporation Ltd. (HDFC), for its housing finance operations during the calendar year 1987. The allocation for housing finance by banks was raised to Rs. 225 crores for 1988 and further to Rs. 300 crores for 1989. During 1987, the commercial banks' disbursements under housing finance amounted to Rs. 194.44 crores. Other major features of the revised guidelines issued to the scheduled commercial banks in March 1988 are detailed below:

(i) Individual banks were advised the target amounts set for them for 1988.

(ii) Out of the total allocation referred to earlier 60 per cent of the amounts should be channelled by way of lending either directly to individuals/groups etc. or indirectly by way of term loans to the Housing Boards, HUDCO etc. and the balance 40 per cent by way of subscriptions to the guaranteed bonds/debentures of HUDCO, etc. Further, the banks should ensure that at least 50 per cent of the amount earmarked for direct and indirect lending should be for scheduled castes/scheduled tribes, economically weaker sections and low-income groups.

(iii) The classification of borrowers into economically weaker sections, low income groups, etc. should continue to be on the basis of income criteria as adopted by HUDCO.

National Housing Bank

Reference about the establishment of the National Housing Bank (NHB) was made in the last year's Report. The National Housing Bank Bill, 1987 was passed by the Parliament during November-December 1987. NHB was set up on July 9, 1988 with head office at New Delhi, as a statutory corporation with its entire initial share capital of Rs. 100 crores subscribed by the Reserve Bank.

NHB's primary responsibility will be to promote and develop specialised housing finance institutions for mobilising resources and extending credit for housing. Being an apex body, its other important functions will include, *inter alia*, extending refinance facilities to housing finance institutions and scheduled banks, providing guarantee and underwriting facilities to housing finance institutions, formulating schemes for mobilisation of resources and extension of credit for housing, including that for economically weaker sections of the society, providing guidelines to housing finance institutions to ensure their growth on sound lines and co-ordinating the working of all agencies connected with housing.

As regards resources, the Act empowers NHB to raise the same through the issue of bonds and debentures, borrowings from the Central Government as also other institutions approved by the Central Government and acceptance of long-term deposits. It is also empowered to borrow in foreign currency from banks and financial institutions both in India and abroad. Besides, NHB will be entitled to short-term accommodation from the Reserve Bank, apart from long-term loans out of the National Housing Credit (Long-Term Operations) Fund to be set up by the Reserve Bank.

NHB will be governed by a Board of Directors consisting of 15 members drawn from experts in the fields of housing, architecture, engineering, sociology, finance, law, management and corporate planning, persons with experience in the working of institutions involved in providing finance for housing and housing development, officials of the Central and State Governments

and Directors from the Board of Directors of the Reserve Bank.

The Act empowers NHB to inspect on its own or on the direction of the Reserve Bank, the books and accounts of any housing finance institution to which it has extended financial assistance. It will also have powers to regulate or prohibit any housing finance institution, which is a corporate body, from issuing any prospectus or advertisement soliciting deposits of money from the public, to collect information from such housing finance institutions to give directions to them regarding acceptance of deposits and to inspect them for verifying the correctness of any information furnished to NHB. In other words, the powers which are at present being exercised by the Reserve Bank under the provisions of Chapter III B of the Reserve Bank of India Act, 1934 will be assumed by NHB in so far as they relate to corporate housing finance institutions. However, housing finance institutions which are firms or unincorporated associations of individuals will continue to be governed by the provisions of Chapter III C of the aforesaid Act.

The High Level Group set up by the Government of India under the Chairmanship of a Deputy Governor of the Reserve Bank, referred to in the previous year's Report, had recommended that endeavour should be made to set up at least four or five regional type housing finance institutions in the country during the Seventh Plan period. Accordingly, two public sector banks were allowed in December 1987 to set up through their subsidiaries, two housing finance companies to cater to the housing needs of the Eastern/North Eastern and Southern Regions. Recently, another public sector bank has been permitted to establish a fully-owned housing finance subsidiary to operate in the Northern Region.

(k) Crop Insurance Scheme

A comprehensive Crop Insurance Scheme which was launched throughout the country from *kharif* season 1985 covering major crops would continue to be in operation during the current *kharif* 1988 season subject to certain modifications with regard to the sum insured. The sum insured has now been reduced to 100 per cent of crop loan from 150 per cent, subject to a further ceiling of Rs. 10,000 per farmer.

Data relating to coverage under the Crop Insurance Scheme received from General Insurance Corporation (inclusive of commercial banks, co-operative banks and RRBs) are presented in the Table below:

Coverage under Comprehensive Crop Insurance Scheme

Season	No of farmers (in lakhs)	Area covered (in Hectares) (in lakhs)	Sum insured (Rs. in lakhs)	Insurance charges (inclusive of subsidy) (Rs. in lakhs)
Kharif 1987	47.34	84.42	113997.77	1908.57
Rabi 1987-88 (As on 30.4.88)	21.28	32.37	47535.40	884.48

Source: GIC statements reflecting business statistics.

Financial Assistance to Persons Affected by Natural Calamities, etc.

Owing to delayed monsoon and severe drought conditions during 1987 in many parts of the country, it was considered necessary to continue and enlarge the scope of assistance available to persons affected by natural calamities. Banks were, therefore, advised in August 1987 to meet the credit demands on priority basis for purposes like undertaking second sowing or raising alternative crops in cases where the first sowing had been adversely affected; raising fodder where it was not possible to raise either regular crop or alternative short duration kharif crop and

treating such loans as crop loans; conversion of short-term loans borrowed for first sowing into medium-term loans; rescheduling investment credit if failure of crop necessitated rescheduling of such loans; credit assistance for production of seeds; minor irrigation purposes, including those for percolation tanks, pumpsets, deepening of wells, etc. and setting up of fair price shops dealing in essential commodities.

The limit for cosumption loans for general purposes to small and marginal farmers and other weaker sections was raised from Rs. 250 to Rs. 500 per borrower. Banks were also advised that in the case of farmers affected by drought for three or more years in succession, apart from the steps already indicated, recovery of the amounts falling due on account of principal as well as interest in the current year (July 1987-June 1988) may be deferred for a period of two years or till the next normal year, whichever is earlier. Banks were also advised neither to charge penal interest in such cases nor compound the interest on dues postponed. Further, banks were advised to charge a concessional rate of interest of 10 per cent per annum on short-term loans converted/rescheduled into medium term loans for amounts upto Rs. 5,000 each in the case of farmers who have suffered three or more consecutive droughts/floods as against the rate of 11.50 per cent per annum otherwise applicable. The assistance provided by banks to the persons affected by natural calamities aggregated Rs. 756.89 crores in 18.14 lakh accounts as at the end of December 1987.

In June 1987, banks were advised to provide need-based loan assistance on concessional terms and conditions to the riot victims in Meerut (Uttar Pradesh) for continuing/re-establishing production, business and occupations (viz., transport, small industrial units, retail trade, etc.) and also for housing finance. As at the end of September 1987, banks had sanctioned loans to 769 applicants for an aggregate amount of Rs. 70.81 lakhs.

During 1987-88, there was failure of cotton crop in Prakasam and Guntur districts of Andhra Pradesh due to drought, cyclones and pests. The Government of India had appointed a High Power Committee under the chairmanship of a Deputy Governor of the Reserve Bank to look into the problems of cotton growers in these two districts. The Committee in its report suggested certain remedial measures with a view to ameliorating the distress caused to the farmers, particularly, small and marginal farmers in the two districts. The recommendations made by the Committee were accepted by the Government of India and banks were advised in June 1988 to take immediate steps to extend necessary credit support to farmers affected by the drought, etc. on the merits of each case.

Special Foodgrains Production Programme 1988-89 and 1989-90

The Task Force set up by the Prime Minister to suggest an Action Plan to meet the foodgrains target of the Seventh Plan had recommended a foodgrains target of 166 million tonnes for 1988-89 and 175 million tonnes for 1989-90. Accordingly Government of India identified 169 potential districts in 14 States as "Thrust Districts" for increasing agricultural production. For the purpose of implementation of this Programme an action plan was drawn up and communicated to the concerned State Governments. It was decided that all credit agencies should ensure the availability of adequate credit support to the farmers in these identified special programme districts. Although bulk of the credit requirements of this special Programme was expected to be met by the co-operative banks and commercial banks, regional rural banks would also have to involve themselves in the financing of this Programme.

OTHER BANKING DEVELOPMENTS

Working Capital Finance for Computer Software Industry

Guidelines were issued to the banks in April 1988 for extention of working capital finance by banks to the units engaged in computer software export and also to those catering to the Indian market. Information relating to the various segments of the computer software industry and stages involved in software developments, as also check list for appraisal, were furnished alongwith the guidelines.

Assessment of Working Capital Requirements—Treatment of Certain Items of Current Assets/Liabilities

The matter regarding classification of deposits from dealers, selling agents, etc, advance/progress payments@ from customers and security deposits/tender deposits, as also treatment of export receivables was considered by the Committee of Direction and on the basis of its recommendations, modified guidelines for treatment of these items for assessment of working capital requirements were issued in May 1988.

Working Group to Review the Norm 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 was set up by the Bank in January 1987 to examine the present systems and formulate norms relating to advances made both to healthy and sick units in consortium (with or without participation of financial institutions), as also to make appropriate recommendations from the point of view of speeding up the decision making process and providing timely and adequate credit to borrowers. Based on the first report of the Group, instructions were issued to banks in June 1987 in respect of co-ordination for nursing of weak/sick units.

Based on the Second Report of the Working Group, guidelines were issued to banks in June 1988. These deal, *inter alia*, with association of commercial banks with the project appraisal undertaken by all-India financial institutions, extent of participation by banks in term loan requirements of projects, financing of cost overrun of projects, consultation with Reserve Bank of India in the case of very large projects involving participation of banks, sanction of timely working capital facilities and release of funds for meeting need-based requirements, provision of adequate margin money by financial institutions while computing the project cost, co-ordination between financial institutions and banks in the case of modernisation/expansion/diversification of existing units, grant of term loans for import of second hand machinery, sharing of information between financial institutions and banks, joint periodical visits, reviews, inspections, etc., and upgrading of project finance skills in banks.

New Strategy for Rural Lending-Service Area Approach

A new strategy for rural lending in the form of 'Service Area Approach' is proposed to be introduced and suitable guidelines for implementation thereof on a time-bound basis have been issued to banks. Under the new approach, each rural and semi-urban branch of commercial banks (including RRBs) would be assigned a specific area within which they will operate, adopting a planned approach to its economic growth. It is envisaged that the new approach will improve the quality of lending by forging a link between bank credit and production and productivity and income levels.

The 'Service Area Approach' involves five stages in implementation viz., (i) identification of the service area for each branch in the rural/semi-urban centres; (ii) survey of the service area for assessing the potential for lending for different activities and selection/identification of beneficiaries; (iii) preparation of credit plans on an annual basis; (iv) co-ordination on an ongoing basis for the effective implementation of credit plans and (v) a continuous system of monitoring the progress in the implementation of the plans. The process of identification of the service area for each branch, which will ordinarily comprise 15-25 villages which is the first stage of implementation, has been completed in almost all the States. Appropriate arrangements for training the large number of branch officials in rural/semi-urban branches, which is essential for success of this approach have been evolved. The branches have taken up preparation of village profiles and credit plans and the new approach is proposed to be implemented from January 1, 1989.

Interest Rates on overdue NRE/FCNR Deposits

In regard to renewal of overdue deposits under Non-Resident (External) and Foreign Currency (Non-resident) Accounts banks were advised not to renew such deposits from the date of maturity.

@ Progress payments represent advances made according to the progress of the project.

They were advised that in case the depositor placed the entire amount of overdue deposit as a fresh deposit they should pay simple interest for the overdue period as follows:

Overdue period of deposit	Simple rate of interest to be paid (per cent)
i) Upto 14 days	No Interest
ii) 15 days to 45 days	3.00
iii) 46 days to 90 days	4.00
iv) 91 days and above	5.00

Deposit at Call Receipts

Deposit at Call has a specific connotation in the directives issued by the Reserve Bank on interest rates on deposits as it is applied to a transaction relating to inter-bank call money. The banks were, therefore, not permitted to receive deposits at all from parties other than banks, LIC and UTI. The banks were advised not to issue such receipts of deposits at all. However, this rule was liberalised due to difficulties faced by contractors who are required to deposit money with Government Departments, local bodies, etc. for the performance of the contracts. In order to mitigate their hardships, instructions were issued to banks on July 18, 1987, allowing them to issue Deposits at Call Receipts to the tenderers (contractors) as a special case for amounts earmarked for the earnest money held in the current accounts with them for submission to the Government Departments with tenders papers relating to construction contracts as per the requirements of Government or Local bodies.

Guidelines for Bank Finance to Assist Employees to Buy Shares of their Own Companies

In the course of Budget speech for 1988-89 the Union Finance Minister had referred to the scheme whereby companies are expected to reserve 5 per cent of capital issue for subscription by their employees. With a view to assisting employees in taking advantage of buying shares of their own companies banks were advised in March 1988 that they may provide finance to the employees fulfilling certain terms and conditions.

Customer Service

With a view to improving customer service in banks, several instructions were issued to banks from time to time. Firstly, all public sector banks were advised in August 1987 to ensure that drafts drawn on their branches are paid immediately without waiting for the receipt of relative advice from the issuing branches. Secondly, banks were also advised to pay interest for delays in collection of instruments beyond 14 days from the date of lodgement of the instrument for collection. Thirdly, banks were advised to pay interest beyond a period of 10 days if the instruments lodged and drawn on State Headquarters are not collected within 10 days. However, in respect of such of the State capitals in North Eastern Region and Sikkim where two-way postal transit time is still not less than 5 days the earlier norms of 14 days will remain unchanged. Fourthly, pursuant to the decision taken by the Government of India, banks were advised that they should not insist upon succession certificate while settling accounts of deceased depositor where the amount of credit does not exceed Rs. 25,000. Nevertheless, while settling such claims, banks were advised to observe usual safeguards including obtaining of indemnity bond wherever required. All scheduled banks in the private sector including foreign banks have been asked to take appropriate action in this regard.

Portfolio Management-Prohibition of Buy-back Arrangements

Banks were prohibited from entering into buy-back arrangements in Government and other approved securities with non-bank clients with effect from April 4, 1988. They were instructed to ensure that all such existing arrangements were terminated on the date they expire or on July 1, 1988, whichever was earlier. While banks were permitted to undertake outright purchases/sales, such transactions were to be effected at market prices. It was further clarified that outright sale and purchase transactions with the same party and for identical or similar amounts would be construed as tacit arrangements violating the instructions prohibiting buy-back arrangements with non-bank clients. Banks were also advised to submit a report to the Boards setting out compliance with the instructions prohibiting buy-back arrangements with non-bank investors and report on phased unwinding of buy-back com-

mitments to the Reserve Bank each month. A full compliance report was required to be submitted to RBI immediately after July 1, 1988. The Reserve Bank advised banks that the units of Unit Trust of India are not approved securities for buy-back arrangements.

Action Plans for Banks: 1988-90

During 1987-88, three rounds of discussions (in all seven rounds of discussions since inception of Action Plan) were held with the Chairmen of 20 nationalised banks and State Bank of India which reviewed the progress made by banks in implementation of their Action Plans upto December 1987. Banks were advised to draw up action plan for the period from April 1988 to March 1990, to be co-terminus with the Seventh Plan, broadly on the existing lines but with added emphasis on qualitative aspects. Banks have generally reorganised their organisational structures and the intermediary tiers to perform their appointed roles effectively and have initiated measures such as posting suitable personnel, delegating adequate powers and ensuring proper supervision and control by them over branches. However, the effectiveness of the supervision needs to be further sharpened. Further, it was stressed that as the image of the bank depends crucially on the personality, competence and functioning of the branch managers, it would be necessary to review the present position in this regard with a view to identifying existing deficiencies and taking corrective action. In this connection, it was emphasised that pre-training selection and post-training placement should be devetailed so as to optimise the benefit of training particularly in the specialised trainning programmes like Advanced Credit Management Course, Merchant Banking, Foreign Exchange, etc. so that they can bring about a proper work ethos and motivation in their branches. Banks were asked to identify the branches with unsatisfactory rating where their performance was poor and draw up suitable schemes for their qualitative improvement within a definite time frame.

Banks were able to identify surplus pockets of staff particularly at the larger urban and metropolitan centres and sustained efforts at staff deployment or redeployment in the interest of efficiency and profitability continued. Banks were advised to utilise their training facilities optimally and to prepare a perspective plan covering their training needs for the next five years or so.

Hire Purchase and Leasing Companies

The Committee of Direction (COD) constituted by the Reserve Bank had set up a sub-committee to formulate norms for bank credit to hire-purchase and leasing companies. Pursuant to the recommendations of the sub-committee, Reserve Bank issued guidelines in April 1988 for extension of bank credit to hire purchase/leasing concerns. As per these guidelines, banks lending to these companies should not exceed three times of their Net Owned Funds (NOF) within overall prescribed ceiling of ten times of their Net Owned Funds for total external borrowings including public deposits, debentures/bonds and borrowings from banks, financial institutions, etc. The above ceilings have been prescribed so that leasing companies may make their own efforts to raise their internal resources so that their dependence on banking system is reduced. As bank credit to leasing concerns is primarily against lease rentals receivable, banks have been advised to extend credit facilities by way of cash credit and drawings regulated within the maximum permissible bank finance.

Several commercial banks have decided to enter the field of leasing by promoting equipment leasing subsidiaries or by making portfolio investment in existing or newly set up private leasing companies. During the year, the Reserve Bank approved two proposals from public sector banks taking the total number of proposals approved for formation of subsidiaries to undertake equipment leasing merchant banking to six.

COMMITTEES AND WORKING GROUPS RELATING TO BANKING

Committee of Direction (COD)

During the year under review, the Committee of Direction (COD) met thrice to consider the reports of the sub-Committees set up to evolve/review inventory/receivables or lending norms for certain industries and for taking a view on certain operational aspects of the Credit Authorisation Scheme. Based on the recommendations of COD, fresh/revised norms for inventory/receivables levels have been prescribed for diamond exporters, tyre and other rubber products, chemical

industry, certain groups of engineering industry and certain miscellaneous industries, viz. leather products, glass, ceramics, breweries, distilleries and food products. Besides, banks have been advised of lending norms for hire purchase and leasing companies and relaxation in the norms pertaining to composite textile mills and polyester staple fibre industry.

Standing Co-ordination Committee on Co-ordination between Banks and Term Lending Institutions

The Standing Co-ordination Committee met twice during the year to discuss, among others, operational issues relating to the Board for Industrial and Financial Reconstruction (BIFR) and adherence to RBI's guidelines to banks for extension of reliefs, sharing of additional cash losses, time span for nursing a unit, etc.

Standing Committee on Co-ordination of Institutional Finance for Sugar Industry

The Standing Committee was entrusted with the task of formulating co-ordinated approach on credit requirements and related problems of the sugar industry. During the year, the Committee met twice to discuss the various problems facing the sugar industry.

Standing Committee on Export Finance (SCEF)

During the year under review, certain follow-up actions were initiated with regard to important decisions already taken by the Committee. The recommendations of the Committee, set up to study the structure of interest rates on export credit in India were examined by RBI and RBI's views thereon were duly communicated to the Central Government.

All-India Export Advisory Committee (AIEAC)

The All-India Export Advisory Committee met twice in 1987-88 and several recommendations of the Committee have been brought to the notice of the Standing Committee on Export Finance for information/decision thereon.

Working Group for Project Export

During the year 1987-88, the Working Group considered 113 proposals and cleared 99 of them. Incidentally, the Working Group considered only the projects worth Rs. 20 crores and above. In addition, 147 review meetings were held in connection with on-going projects.

'Single Window' Concept of Lending by Banks on Consortium Advances

The Working Group constituted to review norms of consortium advances, in its first Report, had suggested that under consortium financing arrangements, a 'single window' concept for disbursements and recovery by banks may be considered. Pursuant to the recommendations of the Working Group, a Committee comprising officials from the Reserve Bank and commercial banks was set up in July 1987 under the Chairmanship of one of the Deputy Managing Directors of the State Bank of India. The Committee has since submitted its Report and instructions in respect of its recommendations accepted by the Reserve Bank are being issued.

Introduction of 'Factoring Services'

The Reserve Bank initiated several measures to alleviate the difficulties experienced by industrial units, especially those in the small-scale sector, in receiving payments for the supplies made by them to various units both in the public and private sectors. One of the measures suggested in this regard is the setting up of one or more 'Factoring Organisations' in the country, so that the 'factors' would purchase the book debts of the suppliers and thereby ensure that they get timely payment for their supplies. As this matter necessitated examination in depth from the various angles, a Study Group under the Chairmanship of a former Managing Director of the State Bank of India was constituted to examine the feasibility and mechanics of starting 'factoring' organisation/s in the country and to make recommendations regarding its constitution, organisational set-up, scope of activities and related matters. Other members of the Study Group have been drawn from the Reserve Bank of India, banks, financial institutions, Central Government and National Institute of Bank Management (NIBM).

Study Group on Housing Finance Institutions

To enable NHB to promote housing finance institutions soon after its inception, the Reserve Bank constituted in September 1987 a "Study Group on Housing Finance Institutions" under the Chairmanship of a Deputy Governor. Its terms of reference are to examine and suggest: (a) an appropriate structure of housing finance institutions taking into consideration the role of the existing housing finance institutions as also the design and functioning of such institutions in other countries; (b) how the co-operative housing finance institutions at the primary and apex levels should conduct their operations *vis-a-vis* the new institutions and the evolving housing finance system; and (c) the role that could be played by the commercial banks in housing finance. The Study Group is expected to submit its report shortly.

DEPARTMENT OF FINANCIAL COMPANIES

Control over Non-Banking Companies

With the objective of regulating the growth of deposits outside the banking channel as well as to indirectly protect the interest of depositors, the Reserve Bank and the Government of India (Department of Company Affairs) continued to exercise control over the deposit acceptance activities of non-banking financial, miscellaneous, residuary non-banking and non-financial companies in terms of the Bank's Directions and the Companies (Acceptance of Deposits) Rules, 1975 applicable to these companies. These measures impose certain restrictions on the quantum and tenure of deposits, minimum and maximum rates of interest payable on deposits, maintenance of liquid assets by certain types of companies, submission of returns and balance sheets, etc.

Companies (Acceptance of Deposits) Rules, 1975—Amendment

The Government of India, Department of Company Affairs, amended Rule 3A of the Companies (Acceptance of Deposits) Rules, 1975 in terms of the notification issued on October 12, 1987. According to the revised Rule 3A, bonds issued by Housing Development Finance Company Ltd. (HDFC), Bombay have become eligible for investment by non-financial companies for purpose of liquidity requirement as stipulated under the Deposit Rules.

Issue of Fresh Directions to Residuary Non-Banking Companies

As a follow up measure of the Supreme Court Judgement, the Reserve Bank issued on May 15, 1987 a fresh set of Directions known as "Residuary Non-Banking Companies (Reserve Bank) Directions 1987" to a new class of companies called residuary non-banking companies accepting deposits under various savings schemes which are not covered by the provisions of the Prize Chits and Money Circulation Schemes (Banning) Act, 1978. These Directions contain provisions with respect to minimum and maximum period of deposits between 12 and 120 months, minimum 10 per cent interest compounded annually, abolition of forfeiture of deposits, deployment of deposit money in investment in government securities/bank deposits, etc. Accordingly, these companies are required to (a) keep 10 per cent of their aggregate liabilities to depositors in fixed deposits in the public sector banks; (b) invest 70 per cent of aggregate liabilities to depositors in approved securities; and (c) not more than 20 per cent of the aggregate liabilities or 10 times in net-owned funds of the company whichever is less in other investments which company considers safe subject to approval of the Board of Directors of the Company. These securities and deposits are eligible to be withdrawn only for repayment of the depositors. Separate books of accounts are required to be maintained by these companies for deposits received prior to May 15, 1987 and after the commencement of the Directions. They are also required to comply with the provisions of the Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977.

Chit Funds Act, 1982

As stated in the previous year's Report, the provisions of the Chit Funds Act, 1982 had come into force in 14 States/Union Territories viz., Karnataka, West Bengal, Tamil Nadu, Madhya Pradesh, Himachal Pradesh, Sikkim, Orissa, Goa, Chandigarh, Lakshadweep, Pondicherry, Dadra and Nagar Haveli, Andaman and Nicobar

Islands, and Daman and Diu. During the period under review, three more States viz., Bihar, Meghalaya and Uttar Pradesh formulated rules and the Act became operative in these States also thereby, bringing the total number of States and Union Territories to 17 under the purview of the Act. With regard to remaining States/Union Territories, the Reserve Bank has cleared the draft rules made by Governments of Haryana, Kerala, Maharashtra, Manipur, Punjab, Rajasthan and Delhi. Further action is awaited in this regard, while the matter is being pursued vigorously with rest of the States/Union Territories.

Acceptance of Deposits by Unincorporated Bodies—Limitations

During the period under review, 3 more States/Union Territories viz, Tamil Nadu, Tripura and Chandigarh made necessary arrangements for effective enforcement of the provisions of Chapter III-C of the Reserve Bank of India Act, 1934. This brings the total number of States/ Union Territories which issued notifications authorising suitable officers to take action under the said Chapter to 15 viz., Andhra Pradesh, Gujarat, Goa, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Uttar Pradesh, West Bengal, Tamil Nadu, Tripura, Delhi, Daman and Diu and Chandigarh. Besides, the Reserve Bank organised in November 1987 and January 1988 two workshops for the benefit of officials of Government of Kerala and Delhi to facilitate effective enforcement of Chapter III-C.

The Bank either singly or in association with the State Governments conducted raids on the office premises of 90 firms in Ahmedabad, Bangalore, Tamil Nadu, Kerala and Delhi and had filed complaints against 13 of them—one each in Ahmedabad and Bangalore and 11 in Kerala. One case in Kerala has since been disposed of by levy of fine by the trial court. The scrutiny of records seized from other concerns has either been completed or is in progress and arrangements are being made to file prosecution against those which are found to have violated the provisions of Chapter III-C of the Reserve Bank of India Act.

The writs/appeals pending in the Supreme Court challenging the constitutional validity of Chapter III-C came up for hearing before the Bench of three judges in August 1987 but were adjourned. The cases would be taken up again by the Supreme Court when full Bench is formed.

Trends in Deposits with Non-Banking Companies (1986-87)

During the year ended March 1987 the outstanding aggregate deposits (both regulated and exempted) with non-banking companies numbering 9916 amounted to Rs. 21,400 crores as compared with Rs. 18,072 crores of 8741 companies at the end of March 1986 (Table VII-37). Regulated deposits amounted to Rs. 4,077 crores while exempted deposits stood at Rs. 17,323 crores; the increase in exempted category of Rs. 2,517 crores was more than that of Rs. 1,480 crores in the previous year. The rise in regulated deposits was also higher at Rs. 811 crores as compared with that of Rs. 451 crores in the previous year. Although non-financial companies' deposits were larger at Rs. 15,459 crores their share in total deposits came down from 72.6 per cent in 1985-86 to 72.3 per cent in 1986-87; deposits of miscellaneous non-banking companies rose from Rs. 689 crores to Rs. 735 crores accounting for lesser share of 3.4 per cent as compared with 3.8 per cent in the previous year. Deposits held by financial companies increased from Rs. 4,270 crores to Rs. 5,206 crores while their share also increased marginally from 23.6 per cent to 24.3 per cent.

Aggregate deposits of 63 Government Companies amounted to Rs. 11,958 crores as compared with that of Rs. 10,029 crores held by 57 Government Companies in the previous year.

During the year 1986-87 the rate of growth of company deposits was larger at 18.4 per cent as compared with 16.2 per cent in the preceding year. The aggregate deposits of Rs. 21,400 crores as at the end of March 1987 formed 20.8 per cent (as against 21.0 per cent in last year) of the total deposits of Rs. 1,02,932 crores held by all scheduled commercial banks.

The States of Maharashtra, Tamil Nadu, West Bengal, Gujarat, Uttar Pradesh and Union Territories of Delhi together accounted for regulated deposits of Rs. 3,547.0 crores; exempted deposits amounted to Rs. 14,833.3 crores in these States/Union Territory. Maharashtra top-

ped the list with regulated deposits of Rs. 1,795.8 crores. Tamil Nadu Accounted for regulated deposits of Rs. 602.4 crores while the Union Territory of Delhi had regulated deposits of Rs. 566.6 crores as on 31.3.1987.

Out of the total regulated deposits held by the non-financial companies of Rs. 3,244.5 crores as on March 31, 1987, Engineering and Chemical Industries accounted for Rs. 866.7 crores and Rs. 514.7 crores, respectively. Among the financial companies, hire purchase companies held the major portion of regulated deposits amounting to Rs. 520.3 crores out of the total regulated deposits of Rs. 832.3 crores, held by all financial companies as on March 31, 1987.

Table VII-37: Deposit Growth with the Non-Banking Corporate Sector (End-March)

(Rupees crores)

Category	1985-86		1986-87*	
	No. of Companies Reporting	Amount	No. of Companies Reporting	Amount
Aggregate deposits	8,741	18,072	9,916	21,400
Of which:				
Regulated		3,266		4,077
Exempted		14,806		17,323
A. Deposits held by				
(i) Government companies	57	10,029	63	11,958
	(0.7)	(55.5)	(0.6)	(55.9)
(ii) Public limited companies	2,823	6,756	3,143	7,924
	(32.3)	(37.4)	(31.7)	(37.0)
(iii) Private companies	5,861	1,287	6,710	1,518
	(67.0)	(7.1)	(67.7)	(7.1)
B. Deposits held by				
(i) Financial companies	4,995	4,270	5,957	5,206
	(57.1)	(23.6)	(60.1)	(24.3)
(ii) Non-financial companies	2,680	13,113	2,803	15,459
	(30.7)	(72.6)	(28.3)	(72.3)
(iii) Miscellaneous non-banking companies	1,066	689	1,156	735
	(12.2)	(3.8)	(11.7)	(3.4)

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 1987-88, the Export Credit Guarantee Corporation of India Limited (ECGC) issued 6,228 policies and guarantees (excluding long-term) as against 6,757 in 1986-87. Including long-term policies and guarantees, the number stood at 6,498 during 1987-88 as against 7,069 during 1986-87. The total number of policies and guarantees (excluding long-term) in force at the end of March 1988 at 10,390 was larger as compared with 9,489 at the end of March 1987; including long-term policies and long-term guarantees, it stood at 12,521 at the end of March 1988 as against 11,709 at the end of March 1987. Value covered under insurance policies and other schemes during 1987-88 was higher at Rs. 2,857 crores as against Rs. 2,241 crores in 1986-87. Export finance (excluding long-term) covered under financial guarantees was also higher at Rs. 13,097 crores as against Rs. 10,139 crores during 1986-87; including long-term guarantees it stood at Rs. 13,233 crores during 1987-88 as against Rs. 10,268 crores in 1986-87. Scheme-wise details are furnished in Table VII-38. The premium earned during 1987-88, excluding that under Exchange Fluctuation Risk Cover

Scheme, aggregated Rs. 23.96 crores as against Rs. 20.63 crores during 1986-87 indicating a rise of 16.14 per cent over the year. No policy was issued under the Exchange Fluctuation Risk Cover Scheme during 1987-88 as against one policy with maximum liability of Rs. 2 crores issued during 1986-87. During 1987-88, total value of gross claims paid amounted Rs. 27.99 crores and value of claims recovered amounted to Rs. 7.39 crores, resulting in net claims paid of Rs. 20.60 crores.

During April-June 1988 the Export Credit Guarantee Corporation of India Limited issued 1851 policies and guarantees (excluding long-term) as against 1442 during April-June 1987. Including long-term policies and guarantees the number stood at 1914 during April-June 1988 as against 1517 during April-June 1987. The total number of policies and guarantees (excluding long-term) in force at the end of June 1988 at 10608 was larger as compared with 9847 at the end of June 1987; including long-term policies and guarantees it stood at 12629 at the end of June 1988 as against 12117 at the end of June 1987. Value covered under insurance policies and other special schemes during April-June 1988 was higher at Rs. 852 crores as against Rs. 675 crores during the same period in 1987. Export finance covered under financial guarantees was also higher at Rs. 3,826 crores during April-June 1988 as against Rs. 2,906 crores during April-June 1987; the value covered under export performance guarantees both under short-term and long-term stood at Rs. 72 crores during April-June 1988 as against Rs. 35 crores during the same period in 1987. Scheme-wise details are furnished in Table VII-38. The premium earned during April-June 1988, excluding that under Exchange Fluctuation Risk Cover Scheme, aggregated Rs. 6.26 crores during April-June 1988 as against Rs. 6.35 crores during April-June 1987. No policy was issued under the Exchange Fluctuation Risk Cover Scheme during April-June 1988 as well as during April-June 1987. During April-June 1988 the total value of gross claims paid amounted to Rs. 5.56 crores and value of claims recovered amounted to Rs. 0.61 crores, resulting in net claims paid of Rs. 4.95 crores.

Deposit Insurance and Credit Guarantee Corporation

The Deposit Insurance and Credit Guarantee Corporation (DICGC) continued to make further strides in attaining the 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 sections of the society. In addition to the Deposit Insurance Scheme, the Corporation operates 5 credit guarantee schemes—four for small borrowers (financed by commercial banks including RRBs, co-operative banks and SFCs) covering a wide range of activities and one for small-scale industrial units (financed by all the above credit institutions).

Deposit Insurance Function

During the financial year 1987-88, the number of banks participating in insurance scheme increased from 1,885 in March 1987 to 1,904 in March 1988. Out of 1,904 insured banks, 83 were commercial banks, 196 regional rural banks and 1,625 co-operative banks. At the end of March 1988, the Scheme covered co-operative banks operating in sixteen States and three Union Territories. The number of banks which are yet to be covered by the Scheme in the country is 69 only.

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. 75,511 crores, constituting 73.3 per cent of the total assessable deposits of Rs. 1,03,044 crores at end-June 1987. Fully protected accounts numbered 2,518 lakhs and accounted for 98.0 per cent of the total deposit accounts of 2,569 lakhs at end-June 1987. The total amount of deposit insurance claims paid and provided for since inception of the Scheme upto the end of March 1988 in respect of 17 commercial banks and 17 co-operative banks aggregated Rs. 47.66 crores and Rs. 2.63 crores, respectively. The Corporation received from the commercial and co-operative banks Rs 1.41 crores towards repayment till the end of March 1988.

During the year ended December 1987, the Corporation settled claims for a total amount of Rs. 28.33 crores in respect of two commercial banks which were amalgamated with public sec-

Table VII—38: ECGCI's Guarantees to Banks and Policies to Exporters

(Rupees crores)

Type	No. of Policies and Guarantees (April-March)						No. of Policies and Guarantees				Risk value covered	
	Issued during		In force at the end of		Bank Finance Guarantees availed of		Issued during (April-June)		In force at the end of June		under Guarantees during (April-June)	
	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88	1987	1988	1987	1988	1987	1988
	1	2	3	4	5	6	7	8	9	10	11	12
Standard Policies including Transfer Guarantees	4,294	3,715	7,144	7,947	—	—	863	1,164	7,341	7,968	—	—
Long Term Policies	75	94	708	738	—	—	23	16	728	665	—	—
Packing Credit Guarantees	740	578	690	441	7,159	9,331	162	122	718	431	2,123	2,691
Post-shipment Guarantees	721	905	673	791	2,925	3,685	209	212	719	798	780	1,128
Export Finance Guarantees	111	177	129	163	19	35	42	45	150	184	3	6
Export Production Finance Guarantees	10	11	5	11	5	6	2	2	6	12	Neg.	1
Export Performance Guarantees (Short-term)	881	842	848	1,037	31	40	164	306	913	1,215	9	14
Export Performance Guarantees (Long-term)	237	176	1,512	1,393	129	136	52	47	1,542	1,356	26	58
Total (excluding Long-Term Policies and Long-Term EPG)	**6,757**	**6,228**	**9,489**	**10,390**	**10,139**	**13,097**	**1,442**	**1,851**	**9,847**	**10,608**	**2,915**	**3,840**
Total (including Long-Term Policies and Long-Term EPG)	**7,069**	**6,498**	**11,709**	**12,521**	**10,268**	**13,233**	**1,517**	**1,914**	**12,117**	**12,629**	**2,941**	**3,898**

Source: Export Credit Guarantee Corporation of India Ltd.

tor banks in 1985. A provision of Rs. 26.00 crores was made in the account in respect of the claims intimated by the Punjab National Bank on account of the Hindustan Commercial Bank Ltd., which was amalgamated with the former on December 19, 1986. Besides, a claim in respect of one co-operative bank in liquidation was settled by payment of Rs. 9.61 lakhs to the liquidator and a provision of Rs. 12.35 lakhs was also made in the accounts in respect of another co-operative bank.

Credit Guarantee Schemes for Small Borrowers

At the end of March 1988, 265 banks (comprising 71 commercial banks and 194 regional rural banks) participated in the Corporation's Small Loans Guarantee Scheme, 1971. While the number of financial corporations participating in the Small Loans (Financial Corporation) Guarantee Scheme, 1971 remained unchanged at 20 that in the Service Co-operative Societies Guarantee Scheme, 1971 increased to 179 at end-March 1988 comprising 57 commercial banks, 84 regional rural banks and 38 co-operative banks. The number of participants in the Small Loans (Co-operative Banks) Guarantee Scheme, 1984 increased from 63 at end-March 1987 to 84 at end-March 1988.

The total amount of advances guaranteed under these Schemes increased from Rs. 10,446 crores at end-June 1986 to Rs. 11,116 crores during the year ended June 1987 reflecting a rise of 6.4 per cent over the period and more than fiftythree fold increase since 1972 (Table VII-39). The Small Loans Guarantee Scheme, 1971 continued to account for the bulk of total guaranteed advances (98.9 per cent). Advances to farmers and agriculturists accounted for 57.8 per cent of the guaranteed advances to small borrowers followed by transport operators (15.9 per cent), retail traders (11.4 per cent), professional and self-employed persons (6.3 per cent), business enterprises (6.3 per cent) and the residual category of borrowers under the Differential Rate of Interest Scheme (2.3 per cent).

During the fiscal year 1987-88, guarantee claims numbering 10.39 lakhs were preferred for Rs. 246.39 crores. The claims received since inception of the Schemes upto the end of March 1988 numbered 31.78 lakhs for Rs. 730.73 crores constituting 6.6 per cent of the total guaranteed advances at Rs. 11,116 crores at the end of June 1987. During the same period, 10.74 lakhs claims for Rs. 268.0 crores were disposed of, the cumulative figures of claims scrutinised and disposed of since inception of the Scheme till March 1988 being 28.15 lakhs claims for Rs. 608.09 crores.

Credit Guarantee Schemes Relating to Small-Scale Industries

The number of institutions which participated in the Corporation's Small Loans (SSI) Guarantee Scheme, 1981 increased from 480 in March 1987 to 520 in March 1988; they comprised 69 commercial banks, 161 regional rural banks, 14 state financial corporations, 8 other state development agencies and 268 co-operative banks.

The total guaranteed advances to small-scale industries moved up from Rs. 7,497 crores to Rs. 7,738 crores during the year ended June 1987 reflecting a rise of 3.2 per cent. During the fiscal year 1987-88, 49,833 claims for Rs. 137.93 crores were received and 47,636 claims for Rs. 106.70 crores were disposed of. The total receipt and disposal of claims since the inception of the Scheme till March 1988 were 1,48,440 claims for Rs. 445.57 crores and 1,29,515 claims for Rs. 239.94 crores, respectively.

As regards Government's Guarantee Scheme for small-scale industries which was discontinued as at the close of business of 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 51,775 claims for Rs. 113.63 crores till the end of March 1987. The Corporation received 3,977 claims for Rs. 13.56 crores and disposed of 4,293 claims for Rs. 21.71 crores during the financial year 1987-88. The Corporation disposed of 85,442 claims for Rs. 209.35 crores till March 1988.

Other Developments

With a view to improving the operational efficiency and to expedite the disposal of the steadily rising number of claims, the Corporation has effected certain changes in the computer processing of claims including upgradation of the capacity of the computer. Since the Corporation

has also started accepting claims on magnetic tapes from the credit institutions, there has been a significant reduction in the time-lag between lodgement and disposal of claims. The Corporation has also sought to expedite disposal of SSI claims by a more effective delegation of powers to officers at various levels in Head Office/ Branches.

An important development during the year was the submission of the Report of the Export Committee which was set up to undertake a comprehensive review of the working of the Deposit Insurance Scheme and Credit Guarantee Schemes. The recommendations of the Committee are under consideration.

Table VII-39: Credit facilities guaranteed by Deposit Insurance and Credit Guarantee Corporation

(Rupees crores)

Scheme/Category of borrowers	As at the end of June						
	1972	1982	1983	1984	1985	1986	1987
	1	2	3	4	5	6	7
A. Small Loans Guarantee Scheme, 1971	**205.7**	**4,819.8**	**5,736.4**	**7,045.1**	**8,842.3**	**10,345.1**	**10,998.2**
Farmers and agriculturists	134.7	3,041.6	3,594.8	4,182.0	5,057.7	6,020.3	6,428.3
Transport operators	28.3	731.3	937.7	1,239.6	1,510.2	1,606.0	1,664.7
Retail traders	28.3	511.8	574.8	709.8	972.5	1,191.9	1,258.0
Professional and self-employed persons	9.1	199.1	240.8	326.9	484.9	656.6	700.2
Business enterprises	5.3	209.7	239.6	322.5	473.4	609.5	694.6
Residual category of borrowers under the DRI Scheme	—	126.2	148.7	264.5	343.6	260.8	252.4
B. Small Loans (Financial corporations) Guarantee Scheme, 1971	**2.6**	**18.6**	**35.6**	**52.7**	**69.2**	**85.2**	**92.3**
Transport operators	2.4	18.4	35.4	52.3	68.9	84.9	92.0
Business enterprises	0.2	0.2	0.2	0.4	0.3	0.3	0.3
C. Service Co-operative Societies Guarantee Scheme, 1971							
Service co-operative societies	0.1	1.5	1.8	0.5	0.7	0.7	0.7
D. Small Loans (Co-operative banks) Guarantee Scheme, 1984	—	—	—	5.7@	10.8	15.0	25.0£
Total (A + B + C + D)	**208.4**	**4,839.9**	**5,773.8**	**7,104.3**	**8,923.0**	**10,446.0**	**11,116.2**
E. Small Loans (Small-scale industries) Guarantee Scheme, 1981							
All SSI units including artisans, village/cottage industries etc.	—	**3,822.1**	**4,153.7**	**4,890.9**	**5,843.7**	**7,497.5**	**7,738.0**
Total (All Schemes)	**208.4**	**8,662.0**	**9,927.5**	**11,995.2**	**14,766.7**	**17,943.5**	**18,854.2**

— Nil or negligible.

@ As at the end of December 1984.

£ The borrower-wise breakdown for 1987 is as follows: Transport operators Rs. 8.5 crores, Retail traders Rs. 7.7 crores, Professional and self-employed persons Rs. 4.1 crores, Business enterprises Rs. 4.7 crores.

Source: Deposit Insurance & 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 the 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 (National Bank) is the apex institution at the national level for agricultural credit and provides refinance assistance to the agencies mentioned above. 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 financial support to the National Bank for its operations.

New Strategy for Rural Lending— Service Area Approach

In the context of substantial increase in bank credit in the rural sector, studies on the impact of bank credit in the rural sector were undertaken by public sector banks during November-December 1987 in selected districts all over the country. The findings of these studies as directed by the Reserve Bank were discussed at a Seminar convened by the Reserve Bank in January 1988, in which the Chairmen of public sector banks participated. The conclusions arrived at the Seminar were presented before the Union Minister of Finance and the Minister of State for Finance and their implications were discussed. A major suggestion made in the Seminar was the adoption of a 'Service Area Approach' to rural lending, under which each semi-urban and rural branch of commercial banks (including RRBs) would be assigned specific areas within which they will operate, adopting a planned approach for its economic growth. The rationale of this approach was that with a substantial network of bank branches having been established in the rural and semi-urban areas, the time was opportune to move towards a service area approach to rural credit which would help in harmonising the efforts of banks in the task of rural development through credit and avoid diffusion of efforts over wide areas. This approach was accepted by the Government of India and announcement about this was made in the Budget Speech of the Union Finance Minister in February 1988.

Thus a new strategy for rural lending, namely, 'Service Area Approach' has been evolved by the Reserve Bank in terms of which each semi-urban and rural branch of commercial bank would be assigned specific areas within which they will operate, adopting a planned approach for its economic growth.

The implementation of the 'Service Area Approach' involves five stages, viz., (i) identification of the service area for each branch in the rural/semi-urban centres, (ii) survey of the service area for assessing the potential for lending for different activities and selection or identification of beneficiaries, (iii) preparation of credit plans on an annual basis, (iv) co-ordination on an on-going basis for the effective implementation of credit plans, and (v) a continuous system of monitoring the progress in the implementation of the plans.

The main advantages of the 'Service Area Approach' are (i) concentrated attention to the development of the service area designated for each branch, (ii) avoidance of duplication of efforts, (iii) organised and planned lending instead of scattered lending over wide areas, (iv) easier and effective monitoring of the end-use of credit and assessment of its impact on production levels, (v) development of a sense of pride, motivation and involvement of the branch manager in the success of his own plans and thus bringing about an improvement in the quality of lendings, optimising the use of credit and establishment of better linkages with production and productivity.

Instructions have been issued to banks for implementing the new approach and the indentification of the service area for each branch, which is the first stage of implementation, is now in progress throughout the country.

Important Developments

During the year 1987-88, the severe drought conditions which prevailed in a number of States in the country due to the failure of the South-West monsoon and the floods in certain parts of the Eastern region adversely affected the production of 1987 *kharif* crops. A number of measures were initiated to combat drought/flood situations in the country and provide relief to farmers. These included provision of larger credit to the farmers to grow alternative crops or fodder, reduction in the rate of interest on crop loans upto Rs. 15,000 granted to agricultural borrowers by co-operative banks and commercial banks from April 1988, sanction of additional short-term credit limits to banks, rescheduling/relaxation in the terms of investment credit granted by the National Bank, etc. The refinance limits sanctioned by the National Bank for crop loans recorded a sizeable rise, as a massive *rabi* programme had been launched in many states which had faced widespread damages to *kharif* crops due to drought/floods. The National Bank also provided credit support for the implementation of the special schemes for increased production of oilseeds (National Oilseeds Development Programme) and rice (Special Rice Production Programme).

The Government of India has launched a 'Special Foodgrains Production Programme' for increasing agricultural production to 166 million tonnes in 1988-89 and 175 million tonnes in 1989-90 by identifying 169 potential districts as 'thrust districts'. All credit agencies such as co-operatives, commercial banks and RRBs are required to ensure availability of adequate credit support to the farmers in these identified districts. However, bulk of the credit is to be provided by the co-operatives.

Measures to strengthen the credit delivery system by improving the functioning of Central Co-operative Banks and Land Development Banks were continued. Similarly, measures to augment institutional credit flow to the farmers in general and to the small and marginal farmers and other weaker sections in particular under various poverty alleviation and other developmental schemes for increasing production and to improve their economic conditions were pursued, with increased tempo.

Finance for Agricultural and Allied Activities

Complete data on institutional finance to agriculture and allied activities are not available for 1987-88. Data in respect of loans issued by the co-operatives for the year 1986-87 are provisional and the data for the year 1987-88 are the estimates of the National Bank. Data in respect of all scheduled commercial banks are available up to 1986-87. Data on outstanding advances of scheduled commercial banks are available up to end-June 1987. Tables VII-40 and VII-41 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. 7,921 crores in 1986-87 as against Rs. 7,159 crores in 1985-86, registering an increase of Rs. 762 crores or 10.6 per cent over the year. As in the earlier years, co-operatives continued to account for a major portion of the credit disbursed during 1986-87 (Rs. 3,902 crores or 49.3 per cent) followed by scheduled commercial banks—Rs. 3,332 crores or 42.1 per cent, RRBs—Rs. 477 crores or 6.0 per cent and State Governments—Rs. 210 crores or 2.6 per cent. As per provisional figures, credit disbursed by co-operatives is estimated to have increased to Rs. 4,328 crores in 1987-88.

Credit disbursements by scheduled commercial banks increased from Rs. 2,729 crores in 1985-86 to Rs. 3,332 crores in 1986-87. Credit disbursed by RRBs went up from Rs. 402 crores in 1985-86 to Rs. 477 crores in 1986-87 and further to Rs. 565 crores in 1987-88. Credit disbursed by the State Governments which declined from Rs. 354 crores in 1985-86 to Rs. 210 crores in 1986-87 is estimated to have increased to Rs. 422 crores in 1987-88. Data on loan disbursements by scheduled commercial banks are not yet available for 1987-88.

The total outstanding agricultural loans (direct finance) of co-operatives, scheduled commercial banks and RRBs which together amounted to Rs. 13,676 crores as at end-June 1985, increased to Rs. 16,234 crores by end-June 1986 and again

increased to Rs. 17,894 crores by end-June 1987. The share of co-operatives in these loans was significant. Their outstandings increased from Rs. 6,947 crores at end-June 1986 to Rs. 7,478 crores by end-June 1987 and estimated to have increased further to Rs. 8,244 crores by end-June 1988. Short-term loans by co-operatives were estimated to have increased from Rs. 3,237 crores in June 1986 to Rs. 3,293 crores in June 1987 and further to Rs. 3,589 crores by end-June 1988. The medium and long-term loans by PACS and LDBs increased from Rs. 3,710 crores at end-June 1986 to Rs. 4,185 crores by end-June 1987 and further to Rs. 4,655 crores by end-June 1988. The amount of outstanding loans in respect of direct finance for agriculture and allied activities by scheduled commercial banks increased from Rs. 6,613 crores in June 1985 to Rs. 8,416 crores in June 1986 and again increased to Rs. 9,355 crores by the end of June 1987. Data for June 1988 are not available in respect of scheduled commercial banks. Loans outstanding in respect of direct finance provided by RRBs also rose from Rs. 871 crores at end-June 1986 to Rs 1,061 crores at end-June 1987 and further to Rs. 1,261 crores at end-June 1988. The details of direct institutional finance for agricultural and allied activities are given in Table VII-40.

(b) *Indirect Finance*

Data on disbursements of indirect finance* to agriculture are available in respect of RRBs upto 1984-85 only. Though annual data on disbursements by scheduled commercial banks are not available, data in respect of their outstandings are available. The purpose-wise details of the indirect finance provided by scheduled commercial banks are given in Statement No. 39 of Volume-II of the Report. The outstandings 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. The outstandings of scheduled commercial banks as per provisional data stood at Rs. 1,361 crores at end-June 1987 and at Rs. 1,411 crores at end-June 1988.

The National Bank's estimates of indirect finance for agriculture and allied activities by co-operatives are available upto 1987-88. As per estimates, indirect finance to agriculture by co-operatives increased from Rs. 4,803 crores in 1986-87 to Rs. 6,047 crores in 1987-88, a major portion of which (75.2 per cent) was disbursed by the SCBs. The outstanding amount is estimated to have increased from Rs. 3,937 crores in June 1987 to Rs. 5,202 crores in June 1988. Loans disbursed by RRBs during the years 1983-84 and 1984-85 stood at Rs. 9.1 and Rs. 8.0 crores, respectively, and the outstanding loans of RRBs at Rs. 36 crores at end-June 1988 as compared with Rs. 34 crores at end-June 1987. These data are presented in Table VII-41.

The loans disbursed by the Rural Electrification Corporation (REC) went up from Rs. 440 crores in 1986-87 (April-March) to Rs. 655 crores in 1987-88. The loans outstanding also increased from Rs. 2,292 crores in March 1987 to Rs. 2,829 crores in March 1988. The total indirect loans outstanding in respect of agriculture and allied activities increased from Rs. 7,624 crores at end-June 1987 to Rs. 9,477 crores at end-June 1988. The details of financial assistance provided by the National Bank, co-operatives, scheduled commercial banks, RRBs, REC and operations of other institutions relating to rural credit are discussed in the following paragraphs.

NATIONAL BANK AND RURAL CREDIT

Sources and Uses of Funds

Resources of the National Bank

The aggregate financial resources mobilised by the National Bank for its operations during the year 1987-88 (July-June) amounted to Rs. 1,345 crores as against Rs. 887 crores in 1986-87. This substantial increase was accounted for by borrowings from the Reserve Bank of India while borrowings from the Government of India were relatively small (Table VII-42).

During the period 1987-88 (July-June), the Reserve Bank contributed Rs. 300 crores to the NRC (LTO) Fund and Rs. 10 crores to NRC (Stabilisation) Fund out of its profits as against Rs. 350 crores and Rs. 10 crores, respectively, in the preceding year. Similarly, the contributions of the National Bank were Rs. 285 crores to the NRC (LTO) Fund and Rs. 10 crores to the NRC

* Indirect finance includes credit for distribution of fertilisers, loans to Electricity Boards, loans to farmers through PACS/FSS/LAMPS and advances to agencies of State-sponsored Corporations for on-lending to weaker sections in agriculture.

Table VII-40: 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				
	1983-84	1984-85	1985-86	1986-87	1987-88	1984	1985	1986	1987	1988
I. Cooperatives	**2,938.0**	**3,154.3**	**3,674.0**	**3,902.0^{P}**	**4,328.0^{E}**	**5,734.5**	**6,366.9**	**6,947.0**	**7,478.0^{P}**	**8,244.0^{E}**
Of which:										
(a) Short-term loans by PACS[1]	2,157.8	2,323.3	2,747.0	2,833.0	3,116.0	2,554.3	2,835.9	3,237.0	3,293.0	3,589.0
	(41.0)	(45.0)	(52.2)	(58.0)	(66.7)	(96.0)	(105.0)	(114.5)	(125.0)	(136.0)
(b) Medium and long-term loans by PACS/LDBs[2]	780.2	831.0	927.0	1,069.0	1,212.0	3,180.2	3,531.0	3,710.0	4,185.0	4,655.0
	(438.7)	(461.3)	(533.0)	(540.0)	(599.0)	(2,236.4)	(2,386.4)	(2,624.0)	(2,843.0)	(3,098.0)
II. State Governments[3]	**185.2**	**241.4**	**353.6**	**209.6**	**421.8^{RE}**	..	..	..	..	..
III. Scheduled Commercial Banks (excluding RRBs)	**1,858.2**	**2,461.0**	**2,728.9**	**3,332.4**	..	**5,279.9**	**6,612.9**	**8,416.0**	**9,354.8**	..
Of which:										
(a) Short-term loans	872.4	1,034.9	1,252.4	1,481.5	..	1,637.6	1,964.2	2,355.4	2,619.1	..
(b) Term loans	985.8	1,426.1	1,476.5	1,850.9	..	3,642.3	4,648.7	6,060.6	6,735.7	..
IV. Regional Rural Banks	**262.8**	**310.1**	**402.0**	**476.9**	**564.8^{P}**	**509.4**	**696.4**	**871.1**	**1,061.2**	**1,260.5^{P}**
Of which:										
(a) Short-term loans	119.8	131.7	176.1	201.1	229.2	146.8	206.1	265.2	324.0	392.0
(b) Term loans	143.0	178.4	225.9	275.8	335.6	362.6	490.3	605.9	737.2	868.5
V. Total Direct Finance (I to IV)	**5,244.2**	**6,166.8**	**7,158.5**	**7,920.9**	..	**11,523.8**	**13,676.2**	**16,234.1**	**17,894.0**	..
Of which:										
(a) Short-term loans	3,335.2	3,731.3	4,529.1	4,725.2	..	4,338.7	5,006.2	5,857.6	6,236.1	..
(b) Medium and long-term loans	1,909.0	2,435.5	2,629.4	3,195.7	..	7,185.1	8,670.0	10,376.5	11,657.9	..

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.

Sources: (i) National Bank for Agriculture and Rural Development. (ii) Reserve Bank of India. (iii) Annual Budgets of State Governments.

Table VII-41: 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				
	1983-84	1984-85	1985-86	1986-87	1987-88	1984	1985	1986	1987	1988
I. Cooperatives[1]	**2400.0**	**2993.0**	**3744.2**	**4803.0[E]**	**6047.0[E]**	**1700.0**	**2195.0**	**2885.5**	**3937.0[E]**	**5202.0[E]**
Of which:										
a) State Co-operative Banks[2]	1550.0	2015.0	2619.5	3497.0	4546.0	1000.0	1250.0	1562.5	2064.0	2580.0
b) Central Co-operative Banks[2]	850.0	978.0	1124.7	1306.0	1501.0	700.0	945.0	1323.0	1873.0	2622.0
II. Scheduled Commercial Banks (excluding RRBs)[3]	..	..	..	..	..	**1392.3**	**1459.3**	**1366.4**	**1,361.0[P]**	**1,410.9[P]**
III. Regional Rural Banks	**9.1**	**8.0**	..	..	..	**27.1**	**30.3**	**33.3**	**34.2**	**35.6**
IV. Rural Electrification Corporation[4]	**303.2**	**327.1**	**354.5**	**440.0[+]**	**654.6[+]**	**1493.9**	**1674.5**	**1920.6**	**2291.7[+]**	**2828.6[+]**
V. TOTAL INDIRECT FINANCE	..	..	..	..	..	**4613.3**	**5359.1**	**6205.8**	**7,623.9**	**9,477.1**

.. = Not available E = Estimates P = Provisional + = Financial year (April-March).

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 levels.

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.

Source: (i) National Bank for Agricultural and Rural Development.

(ii) Reserve Bank of India.

(iii) Rural Electrification Corporation.

(Stabilisation) Fund during the year, as compared to Rs. 250 crores and Rs. 10 crores, respectively, to these funds in the previous year. The net borrowings from the Reserve Bank during the same period amounted to Rs. 467 crores as against only Rs. 89 crores during 1986-87 under the General Line of Credit sanctioned under Section 17(4E) of the Reserve Bank of India Act for financing short-term lending operations of the National Bank. Further, during the year 1987-88 the limit under this line of credit was raised to Rs. 1,950 crores from Rs. 1,400 crores. The net borrowings from the Government of India during the period amounted to Rs. 196 crores as compared to Rs. 106 crores during the year 1986-87.

Table VII-42: Resources (Net) Mobilised by the National Bank
(July-June)

(Rupees crores)

Resources	1986-87	1987-88
Reserves and Surplus	43	45
NRC (LTO) Fund	600	585
NRC (Stabilisation) Fund	20	20
Deposits	(−) 8	3
Bonds & Debentures	40	19
Borrowings from Government of India	106	196
Borrowings from RBI	89	467
Other Liabilities	(−) 3	10
Total	**887**	**1,345**

Progress of Externally Aided Projects

The National Bank has been associated with the implementation of 44 projects with financial assistance from the World Bank and other international agencies since 1969. The World Bank Group has provided assistance for 39 of these projects while another two have been assisted by the International Fund for Agricultural Development (IFAD) and one each by Kreditanstalt fur Wiederaufbau (KFW) of the Federal Republic of Germany, the Organisation of Petroleum Exporting Countries (OPEC) Fund and Swiss Development Corporation (SDC). Total assistance to be routed through the National Bank for these projects, including assistance received in respect of 29 bilateral credits (by way of co-financing of general lines of credit) aggregated US $ 2700.0 million as on June 30, 1988, as compared to US $ 2622.0 million as on June 30, 1987. Of the 44 projects, 38 projects have been completed/closed as on June 30, 1988. The ongoing projects are NABARD Credit Project-I, Inland Fisheries Projects, Haryana Irrigation Project-Phase-II, Rajasthan CAD settlement project, OPEC project (to supplement three minor irrigation schemes in Uttar Pradesh) and the Vth Indo-Swiss NABARD Project in support of non-farm activities and institutional development. During the period July 1987 to June 1988, assistance of the order of DM 70 million from KFW and Dfl 45 million from the Royal Government of the Netherlands was received and utilised by way of co-financing of the National Bank's operations under the NABARD Credit Project-I. This assistance was utilised to help in combating the severe drought conditions which prevailed in several parts of the country during the year. Similarly, under the NABARD Credit Project-I, the World Bank allowed the National Bank drawals of additional U.S. $ 70 million by re-scheduling of subsequent tranches and re-alloction of assistance under other components of the NABARD Credit Project-I. Of the World Bank assistance of US $ 375 million under this project, the drawals as on June 30, 1988 have been of the order of US $ 289 million.

In addition to the above, the National Bank has lodged claims to utilise DFl 25 million against the allocation for the year 1988 under the Netherlands Eighth line of credit of DFl 50 million for supporting NABARD Credit Project-I.

Projects in Pipeline

1. *National Seeds Project-III*

Recently, the National Seeds Project (NSP)-III has been negotiated by the Government of India with the World Bank. The investment credit component to be routed through the National Bank under the Project is of the order of US $ 31.0 million. The loan documents for the project are yet to be signed.

2. *Multi-State Sericulture Project*

A World Bank pre-appraisal Mission visited

India during March and July 1988 in connection with the Multi-State Sericulture Project, formulated by the Central Silk Board, Bangalore. Credit of substantial amount is expected to be routed through the National Bank for the development of sericulture covering five States viz., Andhra Pradesh, Jammu & Kashmir, Karnataka, Tamil Nadu and West Bengal.

National Bank's Assistance for Agriculture

The National Bank functions as an apex institution in the organised rural credit structure. To support a broad spectrum of productive activities in the rural sector, the National Bank provides refinance facilities to the various financial intermediaries dispensing credit such as the co-operatives, commercial banks and RRBs. In augmenting the flow of credit for rural development and vitalising the rural credit delivery system, the National Bank has contributed to progressive institutionalisation of agricultural credit for supporting agriculture and rural development programmes with adequate and timely flow of credit not only to the weaker sections of the rural population but also to the less developed regions.

The National Bank provides short-term credit for periods not exceeding 18 months to SCBs/RRBs for financing 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 National Bank 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 National Bank to co-operatives and State Governments as well as the rates of interest charged are presented in Table VII-43. The credit facilities are reviewed in the following paragraphs.

Credit Limits

Short-term

During 1987-88 (July-June), short-term credit limits aggregating Rs. 2,000 crores were sanctioned by the National Bank for financing seasonal agricultural operations as against Rs. 1,425 crores during the previous year. There was a significant rise in the amount of refinance for crop loans, necessitated by a massive *rabi* programme launched in many States where there was a widespread damage to *kharif* crops due to drought/floods. The increase of Rs. 575 crores in the aggregate credit limits during the year represented an all-time high of about 40 per cent over the year. In the preceding year, the rise was Rs. 116 crores or 8.9 per cent. The total limits sanctioned during the year included Rs. 470 crores for *rabi* crops (Rs. 218 crores in the previous year) and Rs. 192 crores for National Oilseeds Development Project (NODP), (Rs. 41 crores in the preceding year). The drawals against these limits during 1987-88 (July-June) were Rs. 2,576 crores as compared to Rs. 1,756 crores in 1986-87. Total repayments during 1987-88 were Rs. 2,326 crores as against Rs. 1,646 crores in the preceding year. The outstandings against the limits stood at Rs. 910 crores at the end of June 1988 as compared to Rs. 660 crores at the end of June 1987.

One major constraint in the utilisation of limits sanctioned was found to be the inability of some of the CCBs to provide adequate non-overdue cover because of poor recovery on account of the drought/floods during the year and the consequent difficulty in recycling of funds. This situation was sought to be redressed by sanction of interim accommodation to SCBs to the tune of Rs. 95 crores, but the limits were utilised to the extent of Rs. 33 crores only. As in the earlier year, the National Bank ensured that there was no credit constraint in the implementation of the Special Rice Production Programme launched in the Eastern States and certain parts of Madhya Pradesh and Uttar Pradesh. The details of financial accommodation provided by the National Bank for agriculture and other purposes like marketing of crops, distribution of fertilisers, etc.,are given in Table VII-43.

Table VII-43: The National Bank's credit to Co-operatives and State Governments during 1986-87 and 1987-88

(Rupees crores)

Section of the NABARD Act, 1981	Term-wise/Purpose-wise Finance	Period for which limits are sanctioned	1986-87				1987-88 (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**	**1781**	**2468**	**2425**	**790**	**2494**	**3380**	**3038**	**1131**
21(1)(i)/2(i)	(i) (a) Seasonal agricultural operations (at 3%	July-	1425	1756	1646	660	2000	2576	2326	910
21(1)(i)/3	below Bank Rate from March 1978)@	June								
	(b) Out of which National Oilseeds Development Project	"	41	17	4	13	192	197	142	68
	(c) Interim limits for creation of non-overdue cover in respect of SAO	"	—	—	—	—	102	35	32	3
	(ii) Marketing of crops other than cotton & kapas (at Bank Rate from June 1978)	"	—	—	—	—	2	—	—	—
21(1)(i)/3(b)	(iii) Marketing of cotton and kapas including monopoly procurement of cotton (at Bank Rate from June 1978)	"	42	—	—	—	1	—	—	—
21(1)(ii)/3(b)	(iv) Purchase and distribution of fertilisers (at 1% above Bank Rate from June 1978)	January-December	36	45	52	17	37	33	35	15
21(1)(v)/3(a)	(v) (a) Production and marketing of handloom products (at 2½% below Bank Rate from March 1978)	April-March	256	640	698	102	313	694	613	183
	(b) Interim limits for creation of non-overdue cover in respect of weavers' societies	"	—	—	—	—	2	—	—	—
21(1)(v)/3(a)	(vi) Financing of other cottage and small-scale industries (at 2½% below Bank Rate from March 1978£)	"	11	10	6	9	14	10	9	9
21(1)(iv)/2(4)	(vii) Purchase and sale of yarn (at Bank Rate)	"	10	16	20	2	13	22	23	1
21(1)(iii)/21(3)(a)&3(b)	(viii) Against pledge of sugar (at 5% above Bank Rate)	July-June	—	—	—	—	—	—	—	—
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)	"	1	1	3	—	10	10	—	10
21(1)(iii)/21(3)(a)	(x) Collection & marketing of minor forest produce (Bank Rate)	"	—	—	—	—	—	—	—	—

(Contd.)

Table VII-43: The National Bank's credit to Co-operatives and State Governments during 1986-87 and 1987-88 (Concld.)

(Rupees crores)

Section of the NABARD Act, 1981	Term-wise/Purpose-wise Finance	Period for which limits are sanctioned	1986-87 Limits sanctioned	1986-87 Drawals	1986-87 Repayments	1986-87 Outstandings	1987-88 (Provisional) Limits sanctioned	1987-88 (Provisional) Drawals	1987-88 (Provisional) Repayments	1987-88 (Provisional) Outstandings
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
24	**II. Medium Term**	**Total**	**215**	**134**	**109**	**202**	**356**	**293**	**156**	**339**
	i. Agricultural purposes (at 3% below Bank Rate)	January-December	22	14	15	34	21	13	16	31
	ii. Purchase of share in co-operative processing societies/sugar factories (Bank Rate)	"	1	—	—	—	—	—	—	—
22	iii. Conversion of short-term loans into medium-term loans in scarcity affected areas including rephasement and reschedulement (at 3% below Bank Rate from January 1979)	July-June	192	120	94	168	335	280	140	308
27	**III. Long-term**	**Total**	**14**	**12**	**18**	**95**	**88**	**88***	**15**	**169**
	Loans to State Governments for contribution to share capital of co-operative credit institutions (at 6% per annum)	April-March	14	12	18	95	88	88*	15	169
	Total Credit (I+II+ III)		**2,010**	**2,614**	**2,552**	**1,087**	**2,938**	**3,761**	**3,209**	**1,639**

— = Nil or Negligible

£ Includes financing of individual rural artisans through PACS.

@ Includes limits sanctioned and operations for NODP which is separately indicated at 'b'.

* A part of these drawals was against sanctions accorded for 1986-87. the operative period of which was extended beyond March 31, 1987 at the request of the concerned State Governments.

Source: National Bank for Agriculture and Rural Development.

Medium-term

During the calendar year 1987, credit limits for medium-term agricultural investment purposes sanctioned to SCBs and drawals made by them amounted to Rs. 21 crores and Rs. 13 crores as against Rs. 22 crores and Rs. 14 crores, respectively, in the preceding year. At end-December 1987, the amount outstanding was Rs. 31 crores as compared to Rs. 34 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-43. The downward trend in sanctions was due to the availability of separate refinance support under IRDP and other schematic lending schemes for these purposes (like purchase of draught work animals and animal-driven carts, sheep breeding, development of piggery, minor irrigation, installation of gobar gas plants, etc.).

Conversion Loans

An aggregate credit limit of Rs. 335 crores was sanctioned by the National Bank during 1987-88 (July-June) as against Rs. 192 crores in the previous year from the National Rural Credit (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 wide-spread crop failure as a result of drought, floods or other natural calamities. The significant increase this year was due to the prevalence of drought conditions in many of the States. Drawals against these limits during 1987-88 (July-June) amounted to Rs. 280 crores as against Rs. 120 crores in the previous year. As compared with Rs. 168 crores at the end of June 1987, the amount outstanding at the end of June 1988 stood at Rs. 308 crores.

Long-term

During the financial year 1987-88 (April-March), long-term credit limits amounting to Rs. 88 crores were sanctioned to State Governments for contribution to share capital of co-operative credit institutions as against Rs. 14 crores sanctioned during 1986-87. The increase in the sanction of credit limit was due to the urgent need to increase the ability of the institutions concerned to sustain larger borrowings from them in the wake of drought/flood situation. The drawals during the year amounted to Rs. 88 crores as against Rs. 12 crores during 1986-87. The amount outstanding against these loans increased to Rs. 169 crores at the end of March 1988 from Rs. 95 crores a year ago.

Important Policy Changes

Short-term Credit

a) Special Measures to Combat Drought Situation

With a view to combating the drought situation and assisting the farmers to raise alternate crops/undertake second sowing/raising of fodder, etc., the National Bank decided to provide refinance facility to the co-operative banks and RRBs to meet the credit requirements of these farmers. The banks were asked to assess the credit requirements and provide additional credit and other inputs to the affected farmers desirous of undertaking second sowing operations or cultivation of some other short duration crops. The National Bank agreed to provide additional credit limits to meet the requirements of cultivators for raising fodder in those areas where it may not be possible to raise either regular *kharif* crops or even alternate short duration crops. Banks would be provided, as per existing arrangements, conversion facilities in the event of natural calamities wherever the "annewari" was declared as 6 annas or less and where there was suspension/remission in collection of land revenue and other dues by the Government. Wherever the State Governments faced financial constraints to meet their share of conversion, the National Bank was prepared to consider scaling down their shares, on merits of each case. Further, conversion of short-term loans would not be held up for non-receipt of claims from the General Insurance Corporation of India under Crop Insurance Scheme. In case of investment credit given by co-operative banks/RRBs/CBs, where the failure of crops necessitated rescheduling of such loans, the same should be granted on the basis of case-by-case analysis. Corresponding rephasement facilities will be provided by the National Bank wherever necessary. Loans for deepening of wells, percolation tanks, pumpsets, etc., were also to be sanctioned expeditiously.

b) Credit for Rabi Programme

In order to boost the *rabi* crop output substan-

tially to compensate for the crop loss suffered in the 1987 *kharif* season, the CCBs having significant *rabi* crops in their region were advised to assess separately their credit requirements and submit their applications without delay. The National Bank, as a very special case, decided to extend certain concessions for the current year 1987-88, namely, (i) in all the areas affected by drought/flood during 1987-88, small farmers having defaults upto 20 per cent of their eligibility for SAO loans may be considered eligible for fresh finance for *rabi* 1987-88, provided such defaults were due to reasons beyond their control and the defaulters were not financed under any other circumstances, (ii) loans issued for cultivation of fodder would be considered as part of crop loan advances and such loans would have to be recovered alongwith *rabi* dues, (iii) the National Bank would be willing to consider relaxations in stipulations such as minimum involvement, seasonality discipline, etc., in deserving cases, (iv) in cases where CCBs are unable to utilise the credit limits sanctioned to them for want of adequate non-overdue cover, the SCBs may sanction from their own resources interim limits to such CCBs to enable them to build up non-overdue cover and thus avail of refinance from the National Bank. The CCBs in co-operatively under-developed States and special areas could avail of assistance from the Central Government under Central Sector Plan Scheme. Inspite of the above facilities, if CCBs were not able to provide adequate non-overdue cover, such cases should be referred to the National Bank by the SCB/Registrar of Co-operative Societies.

c) Rate of Interest on Refinance Assistance to SCBs for Financing SAO

Consequent upon reduction in the interest rate on agricultural advances by co-operatives to the ultimate borrowers, the National Bank has, effective from March 1, 1988, fixed the rate of interest on its refinance in relation to the availment of refinance by SCBs as a percentage of the outstanding at CCB level against PACS as indicated below:

Percentage of average borrowings from the National Bank to the average outstanding at CCB level during year	Rate of interest on refinance (per cent per annum)
80 and above	5.00
60 and above out below 80	4.00
below 60	3.00

d) PACS in Pilot Project Districts

With a view to enabling the selected PACS in Pilot Project Districts to have adequate borrowing power for achieving viable status by increasing their lending operations under the programme, the State Governments could avail of loans from the NRC (LTO) Fund for enabling them to contribute to the share capital of such selected PACS, irrespective of the level of overdues.

e) National Oilseeds Development Project (NODP)

Under the National Oilseeds Development Project, oilseeds production is sought to be increased from the present level of 12 million tonnes to 18 million tonnes by 1989-90 and 26 million tonnes by 2000 A.D. The National Bank has been sanctioning separate short-term credit limits for financing the cultivation of oilseeds. Credit limits sanctioned have gone up from Rs. 41 crores in 1986-87 to Rs. 192 crores in 1987-88. In the case of RRBs, the limits sanctioned aggregated Rs. 11 crores.

f) Financing of Public Distribution System

The National Bank decided to treat expenditure arising from involvement of CCBs in financing public distribution system as a legitimate charge on their lendable resources while working out the credit gap for financing seasonal agricultural operations, in view of the fact that distribution of essential commodities is a high priority programme of the Government, which helps rural consumers to get essential commodities at reasonable rates. Further, PACS being institutions functioning at the village level, are ideally suited to undertake distribution of essential commodities.

Medium-term Credit

The National Bank has been providing conversion facilities in respect of credit extended for Seasonal Agricultural Operations (SAO) in the event of natural calamities (under Section 22 (1) of NABARD Act, 1981). However, it has since been decided that conversion facilities would be also available from the National Bank to such of the CCBs which have granted conversion loans to PACS, in the event of natural calamities, but

do not have outstanding borrowings from the National Bank under the credit limits sanctioned to them for financing SAO. This facility would also be available to CCBs, which have not been sanctioned short-term credit limits for financing SAO (on the ground that they have adequate internal resources), subject to certain terms and conditions.

Conversion of Short-term Loans into Medium-term Loans

In the wake of representations received from SCBs and State Governments that there was delay in the settlement of insurance claims by the General Insurance Corporation of India for various reasons and consequent delays in granting conversions of the SAO loans at farmers' level as also in the issue of fresh crop loans for the current *kharif* operations, the National Bank decided to grant conversion facilities to SCBs on behalf of CCBs in the event of late settlement of claims by GIC, in the following situations:—

(a) In view of the delay in settlement of claims, Registrar of Co-operative Societies could permit extension of due dates in areas affected by natural calamities upto September 30, 1987. The borrowers would thus be treated as non-defaulters and be eligible for fresh loans.

(b) The National Bank would approve conversion of the gross amount of SAO loans in affected areas and sanction medium-term (conversion) loans without taking into consideration the insurance claims to be received.

(c) On receipt of insurance claims from GIC, the SCB and the concerned CCB were required to pass on to the National Bank its proportionate share in the claims received.

(d) State Governments should undertake to make good the additional interest burden required to be borne by the insured borrower on the amount of claims to be received for the period from the date of actual conversion granted at PACS level to the date of receipt of insurance claims at the CCB's level. However, this condition was relaxed in cases where the State Governments had already made assessment of the crop condition and likely yield on the basis of crop cutting experiments and furnished the required crop yield data to the GIC, in order to enable them to arrive at the compensation payable in each of the notified areas.

(e) In view of the delay in the settlement of claims by the GIC and in order to facilitate current seasonal agricultural operations by the farmers including the borrowers eligible for conversion, SAO limits for the year 1987-88 to SCBs on behalf of CCBs were to be sanctioned by the National Bank on the basis of the total requirement.

Limits to SCBs for Grant of Loans for Approved Investment Purposes

SCBs were granted medium-term loans for a period upto 7 years for investment purposes which require a longer maturity period. Initially, the sanction of medium-term credit limits (for 7 years) would be restricted to minor irrigation schemes such as, sinking of new wells with electric motor/pumpsets, deepening of old wells, etc.

Keeping in view the special problems of the North-Eastern Region, it was decided to grant medium-term credit limits to SCBs on behalf of CCBs even if their overdues exceed 60 per cent or more of the total demand. The concession would be available for a period of 2 years.

The existing conditions requiring banks to ensure that at least 50 per cent of the medium-term loans are issued to small and marginal farmers was deleted. However, the banks were required to accord priority in meeting the requirements of small and marginal farmers for various investment purposes.

Measures for Drought/Flood Relief

In view of the acute drought situation during the year under review the National Bank decided to extend the following concessions to the farmers affected by natural calamities for 3 years or more in succession, ending with 1987-88.

i) In respect of short-term (crop) loans converted/rescheduled as medium-term loans, the banks (SCBs/CCBs/RRBs) were advised to defer for a period of 2 years or till the next normal year if it occurs earlier, the recovery of the amounts falling due on account of principal as well as interest in the current year (July 1987 to June 1988).

ii) In respect of the short-term (crop) loans issued for each of the 3 years or more affected by drought/flood the banks shall grant this year the conversion/rescheduling facility to the affected borrowers for a period of 7 years (instead of the usual period of 5 years) inclusive of the 2 years moratorium period referred to in sub-paragraph (i) above. The short-term (crop) loans borrowed during the 3 consecutive years of drought/flood would thus become repayable over a total period of 10 years. The National Bank would provide corresponding deferment/moratorium to banks for this loan instalment due and interest thereon in respect of schemes financed by it.

iii) Ordinarily, the rate of interest charged on such converted/rescheduled loans is the same as that of crop loans, i.e., 11.5 per cent, if the amount of crop loans does not exceed Rs. 5,000 each. However, the short-term (crop) loans of each of these years converted/rescheduled in 1987-88 as in sub-paragraph (ii) above, and repaid in future years within due dates as per instalments fixed would be charged interest at 10 per cent per annum, if the amount of such short-term (crop) loans so converted/rescheduled did not exceed Rs. 5,000 each. Loans for larger amounts would be charged the normal rate of interest.

iv) Banks were asked not to charge penal interest on individual agricultural loans upto Rs. 25,000 borrowed during each of the 3 or more years of consecutive drought/flood.

v) Banks were asked not to compound interest on the dues converted/rescheduled.

Further, in order to provide relief to the people affected by drought/flood conditions in the country, the National Bank enhanced the sub-limit for general consumption from the present level of Rs. 75 to Rs. 500 per borrower (family), belonging to weaker sections as per IRDP definition, in the areas affected severely by drought/floods as declared by the concerned State Government. These loans would have to be repaid within a maximum period of 3 years. This relaxation would be in vogue upto the end of November 1988. Also, the advances by co-operative banks for the above purpose upto the enhanced limit will be treated as a legitimate charge on the resources of the concerned banks, while sanctioning short-term (agricultural) credit limits by the National Bank.

Long-term Credit

Loans to State Governments from NRC (LTO) Fund for Contribution to the Share Capital of Co-operative Credit Institutions

In order to ensure adequate credit support for the *Rabi* Programme, the National Bank expressed its willingness to relax, for this year (1987-88), the conditions regarding eligibility for share capital assistance such as level of overdues, level of business, etc., on merits of each case. The above decision was taken in view of the fact that resources of the co-operative credit institutions have been locked up in overdues and their liquidity was substantially affected because of the consecutive crop failures in many parts of the country.

Assistance to Borrowers Affected by Drought/Flood—Investment Credit

The National Bank decided to extend certain concessions to farmers in areas affected by drought/flood for three years or more in succession. Keeping in view the need for providing relaxation in recovery of dues, both principal and interest, in the case of farmers affected by drought/flood for 3 years or more in succession, banks (SCBs, SLDBs, RRBs) were advised to grant, as a special case, a moratorium of 2 years or till the next normal year, if it occurs earlier, for the repayment of principal and payment of interest. This relaxation is applicable to only those borrowers whose term loan instalment with interest thereon payable during the current year (1987-88) is the penultimate or the last instalment payable. In all other cases, in the affected areas, banks were advised to postpone as per the existing procedure, the recovery of loan instalment dues during the current year by extending the total period of loan by one year. The banks could, however, on the merits of each case, re-fix the period of loan upto a maximum of 15 years. The banks, as usual have been advised to charge interest at 10 per cent on instalments so postponed in the case of loans for minor irrigation and land development and in the case of loans for all purposes made to small farmers. It had also been indicated that banks should not compound interest on deferred/postponed instalment. Penal

interest should also not be charged on loans upto Rs. 25,000/-. The National Bank will provide corresponding deferment/moratorium to the banks for the loan instalment due and interest thereon in respect of the schemes refinanced by it.

Revitalisation of PACS

The ineligible weak CCBs owe their weakness largely to the PACS functioning at the grass root level. With a view to enabling reorganised PACS functioning in the area of operation of 'weak banks' which are under the National Bank's 12 Point Action Programme of rehabilitation to increase their credit and non-credit business, the National Bank would provide loans by relaxing the normal eligibility criteria in deserving cases, to the State Governments for share capital contribution upto Rs. 1 lakh where reorganised society or any of the societies merged with it is not already State-partnered and also further share capital contribution depending on requirements of the society.

Lending Programmes and Resources of SLDBs

The major sources of funds for SLDBs are the special development debentures and ordinary debentures. The debenture programme of the SLDBs is finalised by the National Bank. The ordinary debentures issued by 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 total lending programme of the SLDBs for the year 1987-88 (April-March) was fixed at Rs. 695 crores as compared to Rs. 593 crores in 1986-87. The resources for this programme were raised mainly by flotation of special development debentures (Rs. 514 crores) and issue of ordinary debentures (Rs. 87 crores). The support received from the institutional investors under the ordinary debenture programme for the year 1986-87 and 1987-88 together with the targets for lending programme for the year 1988-89 are indicated in Table VII-44.

Table VII-44: Resources of SLDBs
(April-March)

(Rupees crores)

Item	1986-87 (Achievements)	1987-88 (Targets)	1988-89
Lending Programme/ Resources	**593**	**695**	**840**
a) Special Development Debentures	437	514	746
b) Internal Resources	1	—	—
c) Ordinary Debentures	92	95	94
Target Out of (c):			
1 Actual flotation	57	87	—
(i) Subscription to Ordinary Debentures Received from Central and State Governments	8	15	—
(ii) LIC	—	35	—
(iii) SBI Group	15	15	—
(iv) Commercial Banks	10	12	—
(v) Mutual Support/ self-help	24	10	—
Total Amount Raised (a+b+c (1))	495	601	—

Source: National Bank for Agriculture and Rural Development.

Exemption of Ordinary Lendings of LDBs from Eligibility Criteria

The ordinary lendings of LDBs which are not covered by the National Bank's refinance facility have been excluded with effect from July 1, 1987 from the purview of lending eligibility criteria as in the case of other financing institutions. The SLDBs are, however, required to ensure that their actual lendings under ordinary programme do not exceed the programme fixed for them by the National Bank at the beginning of the year (April-March). While allotting the ordinary programme to individual Primary Land Development Banks/branches of SLDBs are required to give preference to the units having restricted lending eligibility for schematic lendings. This is expected to result in the increase of the loan business of such primary units, which are not able to expand on account of high level of overdues. As the ordinary debentures are high cost borrowings, the losses incurred, in this regard by the primary units in federal structure are to be absorbed by the SLDBs. The exclusion of ordinary debenture lendings from eligibility criteria is expected to result in accrual of net additional

lendable resources which may be utilised by LDBs to provide relief to the borrowers affected by drought/floods.

Relaxation in Eligibility Criteria-Deferment of Second Phase of Eligibility Criteria

In view of the widespread drought/flood conditions prevailing in large parts of the country during 1987-88, the second phase of eligibility criteria requiring an improvement of atleast 5 percentage points in the recovery of the Primay Land Development Banks having restricted lending eligibility in States outside North-Eastern Region, was deferred from July 1, 1987 to July 1, 1988 with the consent of the World Bank. This relaxation was intended to enable the PLDBs/branches of SLDBs under restricted eligibility to participate effectively in drought/flood relief measures.

Financing Rural Housing by LDBs

Keeping in view the policies of the Government of India for the financial year 1988-89, all the State Governments were advised to initiate steps for effecting suitable amendments to Co-operative Societies Acts/Bye-laws of the SLDBs for enabling these banks to take up the above activity at the appropriate time.

Rehabilitation Programme of SLDBs

The National Bank pursued with the State Governments/SLDBs concerned the implementation of the O & M Study recommendations of the 10 weak SLDBs viz., Bihar, Gujarat, Jammu and Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Tripura and West Bengal. A number of recommendations have been implemented by the respective State Governments/SLDBs. The implementation of the O & M Study recommendation in respect of the remaining SLDBs was also in progress during the year except Andhra Pradesh which has integrated its short-term and long-term structures. Two SLDBs viz., Himachal Pradesh and Pondicherry have implemented all the O & M Study recommendations. These two SLDBs have also attained 75 per cent recovery at the primary/apex level.

Programme for Strengthening LDB Structure

The 10-Point Action Programme for rehabilitation of weak primary units in the LDB structure was launched in the year 1986 by the National Bank. The programme provides for, among others, formation of district level review committees to conduct detailed investigation of overdues in the areas of operation of identified units, steps to write off or provide for the estimated bad debts through grants from State/Central Governments, time bound recovery of all wilful defaults through coercive and other steps, appropriate reliefs in respect of non-wilful defaulters, streamlining of loaning policies and procedures wherever called for and strengthening and training of staff.

Based on the overdues position as on June 30, 1985 and eligibility for inclusion in the programme and also taking into account their prospective viability, 194 out of the total number of 1,784 PLDBs/branches of SLDBs functioning in the country as on June 30, 1985 have been taken up for rehabilitation under the 10-Point Action Programme. The number of PLDBs/branches of SLDBs identified for rehabilitation has been reduced marginally due to deletion of some units from the programme as the rehabilitation plans prepared for these units showed that they would not achieve viability. The weak units which are identified for rehabilitation are located in Assam, Bihar, Gujarat, Himachal Pradesh, Jammu and Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal.

Rehabilitation programmes prepared for the weak units in Gujarat, Himachal Pradesh, Karnataka, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal have been approved by the National Bank and financial assistance amounting to Rs. 1,397.18 lakhs as per the 10-Point Action Programme was sanctioned. The rehabilitation programmes prepared by the SLDBs of Assam, Bihar, Jammu and Kashmir, Madhya Pradesh and Orissa were under modification, while programme was yet to be submitted by Maharashtra State Land Development Bank.

National Bank's Long-Term Refinance Assistance under Various Schemes

During 1987-88 (July-June), the National Bank sanctioned 9,995 schemes involving refinance

commitments of Rs. 2,037 crores as against 10,099 schemes with refinance commitments of Rs. 1,483 crores during the preceding year (July-June). Disbursements during the year (July-June) amounted to Rs. 1,482 crores as against Rs. 1,334 crores during 1986-87. As at the end of June 1988, the cumulative number of schemes sanctioned by the National Bank stood at 62,615 with commitments at Rs. 12,784 crores and the disbursements during July-June at Rs. 9,435 crores (Table VII-45).

Minor irrigation continued to be the single largest item both in regard to the number of schemes sanctioned and commitments made. During 1987-88 (July-June), the National Bank sanctioned 3,453 schemes for minor irrigation involving commitments of Rs. 808 crores and 6,542 schemes for diversified purposes (i.e., other than minor irrigation) involving commitments of Rs. 1,229 crores. Agency-wise, the shares of commercial banks (including RRBs), SLDBs and SCBs in the National Bank's total disbursements stood at Rs. 951 crores (64 per cent), Rs. 467 crores (32 per cent) and Rs. 64 crores (4 per cent) respectively, during 1987-88 (July-June) (Table VII-46).

Region-wise, the shares of North-Eastern, Eastern, Central and Western regions in total disbursements rose from 2.0 per cent, 14.0 per cent, 20.3 per cent and 13.7 per cent in 1986-87 (July-June) to 2.3 per cent, 14.6 per cent, 20.8 per cent and 14.6 per cent, respectively in 1987-88. The shares of the Northern and Southern regions, however, declined from 21.4 per cent and 28.6 per cent to 19.2 per cent and 28.5 per cent, respectively (Table VII-47).

The National Bank continued to pursue the policy of development and promotion of agricultural investments in the less developed and/or underbanked States. The disbursements in these States stood at Rs. 648 crores during 1987-88 and formed 43.7 per cent of the total disbursements at all-India level as against Rs. 563 crores (42.2 per cent) during the corresponding period of the previous year (Table VII-48). On a cumulative basis, total disbursements in these States upto the end of June 1988 amounted to Rs. 3,921 crores.

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 labourers, rural artisans and marginal and small farmers, to enable them to improve their income and eventually cross the poverty line.

The thrust under IRDP is to bring about qualitative improvement in the implementation of the programme by strengthening the backward and forward linkages, diversifying activities under the programme by an emphasis on the secondary and tertiary sector occupations. National level committees have been set up for animal husbandry, horticulture and small industries to forge stronger linkages between the infrastructure available and the beneficiaries under these sectors in different parts of the country. Intensive work on introducing sericulture has been undertaken in areas where it is feasible to promote sericulture so as to develop it as an important activity for the IRDP beneficiaries.

In the programme, special emphasis was given to qualitative monitoring focussing on raising the category of "very poor" above the poverty line. The strategy included a supplementary dose of credit to families assisted during the Sixth Plan, who remained below the poverty line for no fault of theirs. The limit for security-free loans under this programme was raised in July 1987 from Rs. 5,000 to Rs. 10,000 for agriculture and allied activities. The efforts for strengthening the Block machinery and monitoring cell at the State headquarters continued.

The salient features of IRDP are, financial assistance for acquiring income-generating assets which includes a subsidy of 25 to 50 per cent and term credit from financial institutions between 75 and 50 per cent. The subsidy is restricted to 25 per cent for the small farmers, 33⅓ per cent for the marginal farmers, agricultural labourers and rural artisans, and 50 per cent for persons belonging to the Scheduled Tribes. The financial limits of the subsidy is Rs. 3,000 in normal areas, Rs. 4,000 under Drought Prone Areas Programme (DPAP)/Desert Development Programme (DDP) areas and Rs. 5,000 for tribal families. There is no monetary ceiling on subsidy for minor irrigation projects under the programme for old as well as new families, though ceiling on the proportion of subsidy is applicable. Though the poverty line

Table VII-45: Purpose-wise Sanctions and Disbursements of Refinance Assistance by the National Bank (July-June)

(Rupees crores)

Purpose	1986-87			1987-88			Cumulative position as on June 30, 1988		
	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	3,045	483	460	3,453	808	473	22,413	5,440	3,857
Land Development/CAD	244	52	26	115	25	25	1,970	422	260
Farm Mechanisation	1,483	151	192	1,266	205	200	10,133	1,725	1,630
Plantation/Horticulture	798	110	68	1,095	140	75	6,107	909	437
Poultry/Sheep Breeding/Piggery	727	55	32	916	73	38	4,587	311	188
Fisheries	335	36	18	370	39	20	2,365	253	124
Dairy Development	719	86	48	808	98	52	4,708	431	240
Storage/Market Yards	114	36	26	91	28	29	1,908	295	239
Others	2,634	474	464	1,881	621	570	8,424	2,998	2,460
Total	**10,099**	**1,483**	**1,334**	**9,995**	**2,037**	**1,482**	**62,615**	**12,784**	**9,435**

Source: National Bank for Agriculture and Rural Development.

Table VII-46: Agency-wise Sanctions and Disbursements of Refinance Assistance by the National Bank (July-June)

(Rupees crores)

Agency	No. of Schemes*		Financial Assistance		National Bank's Commitments		Disbursements by National Bank		Cumulative position as on June 30, 1988£			
	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88	No. of Schemes	Financial assistance by agencies	National Banks' commit-ments	Disburse-ments by National Bank@
1	2	3	4	5	6	7	8	9	10	11	12	13
State Land Development Banks	2,427	2,911	573	811	520	726	433	467	17,336	5,460	4,837	3,488
Scheduled Commercial Banks@@	7,368	6,747	1,158	1,628	894	1,203	836	951	43,781	9,751	7,477	5,623
State Co-operative Banks	304	337	81	122	69	108	65	64	1,498	539	470	324
Total	**10,099**	**9,995**	**1,812**	**2,561**	**1,483**	**2,037**	**1,334**	**1,482**	**62,615**	**15,750**	**12,784**	**9,435**

@ Excludes short-term finance.
* Excludes IRDP.
£ Cumulative position includes adjustments
@@ Including RRBs.
Source: National Bank for Agriculture and Rural Development.

Table VII-47: Region-wise Disbursements of Refinance Assistance by the National Bank (July-June)

Region	1986-87		1987-88	
	Amount (Rs. crores)	Percentage to total	Amount (Rs. crores)	Percentage to total
Northern	286	21.4	285	19.2
North-Eastern	26	2.0	34	2.3
Eastern	187	14.0	217	14.6
Central	271	20.3	308	20.8
Western	183	13.7	216	14.6
Southern	381	28.6	422	28.5
Total	**1,334**	**100.0**	**1,482**	**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.

Source: National Bank for Agriculture and Rural Development.

Table VII-48: Disbursements of Refinance Assistance by the National Bank to Less-Developed and/or under-banked States (July-June)
(Schematic Lending)

(Rs. crores)

States/Union Territories	1986-87	1987-88
1	2	3
1 Uttar Pradesh	181	203
2 Madhya Pradesh	90	105
3 Bihar	88	103
4 Rajasthan	65	72
5 Orissa	43	50
6 Jammu & Kashmir	8	10
7 West Bengal	56	63
8 Assam and Other North-Eastern States	26	34
9 Himachal Pradesh	6	8
10 Andaman & Nicobar Islands	—	—
11 Sikkim	—	—
A) Total	**563**	**648**
B) Total Disbursements (All-India)	**1,334**	**1,482**
Percentage A to B	**(42.2)**	**(43.7)**

Source: National Bank for Agriculture and Rural Development.

is identified at an annual family income of Rs. 6,400, the cut-off line for assistance to rural families under the programme is Rs. 4,800. The scheme stipulates further that at least 30 per cent of the families assisted should belong to Scheduled Castes and Scheduled Tribes. To ensure better participation of women in the development process, it is also envisaged that at least 30 per cent of the beneficiaries should be women. The flow of financial investment to these categories should be commensurate with the percentage of their physical coverage.

The target for 1987-88 was to assist more than 39 lakh families, comprising over 29 lakh old beneficiaries of the Sixth Plan and 9.96 lakh new beneficiaries. During the year 1987-88 (till end-February 1988), 29.02 lakh families received assistance under the scheme. Out of this, SC/ST families numbering 12.46 lakhs constituted 43 per cent of the total. The Central Sector provided for an allocation of Rs. 310.60 crores. The total expenditure including the States' share is Rs. 477.68 crores. Term-credit of the order of Rs. 783.28 crores was disbursed for the implementation of the programme during 1987-88 (April-February). Annual data since 1983-84 are given in Table VII-48A.

Table VII-48A: Progress of Integrated Rural Development Programme

Item	Unit	1983-84	1984-85	1985-86	1986-87	1987-88 (upto February 1988)
1	2	3	4	5	6	7
1. Central allocation	Rs. crores	207.72	207.72	205.93	277.31	310.60
2. Central releases	"	194.23	206.96	207.10	278.80	269.51
3. Total expenditure including States' share	"	406.09	472.20	441.10	482.01	477.68
4. Term credit disbursed	"	773.51	857.48	730.15	700.73	783.28
5. No. of families assisted	in lakhs	36.85	39.82	30.61	28.45	29.02
6. No. of SC/ST families assisted	"	15.37	17.38	13.23	12.46	12.46

Source: Ministry of Agriculture.

Consequent to the proposal made in the meeting of the High Level Committee on Credit Support for IRDP held in November 1986, the Government of India set up a Committee in January 1987 under the Chairmanship of the Secretary, Department of Rural Development, Ministry of Agriculture, Government of India, to review the procedure for IRDP financing. The terms of reference for the Committee included among others, are: (i) a review of the present procedure regarding identification, selection of beneficiaries, sanction of loans and completion of documents, procurement and distribution of assets to the beneficiaries and follow-up by bank and Government officials, (ii) examination of the feasibility of introducing a single window system and (iii) identification of the responsibilities of various agencies and suggestion of modalities for reducing the number of visits of beneficiaries to block office and bank.

National Bank's Refinance under Integrated Rural Development Programme (IRDP)

During 1987-88 (July-June), the National Bank's refinance assistance under IRDP amounted to Rs. 448 crores. In the total disbursements under IRDP, the largest share was that of Commercial Banks (53 per cent), followed by RRBs (37 per cent), SCBs (8 per cent) and SLDBs (2 per cent). The Industry, Service and Business (ISB) component of the IRDP accounted for Rs. 221 crores (49 per cent) of the total disbursements under IRDP during 1987-88 (July-June) as against Rs. 197 crores (52 per cent) during the corresponding period of the previous year (Table VII-49).

Table VII-49: National Bank's Refinance Assistance under IRDP (July-June)

(Rupees crores)

Type of Agency	Disbursements during 1985-86	Disbursements during 1986-87	Disbursements during 1987-88 (upto June)	Cumulative upto end-June 1988
1	2	3	4	5
SLDBs	9	10	10	78
	(–)	(–)	(–)	(–)
Commercial Banks (excluding RRBs)	214	172	237	1,082
	(71)	(87)	(109)	(342)
RRBs	135	165	166	744
	(67)	(99)	(98)	(356)
SCBs	18	32	35	185
	(3)	(11)	(14)	(35)
Total	**376**	**379**	**448**	**2,089**
	(141)	**(197)**	**(221)**	**(739)**

Note: Figures in brackets indicate disbursements for ISB component.
Source: National Bank for Agriculture and Rural Development.

Refinance Facilities-Policy Changes

Refinance for Wasteland Development

Government of India has introduced a massive programme of social forestry to bring 5 million hectares of wasteland every year under fuel, food, fodder and plantation programmes. The National Bank continued to provide refinance for various schemes under the programme such as setting up of commercial nurseries for raising seedlings for plantation on wastelands, afforestation of wastelands (including those under the Tree Patta Scheme) and raising of captive plantations by user industries or by private entrepreneurs/co-operatives with appropriate market tie-up.

The facility of 100 per cent refinance for nursery schemes earlier available to banks upto 1987-88, was further extended till 1989-90, the terminal year of the Seventh Five Year Plan. Further, the National Bank also agreed to provide 100 per cent refinance assistance till the end of the Seventh Plan for development of certain other types of wastelands, viz., schemes for afforestation of wastelands by individual farmers/entrepreneurs and/or groups of farmers, either on their own lands or on the lands obtained on lease from State Governments, panchayats, etc., (excluding captive plantation schemes), and schemes formulated under the 'Tree Patta Scheme'. The number of schemes sanctioned increased from 15 in 1982-83 to 148 in 1986-87 and refinance provided increased from Rs. 3.6 crores to Rs. 9.7 crores.

Rainfed Farming

At present, about 40 per cent of the foodgrains production is estimated to come from rainfed areas. Rainfed cultivation is estimated to form about 70 per cent of total net sown area. Refinance support is provided to credit institutions for financing rainfed farming projects in districts having a mean annual rainfall of 750-1,250 mm in one season and where soil moisture is available for growing crops for a period of at least 150 days.

The National Bank has been making all efforts to promote development of watershed-based rainfed farming projects for the last many years. However, the progress in this regard has not been satisfactory. The main factors which have hindered the progress of even those small number of projects which were sanctioned by the National Bank are:

(1) Absence of watershed approach.
(2) Lack of budgetary allocation for carrying out

soil and moisture conservation measures in both arable and non-arable lands.

(3) Absence of organisational set up for effective transfer of technology and supply of inputs to farmers in the watershed.

(4) Lack of co-ordination between State Department of Agriculture and banks.

Considering the vast areas under rainfed agriculture and its contribution to output of oilseeds and pulses, the National Bank made the following proposal to the Chief Ministers of the States of Andhra Pradesh, Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu and Uttar Pradesh covering large areas under rainfed conditions. The main thrust of the proposal was to implement one or two pilot rainfed farming projects in each State by setting up an agency by the State Governments which will take up the functions of both service as well as credit. The agency will be responsible for (i) integrated development on a watershed basis beginning 1988 *kharif* season; (ii) carrying out soil and moisture conservation measures on both arable and non-arable lands in the watershed from the funds made available by the State Government; (iii) arranging for transfer of technology; (iv) ensuring supply of inputs like seeds, fertilisers, pesticides, etc.; (v) financing for in-site moisture conservation, purchase of implements, etc., to the farmers from the funds made available by the banks through the National Bank refinance and recovery of such loans; (vi) covering the watershed under crop insurance and arranging for conducting adequate number of crop cutting experiments to estimate the yields of crops grown in the watershed.

In these projects, the National Bank proposes to ensure uninterrupted supply of credit to the farmers during the whole cycle of good and bad years in terms of yields, provided the farmers have repaid every year the amount of loan determined on the basis of crop cutting experiments.

In pursuance of this approach, the National Bank convened a meeting of the Agricultural Production Commissioners/Secretaries of the above States, senior scientists of ICRISAT and CRIDA to discuss the above proposal. It was agreed that the State Governments would identify one or two watersheds with details of resource analysis of watershed, land use classification and study of the extent of defaulters, so far to facilitate ultimate selection of one watershed for each State as a pilot project. In response to this initiative of the National Bank, the State Governments of Andhra Pradesh, Karnataka and Tamil Nadu have forwarded their proposals and one pilot project has been taken up for implementation from *kharif* 1988 in each of these three States.

Strengthening and Future Development of Co-operative Structure

Reorganisation of PACS

The process of reorganisation of PACS as per the guidelines suggested by the National Bank is reported to have been completed in all the States except Jammu and Kashmir, Maharashtra and Gujarat. While the reorganisation process is under way in Gujarat, the programme formulated in Jammu and Kashmir is still to receive the approval of the State Government. There is no change in the outlook of the Maharashtra State Government which is reluctant to implement the programme. As a result of reorganisation, the total number of PACS in the country decreased from 92,408 at the end of June 1986 to 91,927 as on June 30, 1987.

Eligibility Criteria for Schematic Refinance

During the co-operative year 1987-88 (July-June) there was a shift in the policy relating to the regulation of refinance facilities from the National Bank. This was done with a view to encouraging the short-term co-operative credit structure to step up their participation in schematic lending. The revised eligibility criteria came into force from July 1, 1987. As per the convenants of the World Bank, for NABARD Credit Project-I, CCBs and branches of the SCBs have been treated as one unit under the revised criteria and individual eligibility was worked out on the basis of percentage of cash recovery to demand in respect of medium and long-term loans (except medium-term conversion/rephased loans) for agriculture and allied activities made by such units. The banks have been classified into four categories on the basis of their recovery performance, viz., i) those whose recovery is more than 75 per cent, ii) those whose recovery is between 65 per cent and 74 per cent, iii) those whose recovery is between 41 per cent and 64 per cent and iv) those whose recovery is below 40 per cent.

Separate eligibility on sliding scale has been worked out for banks in each of these categories. However, in view of the flood/drought conditions prevailing in most of the States in the country, 5 percentage points relaxation was made in the categories ii, iii and iv with a view to enabling the lending institutions to avail of refinance facility from the National Bank for meeting the credit needs in the drought affected areas during 1987-88. As regards SCBs located in the North-Eastern Region, softer norms have been prescribed and only three categories, as against four in other States, have been stipulated viz., (i) banks having recovery above 75 per cent, (ii) banks having recovery between 60 per cent and 74 per cent and (iii) banks having recovery below 59 per cent. The existing covenants under NABARD Credit Project-I are applicable to term loans for agricultural and allied activities under the schematic window. In respect of these schematic lendings, the ISB component of IRDP relating to non-farm sector activities does not come under agricultural purposes. The revised eligibility criteria are also not applicable to medium-term credit limits sanctioned by the National Bank to SCBs/CCBs for sporadic investment credit (i.e., non-schematic lending). All short-term loans and non-agricultural loans are kept outside the purview of the revised eligibility criteria. The CCB/SCB branches with restricted eligibility are, in the first instance, to utilise refinance from the National Bank towards meeting the committed expenditure under on-going schemes and the residual portion towards financing small farmers, marginal farmers and other weaker sections.

Rehabilitation of CCBs/SCBs

As at the end of June 1987, as many as 176 CCBs and 7 SCBs (in two-tier) have been identified as 'weak' and brought under the programme of rehabilitation. Bihar had the largest number of weak banks (34) followed by Uttar Pradesh (25) and Rajasthan (21).

It may be mentioned that while the existing rehabilitation programme is in operation, special attention was needed for that category of weak banks, which were ineligible for credit limits from the National Bank as consequently the areas served by such banks suffered from highly inadequate support to their production programmes. Therefore, a 12-Point Action Programme was launched by the National Bank which aimed at tackling the problems of these banks on a priority basis in a time-bound manner. The programme, *inter alia*, envisages revitalisation of PACS, rescheduling of overdues in respect of non-wilful defaults, write off of dues against non-wilful defaulters, provision of ad-hoc refinance assistance from the National Bank, strengthening of resources of weak CCBs, strengthening of staff, training of personnel, improving the monitoring system, etc. The programme envisaged provision of assistance to weak CCBs from the National Bank as well as from the State Governments and SCBs. The programme will be implemented once the State Government agreed in principle to accept financial and other commitments. As per the prescribed norms, 50 CCBs and 4 SCBs are eligible for inclusion under this programme. The National Bank has agreed to provide support to SLDBs/SCBs/CCBs brought under the rehabilitation programme to improve the operational efficiency of these banks.

National Bank's Assistance for Non-Agricultural Sector

With a view to promoting integrated rural development and assisting the growth of rural areas, the National Bank besides supplying credit for agriculture and allied activities also provides financial assistance to the non-farm sector. 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. Short-term credit is provided for financing production and marketing activities of co-operative sugar mills, industrial co-operative societies, 22* broad groups of recognised cottage

* The list of industries covered by the 22 broad groups of cottage and small-scale industries are, (1) flaying and tanning, (2) leather goods, (3) pottery, (4) handpounding of paddy and cereals, (5) rice milling including flour mills and bakeries, (6) oil crushing, (7) palm gur, (8) cane sugar and *'khandsari*, (9) canning of fruits and vegetables, (10) manufacturing and processing of agricultural and marine products and forest produce including beverage industries, (11) other village industries, (12) handicrafts industries, (13) general engineering, (14) chemical engineering and chemical industries, (15) construction materials, (16) sericulture, (17) coir, (18) spinners' activities, (19) cotton textiles and other textiles, (20) printing, book-binding and lithography, (21) saw mills, wood work, furniture and fixtures, and (22) miscellaneous industries.

and small-scale industries, rural artisans including weaver members of LAMPS/FSS/PACS. Medium-term finance is also provided for meeting their investment capital needs. The changes in refinance assistance provided by the National Bank to this sector are reviewed in the following paragraphs.

Industrial Co-operatives

Financing and Marketing Activities of Industrial Co-operative Societies (Other than Weavers' Societies)

The overdue norms applicable to determine the eligibility for sanction of short-term credit limits for financing the working capital requirements of industrial co-operative societies engaged in any one of the approved 22 broad groups of cottage and small-scale industries were delinked for the purpose of refinance from the National Bank (except under ISB/IRDP). The CCBs would be eligible for short-term credit limits for the above purposes irrespective of the level of overdues, provided financing banks take necessary action to ensure recovery of loans and banks/branches keep a close watch and monitor the recovery position in individual accounts and initiate timely action.

Financing Working Capital Requirements of Rural Artisans (Including Weaver Members of PACS/LAMPS/FSS)

With a view to ensuring adequate flow of credit to the rural artisans and weaver members of PACS/LAMPS/FSS, the National Bank decided to delink once and for all the overdues norms from the eligibility conditions for the purpose of refinance (except under ISB/IRDP). The financing banks have to take necessary action to ensure proper recovery of loans. The concerned banks/branches have been advised to keep a close watch and monitor the recovery position in individual account and initiate timely remedial action.

Relaxation to Weavers' Co-operative Societies

Relaxation granted to apex/regional weavers' societies to show as cover for their borrowings, the subsidy claims in respect of procurement of 'Janata cloth' under the Government of India (GOI) scheme during 1987-88 has been extended to the year 1988-89 also.

Weavers' Societies

Normally the relief measures are confined to farmers in drought and flood affected areas. For the first time Government of India announced a scheme for providing assistance to handloom weavers in these areas. With a view of supplementing the governmental efforts to combat the drought situation in the country in 1987-88 and also to ameliorate the conditions of the weavers in flood affected areas of the country, the National Bank has granted certain relief measures by way of extending additional credit limits for the working capital requirements of apex/regional weavers' societies and primary weavers' societies. Further, reschedulement facilities for the amount of instalment fallen due for repayment under ISB of IRDP have also been extended. To amplify, as the drought/flood situation had affected the sales of the societies resulting in unavoidable piling up stocks of goods for a temporary period, the weavers were unable to continue with the production activities. In order to ensure continuous employment to the weavers, the National Bank decided to sanction additional limits to primary/apex/regional weavers' societies for periods ranging from 6 to 9 months during the period of drought/floods. The aggregate of additional limit and normal limit sanctioned was to be limited to 75 per cent of anticipated production/sales during the year as against the normal limit of 40 per cent of anticipated production in the case of primary weavers' co-operative societies and 40-50 per cent of anticipated sales in the case of apex weavers' co-operative societies adopted for sanction of credit limits.

Non-Farm Activities

Waiver of Government Guarantee for Term Loans to SCBs

Keeping in view the need for acceleration of industrial growth as envisaged in the Seventh Five Year Plan and in view of the difficulties experienced by the SCBs, the requirements of obtaining Government Guarantee for financing non-farm sector schemes (term-loans) have been waived in favour of those scheduled or non-scheduled state co-operative banks which possess either 'A' or 'B'

class audit classification and provide security as prescribed by the National Bank/RBI from time to time.

Assistance for Setting Up/Strengthening Technical, Monitoring & Evaluation (TME) Cells in SCBs/DCCBs, LDBs and RRBs for Non-farm Sector Activities

Having regard to the need for enhancing the operational efficiency of the credit agencies to undertake project financing functions systematically in the field of non-farm lending, the National Bank introduced a scheme for providing assistance to SCBs/DCCBs/LDBs and RRBs for setting up/strengthening Technical, Monitoring and Evaluation (TME) Cells. These TME Cells will have qualified key personnel in select disciplines to carry out potential survey, project preparation appraisal, post-investment supervision, monitoring and evaluation of the units assisted by the banks. The National Bank will provide 100 per cent assistance by way of grant from R and D Fund. The assistance will cover the expenditure on salaries of key personnel plus 10 per cent expenditure on supporting staff on an annual basis for the first 5 years, subject to a maximum of Rs. 3 lakhs in the case of SCBs/SLDBs, Rs. 2 lakhs in the case of DCCBs and Rs. 1 lakh in the case of RRBs. The banks are required to bear the full cost of the Cell from the sixth year.

Extension of Refinance Facilities to Finance Agro-industrial Projects

In addition to the refinance schemes for cottage, village, tiny and small industries, the National Bank has introduced a specific refinance scheme to enable the banks to finance medium scale agro-based industries in the non-traditional sector. Agro-based industries cover agro-industrial projects (manufacture of agricultural and plant protection equipment), agro-processing projects (processing of food, fruits, livestock as well as forest produce) and agro-chemical products.

The banks eligible for refinance are Scheduled Commercial Banks, State Co-operative Banks, District Central Co-operative Banks, and State Land Development Banks. The ultimate eligible borrowers constitute the state level corporations such as Agro-Industrial Corporations, Forest/Tribal Development Corporations, Khadi and Village Industries Commission (KVIC), State Khadi and Village Industries Boards (KVIBs), State Level Co-operative Societies/Federations, Co-operative Marketing/Processing and Industrial Societies, Registered Societies in KVIC/KVIB fold, public/private limited companies, partnership firms and proprietary concerns. Financing of corporations, KVIC and KVIBs would be for enabling them to set up their own units and not for purposes of on-lending. The quantum of assistance to the institutional borrowing units such as State level Corporations, (Agro-Industries Corporation, Forest/Tribal Development Corporations, etc.) KVIC, KVIBs, State Level Co-operative Societies/Federations, Co-operative Marketing/Processing and Industrial Societies, Registered Societies in KVIC/KVIB fold, etc., will be not more than 87.5 per cent of single or multiple project cost. The outlay of a single project shall not normally be above Rs. 3.0 crores. Also, the quantum of assistance to public/private limited companies, partnership or proprietary concerns upto SSI limit shall not be more than 87.5 per cent of the project cost. The project financing (including modernisation/renovation) shall comprise cost of land, land and site development, construction of workshed, building, plant and machinery, equipment and tools, cost of technical upgradation/technical know-how and engineering fees, preliminary and pre-operative expenses, project formulation and consultancy fees and acquisition of transport vehicles. Refinance assistance to banks will be provided by the National Bank upto 75 per cent of their advances.

The interest rates on the refinance assistance to be charged to the banks and corresponding rate of interest to be charged to the ultimate beneficiaries are as under:

Interest Rates on Refinance Assistance

(Per cent per annum)

	For SSI units	Other than SSI units
1	2	3
1. National Bank to Banks	8	10
2. Banks to borrowers	12.5	15

Units set up at places other than in metropolitan centres will be eligible for financial assistance under the scheme. Organisations located in metropolitan centres will also be eligible provided their units are located outside the metropolitan centres.

The National Bank also decided to extend the benefit of the additional limits sanctioned during 1987-88 while assessing the working capital requirements of the primary/apex weavers' co-operative societies for the year 1988-89. Accordingly, the working capital requirement of the primary/apex weavers' co-operative societies for the year 1988-89 will be assessed on the basis of anticipated production/sales or the aggregate of the normal and additional limits sanctioned during the previous year whichever is more.

Weavers' Finance

Refinance Facilities for Establishment/Renovation of Handloom Emporia by Apex Weavers' Societies/SHDCs—Liberalisation

The National Bank's refinance is provided to scheduled commercial banks and state co-operative banks for the purpose of granting term-loans to State Handloom Development Corporations (SHDCs) and Apex/Regional Weavers' Societies, respectively, for the establishment/renovation of handloom emporia. One of the conditions for availing of refinance for the above purpose is that the involvement of the SHDCs and Apex/Regional weavers' societies should be atleast 25 per cent of the total cost. On a review of the position it has been decided that the involvement of SHDCs and Apex/Regional Weavers' societies for availing of refinance under the above scheme may be reduced to 15 per cent and 10 per cent, respectively, of the total cost.

Sanction of Cash Credit Limits for Production and Marketing Activities to New and Dormant Societies to be Activised

In the case of new/dormant handloom weavers' societies to be activised, the credit limits were being sanctioned on the basis of per loom scale of finance for the first two years only. The standing committee to study the flow of credit to the handloom sector felt that the new looms could achieve normal production level in a period of 4 years. It was, therefore, decided to increase the period during which cash credit limits will be assessed on the basis of per loom scale of finance from two years to four years, subject to certain conditions.

Refinance for Financing Purchase of Solar Cookers

During the period under report, the National Bank decided to extend refinance assistance to eligible banks (CBs, RRBs, and SCBs) for financing individuals for purchase of solar cookers with a view to mainly encouraging the development of alternative sources of energy which is one of the items of national priority as indicated by the Government of India. Under the scheme, banks have been advised to finance family size solar cookers, popularly known as box-type solar cookers, which are available from nodal agencies at subsidised rates. The refinance facility is also covered under ARF and 100 per cent refinance assistance available to banks for their advances for the purpose. The rate of interest on refinance will be 11.5 per cent per annum and the rate of interest at borrower level will be 15 per cent per annum. The period of repayment ranges between 3 to 5 years.

Other Developments

Credit Authorisation Scheme

The responsibility of administering the Credit Authorisation Scheme (CAS) of the Reserve Bank as applicable to co-operative banks is vested with the National Bank.

During 1987-88 (July-June), Credit Authorisations granted to non-credit co-operative societies for block capital finance amounted to Rs. 66 crores as against Rs. 25 crores in 1986-87. During the year, authorisations for working capital finance were granted for a total amount of Rs. 1,404 crores as compared to Rs. 1,254 crores in 1986-87. As in the past, the bulk of the authorisations granted for block and working capital finance was in favour of co-operative sugar factories.

A few important guidelines issued during the

year regarding sanction of working capital limits to co-operative sugar factories under CAS are indicated below:

i) The SCBs were permitted to sanction without prior authorisation from the National Bank, working capital limits, against pledge of stocks of sugar to co-operative sugar factories for the 1987-88 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 National Bank's prior authorisation continued to be obligatory if any of the sugar factories required additional pledge limits. No separate clean or hypothecation limits were to be sanctioned to sugar factories without prior authorisation. The CCBs were required to obtain as hitherto, prior authorisation from the National Bank for sanction of working capital limits in excess of Rs. 150 lakhs.

ii) The Government of India (Sampath Committee) incentives, to newly set-up sugar factories are meant to generate cash inflows to meet their term-loan liabilities. However, this was not being ensured by co-operative banks which were meeting the working capital requirements of co-operative sugar factories. In October 1987, co-operative banks were advised that the Director of Sugar, Ministry of Food and Civil Supplies (Department of Food), Government of India, will send to the Industrial Finance Corporation of India copies of orders concerning releases of funds to sugar mills covered by the scheme at monthly intervals on the basis of which concerned co-operative banks should credit the amount into the special accounts opened by them for remittance towards term-loan dues as and when required.

Pilot Project for Strengthening Credit Delivery System

The 15-Point Programme for development of selected PACS and LAMPS in the Pilot Project Districts launched by the National Bank in June 1986 received favourable responses from the concerned State Governments and the credit institutions. By the end of December 1987, as many as 420 PACS and 158 LAMPS in 15 Pilot Project Districts were selected for the programme. As an in-built assistance under the programme, the National Bank provides additional share capital, meets 50 per cent of the cost of infrastructural facilities such as iron safe, banking counter, etc., and provides salaries of an additional secretary for each PACS and LAMPS. The National Bank also provides financial assistance by way of grant and soft loan in the ratio of 30 and 70 respectively, of the entire project cost for the construction of godowns/storage facilities to enable the LAMPS to procure minor forest produce and marketing of agricultural produce of their members.

Research and Development Fund

During the period from July 1987 to June 1988, 17 more RRBs were admitted to the National Bank's scheme for RRBs/SLDBs for setting up/strengthening Technical, Monitoring & Evaluation (TME) Cells and thereby raising the total number of RRBs assisted under the scheme to 56. The total number of SLDBs and SCBs assisted under the same arrangements, however, stood at 13 and 2 respectively, as at the end of June 1988. The amount of grants disbursed to SLDBs, CCBs and RRBs under the scheme during the period from July 1987 to June 1988 stood at Rs. 21.72 lakhs.

The National Bank sanctioned assistance by way of grant from its R & D Fund to individuals and institutional agencies for undertaking research studies, organising seminars, conferences/symposia etc., covering a wide range of subjects/topics, having a bearing on the National Bank's interest. During the same period, the National Bank approved 8 new research proposals and provided financial support for seminars/symposia. The amount of grants disbursed during the period for seminars and research studies stood at Rs. 60.82 lakhs. The total number of research proposals approved so far stood at 56. The total financial assistance disbursed by the National Bank from its R&D Fund during the period July 1987 to June 1988 for all the purposes stood at Rs. 82.53 lakhs.

From July 1, 1987, a scheme to provide grant for setting up/strengthening TME Cells in RRBs/SCBs/SLDBs for improving credit operations relating to non-farm sector was introduced by the National Bank. The National Bank has also agreed to provide Rs. 5 crores from out of its R & D Fund for the corpus of Tea Research Fund against a matching contribution coming from the tea industry. Interest earnings on the corpus are proposed to be used for supporting research activities relating to tea production. The disbursal arrangements for this purpose are being worked out in consultation with the Tea Board

and the Government of India.

Interest Rates on Short-term Agricultural Advances

Effective March 1, 1988, the lending rates on short-term loans for agricultural purposes granted by co-operative banks, RRBs and commercial banks for amounts upto Rs. 15,000 were reduced. The revised rates of interest on short-term agricultural advances and the rates applicable prior to March 1988 are given below.

Rates of Interest on Short-term agricultural loans for seasonal agricultural operations

(Per cent per annum)

Range of advances	Rate of interest prior to 1.3.88	Range of advances	Rate of interest effective 1.3.88
1	2	1	2
For loans upto Rs. 5,000	11.50	Loans upto Rs. 7,500	10.00
Over Rs. 5,000 and upto Rs. 10,000	12.50	Loans over Rs. 7,500 and upto Rs. 15,000	11.50
Over Rs. 10,000 and upto Rs. 25,000	12.50 to 14.00	Loans over Rs. 15,000 and upto Rs. 25,00	12.50 to 14.00
Over Rs. 25,000	14.00 to 15.50	Loans over Rs. 25,000	14.00 to 15.50

Consequent upon the reduction in the rates of interest, the National Bank stipulated a graduated system for charging different rates of interest on refinance for crop loans related to banks' own involvement in such loans. With a view to reducing the impact of loss to the co-operatives, the National Bank decided to forego the margin of 1 per cent available to it on refinance provided out of the General Line of Credit from the Reserve Bank of India.

Licensing of Co-operative Banks

During 1987-88 (July-June), licence to carry on/commence banking business under Section 22 (2) of the Banking Regulation Act, 1949 (as applicable to co-operative societies) was issued by the Reserve Bank to 120 Primary Co-operative Banks (PCBs) and 1 District Central Co-operative Bank (DCCB). The total number of licensed co-operative banks as at end-June 1988 went up to 1,009 (comprising 8 SCBs, 37 CCBs and 964 PCBs) from 888 a year ago. During 1987-88 (July-June), licences were issued to 5 SCBs and 223 PCBs for opening new offices (under Section 23 of the Banking Regulation Act, 1949) as against 4 SCBs and 13 PCBs during 1986-87 (Table VII-50).

Inspection of Banks

Out of 617 banks/institutions coming under the purview of inspections of the National Bank, 324 banks/institutions were programmed for inspection, and 310 (11 SCBs, 12 SLDBs, 176 CCBs, 102 RRBs and 9 other co-operative institutions) were inspected during the year. The inspections of the remaining 14 banks/institutions would, in the normal course, fall due only during 1988-89. However, these inspections were advanced and included in the programme for 1987-88 with a view to providing flexibility in the programme. Thus, all the inspections due in 1987-88 were conducted by the National Bank.

Comprehensive Crop Insurance Scheme

A comprehensive scheme of crop insurance has been in operation throughout the country from 1985 *kharif* season, covering major crops, viz., rice, wheat, millets, oilseeds and pulses. The scheme is operated through the General Insurance Corporation of India with the active involvement of the State Governments. Farmers availing crop loans for the above crops from co-operatives, commercial banks and RRBs are covered under the scheme and the insurance cover is built in as a part of the crop loan. The insurance cover is upto 150 per cent of the crop loan

Table VII-50: Licences issued to Co-operative Banks during 1985-86, 1986-87 and 1987-88 (July-June)

	1985-86				1986-87				1987-88			
	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	..	..	33	33	..	1	384	385	..	1	120	121
No. of licensed banks at the end of the year	8	35	461	504	8	36	844	888	8	37	964	1,009
Licences issued for opening new offices	6 (21)	..	59	65	4 (13)		13	17	5 (19)	..	223	228

Notes: Figures in brackets indicate the number of branches for which licences were issued.
.. = Not available.
Source: Reserve Bank of India.

and the premium payable is subsidised in the case of small and marginal farmers to the extent of 50 per cent which is borne in equal shares by the State and Central Governments. During *kharif* 1987, the scheme was in operation in 18 States and 4 Union Territories.

The details of the progress made under the crop insurance scheme from 1985 are given in the Table VII-51. The scheme was however temporarily suspended by the Government of India during *kharif* 1988 but subsequently the Government had decided to continue the scheme during the *kharif* 1988 season subject to the conditions that the sum assured would be reduced from 150 per cent to 100 per cent of the crop loan and its maximum limit will be Rs. 10,000 per farmer.

Minor Irrigation

In respect of the National Bank assisted developmental schemes being implemented by State-owned corporations shouldering responsibility of maintaining and servicing the individual loan accounts of the ultimate beneficiaries, it has now been agreed with the concurrence of RBI that the interest spread available between the rate at which refinance is provided by the National Bank (6.5 per cent) and the rate charged to the ultimate beneficiaries (10 per cent) could be shared by the financing bank with such corporations. Accordingly, for such corporations functioning as executing agencies for implementing minor irrigation and land development pro-

Table VII—51: Progress of Crop Insurance Scheme

Season	No. of States & UTs implementing	No. of farmers covered (lakhs)	Area covered (lakh hectares)	Sum insured (Rs. crores)	Total insurance charges (Rs. crores)	Claims paid (Rs. crores)
1	2	3	4	5	6	7
Kharif 1985	11+2	26.4	53.7	542.7	9.4	82.9
Rabi 1985-86	13+3	12.1	23.2	238.4	4.5	3.1
Kharif 1986	15+4	39.6	77.4	856.2	15.0	154.3
Rabi 1986-87	14+3	11.3	21.0	242.4	4.5	2.9
Kharif 1987	18+3	47.3	84.4	1,140.0	19.1	9.0
Rabi 1987-88@	19+1	21.3	32.4	475.4	8.8	..

Notes: .. = Not available.
@ : Figures for rabi 1987-88 season are as on April 30, 1988.
Source: General Insurance Corporation of India.

jects, the margins to be retained by the corporations and the banks have been fixed at 2 per cent and 1.5 per cent, respectively.

In order to improve the efficiency of the pumpsets installed by the farmers on their minor irrigation works and in the process, conserve energy under the minor irrigation programme sanctioned by the National Bank, it was decided in concurrence with Government of India that with effect from January 1, 1988, refinance assistance from the National Bank would be made available to the banks only in respect of loans advanced for purchase of agricultural pumpsets having Bureau of Indian Standard Certification. However, as a special case, banks could claim refinance against loans advanced for purchase of non-ISI marked pumpsets, upto December 31, 1987, provided they submitted the drawal application in this regard to the National Bank by March 31, 1988. This insistence for certification for agricultural pumpsets under minor irrigation schemes is also applicable for minor irrigation schemes under Massive National Programme of Assistance to Small and Marginal Farmers (MNPA). It was also decided that from July 1, 1988, the National Bank's refinance would be available to banks for financing *only* a complete pumping system conforming to IS-10804-86 covering pumpsets as well as delivery system.

Large-sized Adivasi Multi-purpose Societies (LAMPS)

The Large-sized Adivasi Multi-Purpose Societies (LAMPS) operate mainly in backward regions, viz., hilly and tribal areas. As at the end of June 1987, the number of LAMPS stood at 2,775. Of these, as many as 2,494 societies (or 90 per cent) were in six States viz., Madhya Pradesh (1,053), Bihar (474), Maharashtra (275), Rajasthan (268), Orissa (223) and Gujarat (201). These societies had a total membership of 42.55 lakhs, of which Scheduled Castes and Scheduled Tribes accounted for 6.9 lakhs and 25.7 lakhs, respectively.

The paid-up capital of LAMPS stood at Rs. 50.54 crores which included Government's contribution of Rs. 18.63 crores. The overdues of LAMPS at Rs. 90.50 crores formed 52.5 per cent of their outstanding loans at the end of June 1987.

Farmers' Service Societies (FSS)

The Farmers' Service Societies (FSS) which cater to credit and non-credit requirements of farmers at a single platform are in operation since 1973-74. As on June 30, 1987, there were 1,745 such societies. Of these, 1,263 societies (or 72 per cent) were located in two States viz., Uttar Pradesh (1,049) and Karnataka (214). The membership as at the end of June 1987 was 42.43 lakhs, of which Scheduled Castes and Scheduled Tribes constituted 23.6 per cent. The paid up capital of FSS stood at Rs. 49.63 crores, of which Rs. 8.47 crores was contributed by State Governments. The FSS had issued loans of Rs. 199.09 crores to 11.57 lakh borrowers during 1986-87. Their overdues at Rs. 115.67 crores formed 43.5 per cent of their outstanding loans at Rs. 265.76 crores at the end of June 1987.

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 end-March 1988, the share of public sector banks' priority sector advances in the total credit stood at 45.8 per cent as against the prescribed 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 the end-March 1987 and end-March 1988 are given in table below:

Outstanding Advances of Public Sector Banks

(Rupees crores)

	End-March 1987	End-March 1988
1	2	3
i) Outstanding advances to priority sectors	24,552	28,468
Percentage to total credit	44.0	45.8
ii) Outstanding direct advances to agriculture	9,058	10,438
Percentage to total credit	16.2	16.8
iii) Outstanding advances to weaker sections	6,119	7,310
Percentage to priority sector advances	24.9	25.7
Percentage to total credit	11.0	11.8

The banks have already reached the stipulated sub-target 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. As at the end of March 1988, advances to weaker sections from public sector banks aggregated Rs. 7,310 crores, constituting 11.8 per cent of total outstanding advances, showing an increase of Rs. 1,191 crores over the previous year i.e., as at the end of March 1987.

Disbursement of Credit for Agriculture and Allied Activities

During 1986-87 (July-June), credit disbursed for agriculture and allied activities amounted to Rs. 3,332 crores, recording an increase of Rs. 603 crores or 22.1 per cent over the amount disbursed during 1985-86 (Rs. 2,729 crores). A major portion of the credit (Rs. 2,228 crores or 66.9 per cent) was disbursed by the nationalised banks during 1986-87. The State Bank of India Group accounted for Rs. 979 crores (29.4 per cent) and foreign and other scheduled commercial banks for Rs. 125 crores (3.7 per cent) (Table VII-52).

Purpose-wise Disbursements

During 1986-87 (July-June), short-term loans aggregating Rs. 1,482 crores were disbursed by scheduled commercial banks (excluding RRBs) which formed 44.5 per cent of the total loans disbursed during the year (Rs. 3,332 crores). Disbursement of term loans for agriculture and loans for allied activities amounted to Rs. 1,262 crores (37.9 per cent) and Rs. 588 crores (17.7 per cent), respectively. Among term loans for agriculture, tractors and agricultural implements and machinery accounted for bulk of the loans disbursed (41.8 per cent) which is marginally lower as compared to 43.6 per cent disbursed last year (Table VII-53). The share of minor irrigation schemes at 27.6 per cent was higher as compared to 26.2 per cent last year. As regards allied agricultural activities, 47.7 per cent of the credit was disbursed for dairying. This is higher as compared to 46.3 per cent in the previous year. Poultry farming, piggery and bee-keeping accounted for 13.7 per cent and fisheries 9.2 per cent (Table VII-53A).

Table VII-52: Disbursement of Credit for Agriculture and Allied Activities by Scheduled Commercial Banks during 1984-85 to 1986-87 (July-June)

(Rupees crores)

Category of Banks	1984-85	1985-86	1986-87
1	2	3	4
Nationalised Banks	1,556	1,751	2,228
	(63.2)	(64.2)	(66.9)
State Bank of India Group	807	888	979
	(32.8)	(32.5)	(29.4)
Foreign and other Scheduled	98	90	125
Commercial Banks	(4.0)	(3.3)	(3.7)
Total	**2,461**	**2,729**	**3,332**
	(100.0)	(100.0)	(100.0)

Note: Figures in brackets indicate the share of each category of banks in the total loans disbursed.

Source: Data collected by RBI under Special Return-I.

Region-wise Disbursements

Region-wise, Southern region continued to account for bulk of the credit disbursed (Table VII-53 & 53A). Its share in the total credit disbursements increased marginally from 48.8 per cent in 1985-86 to 49.4 per cent in 1986-87. The shares of Northern region,North-Eastern region and Eastern region decreased from 17.2 per cent, 0.9 per cent and 8.7 per cent respectively, in 1985-86 to 17.0 per cent, 0.7 per cent and 7.3 per cent respectively, in 1986-87. The shares of Central region and Western region, however, increased from 11.2 per cent and 13.2 per cent, respectively in 1985-86 to 12.1 per cent and 13.5 per cent, respectively in 1986-87.

Central/State Governments and Co-operative Credit

In addition to the refinance support and guidance provided by the National Bank for the development of the co-operative movement, the Government of India has also formulated several Central Sector and Centrally Sponsored Schemes to provide financial assistance to the co-operatives for specified/identified purposes, especially in the co-operatively underdeveloped States and certain special areas. The progress made under these schemes during the year 1987-88 is reviewed hereunder.

Table VII-53: Purpose-wise/Region-wise Distribution of Credit by Scheduled Commercial Banks during 1985-86 (July-June)

(Rupees crores)

Purposes	Northern Region	North-Eastern Region	Eastern Region	Central Region	Western Region	Southern Region	Total
1	2	3	4	5	6	7	8
I. Short-term Loans (including crop loans)	**11,275**	**500**	**6,087**	**6,709**	**11,722**	**88,952**	**1,25,245**
	(9.0)	(0.4)	(4.9)	(5.4)	(9.3)	(71.0)	(100.0)
	(24.1)	(20.3)	(25.5)	(21.9)	(32.5)	(66.8)	(45.9)
II. Term Loans (A+B)	**35,513**	**1,966**	**17,738**	**23,930**	**24,308**	**44,198**	**1,47,653**
	(24.1)	(1.3)	(12.0)	(16.2)	(16.5)	(29.9)	(100.0)
	(75.9)	(79.7)	(74.5)	(78.1)	(67.5)	(33.2)	(54.1)
A) Loans for Agriculture	27,284	978	10,421	18,075	16,614	25,680	99,052
i) Minor Irrigation Schemes	4,760	13	1,692	5,260	6,846	7,400	25,971
ii) Reclamation and Land Development Schemes	608	24	397	199	559	1,690	3,477
iii) Tractors and Agricultural Implements and Machinery	18,603	182	2,819	9,563	5,000	7,046	43,212
iv) Plantations	157	472	3,094	146	712	2,758	7,339
v) Other term loans	3,156	287	2,419	2,907	3,497	6,786	19,053
B) Loans for Allied Activities	8,229	988	7,317	5,855	7,694	18,518	48,601
i) Dairying	4,542	278	3,403	2,874	3,830	7,581	22,508
ii) Poultry Farming, Piggery and Bee-Keeping	932	190	789	706	866	2,973	6,456
iii) Fisheries	94	184	927	148	1,072	1,838	4,263
iv) Others	2,661	336	2,198	2,127	1,926	6,126	15,374
Grand Total (I+II)	**46,788**	**2,466**	**23,825**	**30,639**	**36,030**	**1,33,150**	**2,72,898**
Region-wise shares (Percentage)	(17.2)	(0.9)	(8.7)	(11.2)	(13.2)	(48.8)	(100.0)
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Notes: 1. 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.

2. Figures in second brackets indicate the share of each category of loans disbursed to the grand total.

Source: Data collected by RBI under Special Return-I.

Risk Fund for Consumption Credit

Risk Fund assistance for consumption credit has been in operation as a non-Plan scheme since 1977-78 and covers all the States and Union Territories. The objective of the scheme is to enable the commercial banks, co-operative banks and RRBs to provide consumption credit to the weaker sections in rural areas, viz., cultivators with land holdings upto 0.5 acre 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 the 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 1987-88 (April-March), the Government of India released a sum of Rs. 8.85 lakhs under the scheme to six States, viz., Andhra Pradesh, Maharashtra, Orissa, Punjab, Tamil Nadu and Uttar Pradesh. An amount of Rs. 6.24 lakhs was released during the preceding year to Andhra Pradesh, Madhya Pradesh, Orissa, Punjab and Uttar Pradesh. For the year 1988-89, the Government has made a budgetary provision of Rs. 11 lakhs.

Table VII-53A: Purpose-wise/Region-wise Distribution of Credit by Scheduled Commercial Banks during 1986-87 (July-June)

(Rupees crores)

Purposes	Northern Region	North-Eastern Region	Eastern Region	Central Region	Western Region	Southern Region	Total
1	2	3	4	5	6	7	8
I. Short-term Loans (including crop loans)	**12,073**	**442**	**7,088**	**8,387**	**14,279**	**1,05,883**	**1,48,152**
	(8.1)	(0.3)	(4.8)	(5.7)	(9.6)	(71.5)	(100.0)
	(21.3)	(18.6)	(29.3)	(20.8)	(31.7)	(64.3)	(44.5)
II. Term Loans (A+B)	**44,485**	**1,936**	**17,128**	**31,976**	**30,779**	**58,780**	**1,85,084**
	(24.0)	(1.0)	(9.3)	(17.3)	(16.6)	(31.8)	(100.0)
	(78.7)	(81.4)	(70.7)	(79.2)	(68.3)	(35.7)	(55.5)
A) Loans for Agriculture	34761	1,071	11,148	24,488	21,251	33,516	1,26,235
i) Minor Irrigation Schemes	6,679	156	1,858	6,455	10,051	9,630	34,829
ii) Reclamation and Land Development Schemes	307	34	206	226	410	1,878	3,061
iii) Tractors and Agricultural Implements and Machinery	23,004	186	4,072	13,073	5,012	7,383	52,730
iv) Plantations	351	536	2,122	328	771	3,850	7,958
v) Other term loans	4,420	159	2,890	4,406	5,008	10,775	27,657
B) Loans for Allied Activities	9,724	865	5,980	7,488	9,527	25,264	58,849
i) Dairying	5,321	290	2,755	3,866	4,875	10,985	28,092
ii) Poultry Farming, Piggery and Bee-Keeping	1,216	221	781	984	941	3,931	8,074
iii) Fisheries	35	213	683	195	1,297	2,980	5,403
iv) Others	3,152	141	1,761	2,444	2,415	7,368	17,280
Grand Total (I+II)	**56,559**	**2,378**	**24,216**	**40,363**	**45,058**	**1,64,663**	**3,33,237**
Region-wise shares (Percentage)	(17.0)	(0.7)	(7.3)	(12.1)	(13.5)	(49.4)	(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 upto 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 second brackets indicate the share of each category of loans disbursed to the grand total.

Source: Data collected by RBI under Special Return-I.

Agricultural Credit Stabilisation Fund

The objective of the Agricultural Credit Stabilisation Fund is to build up a stabilisation fund at the level of State Co-operative Banks and to increase the capacity of these banks for conversion of short-term loans into medium-term loans in areas affected by natural calamities where crop loss is more than 50 per cent. This Centrally Sponsored Scheme provides financial assistance to the State Agricultural Credit Stabilisation Funds of the State Co-operative Banks. Under this scheme, Central 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 1987-88 (April-March) aggregated Rs. 2.0 crores as compared to Rs. 5.0 crores in 1986-87. The total amount released since the inception of the scheme till end-March 1988 aggregated Rs. 134.6 crores. The scheme is being continued during 1988-89 with a budgetary provision of Rs. 1 crore.

Assistance to Co-operative Credit Institutions in Co-operatively Underdeveloped States and Special Areas

This Centrally Sponsored Scheme is in operation from the beginning of the Fifth Five Year Plan. Its major objective is to correct the regional imbalances in co-operative development programme, particularly in the sphere of agricultural credit. Under this scheme, assistance is provided to the District Central Co-operative Banks (DCCBs)/State Co-operative Banks (SCBs) through the State Governments (on fifty-fifty basis between the Central Government and State Government) so as to enable the DCCBs to achieve their lending programme. The scheme was originally intended for the co-operatively under-developed States and was subsequently extended to cover the tribal areas, DPAP areas, areas where there is a concentration of scheduled castes to the extent of 20 per cent or more, areas selected for Special Rice Production Programme and National Oilseeds Development Programme. A sum of Rs. 3.5 crores was released to various State Governments during 1987-88 under the scheme. The budgetary provision for the year 1988-89 is Rs. 4.0 crores.

Other Institutions in the Field of Rural Credit

National Co-operative Development Corporation (NCDC)

The National Co-operative Development Corporation (NCDC) was set up in March 1963 to implement various economic programmes in the co-operative sector and to provide financial assistance in the form of loans and subsidy to the co-operatives under the schematic pattern of assistance evolved for different schemes. During the financial year 1987-88, 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, foodstuffs and certain other commodities. Besides, NCDC 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 International Development Association (IDA)/European Economic Community (EEC), the NCDC has already implemented NCDC I & II IDA assisted projects in the field of storage and cold storage and soyabean processing. It is presently implementing NCDC III IDA project in the field of storage, oilseeds, cotton processing and institution building and EEC assisted projects for mustard seed and coconut development. Steps are being taken to formulate NCDC IV project with IDA assistance in furtherance of NCDC's activities. Intensive development of PACS as multi-purpose entities being one of the major activities of the Seventh Plan, 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. NCDC proposes to cover 50 selected districts at a cost of about Rs. 150 crores under this scheme during the Seventh Plan Period. The scheme has been sanctioned in 11 districts upto March 1988.

The total financial assistance provided by the Corporation during 1987-88 amounted to Rs. 171 crores as against Rs. 149 crores in 1986-87. This is higher by about Rs. 22 crores or 14.8 per cent. While the central sector schemes accounted for Rs. 78 crores (45.6 per cent of the total assistance) as against Rs. 65 crores (43.6 per cent) during 1986-87, the share of Corporation sponsored schemes was Rs. 93 crores (54.4 per cent) as against Rs. 84 crores (56.4 per cent) in the previous year (Table VII-54).

State-wise, five States viz., Uttar Pradesh (19.8 per cent), Madhya Pradesh (9.6 per cent), Andhra Pradesh (9.0 per cent), Maharashtra (8.8 per cent) and Karnataka (5.0 per cent) accounted for more than half of the assistance provided during 1987-88 (Rs. 171 crores). Total financial assistance provided by NCDC to the State Governments and other agencies since its inception aggregated to Rs. 1,284 crores, of which Rs. 820 crores was outstanding at the end of March 1988.

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. Co-operatives in rural areas are also

Table VII-54: NCDC's Financial Assistance (disbursements) during 1985-86 to 1987-88 (April-March)

(Rupees crores)

Schemes/Purposes	Amount disbursed		
	1985-86	1986-87	1987-88
1	2	3	4
I. Central Schemes	**61**	**65**	**78**
a) Co-operative Storage Programme with International aid	32	47	59
b) Co-operative Marketing, Processing and Storage Programmes in underdeveloped States/Union Territories	7	9	8
c) Margin Money Assistance to Village Societies for Distribution of Consumer Articles in Rural Areas	3	2	3
d) Finance for Co-operative Sugar Factories, Co-operative Spinning Mills, NAFED, etc.	19	7	8
II. Corporation Sponsored Schemes	**60**	**84**	**93**
a) Storage	19	27	26
b) Agro-processing	13	22	28
c) Weaker Sections	11	10	12
d) Agricultural Marketing	9	8	11
e) Rural Consumer Activity	4	2	4
f) Agro-Services and Promotional and Developmental Programmes	4	15*	12
III. Total (I+II)	**121**	**149**	**171**

* : Include Rs. 11 crores for distribution of fertilisers under NCDC-IFFCO Schemes.

Source: National Co-operative Development Corporation.

functioning as an integral part of the Public Distribution System (PDS) evolved by the Union/State Governments to make available essential commodities to the consumers at reasonable prices. NCDC has assisted around 55,000 retail outlets in rural areas for distribution of consumer goods for meeting the requirements of the village communities. The NCDC has sanctioned an assistance of Rs. 89 crores upto the end of March 1988. The New 20-Point Programme lays stress on the development of students' consumer stores and during 1987-88 NCDC sanctioned assistance of Rs. 15 lakhs to 116 student consumer stores.

Warehousing Corporations

i) Central Warehousing Corporation (CWC)

The system of public warehousing in the country comprises Central Warehousing Corporation (CWC) serving the markets of all-India importance, the State Warehousing Corporations which serve the secondary markets and the co-operatives in the rural areas. The CWC was set up in 1957 mainly for storage of foodgrains and inputs but considering the varied warehousing needs of the country it has diversified in to industrial warehousing as well. The total number of warehouses owned/managed by the CWC/SWCs increased from 1,761 in 1986-87 to 1,776 in 1987-88 and their storage capacity increased by 3.7 per cent from 147.6 lakh tonnes in 1986-87 to 153.0 lakh tonnes in 1987-88. The total number of warehouses managed by the Central Warehousing Corporation (CWC) during the year 1987-88 (April-March) increased to 465 from 445 in 1986-87. The total warehousing capacity increased from 59.2 lakh tonnes in March 1987 to 62.8 lakh tonnes as on March 1988. At end-March 1988, the owned, hired and plinth capacity of the Corporation increased to 42.2 lakh tonnes, 19.0 lakh tonnes and 1.6 lakh tonnes, respectively, from 39.4 lakh tonnes, 18.4 lakh tonnes and 1.4 lakh tonnes, at end-March 1987 (Table VII-55). The average utilisation of the warehousing capcity during the year 1987-88 was as high as 92 per cent.

Table VII-55: Increase in Capacity of Central Warehousing Corporation and State Warehousing Corporations

(Capacity in lakh tonnes)

Agency/Year	Number of warehouses	Owned	Hired	Plinth	Total
1	2	3	4	5	6
I. Central Warehousing Corporation					
1985-86	430	36.1	17.4	1.1	54.6
1986-87	445	39.4	18.4	1.4	59.2
1987-88	465	42.2	19.0	1.6	62.8
II. State Warehousing Corporations					
1985-86	1,279	44.5	34.6	—	79.1
1986-87	1,316	52.8	34.8	0.8	88.4
1987-88	1,311	58.1	28.0	4.1	90.2

Source: Central Warehousing Corporation.

Under the Seventh Five Year Plan, a target to build 20 lakh tonnes of additional capacity with an outlay of Rs. 126.5 crores was envisaged. However, the target was scaled down to 15 lakh tonnes subsequently by the Planning Commission. The entire construction was proposed to be financed by funds internally generated by CWC. In the first 2 years of the Plan, a capacity of 6.1 lakh tonnes was created. The target for the year 1987-88 was 8 lakh tonnes as against which, the CWC constructed a capacity of 2.6 lakh tonnes. The CWC could not achieve the target on account of withdrawal of guarantee by the Food Corporation of India due to severe drought in the country. For the year 1988-89 a target of 3.0 lakh tonnes capacity has been fixed. As on April 30, 1988 the work is in progress for 1.1 lakh tonnes capacity.

ii) State Warehousing Corporations

During the year 1987-88, the number of warehouses managed by the State Warehousing Corporations (SWCs) decreased by 5 from 1,316 to 1,311. However, the total warehousing capacity increased by 1.8 lakh tonnes from 88.4 lakh tonnes to 90.2 lakh tonnes (Table VII-55).

Rural Electrification Corporation

The Rural Electrification Corporation (REC) was set up in 1969 with the objective of rapid electrification of the rural and backward areas, to promote decentralised distribution of power in the rural areas on co-operative basis and also to exploit fully the irrigation potential through energisation of pumpsets in collaboration with the State Electricity Boards.

Financial assistance sanctioned by the Corporation during 1987-88 (April-March), amounted to Rs. 1,027 crores which is more by Rs. 349 crores or 51.5 per cent than the amount of Rs. 678 crores sanctioned in 1986-87. Disbursements during 1987-88 at Rs. 655 crores was higher by Rs. 215 crores or 48.9 per cent than the Rs. 440 crores disbursed in the preceding year (Table VII-56).

During the year 1987-88 (April-March), the Corporation sanctioned 3,101 new schemes covering 30,019 villages as against 2,168 schemes covering 28,148 villages during 1986-87. The cumulative number of schemes sanctioned and villages covered as at end-March 1988 reached 16,507 and 3,33,959 respectively. The cumulative financial assistance sanctioned and disbursed by REC upto end-March 1988 amounted to Rs. 5,058 crores and Rs. 3,388 crores, respectively (Table VII-57).

During 1987-88 (April-March), the REC sanctioned 160 schemes for Harijan Bastis, involving

Table VII-56: Schemes Sanctioned and Loans Disbursed by Rural Electrification Corporation (April-March)

(Rupees crores)

Items	1985-86	1986-87	1987-88	Cumulative Position as at end-March 1988
1	2	3	4	5
1. No. of schemes sanctioned	1,454	2,168	3,101	16,507
	(27)	(121)	(160)	(1,081)
2. No. of villages covered	14,007	28,148	30,019	3,33,959
	(636)	(4,972)	(6,738)	(53,666)
3. Total cost of schemes	610	1,093	1,471	7,302
	(1)	(10)	(16)	(71)
4. Total amount sanctioned	331	678	1,027	5,058
	(1)	(10)	(16)	(70)
5. Amount disbursed	381	440	655	3,388
	(4)	(6)	(9)	(49)

Note: Figures in brackets are in respect of Harijan Basti Schemes included in the respective totals.
Source: Rural Electrification Corporation.

Table VII-57: State-wise Data on Schemes Sanctioned and Loans Disbursed by REC
(Cumulative position) as at the end of March 1987 and 1988

States	No. of schemes sanctioned		Villages including HBs covered		Loan amount sanctioned (Rs. crores)		Amount disbursed (Rs. crores)	
	1987	1988	1987	1988	1987	1988	1987	1988
1	2	3	4	5	6	7	8	9
Andhra Pradesh	1410	1786	21684	14980	328.6	424.5	228.9	306.1
Arunachal Pradesh		10	..	114	..	19.2	..	2.0
Assam	265	277	16639	17004	174.4	181.3	124.8	138.4
Bihar	985	1096	44721	41928	285.8	321.4	211.8	241.9
Gujarat	620	771	10131	8336	161.6	254.6	119.3	148.3
Haryana	407	503	5917	90	89.0	125.0	72.0	94.5
Himachal Pradesh	216	241	10969	10561	115.2	132.1	72.7	86.8
Jammu & Kashmir	175	191	5442	4706	71.0	77.8	47.3	54.2
Karnataka	626	843	13488	8862	144.1	174.6	118.3	148.5
Kerala	356	346	362	151	72.8	95.6	48.2	58.7
Madhya Pradesh	1995	2494	63208	58208	600.2	731.6	370.9	447.2
Maharashtra	1082	1433	18183	15139	260.2	339.8	196.9	296.9
Manipur	27	30	942	1010	16.1	19.4	9.1	12.2
Meghalaya	62	69	2120	2314	30.5	36.3	24.5	31.9
Nagaland	31	42	601	756	19.2	30.9	17.3	23.7
Orissa	631	809	31412	26740	206.8	258.0	145.0	166.4
Punjab	590	725	4385	3908	175.2	215.3	136.9	160.5
Rajasthan	1012	1133	26240	23194	249.4	297.7	179.2	207.0
Sikkim	25	31	242	278	14.0	19.9	11.0	14.4
Tamil Nadu	773	958	1277	820	154.9	204.4	113.2	153.8
Tripura	74	83	2730	2829	30.6	37.2	19.1	22.8
Uttar Pradesh	1476	1906	59584	65809	617.9	778.3	303.5	373.4
West Bengal	584	730	23838	26222	215.7	283.1	162.5	198.4
Total	**13422**	**16507**	**364115**	**333959**	**4033.2**	**5058.0**	**2732.4**	**3388.0**

.. : Not available.
Source: Rural Electrification Corporation.

financial assistance of Rs. 16 crores as against 121 schemes with financial assistance of Rs. 10 crores in 1986-87. Disbursements against this during 1987-88 amounted to Rs. 9 crores as against Rs. 6 crores last year. As at the end of March 1988, the Corporation had approved 1,081 schemes for Harijan Bastis covering 53,666 villages. Cumulative financial assistance sanctioned by the Corporation till end-March 1988 amounted to Rs. 70 crores for Harijan Basti scheme.

Agricultural Finance Corporation (AFC)

During the year 1987-88 (April-March), the Agricultural Finance Corporation (AFC) carried out a wide range of studies relating to agriculture and rural development and implemented several projects. Mention may be made of comprehensive model block development plans prepared, model wastelands development projects, model micro-watershed based dry land projects, monitoring and evaluation programmes and international assignments. During the year 1987-88, AFC handled 116 assignments, including 10 international assignments as compared with 117 assignments in 1986-87. Of the 106 assignments handled within the country, 40 were from member banks, 38 from State Governments, 10 from Government of India, 16 from Government Corporations, 1 from the Reserve Bank of India and 1 from a private concern.

AFC continued to pay special attention to promote agriculture and rural development in the Eastern and North-Eastern regions of the country. Of the 28 assignments pertaining to these regions, 14 were completed and the remaining were in fairly advanced stages of completion during 1987-88. The AFC continued to monitor and evaluate various programmes of SC/ST, Development Corporations assigned to it by the Government of India.

The AFC is endeavouring to expand further its role in international consultancy. During 1987-88, AFC handled ten new international assignments, important among them being Hill Fruit Development Project in Nepal in association with the Agricultural Project Services Centre (APROSC) of Nepal. Besides providing the services of 8 of its experts to the International Fund for Agriculture Development (IFAD), the Corporation also made available the services of its experts for Asian Development Bank (ADB) and IFAD missions which were organised during the year.

The consultancy fees earned by AFC in respect of international assignments amounted to US $ 196,221 in 1987-88 (April-March) as compared to US $ 130,963 in 1986-87.

Study Teams/Committees/Working Groups

Implementation of Recommendations of the Committee on Agricultural Productivity in Eastern India

The National Bank continued its efforts to give effect to the various recommendations of the Committee on Agricultural Productivity in Eastern India (Chairman: Dr. S.R. Sen). Some of the decisions taken and conveyed to the banks/State Governments for implementation as also the follow up action taken during the period are briefly enumerated below:

(i) The need for preparing the normal credit limit statements for all members by the PACS (including non-borrowers and defaulters) was emphasised.

(ii) State Governments were advised to prepare a list of selected dealers/suppliers of agricultural inputs—fertilisers, pesticides, farm equipments, etc.,so that the credit societies would be in a position to introduce voucher system for disbursement of kind component as recommended by the Committee.

(iii) The Committee's recommendation for utilising the services of local voluntary organisations on commission basis, in the special drive for collection of overdues was considered acceptable and the same was recommended for implementation, subject to the banks bearing the entire operational costs.

(iv) The Planning Commission was requested to keep in view the recommendations of the Committee relating to problems of irrigation, drainage and water management, in order to initiate a systematic action programme by the States and make provisions thereof in their State budgets while approving the Annual Plans of States and during formulation of the Eighth Five Year Plan. Meanwhile, it was decided to discontinue the practice of appointing Expert Group/State-wise

consultants. The various developmental efforts would, henceforth, be spearheaded by the Regional Offices of the National Bank.

NABARD Credit Project I—Senior Expert Group

At the instance of the Government of India, the Reserve Bank has constituted a high-level Committee (Senior Expert Group) for carrying out a comprehensive review of the Agricultural Credit System in the country. The review comprises separate studies to be carried out by local and foreign consultants under the guidance and supervision of the Group. The consultants have since submitted their report to the Group. The Group is expected to submit its draft report shortly.

ANNEXURE

SELECTIVE CREDIT CONTROL

PROVISIONS OF DIRECTIVES APPLICABLE TO SCHEDULED COMMERCIAL BANKS ON ACVANCES AGAINST SELECTED COMMODITIES

(Position as on June 9, 1988)

A. PADDY/RICE, WHEAT, PULSES AND "OTHER FOODGRAINS" (viz., Jowar, Bajra, Maize, Barley, Ragi, Gram and all other foodgrains including coarse grains)

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. Paddy/Rice (i) 45% on advances against stocks of paddy/rice to processing units/mills. (ii) 60% on advances against stocks of paddy/rice to parties other than processing units/mills. (iii) 45% on advances against warehouse receipts covering stocks of paddy/rice. **II. Wheat** (i) 45% on advances against stocks of wheat to mills/processing units. (ii) 60% on advances against stocks of wheat to parties other than mills/processing units. (iii) 45% on advances against warehouse receipts covering stocks of wheat. **III. Pulses** (i) 45% on advances against stocks of pulses to processing units/mills. (ii) 60% on advances against stocks of pulses to parties other than processing units/mills. (iii) 45% on advances against warehouse receipts covering stocks of pulses.	In respect of each party, 85% of the peak level of credit maintained by the party in any of the 3 years (November-October) 1983-84, 1984-85 and 1985-86 separately in respect of each of the following commodities: i) Paddy/Rice ii) Wheat iii) Pulses iv) "Other foodgrains". **Exemptions** (i) Advances against "other foodgrains" to foodgrains processing units. (ii) Advances to mills/dealers against pledge/hypothecation of paddy/rice held to the extent of the levy quota to be surrendered statutorily to the State Governments. (iii) Advances against wheat granted to roller flour mills.	**A. States** Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Tripura and Sikkim. **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 stocks 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 Governments/Agencies entrusted with the procurement of pulses at support prices fixed by the Government of India.

1	2	3
IV. "Other foodgrains" (viz., jowar, bajra, maize, barley, ragi, gram and all other goodgrains including coarse grains) (i) 45% on advances against stocks of other foodgrains to processing units/mills. (ii) 60% on advances to parties other than processing units/mills. (iii) 45% on advances against warehouse receipts covering stocks of "other foodgrains".		(v) Advances to rice millers against pledge/ hypothecation of paddy and rice held to the extent they act as Government agents, provided the stocks are purchased at support prices fixed by Government of India.
V. Exemption (i) Advances to mills/dealers against pledge/ hypothecation of paddy/rice held to the extent of the levy quota to be surrendered statutorily to the State Governments.		**C. Others** (i) Advances against the security of maize and barley to manufacturing units (i.e., industrial users) and against soji (rawa), flour (atta) and maida to biscuit manufacturers. (ii) Advances against the security of , or by way of purchase of, demand documentary bills drawn in connection with the movement of foodgrains. (iii) Advances against high-yielding/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 agencies authorised under the Seeds Act, 1966 and seeds notified under Sec. 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 National Federations of Consumers' Co-operatives. (vi) Advances upto an aggregate limit of Rs. 1 lakh per borrower are exempt from all the provisions of the Selective Credit Controls subject to the condition that the borrower deals with one bank only. **D. Exports** Pre-shipment credit granted to exporters against the security of 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 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 enable other banks to discount usance bills under 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 processingg 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, castorseed, cottonseed and linseed) and all imported oilseeds. (i) 45% on advances to processing units/mills. (ii) 60% on advances to parties other than processing units/mills. (iii) 45% on advances against warehouse receipts representing stocks of oilseeds. **Exemptions** (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: 85% of the peak level of credit maintained by the party in any of the 3 years (November-October), viz., 1983-84, 1984-85 and 1985-86. **Exemptions** (i) Advances against imported oilseeds. (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.	**A. States** Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Tripura, and Sikkim. **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 advances 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. 1 lakh per borrower are exempt from all provisions of the Selective Credit Controls 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 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.
		(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 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.

C. VEGETABLE OILS (INDIGENOUS OILS, VIZ., GROUNDNUT OIL, RAPESEED/MUSTARD OIL, CASTOR OIL, LINSEED OIL, COTTONSEED OIL) AND VANASPTI AND ALL IMPORTED OILS

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 and imported oils

(i) 45% for registered oil mills and vanaspati manufacturers.

(ii) 75% other than (i) above.

(iii) 60% against warehouse receipt 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 from oilseeds purchased from grower members.

(v) Advances to vanaspati manufacturers against cottonseed oil.

In respect of each party, 85% of level of credit maintained by the party in any of the 3 years (November-October) viz., 1983-84, 1984-85 and 1985-86.

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 from 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, Tripura, and Sikkim.

B. Public Procurement, Storage and Distribution Agencies.

(i) Advances to the Food Corporation of India and the State Trading Corporation against stocks of vegetable oils and vanaspati.

(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.

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

1	2	3
		Provided (i) Such advances to the extent of the value of by-products 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 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 advance. (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 borrowers 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.

1	2	3
		(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 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.
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.		(v) Advances to Wholesale Consumers' Co-operative Stores and State and National Federations of Consumers' Co-operatives.

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, 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) 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 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.

(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.

D. COTTON AND KAPAS

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) 45% for parties other than cotton mills including spinning mills. (ii) 30% for stocks covered by warehouse receipts **Exemption** Advances against cotton and kapas to industrial users such as manufacturers of surgical cotton (absorbent cotton wool), provided that such stock is held by the borrower for processing and not for resale.	In respect of each party other than a cotton mill: 85% of the peak level of credit maintained by that party with the bank in any of the 3 years (November-October) viz., 1983-84, 1984-85 and 1985-86. **Exemption** Advances against cotton and kapas to industrial users such as manufacturers of surgical cotton (absorbent cotton wool), provided that such stock is held by the borrower for processing and not for resale.	**A. States** Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Tripura. and Sikkim. **B. Exports.** (i) Advances in respect of pre-shipment credit for cotton exports, provided the advances are made in respect of firm export order and repaid on negotiation of the relevant export bills on shipment. (ii) Advances against the security of, or by way of purchase or discount of export bills relating to export of cotton from India. **C. Others** (i) Advances granted by way of purchase of demand documentary bills drawn in connection with the movement of cotton and kapas. (ii) Khadi and 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.

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) Warehouse receipts are those issued by Central/State Warehousing Corporation or rural godowns set up under Government Scheme or godowns of Regulated Market Yards.

(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 C(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.

(v) Advances granted to cotton textile mills shall continue to be exempt from Selective Credit Control measures.

E. 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) (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 the movement of commodities.

(ii) Advances granted to industrial users such as confectioneries, bakeries, biscuit manufacturers, etc., against stocks of sugar, gur and khandsari pedged/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 Controls subject to the condition that the borrower deals 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/Cs.

(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) States and 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 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.

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, finances of Railways, Department of Posts and Department of Telecommunications. Public debt and other Liabilities of the Governments are also dealt with.

I. COMBINED BUDGETARY POSITION OF CENTRAL AND STATE GOVERNMENTS 1987-88 and 1988-89*

1987-88

The Central Government budget for 1987-88 was framed against the background of an expected growth rate of real national income around 5 per cent, moderate rate of inflation, a lower trade deficit and distinct improvement in the functioning of the infrastructure sectors particularly coal, power and railways. The buoyancy in the Centre's revenue which was observed in 1985-86 continued in 1986-87. However, the implementation of the recommendations of the Fourth Pay Commission, the step-up in expenditure on defence and larger assistance to several States affected by drought and floods created a severe strain on Centre's resources.

The main thrust of the fiscal policy for 1987-88 was to take further the process of fiscal reforms, broad elements of which were enunciated in the Long-Term Fiscal Policy (LTFP). MODVAT which was introduced in 1985-86 in selected industries was extended to cover all categories of the Excise Tariff except those relating to textiles, tobacco and petroleum sectors. Adjustments were made in Excise and Customs Duties to stimulate growth and provide reliefs for the common man. Measures were also taken for providing incentives for export promotion and import substitution. During 1987-88, the widespread and severe drought in many parts of the country necessitated an additional expenditure of about Rs. 2,000 crores on drought relief works. The funds for meeting the additional expenditure were met through imposition of mid-year levy of surcharge on income tax and corporation tax, wealth tax and customs duties, railways and air fares, effecting economies in expenditure and flotation of 9% Rahat Patras, a new saving instrument. As a result of these efforts, the Central deficit for 1987-88 was contained at Rs. 6,080 crores as against Rs. 5,688 crores envisaged in the budget.

According to the revised estimates for 1987-88 the combined budgetary deficit of the Centre and 25 States was lower at Rs. 7,666 crores as against Rs. 9,149 crores in 1986-87[1] (Table VIII-1). The

* 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) withdrawal from/additions to cash balances and (B) in the case of States by the State budget figures of (i) net increase/decrease in the RBI credit in the form of ways and means advances (repayable in 90 days) and over-drafts (repayable within 7 working days) and (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 deficits for 1987-88 amounted to Rs. 6,186 crores, comprising Rs. 5,870 crores on the Centre's account and Rs. 316 crores on account of deficit of 25 States, keeping accounts with the RBI. Data on receipts and disbursements conforming to this figure are not available.

Table VIII-1: Combined Receipts and Disbursements of Central and State Governments (Contd.)

(Rs. crores)

Items	1984-85 (Accounts)	1985-86 (Accounts)		1986-87 (Accounts)		1987-88 (Budget Estimates)		1987-88 (Revised Estimates)		1988-89 (Budget Estimates)+	
	Amount	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	Amount	Per cent variation over the previous year
	1	2	3	4	5	6	7	8	9	10	11
I. Total Disbursements	**71654**	**84470**	**+17.9**	**101602**	**+20.3**	**107554**	**+5.9**	**112336**	**+10.6**	**123085**	**+9.6**
Of which:											
1. Developmental (a + b + c)	46265	55032	+18.9	64441	+17.1	65908	+2.3	70374	+9.2	74161	+5.4
(a) Revenue	27676	32621	+17.9	38639	+18.4	40936	+5.9	45397	+17.5	47706	+5.1
(b) Capital	11383	12310	+8.1	13625	+10.7	13402	−1.6	12746	−6.5	13745	+7.8
(c) Loans	7206	10101	+40.2	12177	+20.6	11570	−5.0	12231	+0.4	12710	+3.9
2. Non-Developmental (a + b + c)	23390	27332	+16.9	33682	+23.2	39629	+17.7	39689	+17.8	46969	+18.3
(a) Revenue	21683	25984	+19.8	31596	+21.6	34817	+10.2	35830	+13.4	42146	+17.6
(b) Capital	1371	1116	−18.6	1592	+42.7	4313	+170.9	3423	+115.0	4278	+25.0
(c) Loans	336	232	−31.0	494	+112.9	499	+1.0	436	−11.7	545	+25.0
II. Total Receipts (A + B)	**66471**	**81221**	**+22.2**	**92453**	**+13.8**	**101477**	**+9.8**	**104670**	**+13.2**	**114960**	**+9.8**
A. Revenue Receipts	45296	54097	+19.4	62902	+16.3	70443	+12.0	71548	+13.7	79710	+11.4
Of which:											
i) Tax receipts (a + b + c)	35808	42991	+20.1	49378	+14.9	56658	+14.7	56762	+15.0	64177	+13.1
(a) Taxes on Commodities and Services	29765	35412	+19.0	40941	+15.6	47560	+16.2	47274	+15.5	53404	+13.0
(b) Taxes on Income and Property	6043	7047	+16.6	7873	+11.7	8489	+7.8	8850	+12.4	10071	+13.8
(c) Taxes of Union Territories (Without Legislature)	—	532	—	564	+6.0	609	+8.0	638	+13.1	702	+10.0
ii) Non-Tax Receipts	9488	11106	+17.1	13524	+21.8	13785	+1.9	14786	+9.3	15533	+5.1
B. Capital Receipts	21175	27124	+28.1	29551	+8.9	31034	+5.0	33122	+12.1	35250	+6.4
Of which:											
i) Market Borrowings (Gross)	5748	6971	+21.3	7876	+13.0	8746	+11.0	9558	+21.4	9471	−0.9
ii) Market Borrowings (Net)	4788	5894	+23.1	6570	+11.5	7630	+16.1	8440	+28.5	8701	+3.1
iii) Small Savings	3650	4292	+17.6	3276	−23.7	4200	+28.2	4200	+28.2	4600	+9.5
iv) State Provident Funds (Net)	1147	1172	+2.2	1571	+34.0	1449	−7.8	2155	+37.2	1784	−17.2

Table VIII-1: Combined Receipts and Disbursements of Central and State Governments (Concld.)

(Rs. crores)

Items	1984-85 (Accounts)	1985-86 (Accounts)		1986-87 (Accounts)		1987-88 (Budget Estimates)		1987-88 (Revised Estimates)		1988-89 (Budget Estimates)	
	Amount	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	Amount	Per cent variation over the previous year
	1	2	3	4	5	6	7	8	9	10	11
III. Overall Surplus(+) or Deficit(−) (II-I)	**−5183**	**−3249**		**−9149**		**−6077**		**−7666**		**−8125**	
Financing of Surplus(+) or Deficit(−)											
i) Increase(+) or Decrease(−) in cash balances of Centre and States	−787	−457		−125		−387		−1972		−630	
ii) Increase(−) or Decrease(+) in Treasury Bills of Centre	−3696	−4934		−8862		−5688		−5425		−7484	
iii) Withdrawals from(−) or Additions to(+) Cash Balance Investment Accounts of States (Net)	+54	+989		−272		−4		−233		−9	
iv) Increase(−) or Decrease(+) in Ways and Means Advances and Overdrafts from the RBI to States (Net)	−754	+1153		+110		+2		−36		−2	
IV. Gross Domestic Product	**229542**	**261733**		**292787**		**328241**		**328241**		**373860**	
I as per cent of IV	31.2	32.3		34.7		32.8		34.2		32.9	
II as per cent of IV	29.0	31.0		31.6		30.9		31.9		30.7	
IIA as per cent of IV	19.7	20.7		21.5		21.5		21.8		21.3	
IIA (i) as per cent of IV	15.6	16.4		16.9		17.3		17.3		17.2	

Note: Data relate to 25 State Governments.

+ Including effects of budget proposals and excluding post-budget tax concessions. Figures for Jammu and Kashmir and Nagaland for 1986-87 (Accounts) relate to Revised Estimates.

Source: Budgets of Central and State Governments.

Centre's budgetary deficit was estimated at Rs. 6,080 crores which was lower by Rs. 2,181 crores than the deficit of Rs. 8,261 crores in 1986-87. On the other hand, States' deficit at Rs. 1,566 crores was higher than that of Rs. 890 crores in 1986-87. The net RBI credit to Government (Central and States) at Rs. 6,402 crores was lower than that of Rs. 7,606 crores in 1986-87. The net RBI credit to the Central Government at Rs. 6,559 crores was lower by Rs. 531 crores than that in 1986-87. States had a debit balance of Rs. 157 crores at the end of 1987-88 as against a net credit balance of Rs. 516 crores at the end of 1986-87 (Table VIII-2).

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
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	1,688	−3,249	6,190	−1,748	4,442
1986-87	−8,261	−890	−9,151	7,090	516	7,606
1987-88 (Revised Estimates)	−6,080	−1,586	−7,666	6,559	−157	6,402

(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) Governments' balances with the RBI so that an increase in cash balances will imply a decline in RBI credit to Government and vice verse. 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 Estimates.

++ 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.

The combined aggregate receipts of the Centre and 25 States in 1987-88 totalled Rs. 1,04,670 crores as against Rs. 92,453 crores in the previous year showing a rise of Rs. 12,217 crores (13.2 per cent)[2] over the year (Table VIII-1). Revenue receipts at Rs. 71,548 crores recorded a rise of Rs. 8,646 crores (+13.7 per cent) over those in 1986-87 and accounted for 68.4 per cent of the total receipts as against 68.0 per cent in 1986-87. Capital receipts at Rs. 33,122 crores were higher by Rs. 3,571 crores (+12.1 per cent) over the previous year. The ratio of aggregate receipts (revenue plus capital) to Gross Domestic Product (GDP) at current market prices, was 31.9 per cent

2. All references to 1987-88 and 1986-87 relate to revised estimates and accounts, respectively, unless otherwise stated.

in 1987-88 as compared with 31.6 per cent in 1986-87.

The tax revenue estimated at Rs. 56,762 crores was more by Rs. 7,384 crores (+15.0 per cent) as compared with Rs. 49,378 crores in the previous year and accounted for 79.3 per cent of total revenue receipts as against 78.5 per cent in the earlier year. Of the total increase in tax receipts in 1987-88, a major portion, viz., Rs. 6,333 crores (85.8 per cent) came from taxes on Commodities and Services which increased from Rs. 40,941 crores in 1986-87 to Rs. 47,274 crores or by 15.5 per cent in 1987-88. The taxes on Income and Property at Rs. 8,850 crores rose by Rs. 977 crores (12.4 per cent) over the preceding year. The share of indirect taxes in total tax receipts moved up from 84.1 per cent in 1986-87 to 84.4 per cent in 1987-88. Owing to continued buoyancy in tax receipts, the tax-GDP ratio rose from 15.6 per cent in 1984-85 to 17.3 per cent in 1987-88.

The aggregate capital receipts increased from Rs. 29,551 crores in 1986-87 to Rs. 33,122 crores in 1987-88 recording a rise of Rs. 3,571 crores (+12.1 per cent) over the year. Market borrowings (net) at Rs. 8,440 crores were higher by Rs. 1,870 crores (+28.5 per cent) over the year. The collections from small savings (net) amounted to Rs. 4,200 crores as against Rs. 3,276 crores in the previous year showing a rise of 28.2 per cent over the year. State Provident Funds (net) collections at Rs. 2,155 crores showed significant rise of 37.2 per cent over Rs. 1,571 crores in the previous year.

The combined aggregate disbursements of the Central and State Governments at Rs. 1,12,336 crores were higher by Rs. 10,734 crores (+10.6per cent) over those of Rs. 1,01,602 crores in 1986-87. Of the total rise in disbursements, Rs. 5,933 crores (55.3 per cent) was on account of developmental expenditure which at Rs. 70,374 crores was higher by 9.2 per cent over the preceding year. Developmental expenditure in 1987-88 constituted 62.6 per cent of total disbursements as against 63.5 per cent in the previous year. Non-developmental expenditure at Rs. 39,689 crores showed a rise of Rs. 6,007 crores (+17.8 per cent) over the previous year and accounted for 35.3 per cent of total disbursements as against 33.2 per cent in the previous year.

1988-89

The Central Government budget for 1988-89 was presented against the background of a severe and wide-spread drought in many parts of the country which affected both agricultural and industrial production and the growth of GNP is expected to be 2 per cent in 1987-88 as compared with 4.1 per cent in 1986-87. The performance of the economy during 1987-88 was, however, much better than that in the other drought year of 1979-80 when the GNP had declined by 4.7 per cent and industrial production by 1.7 per cent. Despite severe drought, industrial production in 1987-88 recorded an increase of 7.7 per cent with infrastructural sectors performing well. Trade deficit narrowed down, due to higher growth rate of 25.3 per cent in exports while the growth in imports was contained at 11.4 per cent.

For the year 1988-89, the combined deficit of the Centre and States, after taking into account the yield from Additional Resource Mobilisation measures (ARM) is placed at Rs. 8,125 crores as against Rs. 7,666 crores in 1987-88. The combined aggregate receipts of the Centre and States are estimated higher at Rs. 1,14,960 crores showing a rise of Rs. 10,290 crores (+9.8 per cent) over the previous year. Revenue receipts are estimated at Rs. 79,710 crores recording a rise of Rs. 8,162 crores (+11.4 per cent) over 1987-88. Within revenue receipts, tax receipts budgeted at Rs. 64,177 crores are expected to show a rise of Rs. 7,415 crores (+13.1 per cent) over the previous year's level of Rs. 56,762 crores and would constitute 80.5 per cent of revenue receipts as against 79.3 per cent in the previous year. Capital receipts at Rs. 35,250 crores would be higher by Rs. 2,128 crores (+6.4 per cent) over the previous year. Market borrowings (net) at Rs. 8,701 crores would be higher by Rs. 261 crores (+3.1 per cent) over the year. The collections from the small savings are expected to be marginally higher at Rs. 4,600 crores as against Rs. 4,200 crores in 1987-88.

The combined aggregate disbursements are estimated higher at Rs. 1,23,085 crores, showing a rise of Rs. 10,749 crores (+9.6 per cent) over the previous year's level of Rs. 1,12,336 crores. Developmental expenditure at Rs. 74,161 crores is budgeted to record a rise of Rs. 3,787 crores (+5.4 per cent) and would constitute 60.3 per

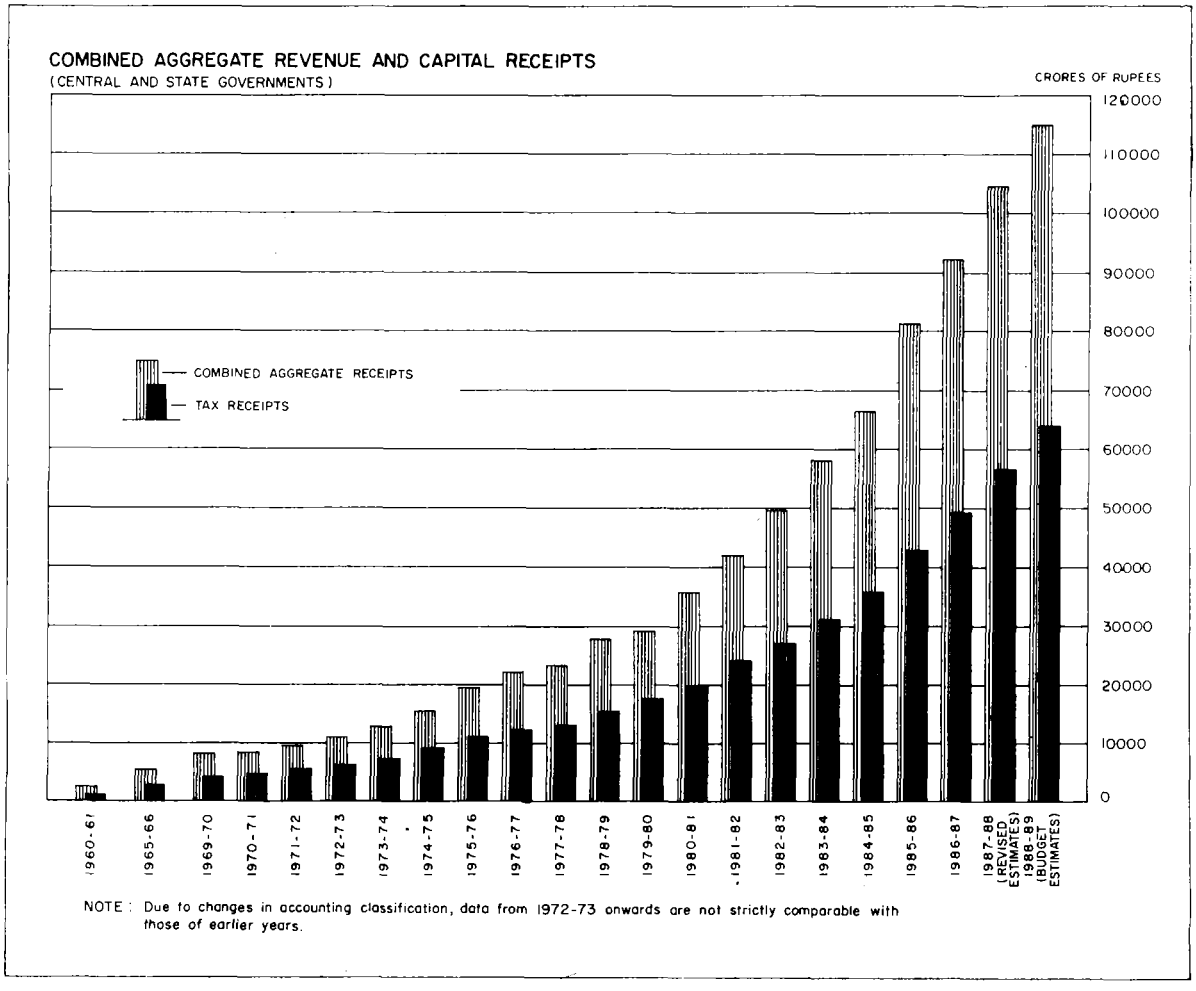
cent of total disbursements as against 62.6 per cent in the previous year. Non-developmental expenditure on the other hand, is anticipated to show a higher rise of Rs. 7,280 crores (+18.3 per cent) to Rs. 46,969 crores and would account for 38.2 per cent of the total disbursements as against 35.3 per cent in the last year.

BUDGETARY OPERATIONS OF THE CENTRAL GOVERNMENT

Central Finance: 1987-88[3]

According to the revised estimates for 1987-88, budgetary deficit of the Central Government was higher at Rs. 6,080 crores as against Rs. 5,688 crores anticipated in the budget estimates; but it was substantially lower as compared with Rs. 8,261 crores in 1986-87. The increase in deficit, despite a rise in aggregate receipts by Rs. 2,654 crores over budget estimates was due to increase both in non-Plan expenditure (Rs. 1,971 crores) and Plan expenditure (Rs. 1,248 crores). The major post-budgetary development which caused steep rise in expenditure was severe drought due to failure of monsoon and floods in Eastern States. The expenditure in the Central budget on account of drought, floods and other natural calamities was estimated at Rs. 2,000 crores as against the budget provision of Rs. 502 crores. The liberalisation of pensionary benefits of Government employees particularly the Defence Services personnel added Rs. 375 crores to the pension bill as also financial relief granted

3. In this Section, all references to 1986-87 and 1987-88 are based on the accounts and revised estimates, respectively, unless stated otherwise.



to certain public sector enterprises resulted in additional cost of Rs. 417 crores by way of subsidy and write-off of loans, etc. The subsidies on food and fertilisers, and interest payments were higher by Rs. 500 crores and Rs. 800 crores, respectively, over the budget estimates for 1987-88.

As a result of various post-budget developments, the deficit under revenue account widened from Rs. 6,742 crores envisaged in budget estimates of 1987-88 to Rs. 8,497 crores. The deterioration under the revenue account was, however, partly offset by an improvement under capital account. The surplus under capital account improved from Rs. 1,054 crores anticipated in budget estimates to Rs. 2,417 crores. The deficit under the revenue account has been persistently rising. During the first three years of the Seventh Plan, it has widened from Rs. 3,497 crores in 1984-85 to Rs. 6,742 crores in 1987-88. It is expected to touch the level of Rs. 9,842 crores in 1988-89 (Table VIII-3).

The total receipts for 1987-88 at Rs. 62,167 crores were higher by Rs. 8,870 crores (16.6 per cent) over those of Rs. 53,297 crores in the previous year. Revenue receipts aggregated Rs. 40,208 crores as compared with Rs. 34,768 crores in 1986-87 showing a rise of Rs. 5,440 crores (15.6 per cent) over the year. Of this, the rise of Rs. 4,018 crores was due to spurt in tax revenue collections and Rs. 1,422 crores on account of non-tax revenue. The rise in tax revenue was on account of higher collections under Customs duties (+ Rs. 2,025 crores), Excise duties (+Rs. 1,413 crores) and Corporation tax (+Rs. 490 crores). The main items accounting for rise in non-tax revenue were: Interest receipts (Rs. 745 crores), Fiscal Services (Rs. 530 crores) and Cash Grants from Foreign Countries and International Organisations (Rs. 89 crores). However, the higher receipts were partly offset by a decline under the head 'Economic Services' by Rs. 149 crores.

Tax receipts in 1987-88 accounted for 70.5 per cent of total revenue receipts as compared with 69.9 per cent in 1986-87. The ratio of Centre's tax receipts to GDP (at current prices) was 8.6 per cent as compared with 8.3 per cent in 1986-87. During the first three years of the Seventh Plan, tax-GDP ratio has risen from 7.7 per cent in 1984-85 to 8.6 per cent in 1987-88. Under tax receipts, the shares of direct and indirect taxes were 16.1 per cent and 83.9 per cent, respectively, in 1987-88. The Long-Term Fiscal Policy had envisaged that the share of direct taxes should be gradually increased. But, this ratio has shown a declining trend during the Seventh Plan, having come down from 20.1 per cent in 1984-85 to 16.1 per cent in 1987-88. As a result, the share of indirect taxes in total tax receipts has gone up from 79.9 per cent in 1984-85 to 83.9 per cent in 1987-88 (Table VIII-4).

Table VIII-3: Budgetary Position of the Government of India

(Rs crores)

Items	1984-85 (Accounts)	1985-86 (Accounts)	1986-87 (Accounts)	1987-88 (Budget Estimates)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)(a)
	1	2	3	4	5	6
I. Revenue Account						
A. Revenue	24,384	29,207	34,768	38,203	40,208	44,994
B. Expenditure	27,881	34,772	42,544	44,945	48,705	54,836
C. Surplus (+)/Deficit (−)	−3,497	−5,565	−7,776	−6,742	−8,497	−9,842
II. Capital Account						
A. Receipts	17,768	16,763	18,529	20,566	21,959	23,278
B. Disbursements	18,016	16,135(b)	19,014	19,512	19,542	20,920
C. Surplus (+)/Deficit (−)	−248	+628(b)	−485	+1,054	+2,417	+2,358
III. Overall Surplus (+)/Deficit(−)	**−3,745**	**−4,937(b)**	**−8,261**	**−5,688**	**−6,080**	**−7,484**

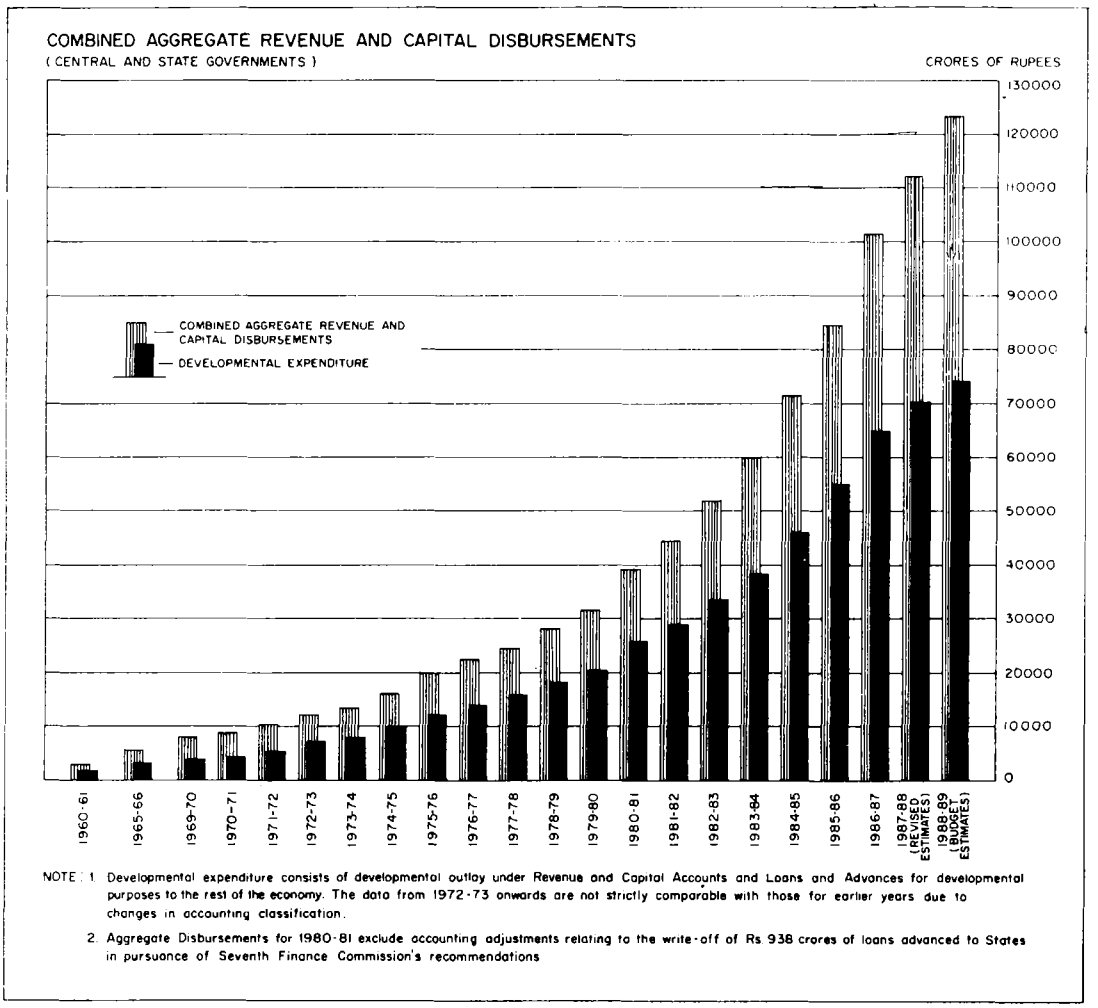
(a) Including effects of budget proposals. Post-budget tax concessions are not adjusted.
(b) Excludes Rs. 1,628 crores of medium-term loans to State Governments to clear their overdrafts.

Table VIII-4: Tax Revenue Receipts of the Government of India

(Rs crores)

Items	1984-85 (Accounts)	1985-86 (Accounts)	1986-87 (Accounts)	1987-88 (Budget Estimates)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)(a)
	1	2	3	4	5	6
I. Tax Receipts	17,694	21,180	24,318	27,711	28,337	31,890
I as per cent of Total Receipts	42.0	46.1	45.6	46.6	45.6	46.7
I as per cent of Revenue Receipts	72.6	72.5	69.9	71.2	70.5	70.9
I as per cent of G.D.P	7.7	8.1	8.3	8.4	8.6	—
a) **Direct Taxes**	3,562	3,780	4,065	4,291	4,564	5,179
a) as per cent of Tax Receipts	20.1	17.8	16.7	15.5	16.1	16.2
b) **Indirect Taxes***	14,132	17,400	20,253	23,420	23,773	26,711
b) as per cent of Tax Receipts	79.9	82.2	83.3	84.5	83.9	83.8

* Include Taxes of Union Territories.



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 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

Capital receipts at Rs. 21,959 crores were higher by Rs. 3,430 crores (18.5 per cent) than Rs. 18,529 crores in the previous year. The major increases were under Market Borrowings (net) (Rs. 1,469 crores), External Loans (net) (Rs. 611 crores), Small Savings (Rs. 524 crores), Recoveries of Loans and Advances (Rs. 886 crores) and Special Deposit Schemes (Rs. 187 crores). These were offset partly by a decline in 'Other Capital Receipts' (– Rs. 133 crores).

Total disbursements during 1987-88 were higher at Rs. 68,247 crores as compared with Rs. 61,558 crores in the previous year, recording a rise of Rs. 6,689 crores (10.9 per cent). The revenue expenditure at Rs. 48,705 crores registered a rise of Rs. 6,161 crores (14.5 per cent) over that in 1986-87 while capital expenditure at Rs. 19,542 crores was higher by Rs. 528 crores (2.8 per cent) than in 1986-87. The rise in non-Plan expenditure was Rs. 4,489 crores while increase in Plan expenditure was only Rs. 1,984 crores.

The rise in revenue expenditure was observed under both developmental expenditure (Rs. 3,296 crores) and non-developmental expenditure (Rs. 2,865 crores). Under developmental revenue expenditure, the important items accounting for the rise were: Grants-in-aid to State and Union Territory Governments (+ Rs. 1,323 crores), Economic Services (+ Rs. 1,439 crores) and Social Services (+ Rs. 396 crores). The rise under the head 'Economic Services' was largely attributable to the increase in subsidies which increased by Rs. 674 crores over the budget estimates. Details of the various subsidies are given below:

(Rs. crores)

	1987-88 BE	1987-88 RE	1988-89 BE
A. Major subsidies	4,780	5,370	6,391
1. Food	2,000	2,200	2,300
2. Fertilisers	1,910	2,210	3,000
3. Export Promotion and market development	870	960	1,091
B. Other subsidies	825	909	925
Of which:			
1. Railways	178	170	203
2. Interest subsidies	289	432	337
Total (A+B)	**5,605**	**6,279**	**7,316**

The increase in non-developmental expenditure was mainly on account of: Interest Payments (+Rs. 2,213 crores), Administrative Services (+Rs. 226 crores). On the other hand, defence expenditure at Rs. 8,893 crores was lower by Rs. 286 crores as against Rs. 9,179 crores in the previous year.

Under capital disbursements, non-developmental capital outlay showed a rise of Rs. 1,812 crores over 1986-87, while developmental capital outlay was lower by Rs. 1,518 crores than that in 1986-87. Within non-developmental capital outlay, Defence outlay at Rs. 3,107 crores alone accounted for a rise of Rs. 1,809 crores over that of the previous year. Within developmental capital outlay, main items accounting for decline were: Economic Services (– Rs. 1,299 crores) and Social Services (– Rs. 140 crores). Loans and Advances for developmental purposes at Rs. 10,052 crores were higher by Rs. 348 crores. Loans and Advances to State Governments for developmental purposes at Rs. 5,516 crores were higher by Rs. 1,301 crores, while 'Other Loans' at Rs. 4,509 crores were lower by Rs. 771 crores over the year.

Pattern of Expenditure and Receipts for 1988-89—Budget Estimates

In order to maintain the tempo of the Plan investment, the outlay for the Central Plan for 1988-89 was stepped-up further to Rs. 28,715 crores showing a rise of Rs. 4,093 crores (+16.6 per cent) over the approved Plan outlay of Rs. 24,622 crores in the preceding year and rise of Rs. 3,014 crores (+11.7 per cent) over the revised estimates of 1987-88. Including the proposed outlay for 1988-89, the total outlay during the first four years of Seventh Five Year Plan would account for 86 per cent of the total Seventh Plan outlay in real terms, (i.e., at 1984-85 prices) as against 66 per cent of the total Plan outlay in real terms during the first four years of the Sixth Plan. The total Plan outlay of States and Union Territories has been fixed at Rs. 21,103 crores representing an increase of Rs. 3,128 crores (17.4 per cent) over the previous year's level of Rs. 17,975 crores. Taken together, the Plan outlays of the Centre, States and Union Territories would amount to Rs. 49,818 crores constituting an increase of Rs. 5,576 crores (+12.6 per cent) over the approved Plan outlay of Rs. 44,242 crores for 1987-88 and Rs. 6,142 crores (+14.1 per cent) over the

revised estimates of Rs. 43,676 crores in 1987-88. The Central budgetary support for Annual Plans 1988-89 for the Centre, States and Union Territories taken together would aggregate Rs. 25,714 crores as against Rs. 24,925 crores in 1987-88.[4] The main thrust of the Central Plan for 1988-89 was to revitalise the drought-hit economy, maintain the tempo of development and continue with the programmes like IRDP, NREP and RLEGP aimed at poverty alleviation and employment generation. The infrastructure sectors particularly Energy, Transport and Communication as also Education and Housing were given priority.

The non-Plan expenditure which accounts for 65.1 per cent of total expenditure in 1988-89 is estimated at Rs. 47,896 crores, showing a rise of Rs. 6,660 crores (16.2 per cent) over 1987-88. The major components of non-Plan expenditure are interest payments, defence and subsidies. These three items alone would account for 71.9 per cent of total non-Plan expenditure in 1988-89 as compared with 72.1 per cent in 1987-88 and 67.2 per cent in 1984-85. Interest payments which alone account for 29.4 per cent of total non-Plan expenditure are budgeted at Rs. 14,100 crores for 1988-89 showing a rise of Rs. 2,650 crores (23.1 per cent) over 1987-88. Defence expenditure is budgeted at Rs. 13,000 crores showing a rise of Rs. 1,000 crores (8.3 per cent) over 1987-88. The expenditure on subsidies would be stepped-up by Rs. 1,037 crores (16.5 per cent) to Rs. 7,316 crores.

Total disbursements of the Central Government in 1988-89 are budgeted higher at Rs. 75,756 crores showing a rise of Rs. 7,509 crores (+11.0 per cent) over the year. Aggregate receipts inclusive of net additional resource mobilisation of Rs. 636 crores for the Centre are anticipated to reach a level of Rs. 68,272 crores recording a rise of Rs. 6,105 crores (+9.8 per cent) over the previous year's level of Rs. 62,167 crores. As a result, the uncovered budgetary deficit would be higher at Rs. 7,484 crores[5] as compared with Rs. 6,080 crores in the preceding year. The deficit for 1988-89 would go up further by Rs. 39 crores due to post-budget concessions announced by the Government.

Revenue expenditure is budgeted at Rs. 54,836 crores as compared with Rs. 48,705 crores in 1987-88 showing a rise of Rs. 6,131 crores (+12.6 per cent). Capital disbursements are anticipated at Rs. 20,920 crores which would be more by Rs. 1,378 crores (+7.1 per cent) over those in 1987-88.

The developmental expenditure estimated at Rs. 40,279 crores would show a rise of Rs. 2,655 crores (+7.1 per cent) while the non-developmental expenditure at Rs. 35,477 crores would show a rise of Rs. 4,854 crores (15.9 per cent) over 1987-88. As a result, developmental expenditure as a proportion to aggregate disbursements would decline to 53.2 per cent in 1988-89 from 55.1 per cent in 1987-88. Correspondingly, the share of non-developmental expenditure would move up from 44.9 per cent in 1987-88 to 46.8 per cent in 1988-89.

Of the total rise of Rs. 6,131 crores in revenue expenditure, Rs. 3,926 crores accounting for 64 per cent of the rise in revenue expenditure would be under non-developmental expenditure and the balance Rs. 2,205 crores constituting 36 per cent of the rise under developmental expenditure. The items accounting for rise in developmental expenditure are: (i) Grants-in-aid for developmental purposes (+ Rs. 680 crores), (ii) Economic Services (+ Rs. 1,276 crores) and (iii) Social Services (+ Rs. 215 crores). The expenditure on account of 'subsidies' would go up further by Rs. 1,307 crores to Rs. 7,316 crores in 1988-89 as compared with Rs. 6,279 crores in 1987-88. The expenditure on food subsidies would go up from Rs. 2,200 crores to Rs. 2,300 crores while that on fertilizers has been stepped-up by Rs. 790 crores to Rs. 3,000 crores. The subsidy on export promotion has been raised from Rs. 960 crores in 1987-88 to Rs. 1,091 crores. The expenditure on subsidies would account for 13.3 per cent of revenue expenditure in 1988-89 as against 12.9 per cent in 1987-88. The main items accounting for rise in non-developmental expenditure on revenue account are: (i) Interest payments (+ Rs.2,650 crores), (ii) Defence Services (net) (+Rs. 235 crores), (iii) Administrative Services (+Rs. 986 crores) and (iv) Grants-in-aid for non-developmental purposes (+Rs. 101 crores). These

4. In this Section, all references to 1987-88 are based on the revised estimates, unless stated otherwise.

5. This figure does not take into account the post-budget changes. The Finance Minister announced some post-budget concessions which are expected to cause a revenue loss of Rs. 39 crores in 1988-89.

increases are partly offset by lower provision for Currency, Coinage and Mint and other Fiscal Services (– Rs. 65 crores).

Within capital disbursements, major increase is envisaged in non-developmental capital outlay which projected at Rs. 4,288 crores would show a rise of Rs. 928 crores (+27.6 per cent) over the previous year while developmental capital outlay budgeted at Rs. 16,632 crores would record a lower rise of Rs. 450 crores (+2.8 per cent). The items accounting for rise in non-developmental capital outlay are: (i) Defence (net) (+Rs. 765 crores), (ii) Other General Services (+Rs. 80 crores) and (iii) Loans for non-developmental purposes (+Rs. 83 crores). Within developmental capital outlay, important items for which higher provisions have been made are: (i) Social Services (+Rs. 138 crores), (ii) Economic Services (+Rs. 121 crores), (iii) General Services (+Rs. 74 crores) and (iv) Loans and Advances (+Rs. 58 crores).

Of the total rise of Rs. 6,105 crores in the aggregate receipts, Rs. 4,786 crores or 78.4 per cent of the total rise is estimated on the revenue account and the balance of Rs. 1,319 crores or 21.6 per cent of rise from capital receipts.

Revenue receipts, at the revised rates of taxation, are estimated at Rs. 44,994 crores as compared with Rs. 40,208 crores in 1987-88. Tax revenue receipts envisaged at Rs. 31,890 crores would show a rise of Rs. 3,553 crores (+12.5 per cent) over those in 1987-88 and would constitute 70.9 per cent of total revenue receipts as against 70.5 per cent in the preceding year. On the other hand, non-tax revenue estimated at Rs. 13,104 crores would be higher by Rs. 1,233 crores (+10.4 per cent) over that in 1987-88 and its proportion to total revenue receipts would decline from 29.5 per cent in 1987-88 to 29.1 per cent in 1988-89. Of the total rise of Rs. 3,553 crores in tax revenue, Rs. 615 crores would come from taxes on Income and Expenditure and Property and Capital Transactions while taxes on Commodities and Services would account for major proportion of the rise of Rs. 2,874 crores and remaining Rs. 64 crores from the taxes of Union Territories. Collections from taxes on Commodities and Services (net of States' share in Excise duties) are anticipated at Rs. 26,009 crores as compared with Rs. 23,135 crores in the previous year registering a rise of Rs. 2,874 crores (12.4 per cent). Revenues from Customs estimated at Rs. 15,626 crores would be higher by Rs. 2,126 crores (+15.7 per cent) while receipts from the Excise duties projected at Rs. 10,283 crores would be higher by only Rs. 706 crores (+7.4 per cent) over the previous year.

Receipts from Corporation tax and Centre's share in Income tax at Rs. 4,099 crores and Rs. 887 crores would be higher by Rs. 449 crores (+12.3 per cent) and Rs. 126 crores (+16.6 per cent), respectively, over the preceding year. Under non-tax revenue, main items which account for rise are: (i) Interest Receipts (+Rs. 1,103 crores) and (ii) Economic Services (+Rs. 220 crores). The receipts from Fiscal Services would, however, be lower by Rs. 201 crores than those in 1987-88.

Capital receipts are anticipated at Rs. 23,278 crores as compared with Rs. 21,959 crores in the previous year. The contributory items for rise in capital receipts are: (i) External loans (net) (+Rs. 512 crores), (ii) Special Deposit Scheme (+ Rs. 450 crores), (iii) Other Receipts (net) (+Rs. 214 crores), (iv) Small Savings (+Rs. 150 crores) and (v) State Provident Funds (+Rs. 80 crores). Receipts from Market Borrowings (net) have been budgeted at Rs. 7,000 crores, same as in the previous year.

Economic and Functional Classification of the Central Government Budget

The Government of India brings out every year from 1967-68 onwards an economic-cum-functional classification of its budgetary transactions for the proper appreciation and understanding of the economic impact of its transactions with a view to make the Budget a more useful tool of economic analysis. The methodology and concepts used in this analysis are those used in the national income accounting system.

In the following paragaphs, an analysis is made of the economic and functional classification of the Central Government expenditure during 1987-88 and the proposed allocations for 1988-89.

1987-88—Economic Classification

The total expenditure of the Centre during 1987-88 at Rs. 71,025 crores showed a rise of

Table VIII-5: Economic Classification of Total Budgetary Expenditure of the Central Government (Contd.)

(Rs. crores)

	1984-85 (Accounts)	Percentage variation over the previous year	1985-86 (Accounts)	Percentage variation over the previous year	1986-87 (Accounts)	Percentage variation over the previous year	1987-88 (Budget Estimates)	Percentage variation over the previous year	1987-88 (Revised Estimates)	Percentage variation over the previous year	1988-89 (Budget Estimates)	Percentage variation over the previous year
	1	2	3	4	5	6	7	8	9	10	11	12
I. Total Expenditure (A+B)	**43,879**	**+21.9**	**53,112**	**+21.0**	**64,023**	**+20.5**	**67,640**	**+5.7**	**71,025**	**+10.9**	**77,824**	**+9.6**
	(100.0)		**(100.0)**		**(100.0)**		**(100.0)**		**(100.0)**		**(100.0)**	
A. Final Outlays (a+b)	**13,551**	**+18.0**	**15,768**	**+16.4**	**20,570**	**+30.5**	**23,257**	**+13.1**	**22,647**	**+10.1**	**26,043**	**+15.0**
	(30.9)		**(29.7)**		**(32.1)**		**(34.4)**		**(31.9)**		**(33.5)**	
a) Consumption Expenditure	9,428	+16.0	11,210	+18.9	14,665	+30.8	17,121	+16.7	16,733	+14.1	18,743	+12.0
	(21.5)		(21.1)		(22.9)		(25.3)		(23.6)		(24.1)	
b) Gross Capital Formation	4,123	+22.9	4,558	+10.6	5,905	+29.6	6,136	+3.9	5,914	+0.2	7,300	+23.4
	(9.4)		(8.6)		(9.2)		(9.1)		(8.3)		(9.4)	
B. Financial Resources Provided to the Rest of the Economy (a+b)	**30,328**	**+23.8**	**37,344**	**+23.1**	**43,453**	**+16.4**	**44,383**	**+2.1**	**48,378**	**+11.3**	**51,781**	**+7.0**
	(69.1)		**(70.3)**		**(67.9)**		**(65.6)**		**(68.1)**		**(66.5)**	
a) For Capital Formation (i+ii)	13,428	+18.4	16,919	+26.0	18,415	+8.8	18,616	+1.1	20,298	+10.2	20,352	+0.3
	(30.6)		(31.8)		(28.8)		(27.5)		(28.6)		(26.1)	
i) To States and Union Territories	7,195	+20.4	10,054	+39.7	10,800	+7.4	11,775	+9.0	12,903	+19.5	12,979	+0.6
	(16.4)		(18.9)		(16.9)		(17.4)		(18.2)		(16.7)	
ii) To Others*	6,233	+16.0	6,865	+10.1	7,615	+10.9	6,841	−10.2	7,395	−2.9	7,373	−0.3
	(14.2)		(12.9)		(11.9)		(10.1)		(10.4)		(9.4)	

Table VIII-5: Economic Classification of Total Budgetary Expenditure of the Central Government (Concld.)

(Rs. crores)

	1984-85 (Accounts)	Percentage variation over the previous year	1985-86 (Accounts)	Percentage variation over the previous year	1986-87 (Accounts)	Percentage variation over the previous year	1987-88 (Budget Estimates)	Percentage variation over the previous year	1987-88 (Revised Estimates)	Percentage variation over the previous year	1988-89 (Budget Estimates)	Percentage variation over the previous year
	1	2	3	4	5	6	7	8	9	10	11	12
b) For purposes other than Capital Formation (i+ii)	16,900	+28.5	20,425	+20.9	25,038	+22.6	25,767	+2.9	28,080	+12.2	31,429	+11.9
	(38.5)		(38.5)		(39.1)		(38.1)		(39.5)		(40.4)	
i) To States and Union Territories	3,469	+20.9	4,372	+26.0	4,213	−3.6	4,874	+15.7	4,975	+18.1	5,695	+14.5
	(7.9)		(8.2)		(6.6)		(7.2)		(7.0)		(7.3)	
ii) To Others*	13,431	+30.6	16,053	+19.5	20,825	+29.7	20,893	+0.3	23,105	+10.9	25,734	+11.4
	(30.6)		(30.3)		(32.5)		(30.9)		(32.5)		(33.1)	
II Total Expenditure for Capital Formation	**17,551**	**+19.4**	**21,477**	**+22.4**	**24,320**	**+13.2**	**24,752**	**+1.8**	**26,212**	**+7.8**	**27,652**	**+5.5**
	(40.0)		**(40.4)**		**(38.0)**		**(36.6)**		**(36.9)**		**(35.5)**	
III. Total Expenditure for purposes other than Capital Formation	**26,328**	**+23.7**	**31,635**	**+20.2**	**39,703**	**+25.5**	**42,888**	**+8.0**	**44,813**	**+12.9**	**50,172**	**+12.0**
	(60.0)		**(59.6)**		**(62.0)**		**(63.4)**		**(63.1)**		**(64.5)**	

Note : Figures in brackets represent percentages to total.

* Comprises non-departmental Commercial Undertakings, Local Authorities, Foreign Governments, etc.

Source: Economic and Functional Classification of the Central Government Budget, 1986-87, 1987-88 and 1988-89.

Rs. 7,002 crores (10.9 per cent) over 1986-87 level of Rs. 64,023 crores and Rs. 3,385 crores (5.0 per cent) over the budget estimates of the year (Table VIII-5). Final outlays representing the Centre's direct demand for goods and services for consumption and capital formation at Rs. 22,647 crores were higher by Rs. 2,077 crores (10.1 per cent) over 1986-87 level of Rs. 20,570 crores but these were lower by Rs. 610 crores (−2.6 per cent) than the budget estimates of Rs. 23,257 crores for 1987-88. These account for 31.9 per cent of total expenditure as compared with 32.1 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. 48,378 crores were also more by Rs. 4,925 crores (11.3 per cent) over 1986-87 level and constituted 68.1 per cent of the total expenditure as compared with 67.9 per cent in 1986-87. Within Final Outlays, while consumption expenditure (i.e., expenditure on wages and salaries and commodities and services) at Rs. 16,733 crores rose by Rs. 2,068 crores (14.1 per cent), the expenditure on gross capital formation at Rs. 5,914 crores showed a marginal rise of Rs. 9 crores (0.2 per cent). The increase in consumption expenditure was shared almost equally both by wages and salaries (+Rs. 1,052 crores) and commodities and services (+Rs. 1,016 crores). Within gross capital formation, gross fixed capital formation at Rs. 5,674 crores was lower by Rs. 143 crores which was more than offset by rise in expenditure in works stores by Rs. 152 crores to Rs. 240 crores.

The increase of Rs. 4,925 crores in financial resources provided to the rest of the economy was on account of both transfer for capital formation as also for purposes other than capital formation. Transfers meant for capital formation at Rs. 20,298 crores were higher by Rs. 1,883 crores (10.2 per cent) while for purposes other than capital formation at Rs. 28,080 crores were more by Rs. 3,042 crores than those in the previous year. Total financial resources provided to States and Union Territories were Rs. 17,878 crores which were more by Rs. 2,865 crores (19.1 per cent) than Rs. 15,013 crores provided in 1986-87. These constituted 25.2 per cent of total expenditure in 1987-88 as compared with 23.5 per cent in the previous year. Transfer to 'Other' sectors (other than States and Union Territories) at Rs. 30,500 crores were higher by Rs. 2,060 crores (7.2 per cent) over those in 1986-87. The current transfers and capital transfers at Rs. 25,634 crores and Rs. 5,412 crores were more by Rs. 4,391 crores and Rs. 1,005 crores, respectively, while financial investments and loans to the rest of the economy at Rs. 17,332 crores were lower by Rs. 471 crores. Main items accounting for rise in current transfers were: i) Interest payments (Rs. 1,932 crores), ii) Grants (Rs. 1,396 crores), iii) Subsidies (Rs. 703 crores) and iv) Pensions (Rs. 342 crores). Within capital transfers, while grants and loans for capital formation at Rs. 5,412 crores and Rs. 12,625 crores were more by Rs. 1,005 crores and Rs. 2,121 crores, respectively,'Other loans' at Rs. 584 crores showed a sharp decline of Rs. 1,624 crores. Within 'Other loans', loans to non-departmental commercial undertakings at Rs. 438 crores were less by Rs. 1,231 crores.

Total expenditure on capital formation both direct and indirect in 1987-88 amounted to Rs. 26,212 crores, recording an increase of Rs. 1,892 crores (7.8 per cent) over 1986-87 level but its share in total expenditure declined from 38.0 per cent in 1986-87 to 36.9 per cent in 1987-88.

Indirect expenditure on capital formation by way of assistance provided to the rest of the economy for capital formation at Rs. 20,288 crores showed a rise of Rs. 1,883 crores over 1986-87. Direct capital formation increased only marginally by Rs. 9 crores over the year to Rs. 5,914 crores. Total expenditure for the purposes other than capital formation at Rs. 44,813 crores was higher by Rs. 5,110 crores (12.9 per cent) as compared with Rs. 39,703 crores in the previous year. It accounted for 63.1 per cent of total expenditure as against 62.0 per cent, in the preceding year.

Functional Classification

Developmental expenditure of the Central Government during 1987-88 at Rs. 38,501 crores recorded a rise of Rs. 2,629 crores (7.3 per cent) over 1986-87 level of developmental expenditure of Rs. 35,872 crores (Table VIII-6). However, its share in total expenditure declined from 56.0 per cent in 1986-87 to 54.2 per cent in 1987-88. The expenditure on Economic Services at Rs. 32,264 crores registered a rise of Rs. 1,489 crores (4.8 per cent) as compared with Rs. 30,775 crores in the

Table VIII-6: Functional Classification of the Central Government's Total Expenditure

(Rs. crores)

Items	1984-85 (Accounts)	Per cent variation over the previous year	1985-86 (Accounts)	Per cent variation over the previous year	1986-87 (Accounts)	Per cent variation over the previous year	1987-88 (Budget Estimates)	Per cent variation over the previous year	1987-88 (Revised Estimates)	Per cent variation over the previous year	1988-89 (Budget Estimates)	Per cent variation over the previous year
	1	2	3	4	5	6	7	8	9	10	11	12
Total Expenditure (A+B)	**43,879**	**+21.9**	**53,112**	**+21.0**	**64,023**	**+20.5**	**67,640**	**+5.6**	**71,025**	**+10.9**	**77,824**	**+9.6**
	(100.0)		**(100.0)**		**(100.0)**		**(100.0)**		**(100.0)**		**(100.0)**	
A. Developmental Expenditure (i+ii)	**26,276**	**+24.6**	**30,852**	**+17.4**	**35,872**	**+16.3**	**36,325**	**+1.3**	**38,501**	**+7.3**	**41,772**	**+8.5**
	(59.9)		**(58.1)**		**(56.0)**		**(53.7)**		**(54.2)**		**(53.7)**	
(i) Social Services	3,162	+23.7	3,882	+22.8	5,097	+31.3	5,701	+11.9	6,237	+22.4	6,821	+9.4
	(7.2)		(7.3)		(8.0)		(8.4)		(8.8)		(8.8)	
(ii) Economic Services*	23,114	+24.8	26,970	+16.7	30,775	+14.1	30,624	−0.5	32,264	+4.8	34,951	+8.3
	(52.7)		(50.8)		(48.0)		(45.3)		(45.4)		(44.9)	
B. Non-Developmental Expenditure (i+ii)	**17,603**	**+18.1**	**22,260**	**+26.5**	**28,151**	**+26.5**	**31,315**	**+11.2**	**32,524**	**+15.5**	**36,052**	**+10.8**
	(40.1)		**(41.9)**		**(44.0)**		**(46.3)**		**(45.8)**		**(46.3)**	
(i) General Services	8,967	+11.3	10,773	+20.1	14,815	+37.5	16,747	+13.0	16,625	+12.2	17,597	+5.8
	(20.4)		(20.3)		(23.2)		(24.8)		(23.4)		(22.6)	
(ii) Unallocable	8,636	+26.1	11,487	+33.0	13,336	+16.1	14,568	+9.2	15,899	+19.2	18,455	+16.1
	(19.7)		(21.6)		(20.8)		(21.5)		(22.4)		(23.7)	

Note : Figures in brackets are percentages to total expenditure.

* : Include block grants and loans.

Source: Economic and Functional Classification of the Central Government Budget, 1986-87, 1987-88 and 1988-89.

previous year showing a rise of 14.1 per cent over 1985-86. Within 'Economic Services', expenditure on 'Agriculture' and 'Transport and Communications' at Rs. 5,112 crores and Rs. 5,411 crores was higher by Rs. 719 crores and Rs. 363 crores, which was partly offset by lower expenditure on 'Industry' and 'Other Economic Services' at Rs. 9,499 crores and Rs. 4,730 crores by Rs. 209 crores and Rs. 420 crores, respectively, over the preceeding year's level. Block Grants and Loans at Rs. 7,512 crores were also more by Rs. 1,087 crores as compared with Rs. 6,425 crores in the previous year. Expenditure on Social Services increased by Rs. 1,140 crores (22.4 per cent) in comparison with the rise of Rs. 1,215 crores recorded in 1986-87 over 1985-86. The expenditure on 'Education', 'Medical and Public Health' and 'Other Social Services' at Rs. 1,560 crores, Rs. 943 crores and Rs. 3,733 crores was higher by Rs. 607 crores, Rs. 78 crores and Rs. 455 crores, respectively, as compared with expenditure on these items in 1986-87.

Non-developmental expenditure of the Central Government at Rs. 32,524 crores showed a rise of Rs. 4,373 crores (15.5 per cent) over the year. It constituted 45.4 per cent of the total expenditure as against 44.0 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 at Rs. 16,625 crores recorded a rise of Rs. 1,810 crores (12.2 per cent) over the year. Within 'General Services', expenditure on Defence and Services other than Defence at Rs. 11,906 crores and Rs. 4,719 crores recorded rises of Rs. 1,467 crores and Rs. 343 crores, respectively, over the preceding year. While consumption expenditure on 'Services other than Defence' at Rs. 3,001 crores registered an increase of Rs. 304 crores, non-consumption expenditure at Rs. 1,718 crores was marginally higher by Rs. 39 crores. The 'Unallocable expenditure' which include expenditures on items like 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 at Rs. 15,899 crores showed a rise of Rs. 2,563 crores (19.2 per cent) as compared with Rs. 13,336 crores in 1986-87. Increased provisions for interest (Rs. 1,932 crores), subsidies (Rs. 191 crores) and pensions (Rs. 342 crores) were major items accounting for rise in 'Unallocable" expenditure.

The expenditure of Rs. 25,688 crores for capital formation in total developmental expenditure was higher by Rs. 1,795 crores (7.5 per cent) and constituted 66.7 per cent of the total developmental expenditure as compared with Rs. 23,893 crores in the previous year accounting for 66.6 per cent of the developmental expenditure. The provision for capital formation for non-developmental purposes comprising 'General Services' and 'Unallocable' was Rs. 524 crores as against Rs. 427 crores in the previous year (Table VIII-8).

Savings, Investment and Income Generation

The steep rise in Central Government expenditure unmatched by a commensurate rise in revenue receipts noticed in recent years persisted during 1987-88. This resulted in further deterioration in savings of the Central Government. During 1987-88, dissavings of Central Government administration (excess of current expenditure over revenue receipts) or negative savings recorded further deterioration and amounted to Rs. 5,616 crores as compared with Rs. 4,162 crores in 1986-87. While revenue receipts at Rs. 36,751 crores were more by Rs. 5,005 crores (15.8 per cent), the current expenditure at Rs. 42,367 crores showed a larger rise of Rs. 6,459 crores (18.0 per cent) over the year (Table VIII-9).

Depreciation provision and retained profits of the departmental commercial undertakings at Rs. 1,665 crores were higher by Rs. 355 crores than those of Rs. 1,310 crores during 1986-87. Depreciation provision amounted to Rs. 1,570 crores as against Rs. 1,444 crores in the preceding year. The retained profits amounted to Rs. 95 crores as against the negative amount of (−) Rs. 134 crores in 1986-87. Expenditure on renewals and replacements during the year was more by Rs. 28 crores at Rs. 1,367 crores. Net savings of the Central Government, i.e., gross savings minus expenditure on renewals and replacements were negative at (−) Rs. 5,318 crores in 1987-88 as compared with the negative savings of (−) Rs. 4,191 crores in 1986-87.

The net direct investment of the Central Government at Rs. 4,548 crores was marginally lower by Rs. 18 crores as compared with preceding year's level of Rs. 4,566 crores. The major components of total net direct investment are indicated in the table overleaf:

Table VIII-7: Central Government's Net Direct Investment

(Rs. crores)

	1986-87 (Accounts)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)
	1	2	3
1. Construction works	2,791	2,983	3,638
	(61.1)	(65.6)	(64.8)
2. Machinery and Equipments	1,687	1,325	1,823
	(36.9)	(29.1)	(32.5)
3. Increase in works stores	88	240	149
	(2.0)	(5.3)	(2.7)
Total Net Direct Investment	**4,566**	**4,548**	**5,610**
	(100.0)	**(100.0)**	**(100.0)**

Note: Figures in brackets are percentages to total.

The expansionary impact of the Government's budgetary operations can be judged by the difference in net direct investment and net savings. The excess of net direct investment over net savings measures the income deficit of the Central Government. On this basis, the income deficit of the Central Government at Rs. 9,866 crores was higher than that of Rs. 8,757 crores in 1986-87.

The income generation out of the budgetary operation of the Central Government during 1987-88 is placed higher at Rs. 15,563 crores as compared with Rs. 13,024 crores in the previous year (Table VIII-10). Of the net rise of Rs. 2,546 crores in the income generation, Rs. 1,052 crores was accounted for by wages and salaries paid by Government administration, Rs. 1,378 crores due to increase in net output of the Departmental Commercial Undertakings and remaining Rs. 116 crores on account of wages and salaries component of Government outlays on construction.

Sources and Uses of Funds

Total receipts of the Central Government comprising current receipts (tax receipts and non-tax receipts), capital transfers, internal resources of the departmental undertakings and recovery of loans during 1987-88 were higher at Rs. 42,849 crores as against Rs. 36,829 crores in the previous year and Rs. 41,472 crores envisaged in the budget estimates (Table VIII-11). Total expenditure which included expenditure for capital formation, consumption expenditure, increase in inventories, current transfers, etc. at Rs. 71,025 crores showed a larger rise of Rs. 7,002 crores over the year. Owing to steep increase in expenditure, the gap between the total expenditure and total receipts widened further from Rs. 27,194 crores in 1986-87 to Rs. 28,176 crores in 1987-88 (Table VIII-11). The shortfall in resources to meet the growing expenditure has been rising steadily from Rs. 17,579 crores in 1984-85 to Rs. 22,251 crores in 1985-86 and further up to Rs. 27,194 crores in 1986-87. The gap, i.e., excess of expenditure over total receipts, formed 39.7 per cent of total expenditure in 1987-88 as compared with 42.5 per cent in 1986-87.

The gap between the total expenditure and total receipts was financed by (i) net domestic borrowings of Rs. 19,535 crores, (ii) net external borrowings of Rs. 2,558 crores and (iii) budgetary deficit of Rs. 6,080 crores. About 69.3 per cent of the resources shortfall was bridged from net domestic borrowings as compared with 60.8 per cent in the preceding year. Net external borrowings financed 9.1 per cent of gap (7.2 per cent in 1986-87). The share of budgetary deficit in meeting the resources gap was 21.6 per cent as against 32.0 per cent in the previous year.

1988-89

Economic Classification

The total expenditure of the Central Government for 1988-89 at Rs. 77,824 crores would show a rise of Rs. 6,799 crores over the level of

Table VIII-8: Provision for Capital Formation

(Rs. crores)

Items	1984-85 (Accounts)	1985-86 (Accounts)	1986-87 (Accounts)	1987-88 (Budget Estimates)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)	Percentage variation			
							Col. 2 over Col. 1	Col. 3 over Col. 2	Col. 5 over Col. 3	Col. 6 over Col. 5
	1	2	3	4	5	6	7	8	9	10
I. Total Provision for Capital Formation (A + B)	**17,551**	**21,477**	**24,320**	**24,752**	**26,212**	**27,652**	**+22.4**	**+13.2**	**+7.8**	**+5.5**
A. Developmental (1 to 3)	**17,369**	**21,302**	**23,893**	**24,350**	**25,688**	**27,016**	**+22.6**	**+12.2**	**+7.5**	**+5.2**
1. Social Services	1,206	1,481	2,028	1,806	2,233	2,232	+22.8	+36.9	+10.1	—
2. Economic Services (a to d)	12,619	14,959	16,739	16,754	17,487	18,322	+18.5	+11.9	+4.5	+4.8
a) Agriculture	1,183	1,207	1,539	1,669	1,857	1,628	+2.0	+27.5	+20.7	−12.3
b) Industry	5,833	6,691	7,233	6,734	6,654	6,795	+14.7	+8.1	−8.0	+2.1
c) Transport and Communication	3,223	3,726	4,488	4,620	4,792	5,799	+15.6	+20.5	+6.8	+21.0
d) Other Economic Services	2,380	3,335	3,479	3,731	4,184	4,100	+40.1	+4.3	+20.3	−2.0
3. Block Grants and Loans	3,544	4,862	5,126	5,790	5,968	6,462	+37.2	+5.4	+16.4	+8.3
B. Non-Developmental (1+2)	**182**	**175**	**427**	**402**	**524**	**636**	**−3.9**	**+144.0**	**+22.7**	**+21.4**
1. General Services	182	175	427	402	524	636	−3.9	+144.0	+22.7	+21.4
2. Unallocable	—	—	—	—	—	—	—	—	—	—
II. Total Developmental Expenditure	**26,276**	**30,852**	**35,872**	**36,325**	**38,501**	**41,772**	**+17.4**	**+16.3**	**+7.3**	**+8.5**
III. Total Expenditure	**43,879**	**53,112**	**64,023**	**67,640**	**71,025**	**77,824**	**+21.0**	**+20.5**	**+10.9**	**+9.6**
IV. IA as per cent of II	**66.1**	**69.0**	**66.6**	**67.0**	**66.7**	**64.7**				
V. I as per cent of III	**40.0**	**40.4**	**38.0**	**36.6**	**36.9**	**35.5**				

Source: Economic and Functional Classification of the Central Government Budget, 1986-87, 1987-88 and 1988-89.

Table VIII-9: Savings of the Central Government

(Rs crores)

Items	1984-85 (Accounts)	1985-86 (Accounts)	1986-87 (Accounts)	1987-88 (Budget Estimates)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)*	Percentage variation				
							Col. (2) over Col. (1)	Col. (3) over Col. (2)	Col. (5) over Col. (3)	Col. (5) over Col. (4)	Col. (6) over Col. (5)
	1	2	3	4	5	6	7	8	9	10	11
1. Revenue Receipts of the Government Administration (i+ii)	22,460	26,801	31,746	35,369	36,751	41,187	+19.3	+18.5	+15.8	+3.9	+12.1
i) Tax Revenue	17,652	21,140	24,320	27,711	28,337	31,890	+19.8	+15.0	+16.5	+2.3	+12.5
ii) Non-Tax Revenue	4,808	5,661	7,426	7,658	8,414	9,297	+17.7	+31.2	+13.3	+9.9	+10.5
2. Current Expenditure	24,366	29,558	35,908	40,906	42,367	48,701	+21.3	+21.5	+18.0	+3.6	+15.0
3. Savings of the Government Administration (1-2)	-1,906	-2,757	-4,162	-5,537	-5,616	-7,514	—	—	—	—	—
4. Depreciation Provision and Retained Profits of the Departmental Commercial Undertakings (i+ii)	943	1,316	1,310	1,827	1,665	1,914	+39.6	-0.5	+27.1	-8.9	+15.0
i) Depreciation Provision	1,020	1,121	1,444	1,596	1,570	1,758	+9.9	+28.8	+8.7	-1.6	+12.0
ii) Retained Profits	-77	-195	-134	231	95	156	+153.2	—	—	-58.9	+64.2
5. Gross Savings of the Central Government (3+4)	-963	-1,441	-2,852	-3,710	-3,951	-5,600	—	—	—	—	—
6. Expenditure on Renewals and Replacements	934	1,146	1,339	1,480	1,367	1,690	+22.7	+16.8	+2.1	-7.6	+23.6
7. Net Savings (5-6)	-1,897	-2,587	-4,191	-5,190	-5,318	-7,290	—	—	—	—	—
8. Net Direct Investments	3,190	3,412	4,566	4,655	4,548	5,610	+7.0	+33.8	-0.4	-2.3	+23.4
9. Excess(+) or Shortfall(-) of Net Savings (7-8)	-5,087	-5,999	-8,757	-9,845	-9,866	-12,900	—	—	—	—	—

* Excludes the effects of post-budget tax concessions.

@ The Net Capital Formation arrived at is without deducting expenditure on renewals and replacements in respect of administration buildings for which no estimates are available.

Source: Economic and Functional Classification of the Central Government Budget, 1986-87, 1987-88 and 1988-89.

Table VIII-10: Income Generation of the Budgetary Operations of the Central Government

(Rs crores)

Items	1984-85 (Accounts)	1985-86 (Accounts)	1986-87 (Accounts)	1987-88 (Budget Estimates)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)	Variation									
							Col. 2 over Col. 1		Col. 3 over Col. 2		Col. 5 over Col. 3		Col. 5 over Col. 4		Col. 6 over Col. 5	
							Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Wages and salaries paid by Government Administration	**4,483**	**5,094**	**6,436**	**7,093**	**7,488**	**8,256**	**+611**	**+13.6**	**+1,342**	**+26.3**	**+1,052**	**+16.3**	**+395**	**+5.6**	**+768**	**+10.3**
2. Net output of departmental commercial undertakings (a+b+c)	**4,150**	**4,990**	**5,407**	**6,771**	**6,785**	**7,763**	**+840**	**+20.2**	**+417**	**+8.4**	**+1,378**	**+25.5**	**+14**	**0.2**	**+978**	**+14.4**
a) Wages and salaries (including wages and salaries component of repairs and maintenance operations)	3,505	3,993	4,602	5,307	5,404	6,304	+488	+13.9	+609	+15.3	+802	+17.4	+97	+1.8	+900	+16.7
b) Interest	700	806	926	1,076	1,075	1,260	+106	+15.1	+120	+14.9	+149	+16.1	−1	Neg.	+185	+17.2
c) Profits (transferred to administration and retained plus excess of depreciation provision over renewals and replacements)	−55	191	−121	388	306	199	—	—	—	—	—	—	—	—	—	—
3. Wages and salaries components of Government outlays on construction	**787**	**908**	**1,181**	**1,275**	**1,297**	**1,544**	**+121**	**+15.4**	**+273**	**+30.1**	**+116**	**+9.8**	**+22**	**+1.7**	**+247**	**+19.0**
4. Total (1+2+3)	**9,420**	**10,992**	**13,024**	**15,139**	**15,570**	**17,563**	**+1,572**	**+16.7**	**+2,032**	**+18.5**	**+2,546**	**+19.5**	**+431**	**+2.8**	**+1,993**	**+12.8**

Source: Economic and Functional Classification of the Central Government Budget, 1986-87, 1987-88 and 1988-89.

Table VIII-11: Sources and Uses of Funds—Central Government (Rs crores)

Items	1984-85 (Accounts)	1985-86 (Accounts)	1986-87 (Accounts)	1987-88 (Budget Estimates)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)
	1	2	3	4	5	6
1. Current Receipts (a+b)	**22,460**	**26,800**	**31,745**	**35,369***	**36,750**	**41,186***
a) Tax Receipts	17,652	21,140	24,319	27,711	28,337	31,890
b) Income from Property and Enterprises and Miscellaneous Receipts	4,808	5,660	7,426	7,658	8,413	9,296
2. Capital Transfers	**479**	**506**	**440**	**512**	**562**	**592**
3. Internal Resources of Departmental Undertakings	**943**	**1,316**	**1,309**	**1,827**	**1,665**	**1,915**
4. Recovery of Loans	**2,418**	**2,239**	**3,334**	**3,764**	**3,872**	**3,944**
Total Receipts (1 to 4)	**26,300**	**30,861**	**36,829**	**41,472**	**42,849**	**47,637**
Excess of Total Expenditure over Total Receipts Financed by:	**17,579**	**22,251**	**27,194**	**26,168**	**28,176**	**30,187**
1. Net Domestic Borrowings**	**11,810**	**17,247**	**16,542**	**17,864**	**19,535**	**19,560**
Of which:						
(a) Net Market Borrowings	4,096	4,884	5,556	6,300	7,000	7,000
(b) Special Borrowings from RBI against Compulsory Deposits	80	125	−320	−190	−190	−190
2. Net External Borrowings@	**1,382**	**1,365**	**1,942**	**2,617**	**2,558**	**3,143**
3. Budgetary Deficit (a+b)	**−4,387+**	**−3,639+**	**−8,711++**	**−5,688++**	**−6,080++**	**−7,484++**
(a) Net Holdings of Treasury Bills of RBI@@	4,338	3,636	9,312	5,688	5,425	7,484
(b) Increase (+)/Decrease (−) in Cash Balances	49	3	−601	—	655	—

Rs. 71,025 crores in 1987-88* (Table VIII-5).

Final outlays at Rs. 26,043 crores are budgeted higher by Rs. 3,396 crores (15.0 per cent) than those in 1987-88 and their share in total expenditure would move up from 31.9 per cent in 1987-88 to 33.5 per cent. Within 'Final Outlays', both consumption expenditure estimated at Rs. 18,743 crores and gross capital formation at Rs. 7,300 crores would show rises of Rs. 2,010 crores (12.0 per cent) and Rs. 1,089 crores (23.4 per cent), respectively, over the preceding year. The shares of consumption expenditure and direct gross capital formation in total expenditure would increase from 23.6 per cent and 8.3 per cent in 1987-88 to 24.1 per cent and 9.4 per cent, respectively, in 1988-89. Of the rise of Rs. 2,010 crores in consumption expenditure, Rs. 1,243 crores would be on account of increased expenditure on commodities and services while the remaining amount of Rs. 767 crores would be on account of wages and salaries. The increase of Rs. 1,089 crores in the gross capital formation is due to higher expenditure for gross fixed capital formation which at Rs. 7,151 crores would show a rise of Rs. 1,477 crores (26.0 per cent) over the level of Rs. 5,914 crores in 1987-88. On the other hand, the expenditure on inventories (works stores) would come down from Rs. 240 crores in 1987-88 to Rs. 149 crores in 1988-89.

The financial resources provided to the rest of the economy at Rs. 51,781 crores are estimated to show a rise of Rs. 3,403 crores (7.0 per cent) over 1987-88. These would constitute 66.5 per cent of total expenditure as compared with 68.1 per cent in 1987-88. The increase in the transfer of financial resources to be provided to the rest of the economy is mainly due to higher provisions for interest payments, subsidies and grants to States and Union Territories, etc. which would show a rise of Rs. 3,349 crores while transfers for capital formation at Rs. 20,352 crores would register only marginal rise of Rs. 54 crores. The financial assistance for capital formation to States and Union Territories at Rs. 12,979 crores is estimated higher by Rs. 76 crores which would be partly offset by a projected fall in transfer payments for capital formation to 'Others' by Rs. 22 crores to Rs. 7,373 crores. Assistance for the capital formation to the non-departmental commercial undertakings within 'Others' at Rs. 5,982 crores is anticipated lower by Rs. 133

* The data for 1988-89 are Budget Estimates and for 1987-88 and 1986-87 Revised Estimates are Accounts, respectively.

Table VIII-11: Sources and Uses of Funds—Central Government

(Rs crores)

Items	1984-85 (Accounts)	1985-86 (Accounts)	1986-87 (Accounts)	1987-88 (Budget Estimates)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)
	1	2	3	4	5	6
1. **Expenditure for Capital Formation (a+b)**	**17,551**	**21,477**	**24,320**	**24,752**	**26,212**	**27,652**
a) Gross Capital Formation	17,380	21,371	24,232	24,623	25,972	27,503
b) Increase in Inventories	171	106	88	129	240	149
2. **Expenditure for purposes other than Capital Formation (a+b)**	**26,328**	**31,635**	**39,703**	**42,888**	**44,813**	**50,172**
(a) Current Expenditure (i+ii)	24,366	29,557	35,908	40,906	42,366	48,701
i) Consumption Expenditure	9,428	11,210	14,665	17,121	16,732	18,743
ii) Current Transfers	14,938	18,347	21,243	23,785	25,634	29,958
(b) Other Expenditure	1,962	2,078	3,795	1,982	2,447	1,471
Total Expenditure (1+2)	**43,879**	**53,112**	**64,023**	**67,640**	**71,025**	**77,824**

* Does not take into account the effects of post-budget tax concessions.

** Comprise market loans (net), small savings (net), provident funds (net), special deposits of non-Government provident funds (net), special borrowings from Reserve Bank of India against Compulsory Deposits (net), Miscellaneous Capital Receipts (net), Special Securities (net) and net increase/decrease in holdings of Treasury Bills by parties other than R.B.I.

@ Includes special assistance.

@@ Ignores Funding of Treasury Bills into long-dated securities.

\+ In the Economic and Functional Classification of the Central Government Budget the Centre's deficit is measured by net variation in Cash Balances and net variation in holdings of Treasury Bills by the Reserve Bank of India (ignoring funding of Treasury Bills into dated securities).

++ Budgetary deficit is measured by net variation in Cash Balances and net variation in Treasury Bills held not only by the Reserve Bank of India but also other parties such as State Governments, Commercial Banks, etc. Separate figures of holdings of Treasury Bills by RBI and other parties are not available.

Source: Economic and Functional Classificationof the Central Government Budget, 1985-86 and 1986-87.

crores while assistance to Local Authorities as also 'Others' would be higher by Rs. 111 crores at Rs. 1,391 crores. The total transfer of resources to States and Union Territories budgeted at Rs. 18,674 crores would show a rise of Rs. 796 crores while transfer to 'Others' at Rs. 33,107 crores would be higher by Rs. 2,607 crores over the year. The increase in transfer payments would be mainly due to rise in payments in respect of (i) Interest (Rs. 2,312 crores), (ii) Grants (Rs. 999 crores), (iii) Subsidies (Rs. 914 crores), (iv) Loans for capital formation (Rs. 263 crores) and (v) Pensions (Rs. 133 crores) which would be partly offset by a decline in investment in shares (−Rs. 315 crores) and subscription to International Financial Organisations (−Rs. 864 crores).

The total provision for capital formation budgeted at Rs. 27,652 crores would show a rise of Rs. 1,440 crores (5.5 per cent) and would constitute 35.5 per cent of total expenditure as compared with 36.9 per cent in 1987-88. Expenditures on purposes other than capital formation anticipated at Rs. 50,172 crores would be more by Rs. 5,359 crores (12.0 per cent) than those in 1987-88. These would constitute 64.5 per cent of the total expenditure as against 63.1 per cent in 1987-88.

Functional Classification

Developmental expenditure comprising broadly Plan and non-Plan expenditure on Economic and Social Services at Rs. 41,722 crores is expected to grow by Rs. 3,271 crores (8.5 per cent) as compared with Rs. 38,501 crores in the previous year. However, its share in total expenditure would fall to 53.7 per cent from 54.2 per cent in the preceding year. The share of developmental expenditure to total expenditure has been declining steadily in the recent years. During 1984-85, share of developmental expenditure in total expenditure was 59.9 per cent which declined to 58.1 per cent in 1985-86, 56.0 per cent in 1986-87 and 54.2 per cent in 1987-88. Expenditure on Economic Services and Social Services budgeted at Rs. 34,951 crores and Rs. 6,821 crores is estimated to show a rise of Rs. 2,687 crores

(8.3 per cent) and Rs. 584 crores (9.4 per cent), respectively, over the year. Items accounting for rise in Economic services are: (i) Agriculture (Rs. 572 crores), (ii) Industry (Rs. 339 crores), (iii) Transport (Rs. 1,034 crores) and (iv) Block grants (Rs. 676 crores). The increase in expenditure on Social Services is accounted for by Education (Rs. 428 crores), Medical and Public Health (Rs. 79 crores) and Other Social Services (Rs. 79 crores). The expenditure on Economic Services and Social Services would constitute 44.9 per cent and 8.8 per cent of total expenditure as against 45.4 per cent and 8.8 per cent, respectively, in the previous year.

Non-developmental expenditure at Rs. 36,052 crores in 1988-89 is anticipated to show a rise of Rs. 3,528 crores (10.8 per cent) over 1987-88. The share of non-developmental expenditure would go up to 46.3 per cent in total expenditure from 45.4 per cent in 1987-88. The share of non-developmental expenditure in total expenditure has been rising uninterruptedly during recent years. Of the total rise of Rs. 3,528 crores in non-developmental expenditure, 'Unallocable expenditure' budgeted at Rs. 18,455 crores would record a rise of Rs. 2,556 crores (16.1 per cent) and remaining Rs. 972 crores (5.8 per cent) on account of expenditure on General Services which is estimated at Rs. 17,597 crores. The rise in Unallocable expenditure is anticipated mainly on account of Interest payments (Rs. 2,312 crores), Food subsidies (Rs. 100 crores) and Pensions (Rs. 133 crores). The rise in expenditure on General Services is envisaged on account of higher allocations for Defence Services (Rs. 1,257 crores) which would be partly offset by lower provision for expenditure on Services other than Defence ((−)Rs. 285 crores).

The provision for capital formation within developmental expenditure estimated at Rs. 27,016 crores is higher by Rs. 1,328 crores (5.2 per cent) as compared with Rs. 25,688 crores in the previous year. The proportion of expenditure on capital formation for developmental purposes to total developmental expenditure is, however, expected to be lower at 64.7 per cent as against 66.7 per cent in the previous year. The provision for capital formation under Economic Services and Block Grants and Loans at Rs. 18,322 crores and Rs. 6,462 crores would be higher by Rs. 835 crores (4.8 per cent) and Rs. 494 crores (8.3 per cent), respectively, over the previous year while allocation for this under Social Services expected at Rs. 2,232 crores would be almost same as in the previous year (Rs. 2,233 crores). The items which would account for rise in provision for capital formation within Economic Services are: (i) Industry (Rs. 141 crores) and (ii) Transport and Communication (Rs. 1,007 crores) which would be partly offset by a decline in provision for capital formation in Agriculture by Rs. 229 crores. The provision for capital formation for non-developmental purposes is expected at Rs. 636 crores recording a rise of Rs. 112 crores (21.4 per cent) over the previous year.

Savings, Investments and Income Generation

Dissavings of the Central Government administration are estimated to go up further from Rs. 5,616 crores in 1987-88 to Rs. 7,514 crores in 1988-89. Revenue receipts budgeted at Rs. 41,187 crores would show a rise of Rs. 4,436 crores (12.1 per cent) while current expenditure anticipated at Rs. 48,701 crores would register a larger increase of Rs. 6,334 crores (12.5 per cent) over 1987-88.

Depreciation provision and retained profits of the Departmental Commercial Undertakings together estimated at Rs. 1,914 crores would be more by Rs. 249 crores (15.0 per cent) over the year. Both, depreciation provision and retained profits at Rs. 1,758 crores and Rs. 156 crores are expected to be higher by Rs. 188 crores (12.0 per cent) and Rs. 61 crores (64.2 per cent), respectively, over the year.

Gross dissavings of the Central Government administration anticipated at Rs. 5,600 crores would be higher by Rs. 1,649 crores over those of the previous year. Expenditure on renewals and replacements at Rs. 1,690 crores would be more by Rs. 323 crores resulting in further increase in dissavings from Rs. 5,318 crores in 1987-88 to Rs. 7,290 crores in 1988-89.

The net direct investment of the Central Government budgeted at Rs. 5,610 crores would increase by Rs. 1,062 crores (23.4 per cent) as compared with Rs. 4,548 crores in the preceding year. The income deficit (the excess of net direct investment over net savings) would go up further

from Rs. 9,866 crores in 1987-88 to Rs. 12,900 crores in 1988-89.

The income generation out of the budgetary operations of the Central Government during 1988-89 is expected at Rs. 17,563 crores which would be higher by Rs. 1,993 crores (12.8 per cent) over that of the previous year. Of the net rise of Rs. 1,993 crores in the income generation, Rs. 768 crores would be on account of wages and salaries paid by Government administration, Rs. 978 crores due to increase in net output of the Departmental Commercial Undertakings and the remaining Rs. 247 crores on account of wages and salaries component of Government outlays on construction.

Sources and Uses of Funds

Total receipts of the Central Government are estimated at Rs. 41,186 crores in 1988-89, showing an increase of Rs. 4,436 crores (12.1 per cent) over the preceding year's level of Rs. 36,750 crores. Total expenditure is estimated at Rs. 77,824 crores as compared with Rs. 71,025 crores in the previous year recording a rise of Rs. 6,799 crores (9.6 per cent) over 1987-88. Thus, the gap between expenditure and receipts would further widen from Rs. 28,176 crores in 1987-88 to Rs. 30,187 crores in 1988-89. The gap between expenditure and receipts during 1988-89 would be 38.8 per cent of the total expenditure as compared with 39.7 per cent in the previous year.

The shortfall between the total expenditure and total receipts would be financed by (i) net domestic borrowings of Rs. 19,560 crores, (ii) net external borrowings of Rs. 3,143 crores and (iii) budgetary deficit of Rs. 7,484 crores. The net domestic borrowings would continue to be the main financing item to bridge the gap but its share in financing the gap will decline from 69.3 per cent in 1987-88 to 64.8 per cent in 1988-89. Net external borrowings would finance 10.4 per cent of the shortfall (9.1 per cent in 1987-88). The share of budgetary deficit in meeting the resources gap would be higher at 24.8 per cent as against 21.6 per cent in the previous year.

Budget Proposals: 1988-89

The broad direction and strategy of 1988-89 budget proposals is to revitalise the economy particularly drought-hit agricultural sector, help the poor and generate more employment, investment and growth. The primary thrust of direct tax proposals is to strengthen incentives for export promotion and foreign exchange earnings, to encourage savings and to stimulate the capital market. In the sphere of indirect taxation, budget proposals aim at providing stimuli to cover agriculture and farming sectors, rural employment, exports, health and medical care, housing and construction activities, technology upgradation in selected industries such as cement, textiles, electronics, paper and plastics. The budget also provides some reliefs for common man.

The additional resource mobilisation measures both direct and indirect, taken together with reliefs in the 1988-89 budget would yield Rs. 615 crores*. Out of this, Rs. 69 crores would be through direct tax proposals while indirect tax proposals will net in Rs. 546 crores. The States' share in Centre's additional resource mobilisation would be Rs. 28 crores leaving a net additional revenue of Rs. 587 crores to the Centre.

The salient features of the tax proposals contained in the Budget are given in the following paragraphs.

A. Drought Relief Surcharges

In order to meet the additional expenditure on drought related programmes to combat after effects of drought of 1987-88, the Central Government had levied in September 1987, a surcharge of 5 per cent on income tax payers with taxable income above Rs. 50,000, a surcharge of 10 per cent on wealth tax for the assessment year 1988-89 and a 5 per cent surcharge by way of auxiliary duty of customs on imported goods excluding essential commodities like fertilizers, power equipment, life saving drugs and medical equipment, etc. These surcharges have been continued for one more year to meet the expenditure on drought relief works.

* Excluding the post-budget tax concessions announced by the Finance Minister in Parliament which would cause revenue loss of Rs. 39 crores. It also excludes the additional revenue of Rs. 49 crores from revision of postal rates.

B. **Direct Taxes**

i) *Personal and Corporate taxes*

No change is proposed in the rate structure for personal and corporate taxes. The rate for standard deduction is raised from 30 per cent to 33⅓ per cent of salary income and the ceiling from Rs. 10,000 crores to Rs. 12,000 crores benefiting about a million tax payers.

ii) *Tax on Transfer of Wealth*

A new tax on the transfer of wealth through inheritance which would be applicable to all wealth tax assessees at a rate 5 times the applicable wealth tax rates is imposed. This new tax would avoid the rigidities and procedural delays which characterised the operation of the old Estate Duty Act.

iii) *Export Incentives*

The tax exemption limit of export profit under Section 80 HHC of Income Tax Act for export profits has been raised from 50 per cent to 100 per cent. This benefit has also been extended to supporting manufacturers exporting through Trading or Export Houses. Further during the post budget discussions, the Finance Minister announced the exemption of export profits from the requirements of minimum tax under Section 115J.

2. A five year tax holiday presently available for units in Free Trade Zones under Section 10A of the Income Tax Act has been extended to 100 per cent Export Oriented Units.

3. Replantation and rejuvenation subsidies for rubber, coffee and cardamom plantations are exempted from income tax.

iv) *Saving Incentives*

1. The budget for 1987-88 had announced the introduction of a new National Saving Scheme based on net saving principle. With a view to providing further incentives for savings, Section 80 CCA has been amended so as to increase the deduction admissible for tax purposes equal to 100 per cent of the amount deposited with corresponding increase in the amount subject to tax at the time of withdrawal. The maximum amount which would qualify for such deductions has also been enhanced from Rs. 20,000 to Rs. 30,000. The rate of interest has also been stepped-up from 9 per cent to 11 per cent per annum.

2. A new instrument called 'Kisan Vikas Patra' has been introduced to mobilise untapped rural savings. The instrument does not enjoy tax concessions but has flexibility of encashment after two and half years of deposit. The rate of interest increases progressively for longer durations. The deposits would double in value after five and half years.

3. The doubling period for 'Indira Vikas Patra' sold from 1.3.1988 has been reduced from 5½ years to 5 years.

4. The budget announced the introduction of a new scheme of foreign currency denominated Bonds/Deposits Certificates for Non-Resident Indians on a non-repatriable basis. The maturity period would be 7 years and these would carry an interest higher than that applicable to the repatriable foreign currency Non-Resident deposits. These Bonds/Deposits would be free from Income tax, Wealth tax and Gift tax.

v) *Incentives for Capital Market*

i) Section 80 CC of the Income-tax Act has been amended to extend the benefit of exemption for tax purpose to investment in the units of any Mutual Fund set up by public sector banks or other financial institutions, provided that such funds subscribe only to eligible issues of capital as defined under Sub-Section (3) of Section 80 CC.

ii) Section 80 L has been amended to provide: (a) deduction in respect of interest on deposits under Post Offices (Monthly Income Account) Rule 1987 within the existing ceiling of Rs. 7,000; (b) a further deduction of an amount equal to Rs. 3,000 in respect of income received from the mutual funds set up by the public sector banks or the financial institutions as also any public company formed and registered in India with the main objective of carrying on the business of providing long term finance for construction or purchase of houses in India for residential purposes; (c) additional deduction of an amount equal to a maximum of Rs. 3,000 in

respect of any dividend income from any Indian company.

vi) *Gentral Insurance Corporation (GIC)*

GIC and its subsidiaries have been provided exemption of the profits earned by them on the sale of investments.

vii) With a view to preventing sales tax evasion by persons deriving income from some business like liquor, scrap, forest products etc., a new section 44 AC has been introduced which provides for determination of income in such cases. The Finance Bill had proposed that sixty per cent of the amount paid or payable by such persons on sale would constitute income of the tax payers i.e. buyers. During the post-budget discussions, the Finance Minister amended the provision. Accordingly, the rates have been reduced to 40 per cent in the case of alcoholic liquor, 35 per cent in the case of timber obtained under a lease contract, 15 per cent in the case of timber obtained other than lease contract and 35 per cent in the case of all other forest produce. The proposal to determine the income from business of trading in scrap or waste at a flat rate of 60 per cent of the purchase has been withdrawn. The incomes determined under the Section 44 AC would be subject to tax deduction at source at a rate indicated in Section 206 C of the Income Tax Act, 1961.

viii) *Investment Allowance*

During the post-budget discussions, the Finance Minister announced the reintroduction of the Investment Allowance Scheme for selected high priority industries. This scheme would be available as an option in place of the Investment Deposit Account and the option once exercised by the assessee cannot be changed for next five assessment years. The rate of investment allowance is 20 per cent and provisions are similar to the earlier investment allowance scheme.

C. Hotel and Tourism Industry

1. During the post-budget discussions, the Finance Minister announced that the benefits of Section 80 HHC, hitherto available for merchandise exports would be available to hotel and tour operators. The scheme would be operated broadly on the same lines as the prevailing scheme for exporters with one modification in order to ensure that tax benefit is substantially invested in tourism related activities like hotels, travel agencies, tour operators, tourist equipment, etc. Fifty per cent of the foreign exchange earnings of hotels etc. would be allowed as deduction straightaway. For the remaining 50 per cent, the benefit of tax exemption would be available to the extent that income is taken to the reserves for investment in tourism industry.

2. The Finance Minister also announced during the post-budget discussions the benefit of Section 80 CC in respect of investment in new equity issues of hotel industry and other specified tourism related activities.

The total effect of direct tax proposals (excluding post-budget concessions) would be a revenue loss of Rs. 201 crores of which the States would lose Rs. 94 crores. The continuance of surcharge on income tax, corporate tax and wealth tax would yield Rs. 270 crores. The net additional increase in revenue would be Rs. 69 crores. There would be a revenue gain of Rs. 163 crores to the Centre while there would be a revenue loss of Rs. 94 crores to the States.

D. Indirect Taxes

The budget contains proposals providing stimuli to agriculture and farming sectors, rural employment, exports, health and medical care, housing and construction activities, technology upgradation and selected industries such as cement, textiles, electronics, papers and plastics. The highlights of the proposed changes are outlined below.

1. The Budget has imposed a special excise duty at the rate of 1/20th of the basic duty on all goods excepting sugar, kerosene, matches, cotton fabrics, vanaspati, vegetable oils, non-essential oils, tea and coffee, calculated to yield an additional revenue of Rs. 650 crores in 1988-89.

a) *Agricultural and Other Allied Sectors*

i) Electric motors used in monobloc pumpsets and submersible pump sets which are important for irrigation are exempted from excise duty.

ii) A large number of pesticides are fully exempted from excise duty. Also customs duty on a number of pesticides and pesticide intermediates is reduced from the existing level of 105 per cent and 147 per cent to 70 per cent and 60 per cent *ad valorem*, respectively.

iii) Full exemption of excise duty is provided to machinery such as sprinkler systems, fodder mixers, germination appliances, egg candlers, etc.

iv) The excise duty on parts and accessories used in installation of cold storage plants is reduced from 40 per cent to 15 per cent *ad valorem*.

v) Certain critical equipment,hormones and drugs required for genetic improvement of cattles and buffaloes are exempted from customs duty in excess of 25 per cent *ad valorem*.

b) *Food Processing and Packaging*

i) The customs duty in respect of 34 specified items of food processing and packaging machinery is reduced from 55 per cent to 35 per cent *ad valorem*.

ii) The excise duty on jams and fruit juices prepared from agricultural produce is reduced from 10 per cent to 5 per cent. These would be fully exempted from excise duty if prepared by registered co-operative societies, Khadi and Village Industry Commission and State Khadi and Village Industry Boards.

iii) The excise duty on aluminium foil is reduced from 25 per cent to 15 per cent *ad valorem*.

c) *Rural Employment*

i) Cassettes, players and recorders in combination with radios, tape recorders, voltage stabilisers, footwear of a value not exceeding Rs. 75 per pair and few other items are exempted from excise duty if these are manufactured in rural areas by specified institutions.

ii) The excise duty in respect of some hand tools like files, screw-drivers, pliers, etc. is reduced from 20 per cent to 10 per cent *ad valorem*.

iii) The excise duty on small electronic cash registers of assessable value of Rs. 10,000 or below is reduced from 20 per cent to 10 per cent.

d) *Consumer Articles*

i) The upper limit of concessional excise duty of 15 per cent *ad valorem* on toilet soaps is increased from Rs. 25,000 to Rs. 30,000. Laundry and carbolic soaps manufactured in rural areas by co-operatives and Village Khadi Industry sector are fully exempt from excise duties.

ii) Excise duty on electric bulbs, toys and certain domestic electrical appliances, clocks and quartz clocks, number of items of tableware of common use, children's films as also some items like sindoor, kajal, alta and mahavar are either exempted from excise duty or excise duty is reduced.

e) *Health and Medicare*

i) The excise duty in respect of formulations and bulk drugs and intermediates of these drugs which are specified in Category I of the Drug (Prices Control) Order, 1987 are totally exempted.

ii) A concessional excise duty of 10 per cent is prescribed for single ingredient formulations based on drugs specified in Category II of the Drug (Prices Control) Order, 1987. However, existing exemption from customs duty in respect of specified formulations for which adequate indigenous capacity is established is withdrawn.

iii) A nominal excise duty of 5 per cent is levied on bulk drugs except those covered by Category I of the Drugs (Price Control) Order, 1987.

iv) Import duty on 235 specified drug intermediates as also on medical equipment and spare parts of specified equipment is reduced. Excise duty on indigenously manufactured medical equipment as also on X-ray films is reduced.

f) *Housing*

i) The excise duty on cement is reduced from Rs. 225 to Rs. 205 per tonne. The levy ratios for certain categories of cement units are also reduced.

ii) The excise duty on doors, windows and their

frames made of aluminium or steel as also corrugated sheets of aluminium is reduced.

iii) The excise duty on blocks, slabs lintels constituting components of prefabricated buildings, fly ash bricks is reduced. Lympo, a cement substitute, is exempt fully from excise duty. Fire extinguishers are fully exempted from excise duty.

g) *Exports*

i) The customs duty on specified items of machinery of garments and hosiery sector, gems and jewellery industry and textile machinery, tea, bicycle, silk and woollen industry identified as export thrust sector is reduced.

ii) Ivory and Ivory powder are fully exempt from customs duty.

iii) The value limit of duty free import of commercial samples and prototypes of engineering goods is raised.

iv) Full rebate of excise duty would be available for tea exported directly from factories.

h) *Capital Goods*

To promote domestic production of machinery under technology upgradation schemes, the customs duty on selected raw materials needed for their production is reduced to 55 per cent from the existing level ranging from about 100 per cent to 180 per cent. The customs duty on boiler and pressure vessel quality steel plates, turbine blade flats and stainless steel plate required for manufacture of machinery has been reduced from 90 per cent to 55 per cent.

i) *Textiles*

i) The excise duty on polyester filament yarn as also viscose filament yarn is reduced for manufacturing handloom fabrics under the scheme of special management and distribution of fabrics to be announced by the Ministry of Textiles.

ii) Handloom Woollen fabrics processed by approved independent processors are exempt from excise duty. Raw wool imported by specified handloom agencies is exempted from customs duty. The import duty on acetate filament is reduced.

iii) The excise duty on cotton yarn and viscose staple fibre for blending with cotton is reduced. But the excise duty on viscose staple fibre used for other purposes in increased. Polyester filament yarn will be available at concessional duty rate to the National Textile Corporation.

iv) The excise duty on polyester staple fibre is reduced from Rs. 25 per kg. to Rs. 15 per kg. and on polyester filament yarn from Rs. 83.75 per kg. to Rs. 53.75 per kg. Import duty on these items is also reduced by about 25 percentage points.

v) The excise duty and customs duty on nylon filament yarn and acrylic fibre is reduced. Similarly, nylon filament yarn for industrial purposes or for making fishing nets will attract reduced excise duty.

vi) The excise and customs duty on certain specified textile machinery required for modernisation of textile mills is reduced.

j) *Electronics*

i) A uniform concessional import duty of 60 per cent *ad valorem* is extended in respect of 280 items of machinery for the electronic sector.

ii) Machinery and instruments required for Rural Automatic Exchanges would attract a lower rate of excise duty of 30 per cent.

iii) A uniform rate of 100 per cent duty is provided in respect of equipment for telecommunication transmission, satellite communication, switching, data communication terminals, television transmission, studio and sound broadcasting. On non-electronic components, duty would be lower at 80 per cent. Import of 22 items of machinery for production of high-tech items like Large-Scale Integrated circuits, micro-processors etc. will be allowed at 15 per cent *ad valorem*.

iv) The customs duty on computers, computer systems and peripherals would be at a uniform rate of 80 per cent as against present rate of 0–147.5 per cent. Excise duty on computerized numerically controlled systems and their parts is reduced from 80 per cent to 55 per cent *ad valorem*.

v) Excise duty on colour TV sets of screen size exceeding 36 cms. and of assessable value exceeding Rs. 5,000/- is increased from Rs. 1,750 to Rs. 2,000. Excise duty on audio magnetic tapes is enhanced to Rs. 4 per square metre. Blank audio cassettes are exempted from duty. Excise duty on computer software is reduced from 25 per cent to 10 per cent *ad valorem*.

k) *Plastic*

The basic customs duty on LDPE and HDPE is reduced. The auxiliary duty of customs on PVC is converted from *ad valorem* to specific and in the case of suspension grade PVC and polypropylene, auxiliary duty is reduced.

l) *Automotive Sector*

i) The concessional rate of 55 per cent customs duty is extended to parts for certain additional components to be manufactured by auto ancillaries for supply of fuel-efficient motor vehicles.

ii) Parts of specified as well as additional components of fuel-efficient two wheelers and light commercial vehicles would attract lower customs duty of 40 per cent *ad valorem* as against the current rate of 55 per cent *ad valorem*.

iii) Fuel-efficient motor cars of engine capacity exceeding 1000 CC manufactured under the approved phased manufacturing programme would attract higher excise duty of 30 per cent instead of the existing 25 per cent.

iv) The excise duty on bodies of three wheeler auto rickshaws is reduced from Rs. 1,000 to Rs. 500 per body.

m) *Vegetable Oils*

i) The excise duty on refined safflower is totally abolished.

ii) Rebates for use of indigenous palm oil, solvent extracted sunflower and safflower in manufacture of vanaspati and rice bran oil for manufacture of soaps, are increased.

n) *Paper and Paper Board*

The excise duty on paper and paper board manufactured by small paper mills and on the paper and paper board using agricultural residues such as cereal straw, bagasse, grasses and jute waste is reduced. Specified items of machinery for manufacture of newsprint will attract concessional rate of customs duty.

o) *Rolling Bearing Industry*

A concessional rate of customs duty is provided in respect of 21 items of machinery for the rolling bearing industry.

p) *Watches*

The customs duty on certain horological machinery and testing equipment is reduced from 55 per cent to 35 per cent. The list of horological raw materials attracting concessional customs duty is enlarged.

q) *Glass and Glass Ware*

The conessional excise duty of 30 per cent *ad valorem* in respect of glass and glassware manufacture by the semi-automatic sector is restored.

r) *Energy Conservation*

Fifteen specified energy saving equipments are exempted from customs duty in excess of 40 per cent *ad valorem*.

s) *Hotels*

Some additional equipment required by hotels for promoting tourism would attract a concessional rate of customs duty of 90 per cent.

The budget proposals (excluding post-budget changes) under customs and central excise duties are expected to yield an additional revenue of Rs. 515.75 crores from customs duty and Rs. 749.17 crores from excise duty. The concessions and relief aggregate Rs. 209.44 crores on customs side and Rs. 509.79 crores on excise side. The net additional revenue from customs duties would be Rs. 306.31 crores and from excise duty Rs. 239.38 crores. In excise duty, the Centre's share would be Rs. 117.23 crores and that of States Rs. 122.15 crores. Out of the total net additional yield of Rs. 545.69 crores, the Centre's share would be Rs. 423.54 crores and that of the states, Rs. 122.15 crores (Table VIII-12).

Table VIII-12: Additional Resource Mobilisation by the Centre during 1988-89

(Rs. crores)

Items	Centre's share	States' share	Total
	1	2	3
I. Taxes (a+b)	**587**	**28**	**615***
a) Direct Taxes (i+ii+iii)	163	-94	69
i) Corporation Tax	49	—	49
ii) Income Tax	104	-94	10
iii) Wealth Tax	10	—	10
b) Indirect Taxes (i+ii)	424	122	546
i) Customs Duties	307	—	307
ii) Union Excise Duties	117	122	239
II. Revision in Railway Fares and Freight	**622**	—	**622**
III. Total (I + II)	**1,209**	**28**	**1,237**

* Excludes post-budget tax concessions.

Sources: i) Budget documents of Government of India, 1988-89.
ii) Railway Budget, 1988-89.

II. BUDGETARY OPERATIONS OF STATE GOVERNMENTS@

Revised Estimates: 1987-88

The Budget Estimates for 1987-88 had anticipated an overall deficit[6] of Rs. 391.7 crores. According to Revised Estimates for the year the deficit has widened to Rs. 1,566.3 crores from a deficit of Rs. 894.7 crores in 1986-87. The deterioration in the finances of the State Governments was largely due to sharp rise in expenditure on account of severe and widespread drought in many parts of the country. On the other hand, the drought conditions caused deceleration in revenue collections. According to Revised Estimates, States' revenue receipts increased marginally by 0.7 per cent while revenue expenditure rose by 7.0 per cent over the Budget Estimates of 1987-88. Consequently, estimated revenue surplus of Rs. 971.2 crores turned into substantial deficit of Rs. 1,636.2 crores or a deterioration of Rs. 2,607.4 crores. This deterioration under revenue account was partly offset by an improvement of Rs. 1,432.8 crores under capital account. (Table VIII-13).

Receipts

During 1987-88, aggregate receipts of State Governments registered an improvement of Rs. 7,211.8 crores (14.1 per cent) over 1986-87. The improvement in aggregate receipts in 1987-88 was due to higher growth in both revenue receipts and capital receipts. Revenue receipts at Rs. 43,266.7 crores registered a growth rate of 14.1 per cent. Capital receipts aggregating to Rs. 15,106.0 crores also showed a rise of 14.1 per cent over 1986-87. During 1986-87 revenue and capital receipts had grown by 13.4 per cent and 0.8 per cent, respectively. As in 1986-87, revenue receipts contributed nearly three fourth (74.1 per cent) of aggregate receipts. The rise in the revenue receipts was contributed by both tax and non-tax receipts. Tax receipts at Rs. 28,315.6 crores showed a rise of 13.4 per cent over 1986-87. Non-tax receipts at Rs. 14,951.1 crores were higher by 15.4 per cent over those in 1986-87. The share of tax receipts

6 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 Revenue Expenditure and Capital Disbursements excluding repayments of WMA and overdrafts from RBI. Addition to Cash Balance Investment Account and Cash Balances are also excluded.

@ Data relates to 24 States. Data for Tripura are not available.

Table VIII-13: Overall Budgetary Position of State Governments (Contd.)

(Rs. crores)

Items	1986-87@ (Accounts)	1987-88 (Budget Estimates)	Percentage variation over the previous year (Col. 2 over Col. 1)	1987-88 (Revised Estimates)	Percentage variation over the previous year (Col. 4 over Col. 1)	1988-89 (Budget Estimates)	Percentage variation over the previous year (Col. 6 over Col. 4)
	1	2	3	4	5	6	7
I. Aggregate Receipts (A+B)	**51160.9**	**56601.6**	**+10.6**	**58372.7**	**+14.1**	**63778.4**	**+9.3**
		(55485.0)	**(+8.5)**			**(63358.8)**	**(+8.5)**
A. Revenue Receipts (1 + 2)	**37917.4**	**42941.3**	**+13.2**	**43266.7**	**+14.1**	**47747.8**	**+10.4**
		(41824.7)	**(+10.3)**			**(47328.2)**	**(+9.4)**
1. Tax Receipts (a + b)	24965.5	28838.5	+15.5	28315.6	+13.4	31914.0	+12.7
		(27816.4)	(+11.4)			(31559.0)	(+11.5)
a) States' Taxes	16687.4	19591.7	+17.4	18946.3	+13.5	21527.3	+13.6
		(18760.3)	(+12.4)			(21198.7)	(+11.9)
b) Share in Central Taxes	8278.1	9246.8	+11.7	9369.3	+13.2	10386.7	+10.9
		(9056.1)	(+9.4)			(10360.3)	(+10.6)
2. Non-Tax Receipts (c + d)	12951.9	14102.8	+8.9	14951.1	+15.4	15833.8	+5.9
		(14008.3)	(+8.2)			(15769.2)	(+5.5)
c) Grants from the Centre	6818.7	7517.7	+10.3	8323.6	+22.1	8463.9	+1.7
d) Other Non-Tax Receipts	6133.2	6585.1	+7.4	6627.5	+8.1	7369.9	+11.2
		(6490.6)	(+5.8)			(7305.3)	(+10.2)
B. Capital Receipts (1 + 2)	**13243.5**	**13660.3**	**+3.1**	**15106.0**	**+14.1**	**16030.6**	**+6.1**
1. States' Capital Receipts	5533.7	5295.5	−4.3	6144.5	+11.0	6511.6	+6.0
Of which:							
a) Market Borrowing (Gross)	1298.6	1615.8	+24.4	1727.9	+33.1	1985.3	+14.9
b) Recovery of Loans & Advances	973.0	886.3	−8.9	1077.4	+10.7	1127.6	+4.7
2. Loans from the Centre	7709.8	8364.8	+8.5	8961.5	+16.2	9519.0	+6.2

Table VIII-13: Overall Budgetary Position of State Governments (Concld.)

(Rs. crores)

Items	1986-87@ (Accounts)	1987-88 (Budget Estimates)	Percentage variation over the previous year (Col. 2 over Col. 1)	1987-88 (Revised Estimates)	Percentage variation over the previous year (Col. 4 over Col. 1)	1988-89 (Budget Estimates)	Percentage variation over the previous year (Col. 6 over Col. 4)
	1	2	3	4	5	6	7
II. Aggregate Disbursements+ (A to E)	**52055.6**	**56993.3**	**+9.5**	**59939.0**	**+15.1**	**64620.0**	**+7.8**
A. Developmental Expenditure+ (1 + 2)	**36266.1**	**39164.6**	**+8.0**	**42361.0**	**+16.8**	**43552.3**	**+2.8**
1. Social Services	16521.2	17866.9	+8.1	19552.5	+18.3	20098.7	+2.8
Of which:							
Expenditure on Natural Calamities	646.1	300.6	−53.5	858.4	+32.9	236.5	−72.4
2. Economic Services	19744.9	21297.7	+7.9	22808.5	+15.5	23453.6	+2.8
B. Non-Developmental Expenditure+	**11526.9**	**14074.1**	**+22.1**	**13654.3**	**+18.5**	**16814.7**	**+23.1**
C. Repayment of Loans to the Centre	**3032.5**	**2954.4**	**−2.6**	**3156.7**	**+4.1**	**3343.8**	**+5.9**
D. Discharge of Internal Debt	**353.5**	**405.7**	**+14.8**	**400.9**	**+13.4**	**415.2**	**+3.6**
Of which:							
Market Loans	265.9	293.3	+10.3	295.3	+11.1	292.7	−0.9
E. Others*	**876.6**	**394.5**	**−55.0**	**366.1**	**−58.2**	**494.0**	**+34.9**
III. Overall Surplus (+)/Deficit(−) (I−II)	**−894.7**	**−391.7**		**−1566.3**		**−841.6**	
		(−1508.3)				**(−1261.2)**	

* Comprise compensation and assignments to local bodies 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 1988-89 include the estimated net yield of Rs. 393.2 crores from additional resources mobilisation measures proposed by the States and the States' share of Rs. 26.4 crores in the Centre's additional taxation proposed in the Central Budget for 1988-89.

2. Budget Estimates for 1987-88 include the estimated net yield of Rs. 925.9 crores from additional resources mobilisation measures introduced through the State Budgets and the States' share of Rs. 190.7 crores in the Centre's additional taxation proposed in the Central Budget for 1987-88.

3. Data relates to 24 states excluding Tripura.

in revenue receipts declined marginally to 65.4 per cent in 1987-88 from 65.8 per cent in 1986-87 while that of non-tax receipts improved to 34.6 per cent from 34.2 per cent. States' own tax revenue rose by Rs. 2,258.9 crores (13.5 per cent) to Rs. 18,946.3 crores in 1987-88 from Rs. 16,687.4 crores in 1986-87. Last year, States' own taxes had registered a growth rate of 14.9 per cent over 1985-86. States' own tax receipts continued to contribute around one-third of aggregate receipts. Under States' own tax receipts, sales tax alone contributed a rise of Rs. 1,482.6 crores or 65.6 per cent of total rise of Rs. 2,258.9 crores in States' own receipts. Other taxes which recorded improvement were Taxes on Vehicles (Rs. 199.3 crores), State Excise (Rs. 195.3 crores), Taxes on Goods and Passengers (Rs. 161.5 crores), Stamps and Registration Fees (Rs. 137.6 crores), Land Revenue (Rs. 40.3 crores), Entertainment Tax (Rs. 33.6 crores), Taxes on Professions, Trades, Callings and Employment (Rs. 29.9 crores), Taxes and Duties on Electricity (Rs. 10.6 crores) and Urban Immovable Property Tax (Rs. 3.7 crores). The collections from Agricultural Income Tax were lower at Rs. 32.8 crores than that in 1986-87. States' share in Central taxes at Rs. 9,369.4 crores registered a rise of Rs. 1,091.3 crores (13.2 per cent) over 1986-87. Of the increase of Rs. 1,091.3 crores in States' share in Central taxes, their share in income-tax and Union excise duties rose by Rs. 304.3 crores and Rs. 791.0 crores, respectively, while share of estate duty declined by Rs. 4.0 crores. As in 1986-87, States' own tax receipts contributed two-third of tax receipts in 1987-88 and the balance of one-third was by way of their share in Central taxes. During 1987-88 non-tax revenue rose to Rs. 14,951.1 crores from Rs. 12,951.9 crores in 1986-87 registering a rise of 15.4 per cent against a rise of 11.5 per cent in the previous year. Grants from the Centre increased from Rs. 6,818.7 crores in 1986-87 to Rs. 8,323.6 crores or by 22.1 per cent mainly due to additional grants provided by the Centre for meeting additional expenditure on drought relief works. States' own non-tax receipts rose by 8.1 per cent to Rs. 6,627.5 crores from Rs. 6,133.2 crores in 1986-87. During 1986-87 other non-tax receipts had gone up by 15.9 per cent and grants from the Centre by 7.8 per cent.

Tables VIII-14 and 15 indicate sources of receipts and disbursements of States' revenue (percentage distribution) during the years 1984-85 to 1988-89.

Capital Receipts

Total capital receipts of States increased to Rs. 15,106.0 crores in 1987-88 from Rs. 13,243.5 crores in 1986-87 showing a growth rate of 14.1 per cent as compared with that of 0.8 per cent in 1986-87. A major part of the increase (about 67 per cent) of capital receipts was due to higher loan assistance from the Centre which increased by 16.2 per cent to Rs. 8,961.5 crores in 1987-88 from Rs. 7,709.8 crores in 1986-87. States' own capital receipts increased by 11.0 per cent to Rs. 6,144.5 crores in 1987-88. Market borrowings (gross) as per budget documents amounted to Rs. 1,727.9 crores in 1987-88 as compared to Rs. 1,298.6 crores in the previous year. As per the Reserve Bank of India records gross market borrowings of 20 States aggregated Rs. 1,788.8 crores and Rs. 1,446.4 crores in 1987-88 and 1986-87, respectively. Net market borrowings according to RBI records, amounted to Rs. 1,505.1 crores as against Rs. 1,163.1 crores in 1986-87. Although the States' share in total combined market borrowings (gross) of Centre and States remained unchanged at last year's level of 18.6 per cent, in net terms States' share declined marginally to 17.7 per cent in 1987-88 from 18.0 per cent in 1986-87. Recovery of loans and advances by States amounted to Rs. 1,077.4 crores in 1987-88 as compared with Rs. 973.0 crores in 1986-87.

Transfer of Resources from the Centre to the States

Gross transfer of resources (in the form of States' share in Central taxes and duties, grants and loans) from the Centre to the States rose by Rs. 3,847.8 crores to Rs. 26,654.4 crores registering an increase of 16.9 per cent over that in the previous year. Last year they had shown a nominal rise of 3.9 per cent. Of the total amount of Rs. 26,654.4 crores transferred to States, Rs. 9,369.3 crores (35.2 per cent) was on account of States' share in Central taxes and duties, Rs. 8,961.5 crores (33.6 per cent) as loans from the Centre and the balance of Rs. 8,323.6 crores (31.2 per cent) was in the form of Grants from the Centre. Of the total increase of Rs. 3,847.8 crores in gross transfers in 1987-88, the increase on account of grants was Rs. 1,504.9 crores (39.1 per cent), loans (gross) Rs. 1,251.7 crores (32.5 per cent) and States' share in Central taxes Rs. 1,091.2

Table VIII-14: Sources of State Revenue Receipts—Percentage Distribution

Items	1984-85 (Accounts)	1985-86 (Accounts)	1986-87 (Accounts)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)
Total Revenues (I + II)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
I. Tax Revenues (A +B)	**66.0**	**65.2**	**65.8**	**65.4**	**66.8**
A. Revenue from States' Taxes (i to iii)	**44.7**	**43.5**	**44.0**	**43.8**	**45.1**
i) Taxes on Income (a+b)	0.8	0.8	0.7	0.6	0.7
a) Agricultural Income Tax	0 3	0.4	0.3	0.2	0.2
b) Taxes on Professions, Trades, Callings and Employment	0.5	0.4	0.4	0.4	0.5
ii) Taxes on Property and Capital Transactions (a to c)	3.6	3.6	3.7	3.6	3.7
a) Stamps and Registration Fees	2.6	2.6	2.7	2.6	2.6
b) Land Revenue	1.0	1.0	1.0	1.0	1.1
c) Urban Immovable Property Tax	—	—	—	—	—
iii) Taxes on Commodities and Services (a to g)	40.3	39.1	39.6	39.6	40.7
a) Sales Tax	25.7	25.2	25.4	25.7	26.4
b) State Excise Duties	6.7	6.1	6.4	6.0	6.0
c) Taxes on Vehicles	2.5	2.5	2.6	2.7	2.8
d) Taxes on Passengers and Goods	1.8	1.7	1.6	1.8	1.8
e) Electricity Duties	1.7	1.9	2.1	1.9	2.1
f) Entertainment Tax	1.5	0.9	0.9	0.9	0.9
g) Other Taxes and Duties	0.4	0.8	0.6	0.6	0.7
B. Share in Central Taxes (a to c)	**21.3**	**21.7**	**21.8**	**21.6**	**21.7**
a) Income Tax	4.6	5.2	5.6	5.6	5.6
b) Estate Duty	0.1	0.1	—	—	—
c) Union Excise Duties	16.6	16.4	16.2	16.0	16.1
II. Non-Tax Revenue (C+D)	**34.0**	**34.8**	**34.2**	**34.6**	**33.2**
C. Grants from the Centre	**17.4**	**18.9**	**18.0**	**19.3**	**17.7**
D. Other Non-Tax Revenue (a to e)	**16.6**	**15.9**	**16.2**	**15.3**	**15.5**
a) Interest Receipts	4.6	4.1	4.4	4.7	4.5
b) Dividends	0.1	0.1	0.1	0.2	0.2
c) General Services	2.1	2.0	1.9	1.7	1.8
d) Social Services	1.3	1.4	1.2	1.1	1.1
e) Economic Services	8.5	8.3	8.6	7.6	7.9

Source: State Government Budget Documents.

crores (28.4 per cent). The gross transfers from the Centre formed 45.7 per cent of States' aggregate receipts as compared with 44.6 per cent in 1986-87. After providing for repayment of loan instalments (Rs. 3,156.7 crores) and interest payments. (Rs. 3,047.5 crores) to the Centre, the net transfers totalled Rs. 20,450.2 crores as against Rs. 17,526.8 crores in the previous year. The proportion of net resources transferred to aggregate receipts (adjusted for loans from the Centre on a net basis) moved up marginally to 37.0 per cent in 1987-88 from 36.4 per cent in 1986-87. Similarly net transfers accounted for 38.1 per cent of total disbursements (excluding repayment of loan instalments and interest to the Centre) in 1987-88 against 37.5 per cent in the previous year. Data on purpose-wise classification of Loans and Advances from the Centre show that both Plan and Non-Plan loans (including ways and means advances) rose to Rs. 4,747.7 crores and Rs. 4,213.8 crores, respectively, in 1987-88 from Rs. 4,493.8 crores and Rs. 3,216.0 crores, respectively, in 1986-87. Under Plan Loans, loans for State Plan Schemes, Central Plan Schemes and Centrally Sponsored Schemes rose from Rs. 4,340.0 crores, Rs. 72.5 crores and

Table VIII-15: Pattern of Revenue Expenditure—Percentage Distribution

Items	1984-85 (Accounts)	1985-86 (Accounts)	1986-87 (Accounts)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)
Total Expenditure (A to D)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
A Developmental Expenditure (1 + 2)	**70.5**	**70.4**	**69.7**	**69.7**	**65.6**
1). Social Services (i to xi)	40.2	40.6	39.8	39.4	37.5
i) Education, Sports, Art and Culture	20.6	20.8	20.4	20.1	20.0
ii) Medical, Public Health and Family Welfare	9.8	7.8	6.8	6.7	6.7
iii) Water Supply and Sanitation	—	2.1	3.1	3.0	2.6
iv) Housing	0.5	0.6	0.6	0.5	0.5
v) Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	—	2.6	2.3	2.6	2.6
vi) Labour and Labour Welfare	0.9	0.7	0.7	0.8	0.7
vii) Social Security and Welfare	5.3	2.3	2.4	1.9	2.0
viii) Nutrition	—	0.4	0.7	0.9	0.8
ix) Relief On Account of Natural Calamities	1.4	2.3	1.7	1.9	0.5
x) Urban Development	—	0.7	0.8	0.7	0.8
xi) Others	1.7	0.3	0.3	0.3	0.3
2) Economic Services (i to ix)	30.3	29.8	29.9	30.3	28.1
i) Agriculture and Allied Activities	17.8	9.5	8.6	8.5	8.1
ii) Rural Development	—	6.7	6.8	6.3	5.7
iii) Special Areas Programmes	—	0.5	0.5	0.5	0.5
iv) Irrigation and Flood Control	—	5.8	6.4	6.3	5.9
v) Energy	5.1	0.7	0.9	1.9	1.4
vi) Industry and Minerals	1.7	1.8	1.8	1.7	1.7
vii) Transport and Communications	3.6	3.3	3.4	3.3	3.0
viii) Science, Technology and Environment	—	0.1	0.1	0.1	0.1
ix) General Economic Services	2.1	1.4	1.4	1.7	1.7
B Non-Developmental Expenditure (1 to 5)	**28.3**	**28.4**	**29.2**	**29.2**	**33.4**
1. Organs of States	1.3	1.0	0.9	0.9	1.0
2. Fiscal Services	3.4	3.3	3.3	3.3	3.4
3. Interest Payments and Servicing of debt	10.2	10.3	11.6	11.8	12.9
Of which:					
i) Interest on Loans from the Centre	5.5	5.2			
ii) Interest on Internal Debt	2.0	1.9			
4. Administrative Services	9.9	10.1	9.7	9.5	11.8
5 Pensions and Miscellaneous General Services	3.5	3.7	3.7	3.7	4.3
C Compensation and Assignments to Local Bodies and Panchayati Raj Institutions	**1.2**	**1.2**	**1.1**	**1.1**	**1.0**
D Reserve with Finance Department	—	—	—	—	—

Rs. 81.3 crores in 1986-87 to Rs. 4,505.1 crores, Rs 87.2 crores and Rs. 155.4 crores, respectively, in 1987-88. Under Non-Plan Loans, States' share in small savings collection which had declined from Rs. 2,934.4 crores in 1985-86 to Rs. 2,441.4 crores in 1986-87 rose to Rs. 2,685.2 crores in 1987-88.

Grants from the Centre to the States rose substantially by 22.1 per cent to Rs. 8,323.6 crores in 1987-88 from Rs. 6,818.7 crores in 1986-87. The increase in grants was due to additional grants for relief expenditure on account of natural calamities; grants to meet relief works rose to Rs. 483.0 crores in 1987-88 as against Rs. 157.7 crores in the previous year. Grants for Plan and Non-Plan purposes rose to Rs. 6,624.9 crores and Rs. 1,698.8 crores, respectively, in 1987-88 from Rs. 5,542.1 crores and Rs. 1,276.6 crores in 1986-87 and registered an increase of 19.5 per cent and 33.1 per cent, respectively, in 1987-88.

Disbursements

Aggregate disbursements in 1987-88 at Rs. 59,939.0 crores registered a rise of Rs. 7,883.4 crores (15.1 per cent) over the previous year. Last year, aggregate disbursements had increased by 16.0 per cent. Developmental expenditure increased by 16.8 per cent to Rs. 42,361.0 crores in 1987-88 from Rs. 36,266.1 crores in the previous year. Last year developmental expenditure had registered a rise of 14.3 per cent. Non-developmental expenditure rose to Rs. 13,654.3 crores from Rs. 11,526.9 crores recording a rise of 18.5 per cent against an increase of 19.9 per cent in the last year. Developmental and non-developmental expenditure formed 70.7 per cent and 22.8 per cent of aggregate disbursements in 1987-88, respectively. The balance of 6.5 per cent, expenditure was on account of repayment of loans, discharge of internal debt,etc. Expenditure on Social Services accounted for 46.2 per cent of developmental expenditure in 1987-88 as compared with 45.6 per cent in 1986-87. The share of expenditure on Economic Services in developmental expenditure declined from 54.4 per cent in 1986-87 to 53.8 per cent in 1987-88. As regards other disbursements, while repayment of loans to the Centre rose moderately by 4.1 per cent to Rs. 3,156.7 crores in 1987-88, 'discharge of internal debt' increased by 15.0 per cent to Rs. 400.9 crores over those in 1986-87. The share of repayment of loans to the Centre in total disbursements declined marginally to 5.3 per cent in 1987-88 from 5.8 per cent in 1986-87. Repayment of market loans totalled Rs. 295.3 crores in 1987-88 against Rs. 265.9 crores in 1986-87.

Budget Estimates 1988-89

At 1987-88 rates of taxation, the combined budgetary position of States reveals an overall deficit of Rs. 1,261.2 crores for 1988-89 as compared with that of Rs. 1,566.3 crores in 1987-88 (RE) and Rs. 894.7 crores in 1986-87 (Accounts). During 1988-89 States have proposed Additional Resource Mobilisation (ARM) measures which are expected to yield Rs. 393.2 crores.[7] Taking into account anticipated ARM yield and States' share of Rs. 26.4 crores in Centre's additional tax proposals in 1988-89 budgets, the overall deficit of the States would narrow down to Rs. 841.6 crores (Table VIII-13).

State-wise Position

An analysis of the State-wise budgets shows that at 1987-88 rates of taxation, 18 States presented deficit budgets while four States, viz, Arunachal Pradesh, Manipur, Mizoram and West Bengal presented surplus budgets. Two States, Nagaland and Orissa presented balanced budgets (Table VIII-16). Of the 18 States which presented deficit budgets, only 9 States[8] proposed new measures to cover budgetary deficits while remaining 9 States left their deficits uncovered. Even after taking into account the additional revenue (ARM) from new tax and non-tax measures as well as their share in Centre's additional taxes proposed in 1988-89, as many as 16 States continue to show deficits aggregating to Rs. 1,175.0 crores. The remaining 8 States show surpluses amounting to Rs. 333.4 crores. The overall deficits of States after taking into account ARM, range from Rs. 0.2 crore in Punjab to Rs. 343.6 crores in Gujarat. The surplus ranges from Rs. 1.0 crore in Orissa to Rs. 221.2 crores[9] for West Bengal. The deficits of 4 States, viz., Gujarat (Rs. 343.6 crores), Karnataka (Rs. 206.9 crores), Andhra Pradesh (Rs. 149.8 crores) and Rajasthan (Rs. 132.1 crores) account for 70.8 per cent of total deficit of 16 States. Many State Governments hope to cover the budgetary gaps through diverse economy measures particularly in non-Plan expenditure. Other measures include recovery of arrears, effecting cuts under zero-

7 The post-budget taxation/concession measures proposed by States have not been included. After presentation of budgets two States viz., Andhra Pradesh and Gujarat in their final budgets, 1988-99, have proposed measures to raise Rs. 68.50 crores and Rs. 175.00 crores, respectively. After taking into account these ARM, the total ARM by States in 1988-89 would be Rs. 636.73 crores.

8 Out of these 9 States, 8 States viz., Andhra Pradesh, Assam, Bihar, Gujarat, Tamil Nadu, Maharashtra, Punjab and West Bengal have presented Vote-on Account Expenditure Budgets, Vote-on Account budgets have been presented on the grounds that seasonal considerations have virtually made it impossible for them to arrive at realistic estimates of revenue receipts and expenditures.

9 In the Budget Speech, 1988-89 the Finance Minister has proposed an expenditure of Rs. 220.4 crores for (1) Pension, Bonus, etc., (Rs. 162.4 crores) and (2) Additional programme on minor irrigation, mini kit distribution, employment generation, education, housing and health (Rs. 58.0 crores). However, provision for this expenditure is not made in the Annual Funancial Statement, of the Government of West Bengal for 1988-89 from which we have compiled the data for the Report.

Table VIII-16: Aggregate Receipts/Disbursements and Overall Surplus (+) or Deficit (−) of State Governments—State-wise Details (Contd.)

(Rs. crores)

States	1986-87 (Accounts)			1987-88 (Budget Estimates)			1987-88 (Revised Estimates)			1988-89 (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 Receipts adjusted by ARM	Aggregate Disbursements	Overall Surplus (+)/ Deficit (−)	Overall Surplus (+)/ Deficit (−) adjusted by ARM
1. Andhra Pradesh	3963.0	4069.6	−106.6	4728.1	4844.3	−116.2	4563.7	4616.6	−52.9	4835.6	4837.1	4986.9	−151.3	−149.8
2. Arunachal Pradesh	220.2	227.0	−6.8	345.5	317.5	+28.0	317.8	348.0	−30.2	371.0	371.5	324.5	+46.5	+47.0
3. Assam	1574.2	1636.8	−62.6	1787.7	1797.1	−9.4	1806.9	1839.5	−32.6	1967.9	1970.1	2011.7	−43.8	−41.6
4. Bihar	3404.6	3528.4	−123.8	3839.7	3829.7	+10.0	3824.8	3914.1	−89.3	4347.2	4350.1	4356.4	−9.2	−6.3
5. Goa	258.2	254.0	+4.2	219.9	209.2	+10.7	230.3	273.7	−43.4	286.1	288.7	316.0	−29.9	−27.3
6. Gujarat	3390.1	3285.2	+104.9	3488.5	3502.8	−14.3	3893.2	4134.7	−241.5	3784.8	3784.4	4128.0	−343.2	−343.6
7. Haryana	1518.3	1521.8	−3.5	1629.2	1615.3	+13.9	1748.9	1749.6	−0.7	1787.9	1788.0	1821.2	−33.3	−33.2
8. Himachal Pradesh	630.8	645.7	−14.9	656.8	658.9	−2.1	795.9	800.9	−5.0	798.9	801.3	805.7	−6.8	−4.4
9. Jammu & Kashmir	1002.2	1001.2	+1.0	1123.2	1119.8	+3.4	1202.1	1202.1	—	1297.9	1315.8	1312.9	−15.0	+2.9
10. Karnataka	2941.9	3058.3	−116.4	3584.6	3687.4	−102.8	3364.5	3565.1	−200.6	3787.2	3816.7	4023.6	−236.4	−206.9
11. Kerala	1990.7	2183.6	−192.9	2152.3	2213.7	−61.4	2218.1	2271.3	−53.2	2340.6	2399.5	2419.9	−79.3	−20.4
12. Madhya Pradesh	3345.1	3401.5	−56.4	3964.1	4019.9	−55.8	4042.2	3999.1	+43.1	4406.4	4433.9	4487.1	−80.7	−53.2
13. Maharashtra	6492.0	6452.1	+39.9	7048.2	7042.8	+5.4	6885.3	6931.5	−46.2	7817.0	7959.9	7945.2	−128.2	+14.7
14. Manipur	284.0	295.9	−11.9	279.8	302.3	−22.5	331.1	322.2	+8.9	354.5	356.1	339.8	+14.7	+16.3
15. Meghalaya	238.1	238.7	−0.6	269.2	274.2	−5.0	281.8	292.5	−10.7	330.9	335.1	342.0	−11.1	−6.9
16. Mizoram	68.9	50.0	+18.9	203.6	195.0	+8.6	332.0	310.4	+21.6	328.5	328.6	300.3	+28.2	+28.3
17. Nagaland	353.6	344.3	+9.3	361.1	353.9	+7.2	404.2	435.6	−31.4	409.4	411.4	409.4	—	+2.0
18. Orissa	1620.1	1731.3	−111.2	2036.9	2029.2	+7.7	2055.3	2055.3	—	2287.6	2288.6	2287.6	—	+1.0
19. Punjab	1789.5	1822.7	−33.2	2233.0	2228.2	+4.8	2374.2	2656.9	−282.7	2829.9	2879.7	2879.9	−50.0	−0.2

Table VIII-16: Aggregate Receipts/Disbursements and Overall Surplus (+) or Deficit (−) of State Governments—State-wise Details (Concld.)

(Rs. crores)

States	1986-87 (Accounts)			1987-88 (Budget Estimates)			1987-88 (Revised Estimates)			1988-89 (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 Receipts adjusted by ARM	Aggregate Disbursements	Overall Surplus (+)/ Deficit (−)	Overall Surplus (+)/ Deficit (−) adjusted by ARM
20. Rajasthan	2542.2	2565.1	−22.9	2613.0	2707.0	−94.0	3171.2	3333.5	−162.3	2995.5	3006.3	3138.4	−142.9	−132.1
21. Sikkim	124.1	119.4	+4.7	124.3	125.2	−0.9	138.6	142.0	−3.4	148.8	149.2	152.9	−4.1	−3.7
22. Tamil Nadu	3604.9	3610.4	−5.5	3535.7	3627.7	−92.0	3811.8	4028.3	−216.5	4040.3	4041.0	4164.0	−123.7	−123.0
23. Uttar Pradesh	6375.8	6490.2	−114.4	6501.4	6528.9	−27.5	6611.3	6648.5	−37.2	7518.3	7522.0	7544.4	−26.1	−22.4
24. West Bengal	3428.4	3522.4	−94.0	3875.8	3763.3	+112.5	3967.5	4067.6	−100.1	4286.6	4343.4	4122.2	+164.4	+221.2
Total	**51160.9**	**52055.6**	**−894.7**	**56601.6**	**56993.3**	**−391.7**	**58372.7**	**59939.0**	**−1566.3**	**63358.8**	**63778.4**	**64620.0**	**−1261.2**	**−841.6**

Notes: 1. Aggregate disbursements include remittances (net).

2. Figures for individual States for 1987-88 (Budget Estimates) include the estimated net yield of Rs. 925.9 crores from additional resource mobilisation measures introduced through the State Budgets and the States' share of Rs. 190.7 crores in Centre's additional taxation announced in the Central Budget for 1987-88.

3. Figures for individual States for 1988-89 (Budget Estimates) include the estimated net yield of Rs. 393.2 crores from additional resource mobilisation measures introduced through the State Budgets and States' share of Rs. 26.4 crores in the Centre's additional taxation announced in the Central Budget for 1988-89.

4. Figures for 1986-87 (Accounts) in respect of Jammu and Kashmir and Nagaland relate to revised estimates.

5. Data in respect of Andhra Pradesh, Assam, Bihar, Gujarat, Tamil Nadu, Maharashtra, Punjab and West Bengal are from vote on account expenditure budget.

based budgeting exercise, improvement in the resources of power sector and expected buoyancy in revenues during the year. The States which are having surplus budgets are West Bengal (Rs. 221.2 crores), Arunachal Pradesh (Rs. 47.0 crores), Mizoram (Rs. 28.3 crores), Manipur (Rs. 16.3 crores), Maharashtra (Rs. 14.7 crores), Jammu and Kashmir (Rs. 2.9 crores), Nagaland (Rs 2.0 crores) and Orissa (Rs. 1.0 crore).

Transactions under Revenue Accounts

The transactions under revenue accounts of State Governments after taking into account ARM and their share in Centre's additional taxes show a deficit of Rs. 1,060.3 crores in 1988-89 as compared with that of Rs. 1,636.2 crores in 1987-88. Fourteen States show deficit in their revenue account aggregating to Rs. 2,136.4 crores while ten States show surplus in their revenue accounts (Rs. 1,076.1 crores). (Table VIII-17). The revenue deficit ranges from Rs. 8.9 crores for Jammu & Kashmir to Rs. 556.3 crores for Uttar Pradesh. The revenue surplus ranges from Rs. 30.0 crores for Sikkim to Rs. 427.4 crores for Bihar.

Receipts

According to Budgets for 1988-89, aggregate receipts would rise to Rs. 63,778.4 crores from Rs. 58,372.7 crores in 1987-88 recording an increase of Rs. 5,405.7 crores (9.3 per cent) as compared with an increase of 14.1 per cent in 1986-87. Revenue receipts inclusive of ARM yield are budgeted at Rs. 47,747.8 crores which would be higher by 10.4 per cent as compared with the growth of 14.1 per cent achieved in 1987-88. Total capital receipts are budgeted to go up by 6.1 per cent from Rs. 15,106.0 crores in 1987-88 to Rs. 16,030.6 crores in 1988-89. They had gone up by 14.1 per cent in 1987-88. The revenue receipts would account for 74.9 per cent of aggregate receipts and the remaining 25.1 per cent by capital receipts.

Revenue Receipts

Under revenue receipts, tax receipts inclusive of ARM yield are anticipated to rise by Rs. 3,598.4 crores (12.7 per cent) to Rs. 31,914.0 crores in 1988-89 from Rs. 28,315.6 crores in the previous year. Last year tax receipts had registered an increase of 13.5 per cent. The increase in tax collections would be contributed both by States' own Taxes (Rs. 2,581.0 crores) and rise in their share in Central Taxes (Rs. 1,017.4 crores). States' own tax receipts including yield from new measures would go up to Rs. 21,527.3 crores in 1988-89 from Rs. 18,946.3 crores in 1987-88 registering an increase of Rs. 2,581.0 crores (13.6 per cent) as compared with that of Rs. 2,258.9 crores (13.5 per cent) in the previous year. States' share in Central Taxes (including their share in Centre's new tax proposals) estimated at Rs. 10,386.7 crores in 1988-89 would show a lower growth rate of 10.9 per cent as compared with 13.2 per cent last year. States' taxes and their share in Central taxes would account for 67.5 per cent and 32.5 per cent of total tax receipts in 1988-89 as against 66.9 per cent and 33.1 per cent, respectively, in 1987-88.

The share of various State taxes in States' own tax receipts is indicated in Table VIII-18.

Non-tax receipts in 1988-89 are anticipated to go up to Rs. 15,833.8 crores from Rs. 14,951.1 crores in 1987-88. The growth rate for non-tax receipts would, however, decelerate to 5.9 per cent in 1988-89 from 15.4 per cent in 1987-88. Grants from the Centre which rose by 22.1 per cent in 1987-88 are anticipated to increase marginally by 1.7 per cent while 'other' non-tax receipts would increase by 11.2 per cent to Rs. 7,369.9 crores in 1988-89 as compared with that of 8.1 per cent registered in 1987-88.

Capital Receipts

Total capital receipts budgeted at Rs. 16,030.6 crores in 1988-89 would show a rise of 6.1 per cent over that of Rs. 15,106.0 crores in 1987-88, last year they had risen by 14.1 per cent. Gross loans from the Centre are budgeted at Rs. 9,519.0 crores which show a rise of 6.2 per cent over 1987-88. Loans from the Centre on a net basis, i.e., after adjusting repayment of loan instalment to the Centre are estimated lower at Rs. 6,175.2 crores as compared with Rs. 5,804.8 crores in 1987-88. States' own capital receipts would also show a lower growth rate of 6.0 per cent as against a rise of 11.0 per cent in 1987-88. Gross market borrowings which had registered a substantial rise of 33.1 per cent to Rs. 1,727.9 crores in 1987-88 from Rs. 1,298.6 crores in 1986-87 are anticipated to rise by 14.9 per cent to Rs. 1,985.3 crores in

Table VIII-17: Transactions on Revenue Account, 1984-85 to 1988-89

(Rs. crores)

States	1984-85 (Accounts)			1985-86 (Accounts)			1986-87 (Accounts)			1987-88 (Revised Estimates)			1988-89 (Budget Estimates)@		
	Revenue Receipts	Revenue Expenditure	Overall Surplus (+)/ Deficit (−)	Revenue Receipts	Revenue Expenditure	Overall Surplus (+)/ Deficit (−)	Revenue Receipts	Revenue Expenditure	Overall Surplus (+)/ Deficit (−)	Revenue Receipts	Revenue Expenditure	Overall Surplus (+)/ Deficit (−)	Revenue Receipts	Revenue Expenditure	Overall Surplus (+)/ Deficit (−)
1. Andhra Pradesh	2293.8	2462.8	−169.0	2773.2	2780.5	−7.3	3056.1	3244.5	−188.4	3600.3	3746.2	−145.9	3967.4	4078.5	−111.1
2. Arunachal Pradesh	—	—	—	—	—	—	211.6	172.9	+38.7	292.5	241.0	+51.5	336.6	215.6	+121.0
3. Assam	699.0	834.9	−135.9	937.5	943.1	−5.6	1210.0	1149.4	+60.6	1262.1	1329.0	−66.9	1346.4	1402.4	−56.0
4. Bihar	1793.9	1687.2	+106.7	2395.7	2098.1	+297.6	2588.4	2393.1	+195.3	2808.9	2618.9	+190.0	3392.1	2964.7	+427.4
5. Goa	—	—	—	—	—	—	170.9	172.0	−1.1	155.8	171.0	−15.2	182.6	200.0	−17.4
6. Gujarat	1769.5	1701.2	+68.3	1902.5	1972.4	−69.9	2159.7	2469.2	−309.5	2666.0	3077.8	−411.8	2787.2	3141.2	−354.0
7. Haryana	790.5	760.9	+29.6	960.3	854.2	+106.1	1130.2	967.4	+162.8	1358.0	1314.4	+43.6	1447.6	1350.0	+97.6
8. Himachal Pradesh	381.7	344.2	+37.5	519.2	411.4	+107.8	533.8	464.1	+69.7	631.8	608.7	+23.1	665.7	608.5	+57.2
9. Jammu & Kashmir	438.4	509.3	−70.9	601.9	595.4	+6.5	694.7	653.4	+41.3	790.3	797.1	−6.8	858.8	867.7	−8.9
10. Karnataka	1739.9	1883.5	−143.6	2013.1	2097.9	−84.8	2284.1	2204.7	+79.4	2642.1	2617.0	+25.1	2951.2	3106.3	−155.1
11. Kerala	1125.0	1138.7	−13.7	1371.2	1445.3	−74.1	1502.5	1654.8	−152.3	1648.5	1801.6	−153.1	1862.3	1942.6	−80.3
12. Madhya Pradesh	1812.9	1733.8	+79.1	2173.5	2103.1	+70.4	2567.4	2531.7	+35.7	3090.5	3023.7	+66.8	3437.7	3361.2	+76.5
13. Maharashtra	3667.8	3879.8	−212.0	4174.2	4490.8	−316.6	4978.2	4978.8	−0.6	5371.1	5455.2	−84.1	6139.3	6239.8	−100.5
14. Manipur	171.4	133.8	+37.6	226.3	155.8	+70.5	248.3	198.1	+50.2	284.9	220.6	+64.3	307.9	231.9	+76.0
15. Meghalaya	148.0	116.8	+31.2	183.0	135.0	+48.0	214.7	156.4	+58.3	258.6	201.5	+57.1	303.1	230.3	+72.8
16. Mizoram	—	—	—	129.9	131.5	−1.6	67.8	46.2	+21.6	224.5	255.0	−30.5	226.5	237.6	−11.1
17. Nagaland	200.7	163.0	+37.7	264.6	203.7	+60.9	297.3	263.2	+34.1	350.9	328.3	+22.6	363.4	307.5	+55.9
18. Orissa	822.8	896.9	−74.1	940.8	1000.9	−60.1	1228.2	1248.0	−19.8	1450.9	1472.2	−21.3	1677.7	1615.9	+61.8
19. Punjab	932.0	941.3	−9.3	1170.2	1162.8	+7.4	1292.5	1202.1	+90.4	1396.9	1730.0	−333.1	1545.7	1785.2	−239.5
20. Rajasthan	1227.2	1303.1	−75.9	1505.7	1507.9	−2.2	1806.5	1866.7	−60.2	2202.6	2494.3	−291.7	2180.0	2361.1	−181.1
21. Sikkim	77.3	58.6	+18.7	91.6	77.6	+14.0	113.4	81.3	+32.1	125.1	100.5	+24.6	133.5	103.5	+30.0
22. Tamil Nadu	2227.5	2210.3	+17.2	2638.3	2449.7	+188.6	2879.3	2775.7	+103.6	2945.0	3249.5	−304.5	3188.5	3405.3	−216.8
23. Uttar Pradesh	3144.9	3292.2	−147.3	3876.8	3702.3	+174.5	4171.6	4349.2	−177.6	4724.5	4930.7	−206.2	5177.4	5733.7	−556.3
24. West Bengal	1778.6	2150.5	−371.9	2343.2	2260.3	+82.9	2510.2	2697.5	−187.3	2984.9	3118.7	−133.8	3269.2	3317.5	−48.3
Total	**27242.8**	**28202.8**	**−960.0**	**33192.7**	**32579.7**	**+613.0**	**37917.4**	**37940.4**	**−23.0**	**43266.7**	**44902.9**	**−1636.2**	**47747.8**	**48808.0**	**−1060.2**

@ Includes proposed ARM of States' and States share in Centre's additional taxation during 1988-89.

Table VIII-18: States Own Tax Receipts

(Rs. crores)

Taxes	1987-88 (Revised Estimates)		1988-89 (Budget Estimates)	
	Amount	Increase/Decrease over 1986-87 (%)	Amount	Increase/Decrease over 1987-88 (%)
1. Sales Tax	11127	+15.4	12615	+13.4
2. State Excise Duties	2608	+8.1	2846	+9.1
3. Land Revenue	414	+10.7	535	+29.2
4. Taxes on Vehicles	1185	+20.2	1339	+13.0
5. Tax on Passengers and Goods	767	+26.6	861	+12.3
6. Taxes and Duties on Electricity	813	+1.4	1000	+23.0
7. Stamps and Registration fees	1146	+13.6	1242	+8.4
8. Agricultural Income-Tax	71	-31.7	99	+39.4
9. Entertainment Tax	379	+9.5	402	+6.1
10. Others*	436	+7.7	588	+34.9
Total	**18946**	**+13.5**	**21527**	**+13.6**

* Includes Taxes on Professions, Trades, Callings and Employment and Urban immovable property and other taxes.

1988-89. Net market borrowings, i.e., after adjusting the repayment of market loans of Rs. 292.7 crores, estimated at Rs. 1,692.6 crores would show a rise of Rs. 260.0 crores (18.1 per cent) over those in 1987-88. Recovery of loans and advances made by States would be higher at Rs. 1,127.6 crores in 1988-89 against Rs. 1,077.4 crores in 1987-88 (Table VIII-19).

Disbursements

Aggregate disbursements in 1988-89 are estimated to rise to Rs. 64,620.0 crores from Rs. 59,939.0 crores in 1987-88 showing a rise of 7.8 per cent as compared with that of 15.2 per cent in 1987-88. Revenue expenditure budgeted at Rs. 48,808.1 crores would show a rise of 8.7 per cent over 1987-88. Last year revenue expenditure had gone up by 18.4 per cent over 1986-87. The capital disbursements budgeted at Rs. 15,811.9 crores would be higher by 5.2 per cent compared with the increase of 6.6 per cent in last year. States' developmental expenditure is estimated to rise by 2.8 per cent to Rs. 43,552.3 crores as against that of 16.8 per cent in 1987-88. Non-developmental expenditure is budgeted to rise by 23.1 per cent in 1988-89 to Rs. 16,814.7 crores as compared with Rs. 13,654.3 crores in 1987-88. Developmental and non-developmental expenditure accounts for 67.4 per cent and 26.0 per cent of total disbursements in 1988-89 as against 70.6 per cent and 22.8 per cent, respectively, in 1987-88. Under developmental expenditure, Social and Economic Services which had risen by 18.3 per cent and 15.5 per cent, respectively, in 1987-88 over the levels in 1986-87 are budgeted to rise by 2.8 per cent in both the cases in 1988-89. States have made a provision of Rs. 236.5 crores in their budgets for meeting expenditure on natural calamities in 1988-89 as compared with that of Rs. 858.4 crores in 1987-88 and Rs. 646.1 crores in 1986-87.

The repayment of loans to the Centre would go up by 5.9 per cent to Rs. 3,343.8 crores as compared with 4.1 per cent to Rs. 3,156.7 crores in 1987-88. Discharge of internal debt would show a rise of 3.6 per cent in 1988-89 as compared with 15.0 per cent in 1987-88. Repayment of market loans would be Rs. 292.7 crores in 1988-89 as compared with Rs. 295.3 crores in 1987-88.

Net transfer of resources from the Centre to the States in 1988-89 by way of share in Central Taxes, Grants and Loans (net of repayment of loans and interests) at Rs. 21,495.5 crores would be higher than that of Rs. 20,450.2 crores in 1987-88. Net transfer of resources would account for 35.6 per cent of aggregate receipts (including Central loans on net basis) and 37.2 per cent of total disbursements (excluding repayment of loan

Table VIII-19: Capital Transactions of States

(Rs. crores)

States	1984-85 (Accounts)			1985-86 (Accounts)			1986-87 (Accounts)			1987-88 (Revised Estimates)			1988-89 (Budget Estimates)		
	Capital Receipts	Capital Disbursement	Overall Surplus (+)/ Deficit (−)	Capital Receipts	Capital Disbursement	Overall Surplus (+)/ Deficit (−)	Capital Receipts	Capital Disbursement	Overall Surplus (+)/ Deficit (−)	Capital Receipts	Capital Disbursement	Overall Surplus (+)/ Deficit (−)	Capital Receipts	Capital Disbursement	Overall Surplus (+)/ Deficit (−)
1. Andhra Pradesh	672.0	660.5	+11.5	763.1	623.5	+139.6	907.0	825.1	+81.9	963.4	870.5	+92.9	869.8	908.4	−38.6
2. Arunachal Pradesh	—	—	—	—	—	—	8.6	54.0	−45.4	25.3	106.9	−81.6	35.0	108.8	−73.8
3. Assam	322.9	300.0	+22.9	344.1	283.8	+60.3	364.3	487.5	−123.2	544.8	510.5	+34.3	623.8	609.3	+14.5
4. Bihar	739.8	750.1	−10.3	939.3	889.0	+50.3	816.2	1135.2	−319.0	1015.9	1295.2	−279.3	957.9	1391.8	−433.9
5. Goa	—	—	—	—	—	—	87.3	82.1	+5.2	74.5	102.7	−28.2	106.1	116.0	−9.9
6. Gujarat	612.4	749.9	−137.5	712.1	671.7	+40.4	1230.4	815.9	+414.5	1227.1	1056.9	+170.2	997.3	986.8	+10.5
7. Haryana	251.9	366.2	−114.3	361.0	430.7	−69.7	388.1	554.4	−166.3	390.9	435.2	−44.3	340.4	471.2	−130.8
8. Himachal Pradesh	80.7	130.7	−50.0	124.0	181.9	−57.9	96.9	181.7	−84.8	164.0	192.3	−28.3	135.5	197.1	−61.6
9. Jammu & Kashmir	272.8	255.6	+17.2	328.6	306.2	+22.4	307.5	347.9	−40.4	411.9	405.0	+6.9	457.0	445.2	+11.8
10. Karnataka	693.7	730.9	−37.2	967.5	801.3	+166.2	657.8	853.6	−195.8	722.5	948.2	−225.7	865.4	917.3	−51.9
11. Kerala	369.6	480.0	−110.4	718.1	514.0	+204.1	488.1	528.8	−40.7	569.6	469.7	+99.9	537.2	477.4	+59.8
12. Madhya Pradesh	630.6	819.7	−189.1	927.3	865.7	+61.6	777.6	869.8	−92.2	951.7	975.3	−23.6	996.2	1125.8	−129.6
13. Maharashtra	1335.3	1152.6	+182.7	1582.1	1264.2	+317.9	1513.8	1473.3	+40.5	1514.2	1476.2	+38.0	1820.6	1705.4	+115.2
14. Manipur	53.5	91.7	−38.2	59.6	92.3	−32.7	35.7	97.8	−62.1	46.2	101.6	−55.4	48.1	107.8	−59.7
15. Meghalaya	28.7	50.8	−22.1	14.4	47.3	−32.9	23.4	82.3	−58.9	23.2	90.9	−67.7	32.1	111.7	−79.6
16. Mizoram	—	—	—	34.2	45.9	−11.7	1.2	3.6	−2.4	107.5	55.4	+52.1	102.1	62.6	+39.5
17. Nagaland	18.2	38.5	−20.3	43.0	68.6	−25.6	56.3	81.1	−24.8	53.3	107.3	−54.0	48.0	101.9	−53.9
18. Orissa	312.7	375.0	−62.3	532.8	425.8	+107.0	391.8	483.3	−91.5	604.4	583.2	+21.2	610.9	671.7	−60.8
19. Punjab	767.6	781.5	−13.9	856.0	773.8	+82.2	497.0	620.7	−123.7	977.3	926.9	+50.4	1333.9	1094.7	+239.2
20. Rajasthan	586.5	524.3	+62.2	680.1	651.7	+28.4	735.6	698.4	+37.2	968.6	839.2	+129.4	826.3	777.4	+48.9
21. Sikkim	5.8	23.3	−17.5	30.3	43.7	−13.4	10.8	38.2	−27.4	13.4	41.5	−28.1	15.7	49.4	−33.7
22. Tamil Nadu	681.8	734.7	−52.9	759.4	854.7	−95.3	725.6	834.7	−109.1	866.9	778.8	+88.1	852.5	758.7	+93.8
23. Uttar Pradesh	1512.1	1729.1	−217.0	1525.3	1458.8	+66.5	2204.2	2141.0	+63.2	1886.8	1717.8	+169.0	2344.6	1810.8	+533.8
24. West Bengal	880.4	587.4	+293.0	777.2	728.3	+48.9	918.3	824.9	+93.4	982.6	948.9	+33.7	1074.2	804.7	+269.5
TOTAL	**10829.0**	**11332.5**	**−503.5**	**13079.5**	**12022.9**	**+1056.6**	**13243.5**	**14115.3**	**−871.8**	**15106.0**	**15036.1**	**+69.9**	**16030.6**	**15811.9**	**+218.7**

Table VIII-20: Plan Outlay of States and Union Territories

(Rs. 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 (Actual Expenditure)	1987-88 (Revised Outlay)	1988-89 (Approved Outlay)	Percentage Variation over the previous year (Col. 9 over Col. 8)
1. Andhra Pradesh	426	1449	3221	5200	943	1205	1112	1250	+12.4
2. Assam	198	433	1280	2100	401	499	575	610	+6.1
3. Bihar	479	1185	2949	5100	932	1281	1400	1600	+14.3
4. Gujarat	545	1374	3880	6000	825	965	891	1275	+43.1
5. Haryana	358	671	1569	2900	423	481	430	600	+39.5
6. Himachal Pradesh	113	236	669	1050	192	239	235	260	+10.6
7. Jammu & Kashmir	162	376	919	1400	274	338	388	450	+16.0
8. Karnataka	374	1039	2665	3500	638	696	769	900	+17.0
9. Kerala	333	661	1645	2100	366	427	381	500	+31.2
10. Madhya Pradesh	476	1396	3865	7000	1010	1169	1516	1702	+12.3
11. Maharashtra	1005	2612	6521	10500	1747	1964	2100	2430	+15.7
12. Manipur	31	93	243	430	70	84	105	123	+17.1
13. Meghalaya	36	99	260	440	74	89	110	130	+18.2
14. Mizoram	—	—	—	—	48	62	70	85	+21.4
15. Nagaland	39	97	230	400	64	74	95	110	+15.8
16. Orissa	249	640	1562	2700	446	574	742	835	+12.5
17. Punjab	428	940	1892	3285	468	679	650	700	+7.7
18. Rajasthan	309	872	2135	3000	428	528	606	710	+17.2
19. Sikkim	—	41	148	230	42	53	54	63	+16.7
20. Tamil Nadu	552*	1143	3584	5750	999	1151	1250	1457	+16.6
21. Tripura	35	75	293	440	94	115	125	143	+14.4
22. Uttar Pradesh	1163	2909	6519	10447	1710	2005	2010	2540	+26.4
23. West Bengal	364	1230	2433	4125	700	715	871	951	+9.2
24. Arunachal Pradesh	—	—	—	—	72	88	110	126	+14.5
25. Goa	—	—	—	—	—	73@	80	92	+15.0
A. Total (All States)	**7675**	**19571**	**48482$**	**78097**	**12966**	**15554**	**16675**	**19642**	**+17.8**
B. Hill Areas including Western Ghats	**—**	**170***	**557£**	**870**	**168++**	**188**	**203**	**221**	**+8.9**
C. Tribal Areas	**—**	**167**	**485**	**756**	**140++**	**155**	**169**	**185**	**+9.5**
D. Total Union Territories	**278**	**655**	**2008**	**3768**	**574**	**631**	**716**	**770**	**+7.5**
E. North Eastern Council	**—**	**91**	**385**	**675**	**114+**	**144**	**150**	**185**	**+23.3**
F. Border Area	**—**	**—**	**—**	**200**	**—**	**30**	**41**	**59**	**+43.9**
G. Other Special Area Development Programmes	**—**	**—**	**—**	**58**	******		**22**	**41**	**+86.4**
Grand Total (A to G)	**7953**	**20654**	**51917**	**84424**	**13962**	**16702**	**17976**	**21103**	**+17.4**

£ Relates to release of Fund.

* The same amount as outlay released as actual expenditure is not known.

** Included under (A).

\+ Includes Rs. 10 crores for LIC Loans. Actual expenditures are not available; revised estimates repeated.

\+ + Actual expenditure figures are not available; revised estimates repeated.

@ Includes actual expenditure for Union Territories of Daman and Diu also.

$ Subsequent revisions not included.

Source: Planning Commission, Government of India.

instalments and payment of interest on loan from the Centre). These proportions were 37.0 per cent and 38.1 per cent,respectively,in the previous year.

Annual Plan Outlay for 1988-89

Tables VIII-20 and VIII-21 show the Plan Outlay of States and Union Territories and States' outlay by Heads of Developments, respectively. The Planning Commission has stepped up the Plan outlay for 1988-89 for 25 States from Rs. 16,675 crores in 1987-88 (revised) to Rs. 19,642 crores or by 17.8 per cent. The increase in Plan outlay for individual States ranges from 6.1 per cent for Assam to 43.1 per cent for Gujarat. In addition to the Annual Plan outlay, Rs. 1,461 crores would be spent in 1988-89 on Specific Area Programmes like Hilly Areas, Tribal Areas, North-Eastern Council, other Special Area Development Programmes and Union Territories. Last year an amount of Rs. 1,301 crores was spent on these programmes. According to Central budget for 1988-89 the Central Plan assistance to States would be Rs. 8,945 crores as compared with Rs. 9,164 crores in 1987-88. The decline is due to lower provision of Rs. 400 crores for advance release of Plan assistance for natural calamities as compared with Rs. 1,215.5 crores in 1987-88. The normal Plan assistance to States would be higher at

Table VIII-21: States' Plan Outlay by Heads of Development

(Rs. crores)

Sectors	Actual Expenditure for 6th Plan (1980-81 to 1984-85)	7th Plan (Approved Outlay) (1985-86 to 1989-90)	1986-87 (Actual Expenditure)	1987-88 (Revised Approved Outlay)	1988-89 (Approved Outlay)	Variation over the previous year (Col. 6 over Col. 5)
1	2	3	4	5	6	7
1. Agriculture and Allied Service	3796	10468	1336	1456	1611	+155
including Co-operation (i+ii)	(7.8)	(13.4)	(8.6)	(8.7)	(8.2)	(+10.6)
i) Agriculture and Allied Services	3180	9598	1137	1271	1422	+151
	(6.5)	(12.3)	(7.3)	(7.6)	(7.2)	(+11.9)
ii) Co-operation	616	870	199	185	189	+4
	(1.3)	(1.1)	(1.3)	(1.1)	(1.0)	(+2.2)
2. Irrigation, Flood Control and	23459	38736	6932	7277	9061	+1784
Power (i+ii)	(48.4)	(49.6)	(44.6)	(43.6)	(46.1)	(+24.5)
i) Power	13080	22786	3895	4120	5434	+1314
	(27.0)	(29.2)	(25.0)	(24.7)	(27.6)	(+31.9)
ii) Irrigation and Flood Control	10379	15950	3037	3157	3627	+470
	(21.4)	(20.4)	(19.6)	(18.9)	(18.5)	(+14.9)
3. Industry and Minerals (i+ii)	2608	3776	911	865	982	+117
	(5.4)	(4.8)	(5.9)	(5.2)	(5.0)	(+13.5)
i) Village and Small Industries	938	1378	291	303	335	+32
	(1.9)	(1.8)	(1.9)	(1.8)	(1.7)	(+10.6)
ii) Medium and Large Scale	1670	2398	620	562	647	+85
Industries and Mining	(3.5)	(3.0)	(4.0)	(3.4)	(3.3)	(+15.1)
4. Transport and Communications	4090	5781	1255	1249	1397	+148
	(8.4)	(7.4)	(8.0)	(7.5)	(7.1)	(+11.8)
5. Others	14529	19336	5120	5828	6591	+763
	(30.0)	(24.8)	(32.9)	(35.0)	(33.6)	(+13.1)
Total (1 to 5)	**48482**	**78097**	**15554**	**16675**	**19642**	**+2967**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(17.8)**

Note: Figures in brackets in column 2 to 6 are percentages to total while those in column 7 indicate percentage variations over the previous year i.e. column 6 over column 5.

Source: Planning Commission, Government of India.

Rs. 7,669.3 crores as compared with Rs. 7,028.8 crores in 1987-88. Similarly, the Special Central Assistance to States has also been stepped up from Rs. 561.2 crores to Rs. 660.7 crores.

Additional Resource Mobilisation (ARM)

Ten States have proposed new ARM proposals in their 1988-89 budgets expected to yield Rs. 393.2 crores as against Rs. 925.9 crores raised by 14 States in 1987-88. A large part of the ARM is raised from tax revenue (Rs 328.6 crores or 83.6 per cent) and the balance from non-tax revenue (Rs. 64.6 crores or 16.4 per cent). Under tax measures, the revision in Sales Tax rates would alone yield an additional revenue of Rs. 108.6 crores followed by Electricity Duty (Rs. 48.3 crores), Tax on Vehicles (Rs. 27.7 crores), State Excise Duties (Rs. 24.3 crores), Stamps and Registration Fees (Rs. 19.0 crores), Land Revenue (Rs. 15.0 crores), Profession Tax (Rs. 3.5 crores) and others (Rs. 82.2 crores). Among the States, Maharashtra has proposed measures to raise Rs. 144.2 crores followed by Kerala (Rs. 58.3 crores), West Bengal (Rs. 56.0 crores), Punjab (Rs. 50.0 crores), Karnataka (Rs. 28.7 crores), Madhya Pradesh (Rs. 25.9 crores), Jammu and Kashmir (Rs. 15.0 crores), Rajasthan (Rs. 10.0 crores), Meghalaya (Rs. 3.0 crores) and Goa (Rs. 2.2 crores) (Table VIII-22).

Ways and Means Advances from Reserve Bank of India

Reserve Bank of India (RBI) provides Ways and Means Advances (WMA) to the States to tide-over temporary difficulties arising out of imbalances in cash flow of receipts and expenditure. The WMA limits were earlier revised with effect from October 1, 1986. The limits of WMA were enhanced by 30 per cent for the first six months of the financial year, i.e., April-September and by 20 per cent for the period October-March over the limits prior to October 1, 1986. During 1987-88 several States had represented that their liquidity position had been affected by the drought and requested for some relaxation in WMA. Accordingly, Reserve Bank of India enhanced the limits for WMA further with effect from March 1, 1988. Under this revision, limits of WMA were raised by 40 per cent over the limits prevailing prior to October 1, 1986. After this revision the total normal WMA limits available to 23 States (including Arunachal Pradesh, Goa, and Mizoram) is Rs. 744.8 crores. There has been no change in the Special Ways and Means Advances of the States. The aggregate limits for WMA now stand at Rs. 1,010.8 crores including the aggregate limits of Rs. 266.0 crores for Special Ways and Means Advances. Prior to this revision the aggregate limits for Ways and Means Advances was Rs. 957.6 crores during April-September and Rs. 904.4 crores in October-March of the fiscal year including the aggregate limit of Rs. 266.0 crores of Special Ways and Means Advances.

Table VII-22: Estimated additional yield from Budget Proposals in 1988-89

(Rs. crores)

States	Net additional yield 1988-89
1. Maharashtra	144.15
2. Kerala	58.30
3. West Bengal	56.00
4. Punjab	50.00
5. Karnataka	28.68
6. Madhya Pradesh	25.90
7. Jammu & Kashmir	15.00
8. Rajasthan	10.00
9. Meghalaya	3.00
10. Goa	2.20
Total	**393.23**
By Major Heads	
1. Sales Tax	108.62
2. Electricity Duty	48.30
3. Taxes on Vehicles	27.68
4. State Excise Duties	24.28
5. Stamps and Registration fees	19.00
6. Land Revenue	15.00
7. Agricultural Income Tax	3.50
8. Taxes on Passengers and Goods	0.40
9. Other Taxes and Duties	81.80
10. Tax Revenue (1 to 9)	328.58
11. Non-Tax Revenue	64.65
Total (10 + 11)	**393.23**
States' share in Centre's additional taxation/concessions	
1. Income-Tax	-93.75
2. Union Excise Duties	120.10
	26.35

During 1987-88 except one State all State Governments had complied with the Overdraft Regulation Scheme (ORS). In respect of one State which remained in overdraft position beyond the 7 consecutive working days in the month of December 1987, the Reserve Bank of India had to stop the payments on behalf of the State Government under the ORS till the overdraft was cleared.

III. RAILWAY FINANCES

Highlights

The Railway Budget for 1988-89 presented to the Lok Sabha on February 24, 1988, envisaged a deficit of Rs. 594.0 crores (at 1987-88 rates of freights and fares) as compared with a surplus of Rs. 69.0 crores in 1987-88 and Rs. 102.0 crores in 1986-87. The Budget contained proposals for revision in freight rates and passenger fares which are expected to yield an additional revenue of Rs. 622.0 crores in 1988-89. Taking into account the revenue accruing from the new proposals, the Budget would show a surplus of Rs. 28.0 crores. The Railway Budget has provided for full payment of dividend to General Revenues of Rs. 736.0 crores as compared with Rs. 640.0 crores in 1987-88. The appropriation to Depreciation Reserve Fund has been raised by Rs. 150.0 crores to Rs. 1,500.0 crores and the appropriation to Pension Fund stepped up by Rs. 100.0 crores to Rs. 550.0 crores. The Railway's Annual Plan for 1988-89 has been fixed at Rs. 3,850.0 crores, showing a step up of Rs. 550.0 crores (16.7 per cent) over the 1987-88 Annual Plan. For financing the Annual Plan the Railways would raise Rs. 800.0 crores through market borrowings by flotation of bonds by the Indian Railway Finance Corporation. Railways had raised Rs. 720.0 crores through the flotation of bonds in 1987-88.

Revised Estimates: 1987-88

According to the revised estimates for 1987-88, total receipts of the Railways are estimated at Rs. 8,709.0 crores as compared with the budget estimates of Rs. 8,417.6 crores and the actual receipts of Rs. 7,683.1 crores in 1986-87 showing a rise of Rs. 291.4 crores (3.5 per cent) over budget estimates and Rs. 1,025.9 crores (13.4 per cent) over actuals of 1986-87 (Table VIII-23). Passenger earnings at Rs. 2,027.0 crores would be higher by Rs. 54.0 crores (2.7 per cent) over the budget estimates and Rs. 86.0 crores (4.4 per cent) over the actuals of 1986-87 while goods earnings at Rs. 6,060.0 crores would be significantly higher by Rs. 241.0 crores (4.1 per cent) over the budget estimates and Rs. 926.8 crores (18.1 per cent) over the actuals of the preceding year. 'Other Coaching Earnings' and 'Sundry Other Earnings' at Rs. 271.0 crores and Rs. 116.0 crores, respectively, are as per budget estimates while 'Other Miscellaneous Receipts' at Rs. 235.0 crores are lower by Rs. 3.6 crores than the budget estimates. The improvement in receipts was due largely to significant increase in freight traffic. Railways carried 318 million tonnes of freight traffic which surpassed the revised target of originating traffic of 316 million tonnes and 223 million net tonne kilometres. The revenue earning freight traffic at 289 million tonnes also surpassed the budget target of 287 million tonnes and was 4 per cent higher than in the previous year. Under the revenue earning traffic Railways were able to achieve improvement in freight traffic despite a shortfall in offering from cement, fertilisers, iron ore and 'others' which includes transport of petroleum products, and other constraints. On the other hand, Railways faced the challenge of moving foodgrains in the different parts of the country affected by a severe drought, which it met successfully carrying 30.5 million tonnes of foodgrains, thus exceeding the target of 27.0 million tonnes assumed in the Budget by 3.5 million tonnes. Similarly the Railways carried more coal (2.5 million tonnes) enabling the State Electricity Boards to generate more thermal power.

Expenditure: 1987-88

The total expenditure of the Railways, as per the revised estimates for 1987-88 is placed at Rs. 8,000.0 crores showing a rise of Rs. 303.4 crores (3.9 per cent) over the budget estimates of Rs. 7,696.6 crores and Rs. 997.7 crores over the actual expenditure of Rs. 7,002.3 crores in 1986-87. Of this, total working expenses accounted for a rise of Rs. 295.0 crores while total 'miscellaneous' expenditure would be higher by Rs. 8.4 crores. The increase in total working expenditure was due to payment of throw-forward arrears arising out of the implementation of the Fourth Pay Commission's recommendations, payment of enhanced productively linked bonus, additional dearness allowance

Table VIII-23: Financial Results of Railways

(Rs. crores)

	Items	1986-87 (Actuals)	1987-88 (Budget Esti-mates)	1987-88 (Revised Esti-mates)	1988-89 (Budget Esti-mates)	Variation Col. 4 over Col. 3 Amount	Col. 4 over Col. 3 Per-centage	Col. 5 over Col. 4 Amount	Col. 5 over Col. 4 Per-centage
	1.	2.	3.	4.	5.	6.	7.	8.	9.
I.	**Total Receipts (a + b)**	**7683.1**	**8417.6**	**8709.0**	**9663.3**	**+291.4**	**+3.5**	**+954.3**	**+11.0**
	(a) Gross Traffic Receipts*	**7505.7**	**8179.0**	**8474.0**	**9393.0**	**+295.0**	**+3.6**	**+919.0**	**+10.8**
	(b) Total Miscellaneous Receipts	**177.4**	**238.6**	**235.0**	**270.3**	**−3.6**	**−1.5**	**+35.3**	**+15.0**
II.	**Total Expenditure(a + b)**	**7002.3**	**7696.6**	**8000.0**	**8899.3**	**+303.4**	**+3.9**	**+899.3**	**+11.2**
	(a) Total Working Expenses	**6900.6**	**7550.0**	**7845.0**	**8725.0**	**+295.0**	**+3.9**	**+880.0**	**+11.2**
	(b) Total Miscellaneous Expenditure	**101.7**	**146.6**	**155.0**	**174.3**	**+8.4**	**+5.7**	**+19.3**	**+12.5**
III.	Ratio of Total Expenditure to Total Receipts (in percentage)	91.1	91.4	91.9	92.1				
IV.	Operating Ratio ≠(in percentage)	92.2	92.3	92.5	92.8				
V.	Net Revenue (I-II)	680.8	721.0	709.0	764.0	−12.0	−1.7	+55.0	+7.8
VI.	Capital-at-Charge**	10373.1	11543.8	11491.2	12786.2	−52.6	−0.5	+1295.0	+11.3
VII.	Net Revenue as percentage of Capital-at-Charge*	6.6	6.2	6.2	6.0				
VIII.	Payment to General Revenue@	578.8	652.0	640.0	736.0	−12.0	−1.8	+96.0	+15.0
IX.	**Surplus (+)/Deficit (−) (V−VIII)**	**+102.0**	**+69.0**	**+69.0**	**+28.0**	**—**	**—**	**−41.0**	**−59.4**
X.	Appropriation to (+) or Withdrawals From (−) Funds:								
	(a)Development Fund	+102.0	+69.0	+69.0	+28.0	—	—	−41.0	−59.4
	(b) Revenue Reserve Fund	—	—	—	—				
	(c) Deferred Dividend Liability Account	—	—	—	—				

* Includes earnings of Worked Lines.

** 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.

≠Operating Ratio has been worked out excluding the earnings and working expenses of Metro Railway, Calcutta.

Source: Explanatory Memorandum on the Railway Budget, 1988-89.

and increase in prices of coal and steel. The appropriations to Depreciation Reserve Fund and Pension Fund were maintained at the budgeted levels of Rs. 1350.0 crores and Rs. 450.0 crores, respectively. After meeting the expenditure and appropriations to Depreciation Reserve Fund and Pension Fund, the net revenue during the year worked out at Rs. 709.0 crores as compared with Rs. 721.0 crores anticipated in the Budget. The dividend to the General Revenue was estimated slightly lower at Rs. 640.0 crores than the budget estimates of Rs. 652.0 crores. Thus, despite a sharp rise in ordinary working expenses due to some post-budgetary developments, Railways were able to pay full dividend to General Revenues and also maintain the surplus of Rs. 69.0 crores as envisaged in the Budget mainly due to greater revenue efforts. As a result of sharp rise in ordinary working expenses the operating ratio moved up marginally from 92.3 per cent envisaged in budget estimates to 92.5 per cent in the revised estimates.

Developmental Expenditure—1987-88

The initial Annual Plan outlay for Railways for 1987-88 was fixed at Rs. 2,980.0 crores. With the enhancement of freight traffic target from 313 million tonnes to 316 million tonnes, the Plan outlay was also stepped up to Rs. 3,400.0 crores.

This was, however, scaled down marginally subsequently to Rs. 3,300.0 crores to mobilise funds for drought relief. In financing the Railway's Annual Plan, the share of internal resources has steadily been rising. This share increased to 50 per cent in 1986-87, compared to 25 per cent in the Fifth Plan and 42 per cent in the Sixth Plan. This share increased further to 65 per cent in 1987-88. Railways raised Rs. 720.0 crores by floating bonds in the market. Under the Annual Plan for 1987-88, the emphasis continued to be on rehabilitation, upgradation of technology and modernisation; as much as 70 per cent of the total annual Plan outlay was spent for these purposes. The investments on rolling stock (Rs. 1,067.4 crores), and track renewals (Rs. 810.2 crores) accounted for 32.3 per cent and 24.5 per cent of the total Plan outlay. Traffic facilities (Rs. 375.5 crores) and Electrification (Rs. 223.4 crores) were other major heads accounting for 11.4 per cent and 6.7 per cent, respectively, of the Annual Plan outlay (Table VIII-24).

Table VIII-24: Developmental Expenditure of Railways

(Rs. crores)

Items	1986-87 (Actuals)	1987-88 (Budget Estimates)	1987-88 (Revised Estimates)	1988-89 (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.
1. Rolling Stock	991.6	951.4£	1067.4£	1352.6£	+116.0	+12.2	+285.2	+26.7
2. Traffic Facilities*	243.7	303.9	375.5	479.7	+71.6	+23.6	+104.2	+27.7
3. Track Renewals	691.0	803.4	810.2	862.8	+6.8	+0.8	+52.6	+6.5
4. Electrification	199.0	223.4	223.4	230.4	—	—	+7.0	+3.1
5. New Lines	128.4	146.5	178.3	195.0	+31.8	+21.7	+16.7	+9.4
6. Signalling & Telecommunication Works	71.6	81.3	95.0	105.8	+13.7	+16.9	+10.8	+11.4
7. Staff Quarters	24.8	25.0	31.1	25.1	+6.1	+24.4	−6.0	−19.3
8. Plant and Machinery	52.3	70.0	59.5	75.0	−10.5	−15.0	+15.5	+26.1
9. Workshop including Production Units	153.9	187.2	193.8	325.3	+6.6	+3.5	+131.5	+67.9
10. Computerisation	41.0	55.0	52.1	35.0	−2.9	−5.3	−17.1	−32.8
11. Others (Adjusted to Credits or Recoveries)	99.8	132.9	213.7	163.3	+80.8	+60.8	−50.4	−23.6
Of which: Metropolitan Transport Projects	84.4	90.0	101.0	95.0	+11.0	+12.2	−6.0	−5.9
Total (1 to 11)	**2697.1**	**2980.0£**	**3300.0£**	**3850.0£**	**+320.0**	**+10.7**	**+550.0**	**+16.7**

* Includes Restoration of dismantled lines, gauge conversion, doubling, yard remodelling, etc.

£ Includes a sum of Rs. 300 crores (Budget Estimates 1987-88), Rs. 720 crores (Revised Estimates 1987-88) and Rs. 800 crores (Budget Estimates 1988-89) raised/proposed to be raised through market borrowings by Indian Railway Finance Corporation (IRFC) for financing Plan Investment on the Railways.

Source: Explanatory Memorandum on the Railway Budget, 1988-89.

Financial Effect of Social Obligations

The Indian Railways being a public utility service have social obligations to transport essential commodities and raw materials as also run suburban and short-distance passenger services. The Railways have been incurring heavy losses on account of these obligations. During 1987-88, the severe drought in many parts of the country as also floods in Eastern and North Eastern States posed a big challenge for the Railways for moving essential supplies viz, diesel oil, foodgrains and edible oils. Movement of these commodities to the affected areas during the crucial months recorded increase of upto 200 per cent over the same period last year. In 1987-88,

the financial cost on account of social obligations is estimated to rise by Rs. 366.3 crores (27.9 per cent) to Rs. 1,677.7 crores. The loss on account of coaching services (suburban and non-suburban passenger traffic, parcel, luggage, etc.) is estimated at Rs. 1,527.0 crores recording a rise of Rs. 405.9 crores (36.2 per cent) over the previous year. On the other hand, the loss on account of low-rated freight like coal, charcoal, foodgrains, fire wood, etc. is lower at Rs. 150.7 crores as against Rs. 190.1 crores in 1986-87 (Table VIII-25).

Table VIII-25: Financial Effect of Social Obligations on Indian Railways

(Rs. crores)

	Items	1985-86 (Actuals)	1986-87 (Actuals)	1987-88 (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.)	956.6	1121.1	1527.0	+164.5	+17.2	+405.9	+36.2
2.	Loss on low-rated freight like Foodgrains, Fodder, Charcoal, Firewood, Fruits and Vegetables, etc.	183.3	190.1	150.7	+6.8	+3.7	−39.4	−20.7
3.	Loss on Freight Concessions on relief measures	—	0.2	—	+0.2	—	−0.2	—
4.	Total (1+2+3)	1139.9	1311.4	1677.7	+171.5	+15.0	+366.3	+27.9
5.	Total Receipts	6590.7	7683.1	8709.0*	+1092.4	+16.6	+1025.9	+13.4
6.	Total Expenditure	5904.8	7002.3	8000.0*	+1097.5	+18.6	+997.7	+14.2
7.	Percentage of item (4) to item (5)	17.3	17.1	19.3				
8.	Percentage of item (4) to item (6)	19.3	18.7	21.0				

* Revised Estimates.

Source : 1. Indian Railways Year Book 1985-86 and 1986-87.
2. Explanatory Memorandum on the Railway Budget, 1988-89.

Budget Estimates: 1988-89

The Railways have set a target of 332 million tonnes of originating freight traffic for 1988-89 as compared with 316.0 million tonnes in 1987-88. The target for revenue earning traffic at 303.0 million tonnes for the year would be higher by 16 million tonnes than 287.0 million tonnes in 1987-88. A large portion of rise of revenue earning traffic is anticipated in the coal sector (+6.5 million tonnes) followed by cement and steel sectors (+3.0 million tonnes). The total freight traffic effort would touch the level of 236 billion tonnes kilometres as compared with the target of 223 billion tonnes kilometres in 1987-88. Passengers traffic is expected to go up by 3 per cent and luggage and parcel by about 2 per cent.

Receipts: 1988-89

The total receipts of Railways during 1988-89 after taking into account yield of Rs. 622.0 crores from the proposed revisions in fares and freight rates are estimated at Rs. 9,663.3 crores which would show a rise of Rs. 954.3 crores (11.0 per cent) over the revised estimates of 1987-88. The receipts from goods traffic projected at Rs. 6,529.0 crores would show a rise of Rs. 469.0 crores (7.7 per cent) on the assumption that the Railways would carry additional 16 million tonnes of revenue earning traffic over the level of 287 million tonnes achieved in 1987-88. Receipts from passenger traffic are expected to go up from Rs. 2,027.0 crores to Rs. 2,446.0 crores (20.7 per cent). The receipts from 'Other

Coaching Earnings', 'Sundry Other Earnings' and 'Other Miscellaneous Receipts' at Rs. 299.0 crores, Rs. 119.0 crores and Rs. 270.3 crores are estimated to go up by Rs. 28.0 crores (10.3 per cent), Rs. 3.0 crores (2.6 per cent) and Rs. 35.3 crores (15.0 per cent), respectively.

Expenditure: 1988-89

The expenditure of the Railways during 1988-89 is estimated at Rs. 8,899.3 crores showing a rise of Rs. 899.3 crores (11.2 per cent) over 1987-88. Total working expenses of Railways are estimated at Rs. 8,725.0 crores showing a rise of Rs. 880.0 crores (11.2 per cent) while total miscellaneous expenditure would go up further from Rs. 155.0 crores in 1987-88 to Rs. 174.3 crores (12.5 per cent). The increase in additional expenditure is attributed to annual increments to staff and payment of dearness allowance, increase in coal and steel prices, increased costs related to higher activity and rentals payable to the Indian Railway Finance Corporation on the assets to be leased from them. Of the rise of Rs. 880.0 crores in the total working expenses, Rs. 235.3 crores would be on account of Repairs and Maintenance and Rs. 292.4 crores in operating expenses (Traffic, Fuel, Rolling Stock and Equipment). Railways have also proposed step-up contribution to the Depreciation Reserve Fund from Rs. 1,350.0 crores in 1987-88 to Rs. 1,500.0 crores. The provision to Pension Fund has also been increased by Rs. 100.0 crores to Rs. 550.0 crores.

After meeting total expenditure, the Railways would show a revenue surplus of Rs. 764.0 crores. This would enable Railways to pay in full dividend to General Revenue of Rs. 736.0 crores and have a surplus of Rs. 28.0 crores as compared with a surplus of Rs. 69.0 crores in 1987-88. As a result of increase in expenditure, the operating ratio would further go up from 92.5 per cent in 1987-88 to 92.8 per cent in 1988-89 (Table VIII-23) The ratio of net revenue to Capital-at-Charge which declined from 6.6 in 1986-87 to 6.2 in 1987-88 would go down further to 6.0 in 1988-89. 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. 976.6 crores in 1988-89 against Rs. 851.7 crores in 1987-88.

Developmental Expenditure: 1988-89

Annual Plan of Railways for 1988-89 has been stepped up further by 16.7 per cent to Rs. 3,850.0 crores from Rs. 3,300.0 crores in 1987-88. The proposed Annual Plan is expected to be financed to the extent of Rs. 800.0 crores through the issue of bonds in the domestic market. Taking into account the investments to be financed by the Indian Railway Finance Corporation, the internal and extra budgetary resources are expected to finance 66 per cent of their Plan outlay as against 65 per cent in 1987-88.

The emphasis of the Railways is on modernization and better services. Therefore, higher priority has been given in the Plan allocations for rehabilitation and modernisation programmes on which alone as much as 70 per cent of the total Annual Plan outlay is proposed to be spent. The Plan gives high priority to track renewals and acquisition of new rolling stocks. Accordingly, the allocation for track renewals has been raised from Rs. 810.2 crores in 1987-88 to Rs. 862.8 crores in 1988-89. Similarly, the allocation for rolling stocks has been raised from Rs. 1,067.4 crores to Rs. 1,352.6 crores. The allocation for doubling of lines has been raised from Rs. 170.0 crores to Rs. 230.8 crores. Railways have accorded a high priority to 'track renewal' and have a programme to complete track renewal works of 3750 kilometres during this year. Energisation of route has also been given a high priority and plans to bring 680 route kilometres under electrification during 1988-89. The budget proposes to acquire 284 Locos in the next financial year as compared with 265 in 1987-88 (Table VIII-24). Railways are expected to procure 18,500 wagons as compared with 19,000 in 1987-88. The acquisition of passenger coaches would go up from 1,458 in 1987-88 to 1,722 in this year. Target for construction of new lines for the year is fixed at 255 (Route kms.) as against the target of 188 (Route kms.) in 1987-88.

Budget Proposals: 1988-89

As mentioned earlier, the Budget for 1988-89 has proposed revisions in freight and fare rates which are expected to bring an additional revenue of Rs. 622.0 crores in 1988-89, of which on account of Rs. 241.0 crores is expected from increase in freight rates, Rs. 358.0 crores from

passenger fares and Rs. 23.0 crores from increase in rates of parcels and luggage. The salient feature of Budget proposals which were to become effective from 1-4-88 are summarised below.

A) Freight Rates

i) The freight rates of goods traffic are increased by 6 per cent to net an additional revenue of Rs. 241.0 crores in 1988-89. However, certain essential commodities of common use viz. fertilisers, foodgrains, pulses, salt, edible oils, gur, jaggery, fodder and livestocks are exempted from this increase.

ii) Parcel and luggage rates are increased by 10 per cent to yield an additional revenue of Rs. 23.0 crores.

B) Passenger Fares: Tariff Proposals

1) The Second Class Ordinary fares are increased by 50 paise per ticket at the lowest slab of 1 to 10 kilometres, rising progressively to a maximum of Rs. 3 for distances beyond 150 kilometres.

2) The price of a platform ticket is increased by 50 paise to Rs. 1.50.

3) Flat increase of Rs. 2 per ticket for Second Class Mail/Express is made at the lowest slab of 1 to 50 kilometres, rising progressively to a maximum of Rs. 15 for distances beyond 750 kilometres.

4) Second Class monthly season ticket fares are raised by an amount ranging between Rs. 4.00 and Rs. 8.00 for different distance legs from 1 to 150 kilometres.

5) The per ticket fare for air-conditioned Chair Car is increased by Rs. 5.00 for the distance slab upto 100 kilometres and rising progressively to a maximum of Rs. 25.00 for distances beyond 1000 kilometres.

6) The per ticket fare of air-conditioned sleeper class is increased by Rs. 10.00 for the distance slab 1 to 50 kilometres and rising progressively to a maximum of Rs. 95.00 for distance beyond 1300 kilometres.

7) A 10 per cent surcharge levied on first class fare both for single journey and monthly season tickets for drought relief with effect from November 1, 1987 would continue from April 1, 1988 as a normal fare increase.

8) In the case of air-conditioned first class, the 10 per cent drought surcharge would also continue as the normal fare increase from April 1, 1988. In addition, fares for this class are raised further by 10 per cent on existing fares at all distances.

9) The reservation fees per ticket for different classes have been revised as under:

	Existing	Proposed
	Rs.	Rs.
Air-Conditioned First Class	10	12
AC Sleeper/First Class	4	6
AC Chair Car and Second Class Sleeper	2	5
Second Class Seat	1	2

These measures in regard to passenger fares are expected to yield an additional revenue of Rs. 358 crores in 1988-89.

The concessions granted to some sections of the travelling public in last year's Budget would continue during 1988-89. In addition to these, following other sections of travelling public would also get concessions in second class fares.

a) Children who are recipients of the Republic Day National Bravery Award are allowed to travel free of charge till the age of 18 years.

b) A 50 per cent concession is granted to all teachers honoured with the Republic Day National Award for exemplary service in the cause of education.

c) A 50 per cent concession is given to the recipients of the Arjuna Award.

d) A 75 per cent concession is given to industrial workers who are recipients of the Prime Minister's Shram Award for productivity and innovation and widows of all policemen killed in action against terrorists and extremists.

(IV) FINANCES OF DEPARTMENT OF POSTS AND DEPARTMENT OF TELECOMMUNICATIONS

The following paragraphs present a review of the finances of Department of Posts (DP) and Department of Telecommunications (DT) during 1987-88 and 1988-89.

A. Department of Posts (DP)—Revised Estimates 1987-88

As per the revised estimates of 1987-88 the working of the Department of Posts (DP) showed a marginal deterioration as compared with the budget estimates and the loss increased to Rs. 134.7 crores from Rs. 133.0 crores envisaged in the budget estimates. However, as compared with the previous two years, i.e. 1986-87 and 1985-86, the finances of DP during 1987-88 showed improvement. The Department was not able to pay any dividend to General Revenues or any contribution towards capital expenditure.

According to the revised estimates for 1987-88, revenue receipts of DP were placed at Rs. 655.0 crores which were lower by Rs. 89 crores than Rs. 744 crores anticipated in the budget estimates but were higher by Rs. 97.5 crores (17.5 per cent) over those in 1986-87. Total working expenses at Rs. 990.0 crores in 1987-88 remained at the level of budget estimates but were higher by Rs. 86.8 crores (9.6 per cent) over 1986-87. Under working expenses, operational expenses increased from Rs. 664.2 crores in 1986-87 to Rs. 688.3 crores in 1987-88 showing a growth of 3.6 per cent and its share in working expenses came down to 69.5 per cent in 1987-88 from 73.5 per cent in 1986-87. Among the other items of expenditure, there was a sharp rise in expenditure on pension of Rs. 37.4 crores (60.3 per cent) to Rs. 99.4 crores in 1987-88 from Rs. 62.0 crores in the previous year. After taking into account the credits to working expenses of Rs. 200.3 crores, net working expenses during 1987-88 amounted to Rs. 789.7 crores as compared with Rs. 773.9 crores in 1986-87 (Table VIII-26).

During 1987-88, capital outlay of DP at Rs. 32.1 crores was marginally higher by Rs. 0.8 crore (2.6 per cent) than that in previous year. The entire amount of outlay was for Plan expenditure. The financing pattern of outlay shows that Rs. 27.7 crores (86.3 per cent) was met from General Revenues and the remaining Rs. 4.4 crores (13.7 per cent) was financed from Depreciation on Historical Costs transferred from Revenue (Table VIII-27).

Budget Estimates—1988-89

At 1988-89 rates of tariff, the budget estimates of DP showed a deficit of Rs. 138.1 crores as compared with that of Rs. 134.7 crores in the revised estimates for that year. In order to augment the revenue of DP, the Government of India announced increase in tariff rates on certain postal services from April 1, 1988 which are expected to yield an additional revenue of Rs. 49.2 crores during 1988-89. After taking into account the additional revenue, the deficit of DP is expected to come down to Rs. 88.9 crores. Total revenue receipts of DP during 1988-89 (inclusive of revenue from new tariff measures) would amount to Rs. 774.2 crores showing an increase of Rs. 119.2 crores (18.2 per cent) over those of Rs. 655 crores in 1987-88. Total working expenses budgeted at Rs. 1,091.2 crores would be higher by Rs. 101.2 crores (10.2 per cent) than Rs. 990.0 crores in 1987-88. Net working expenses after providing for credits to working expenses would rise by Rs. 73.4 crores (9.3 per cent) to Rs. 863.1 crores from Rs. 789.7 crores in 1987-88. The net revenue receipts after adjusting the net working expenses would be (−) Rs. 88.9 crores in 1988-89 as against (−) Rs. 134.7 crores in 1987-88. Under working expenses, operational expenses would rise to Rs. 773.8 crores from Rs. 688.3 crores in 1987-88, representing an increase of Rs. 85.5 crores (12.4 per cent). It would account for 70.9 per cent of total working expenses in 1988-89 as against 69.5 per cent a year earlier.

Total capital outlay for 1988-89 has been placed at Rs. 46.9 crores which represents an increase of 46.1 per cent over 1987-88. This will be financed to the extent of Rs. 42.0 crores (89.5 per cent) from General Revenue and the rest Rs. 4.9 crores (10.4 per cent) through Depreciation on Historical Costs transferred from Revenue. Of the total outlay, plan expenditure would amount to Rs. 43.9 crores while non-plan expenditure would be Rs. 3.0 crores.

B. Department of Telecommunications (DT)—Revised Estimates 1987-88

As per the revised estimates for 1987-88, the finances of Department of Telecommunications

Table VIII-26: Financial Working of Department of Posts*

(Rs. crores)

Items	1985-86 (Actuals)	1986-87 (Actuals)	1987-88 (Budget Estimates)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)
1	2	3	4	5	6
1. **Revenue Receipts**	**476.8**	**557.5**	**744.0**	**655.0**	**774.2@**
2. **Working Expenses**	**728.2**	**903.2**	**990.0**	**990.0**	**1091.2**
Of which:					
i) Operation	520.2	664.2	718.1	688.3	773.8
ii) Agency Services	23.9	27.6	31.6	33.4	34.1
iii) General Administration	53.8	60.3	66.2	68.1	72.9
iv) Engineering	11.3	12.2	14.3	14.3	16.4
v) Pension	49.1	62.0	78.2	99.4	100.3
vi) Accounts and Audit	15.9	19.6	22.8	25.5	27.8
vii) Stationary and Printing	43.2	44.4	46.0	47.5	51.0
viii) Depreciation	3.0	3.8	3.7	4.4	4.9
ix) Others	7.8	9.1	9.1	9.1	10.0
3. Credits to Working Expenses	87.8	129.3	113.0	200.3	228.1
4. Net Working Expenses (2−3)	640.4	773.9	877.0	789.7	863.1
5. Net Receipts (1−4)	−163.6	−216.4	−133.0	−134.7	−88.9@
6. Dividend to General Revenues	—	—	—	—	(−138.1)
7. **Surplus(+)/Deficit(−) before making contribution towards Capital Expenditure (5−6)**	**−163.6**	**−216.4**	**−133.0**	**−134.7**	**−88.9@**
8. Contributions towards Capital Expenditure	—	—	—	—	(−138.1)
9. **Surplus(+)/Deficit(−) after making contributions towards Capital Expenditure (7−8)**	**−163.6**	**−216.4**	**−133.0**	**−134.7**	**−88.9@**
10. Appropriations to (+) Withdrawals from (−)£	—	—	—	—	(−138.1)
(a) Revenue Reserve Fund	—	—	—	—	—
(b) Capital Reserve Fund	—	—	—	—	—

* The erstwhile combined Posts and Telegraphs Department was 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. @ Inclusive of yield of Rs. 49.2 crores from additional revenue mobilisation measures during 1988-89.

(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.

Source: (i) Explanatory Memorandum on the budget of the Central Government.
(ii) Government of India Detailed Demand for Grants of Department of Posts 1988-89.

(DT) showed a deterioration. The surplus shrunk to Rs. 185.0 crores from Rs. 307.0 crores anticipated in the budget due to a sharp increase of 12 per cent in working expenses. Total revenue receipts of DT placed at Rs. 1,745.0 crores registered a sharp growth of 41.9 per cent in 1987-88 over those in 1986-87. The improvement in the revenue receipts was largely due to revision in telecommunication rates effected from December 1, 1986. Total working expenses of DT rose by 30.9 per cent to Rs. 1,417 crores in 1987-88 from Rs. 1,082.0 crores in 1986-87 due to higher expenses in operation and engineering than that in the previous year. The net receipts of DT improved to Rs. 428 crores in 1987-88 from Rs. 224.4 crores in 1986-87. After providing for dividend of Rs. 243 crores to General Revenues, the net surplus of the DT amounted to Rs. 185 crores against Rs. 11.7 crores in 1986-87.

Of the total working expenses of Rs. 1,417 crores in 1987-88, a major portion of expenses was on account of engineering which rose by Rs. 132.7 crores (29.1 per cent) to Rs. 588.5 crores

Table VIII-27: Capital Outlay of Department of Posts*

(Rs. crores)

Items	1985-86 (Actuals)			1986-87 (Actuals)			1987-88 (Budget Estimates)			1987-88 (Revised Estimates)			1988-89 (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	**36.3**	—	**36.3**	**31.3**	—	**31.3**	**37.0**	—	**37.0**	**32.1**	—	**32.1**	**43.9**	**3.0**	**46.9**
2. Financed from:															
(i) Receipts & Recoveries on (a+b)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(a) Capital Account	—	—	—	—	Negl.	—	—	—	—	—	—	—	—	—	—
(b) Under Stores Suspense	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(ii) Capital Reserve Funds £	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Depreciation on Historical costs transferred from Revenue	—	3.8	3.8	1	3.8	3.8	—	4.2	4.2	—	4.4	4.4	—	4.9	4.9
(iv) Contribution towards Capital Expenditure from Revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Capital advanced from the General Revenues	36.3	−3.8	32.5	31.3	−3.8	27.5	37.0	−4.2	32.8	32.1	−4.4	27.7	43.9	−1.9	42.0
Total (i to v)	**36.3**	—	**36.3**	**31.3**	—	**31.3**	**37.0**	—	**37.0**	**32.1**	—	**32.1**	**43.9**	**3.0**	**46.9**

*** The erstwhile combined Posts and Telegraphs Department has been bifurcated into Department of Posts and Department of Telecommunications with effect from the 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.

Source: (1) Explanatory Memorandum on the Budgets of the Central Government.

(2) Annual Reports of the Department of Posts.

(3) Ministry of Communications, Government of India.

in 1987-88 from Rs. 455.8 crores in 1986-87. Operational expenses, on the other hand, increased by Rs. 43.6 crores (16.7 per cent) to Rs. 305 crores in 1987-88 from Rs. 261.4 crores in 1986-87. These two major items of expenditure accounted for 63.1 per cent of total working expenses in 1987-88 as compared with 66.3 per cent in 1986-87. The rise in other important items of expenditure in 1987-88 was observed under General Administration, Rs. 113 crores (21.5 per cent), Depreciation, Rs. 192.5 crores (22.2 per cent), Pension Rs. 78 crores (26.6 per cent) and Stores and Factories, Rs. 35 crores (45.2 per cent).

After providing for credit to working expenses of Rs. 100 crores, net working expenses amounted to Rs. 1,317.0 crores in 1987-88 which showed a rise of 31.0 per cent over Rs. 1,005.3 crores in 1986-87. The Department paid dividends of Rs. 243 crores to General Revenue in 1987-88 as compared with Rs. 212.7 crores in 1986-87. No contributions were made towards capital expenditure. Out of the total surplus of Rs. 185 crores, Rs. 184.9 crores was appropriated to Capital Reserve Fund while a marginal amount of Rs. 0.1 crore was transferred to Revenue Reserve fund (Table VIII-28).

Table VIII-28: Financial Working of Department of Telecommunications*

(Rs. crores)

Items	1985-86 (Actuals)	1986-87 (Actuals)	1987-88 (Budget Estimates)	1987-88 (Revised Estimates)	1988-89 (Budget Estimates)
1	2	3	4	5	6
1. **Revenue Receipts**	**1,309.3**	**1,229.7**	**1,709.0**	**1,745.0**	**2,306.0**
2. **Working Expenses**	**1,020.4**	**1,082.0**	**1,265.0**	**1,417.0**	**1,679.0**
Of which:					
i) Operation	231.7	261.4	304.1	305.0	343.7
ii) General Administration	85.5	93.0	110.8	113.0	128.6
iii) Engineering	440.8	455.8	502.1	588.5	681.8
iv) Pension	48.0	61.6	55.0	78.0	80.0
v) Accounts and Audit	8.8	9.8	11.4	12.0	13.6
vi) Stationary and Printing	13.0	7.5	13.4	13.0	14.0
vii) Stores and Factories	22.5	24.1	26.2	35.0	37.4
viii) Depreciation	160.5	157.5	190.5	192.5	236.2
ix) Others	9.6	11.3	51.5	80.0	143.7
3. Credits to Working Expenses	78.2	76.7	100.0	100.0	114.0
4. Net Working Expenses (2-3)	942.2	1,005.3	1,165.0	1,317.0	1,565.0
5. Net Receipts (1-4)	367.1	224.4	544.0	428.0	741.0
6. Dividend to General Revenues	170.1	212.7	237.0	243.0	267.0
7. **Surplus(+)/Deficit(−) after making contribution towards Capital Expenditure (5−6)**	**+197.0**	**+11.7**	**+307.0**	**+185.0**	**+474.0**
8. Contributions towards Capital Expenditure	—	—	—	—	—
9. **Surplus(+)/Deficit(−) after making contributions towards Capital Expenditure (7−8)**	**+197.0**	**+11.7**	**+307.0**	**+185.0**	**+474.0**
10. Appropriations to (+) Withdrawals from (−)£					
(a) Revenue Reserve Fund	Negt.	+0.1	+0.1	+0.1	+0.1
(b) Capital Reserve Fund	+197.0	+11.6	+306.9	+184.9	+473.9

* 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 1988-89.
(3) Government of India Receipts Budget, 1988-89.

Total capital outlay of DT placed at Rs. 1,172.8 crores in 1987-88 showed an increase of 28.7 per cent over that in the previous year. Of this, Rs. 1,037.8 crores or 88.5 per cent was allocated to Telecommunication Services as Plan expenditure and the remaining Rs. 135.0 crores or 11.5 per cent was earmarked for 'Stores and Manufacturing Suspense' as non-plan expenditure. The capital outlay was financed to the extent of Rs. 1,080 crores (92.1 per cent) from internal resources of the Department while Rs. 92.8 crores (7.9 per cent) was financed from General Revenues (Table VIII-29).

Budget Estimates—1988-89

The operations of DT during 1988-89 are estimated to show a large surplus of Rs. 474.0 crores as compared with that of Rs. 185 crores in 1987-88. Total revenue receipts of DT placed at Rs. 2,306 crores in 1988-89 would be higher by Rs. 561 crores (32.1 per cent) over the level of Rs. 1,745 crores in 1987-88. The estimated large increase in revenue receipts during the current year is mostly due to the expected additional revenue of Rs. 375 crores from new tariffs effected from April 1, 1988.

Total working expenses of the Department budgeted at Rs. 1,679.0 crores would be higher by Rs. 262 crores (18.5 per cent) than that in 1987-88. The increase in working expenses is due to higher expenses on engineering by Rs. 93.3 crores (15.8 per cent), Operations by Rs. 38.7 crores (12.7 per cent) and Depreciation by Rs. 43.7 crores (22.7 per cent). The net working expenses after providing for credits to working expenses of Rs. 114 crores would amount to Rs. 1,565 crores as against Rs. 1,317 crores in 1987-88. As a result, the net revenue receipts of DT would rise by Rs. 313 crores to Rs. 741.0 crores in 1988-89 from Rs. 428.0 crores in 1987-88. After adjusting the dividends to General Revenue of Rs. 267 crores, the surplus of DT during 1988-89 would amount to Rs. 474.0 crores. Of this, Rs. 473.9 crores would be appropriated to Capital Reserve Fund and Rs. 0.1 crore to Revenue Reserve Fund.

Total capital outlay of DT budgeted at Rs. 1,374 crores would show a rise of 17.2 per cent over the previous year. It comprises a Plan outlay of Rs. 1,219 crores for Telecommunication services and non-plan outlay of Rs. 155 crores for Stores and Manufacturing Suspense. The outlay would be financed by Rs. 1,134.4 crores (82.6 per cent) from internal resources and Rs. 239.6 crores through budgetary support from General Revenue.

V. PUBLIC DEBT AND OTHER LIABILITIES

A. Central Government

The outstandings of 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. 1,93,651 crores at end-March 1988 showing a rise of Rs. 27,105 crores (+16.3 per cent) as compared with that of Rs. 29,064 crores (+21.1 per cent) in the previous year. These are expected to increase by Rs. 30,529 crores (+15.8 per cent) to Rs. 2,24,180 crores by end-March 1989 (Table VIII-30).[10]

As a proportion of Gross Domestic Product (GDP)[11] at current market prices the aggregate outstanding liabilities constituted around 59.0 per cent in 1987-88 as compared with nearly 56.9 per cent a year ago. Five years back, i.e. end-March 1983 this ratio stood at 47.8 per cent.

The share of public debt in the aggregate liabilities declined marginally from 64.0 per cent at end-March 1987 to 63.0 per cent at end-March 1988 and is expected to decline further to 62.5 per cent by end-March 1989. The proportion of internal debt to total public debt—which moved up from 81.0 per cent at end-March 1987 to 81.5 per cent at end-March 1988 is anticipated to be higher at 81.8 per cent by end-March 1989. Consequently the share of external debt in public debt declined from 19.0 per cent at end-March 1987 to 18.5 per cent at end-March 1988 and would decline further to 18.2 per cent by end-March 1989.

Public Debt

The outstanding public debt constituting internal debt and external debt (including loans from IMF Trust Fund) stood at Rs. 1,22,038

10 The figures for 1988-89 relate to budget estimates unless stated otherwise.

11 GDP estimated on new series.

Table VIII-29: Capital Outlay of Department of Telecommunications*

Items	1985-86 (Actuals)			1986-87 (Actuals)			1987-88 (Budget Estimates)			1987-88 (Revised Estimates)			1988-89 (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
1. Expenditure (a+b)	**850.5**	**97.3**	**947.8**	**785.2**	**126.1**	**911.3**	**824.1**	**135.0**	**959.1**	**1037.8**	**135.0**	**1172.8**	**1219.0**	**155.0**	**1374.0**
a) Telecommunication Services	850.5	—	850.5	785.2	—	785.2	824.1	—	824.1	1037.8	—	1037.8	1219.0	—	1219.0
b) Under Stores and Manufacture Suspense	—	97.3	97.3	—	126.1	126.1	—	135.0	135.0	—	135.0	135.0	—	155.0	155.0
2. Financed from															
i) Receipts and Recoveries on (a+b+c)	0.5	82.0	82.5	210.0	126.1	336.1	214.8	117.0	331.8	440.5	117.0	557.5	226.4	137.0	363.4
a) Capital Account	0.5	—	0.5	—	—	—	0.8	—	0.8	0.5	—	0.5	0.4	—	0.4
b) Under Stores Suspense	—	82.0	82.0	—	126.1	126.1	—	117.0	117.0	—	117.0	117.0	—	137.0	137.0
c) Deposits of Mahanagar Tel. Nigam Ltd.	—	—	—	210.0	—	210.0	214.0	—	214.0	440.0	—	440.0	226.0	—	226.0
ii) Advance Rentals received under Telex O.Y.T. Schemes	42.6	—	42.6	24.5	—	24.5	25.0	—	25.0	25.0	—	25.0	30.0	—	30.0
iii) Deposits received under Telex Deposit Scheme	8.8	—	8.8	1.5	—	1.5	2.0	—	2.0	2.0	—	2.0	2.0	—	2.0
iv) Capital Reserve Fund £	190.6	15.3	205.9	20.0	—	20.0	298.5	18.0	316.5	266.5	18.0	284.5	466.0	18.0	484.0
v) Depreciation on Historical Costs Transferred from Revenue	160.9	—	160.9	160.0	—	160.0	191.0	—	191.0	191.0	—	191.0	235.0	—	235.0
vi) Contribution towards Capital Expenditure from Revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
vii) Capital advanced from General Revenues	447.1	—	447.1	369.2	—	369.2	92.8	—	92.8	92.8	—	92.8	239.6	—	239.6
viii) Repayment of Loans by Mahanagar Tel. Nigam Ltd.							—	—	—	20.0	—	20.0	20.0	—	20.0
Total (i to viii)	**850.5**	**97.3**	**947.8**	**785.2**	**126.1**	**911.3**	**824.1**	**135.0**	**959.1**	**1037.8**	**135.0**	**1172.8**	**1219.0**	**155.0**	**1374.0**

* The erstwhile combined Posts and Telegraphs Department was 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.

Source: (1) Budget documents of Government of India.

(2) Ministry of Communications, Government of India.

Table VIII-30: Public Debt and Other Liabilities of Government of India
(As at the end of March)

(Rs. crores)

Item	1983	1984	1985	1986	1987	1988 (Revised Estimates)	1989 (Budget Estimates)
1	2	3	4	5	6	7	8
A. Public Debt (1 + 2)	**60,621**	**65,383**	**75,174**	**89,190**	**1,06,611**	**1,22,038**	**1,39,944**
	(36.7)	**(33.7)**	**(35.1)**	**(36.6)**	**(36.4)**	**(37.2)**	
1) Internal Debt (i to vi)	46,939	50,263	58,537	71,036	86,312	99,520	1,14,405
i) Current Market Loans	22,232	26,270	30,366	35,238	40,759	47,759	54,760
ii) Others £	429	520	551	545	516	454	241
iii) Special Bearer Bonds	964	964	964	964	964	964	964
iv) Treasury Bills	17,431	15,756	19,452	26,014	19,876	25,301	33,421
v) Special Floating and Other loans+	1,673	2,183	2,554	3,088	4,330	5,365	5,532
vi) Special Securities issued to RBI	4,210	4,570	4,650	5,187	19,867	19,677	19,487
2) External Debt	13,682	15,120	16,637	18,154	20,299	22,518	25,539
Of which:							
Loans from IMF Trust Fund	538	538	538	464	296	N.A.	N.A.
B. Other Liabilities (a to d)	**24,251**	**29,878**	**38,267**	**48,292**	**59,935**	**71,613**	**84,236**
	(13.7)	**(14.4)**	**(16.7)**	**(18.5)**	**(20.5)**	**(21.8)**	
a) Small Savings	11,098	13,506	17,157	21,449	24,725	28,025	31,725
b) Provident Funds (i + ii)	3,420	3,747	4,159	4,603	5,505	6,405	7,405
i) State Provident Fund	3,060	3,260	3,607	3,975	4,742	5,392	6,122
ii) Public Provident Fund	360	487	552	628	763	1,013	1,283
c) Other Accounts*	5,369	6,621	8,380	10,781	14,698	18,878	23,557
d) Reserve Funds and Deposits (i + ii)**	4,364	6,004	8,562	11,459	15,007	18,305	21,549
i) Bearing Interest	2,464	4,273	6,198	8,600	9,854	10,978	12,322
ii) Not Bearing Interest	1,900	1,731	2,364	2,859	5,153	7,327	9,227
C. Aggregate Liabilities (A+B)	**84,872**	**95,261**	**1,13,441**	**1,37,482$**	**1,66,546**	**1,93,651**	**2,24,180**
	(47.8)	**(46.0)**	**(49.4)**	**(52.5)**	**(56.9)**	**(59.0)**	
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-partion debt)	**84,572**	**94,961**	**1,13,141**	**1,37,182**	**1,66,246**	**1,93,351**	**2,23,880**

£ 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, Borrowing against Compulsory Deposits and Income-tax Annuity Deposits, Special Deposits of Non-Government Provident Fund.

** Includes Depreciation and Reserve Funds of Railway and Department of Posts and Department of Telecommunications, deposits of Local Funds, departmental and judicial deposits, civil deposits etc.

$ Differs from last year report because of subsequent changes reported in the Finance Accounts.

Note: Figures in brackets represent percentages to CSO estimates of Gross Domestic Product at Current Market Prices

Source: Finance Accounts of the Union Government from March 1982 to 1986 and Government of India Receipts Budget for 1987-88 & 1988-89.

crores showing a rise of Rs. 15,427 crores (+14.5 per cent) in 1987-88 as compared with that of Rs. 17,421 crores (+19.5 per cent) in 1986-87. It is budgeted to increase by Rs. 17,906 crores (+14.7 per cent) to Rs. 1,39,944 crores by end-March 1989. The outstanding public debt constituted 37.2 per cent of GDP (at market prices) in 1987-88 as compared with 36.4 per cent in 1986-87.

External Debt

At the end of March 1988 the external debt of the Government of India (including loans from IMF Trust Fund) stood at Rs. 22,518 crores showing an increase of Rs. 2,219 crores (+10.9 per cent) over end-March 1987. In the preceeding year, external debt rose by Rs. 2,145 crores (+11.8 per cent). As indicated in the Central Budget of 1988-89, the external debt is expected to reach a level of Rs. 25,539 crores at end March 1989 and would record an increase of Rs. 3,021 crores (+13.4 per cent) over end-March 1988. The share of the external debt to GDP (at market prices) was at 6.9 per cent at end-March 1988 the same as 6.9 per cent at end-March 1987. The outstanding loans from IMF Trust Fund which were extended to Government of India in August 1986 to tide over balance of payment difficulties were placed lower at Rs. 296 crores at end-March 1987 as against Rs. 464 crores at end-March 1986.

The budget for 1988-89 provides for receipts of Rs. 4,526 crores from external debt as against Rs. 3,905 crores in 1987-88. After taking into account the repayments of Rs. 1,151 crores of loans due in the current year, receipts from external loans are placed at Rs. 3,375 crores as compared with Rs. 2,917 crores in 1987-88. Net external loans i.e. after providing for interest payments of Rs. 1,254 crores on outstanding loans, are placed at Rs. 2,121 crores in 1988-89 as compared with Rs. 1,886 crores in 1987-88.

Internal Debt

Internal debt of the Central Government comprising mainly current market loans, treasury bills, special securities issued to RBI and special floating and other loans aggregated Rs. 99,520 crores at end-March 1988 showing a rise of Rs. 13,208 crores (+15.3 per cent) over the level of Rs. 86,312 crores reached as at end-March 1987. It is expected to touch the level of Rs. 1,14,405 crores as at end-March 1989 recording an increase of Rs. 14,885 crores (+15.0 per cent) over that at end-March 1988. The outstanding internal debt of the Central Government constituted 51.5 per cent of the aggregate liabilities as at end-March 1988 as against 51.9 per cent as at end-March 1987. The ratio is expected to come down to 51.1 per cent as at end-March 1989.

During 1987-88, all components of internal debt 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 showed increases over the level as at end-March 1987. The outstanding amount of Rs. 964 crores raised through Special Bearer Bonds remained unchanged during 1987-88 as the sale of these bonds was discontinued since January 9, 1982. During 1987-88, the Government issued new security, viz., 9 per cent drought relief bonds—'Rahat Patras' to raise funds for meeting the additional expenditure on drought relief works. Current market loans and treasury bills together recorded an increase of Rs. 12,425 crores during 1987-88 accounting for 94.1 per cent of the total increase in outstanding internal debt. Internal debt constituted 30.3 per cent of the GDP at Current Market Prices as at end-March 1988 as compared with 29.5 per cent at end-March 1987.

Market Borrowings: 1987-88

During 1987-88, the Central Government entered the market six times and raised a gross amount of Rs. 7,821.3 crores as compared with Rs. 7,121.0 crores envisaged in the budget estimates and Rs. 6,350.0 crores in 1986-87. After providing for repayment of maturing loans amounting to Rs. 820.9 crores, the net market borrowings amounted to Rs. 7,000.4 crores as compared with Rs. 6,300.1 crores provided in the budget estimates and Rs. 5,299.5 crores in the last year. The net borrowings represented an increase of Rs. 1,700.5 crores (+32.1 per cent) over the level of borrowings in the previous year. Of the total gross market borrowings of Rs. 7,821.3 crores, Rs. 7,730.4 crores was received in the form of cash subscription and the balance of Rs. 90.9 crores was by way of conversion. The Central Government entered the market to raise loans for

the first time during 1987-88 on May 11, 1987 and completed the market borrowing programme with the Sixth tranche on March 29, 1988. The first two tranches were on a cash-cum-conversion basis. The remaining four tranches were entirely on cash basis. Table VIII-31 shows the details of raising the market loans by the Centre during 1987-88.

The monthly average of gross redemption yield in Central Government Securities was higher at 10.19 per cent during 1987-88 as against 9.84 per cent during 1986-87 (Reference: Statement 71 in Volume II of the Report).

1988-89

The Central Budget for 1988-89 has assumed a credit of Rs. 7,475 crores for gross market borrowings. After making provision for repayment of maturing loans of Rs. 474.75 crores the net market borrowings would amount to Rs. 7,000.25 crores i.e. about the same as in 1987-88.

During the current fiscal year (1988-89) upto the first week of November 1988 the Central

Table VIII-31: Market Borrowings of Government of India During 1987-88

(Rs. crores)

Date	Loans Floated	Issue Price Rupees	Amount of Issue	Subscription Accepted			Repayment in cash for unconverted Maturing Securities	Net Market borrowings (Col. 7-col. 6+col. 8)
				Cash	Conversion	Gross Market borrowings (Col.5+6)		
1	2	3	4	5	6	7	8	9
11.05.1987	10.50% Loan 1997	1,000.00	900.00	26.98	0.52	27.50		
	11.00% Loan 2002	1,000.00		953.34	11.89	965.23		
				980.32	12.41	992.73	403.48	576.84
29.08.1987	10.50% Loan 1997 (II Issue)	1,000.00	1,600.00	28.56	8.36	36.92		
	11.00% Loan 2002 (II Issue)	1,000.00		1,653.50	70.13	1,723.63		
				1,682.06	78.49	1,760.55	326.53	1,355.53
05.10.1987	10.50% Loan 1997 (III Issue)	1,000.00		44.20	—	44.20	—	
	11.00% Loan 2002 (III Issue)	1,000.00	2,000.00	61.94	—	61.94	—	
	11.50% Loan 2007	1,000.00		2,094.78	—	2,094.78	—	
				2,200.92		2,200.92		2,200.92
21.12.1987	10.50% Loan 1997 (IV Issue)	1,000.00	800.00	85.79	—	85.79	—	
	11.50% Loan 2007 (II Issue)	1,000.00		795.58	—	795.58		
				881.37	—	881.37		881.37
22.02.1988	10.50% Loan 1997 (V Issue)	1,000.00	750.00	115.30	—	115.30	—.	
	11.50% Loan 2007 (III Issue)	1,000.00		711.27	—	711.27		
				826.57	—	826.57		826.57
29.03.1988	10.50% Loan 1997 (VI Issue)	1,000.00		202.70	—	202.70		
	11.00% Loan 2002 (IV Issue)	1,000.00	1,055.00	201.15	—	201.15	—	
	11.50% Loan 2007 (IV Issue)	1,000.00		755.34	—	755.34	—	
				1,159.19	—	1,159.19		1,159.19
	Total during 1987-88		**7,105.00**	**7,730.43**	**90.9**	**7,821.33**	**730.01**	**7,000.42**

Source: Reserve Bank of India Records.

Government entered the market on three occasions, on May 23, July 20, and November 2, 1988 and raised gross and net subscription of Rs. 5,170.00 crores and Rs. 4,695.26 crores, respectively, as detailed below:

Market Borrowings by Central Government 1988-89

(Rs. crores)

Loan	23.5.88	20.7.88	2.11.88
1	2	3	4
1. 10.00% Loan 1993	—	171.81	—
2. 10.30% Loan 1996	—	—	86.76
3. 10.50% Loan 1998	220.08	—	—
4. 11.00% Loan 2003	14.13	76.81	88.39
5. 11.50% Loan 2008	1,415.79	1,071.38	2,024.85
6. Gross Loans (1+2+3+4+5)	1,650.00	1,320.00	2,200.00
Of which:			
(i) Cash	1,570.25	1,320.00	1,932.62
(ii) Conversion	79.75	—	267.38
7. Repayments	84.64	—	390.10
8. Net Loans (6 – 7)	1,565.36	1,320.00	1,809.90

Coupon Rates on Central Government Loans

The details of the Government of India's policy with regard to coupon rates on Central Government loans were elaborated in the last year's report. The structure of coupon rates on Central Government Loans in 1987-88 was the same as that in 1986-87; the rate was 11.5 per cent for maturity of 20 years, 11.0 per cent for 15 years and 10.5 per cent for 10 years.

Reserve Bank support to Central Loans

The increase in the Statutory Liquidity Ratio effected in 1987-88 and the enlargement of commitments under buy-back arrangements enabled the raising of more resources in the market; the buy-back arrangements, however, provided only temporary assistance as these are essentially short-term arrangements. Reserve Bank's initial subscription to Central Government loans during 1987-88 amounted to Rs. 2,200 crores or 28.1 per cent of the total loans floated which was substantially lower than its initial subscription of Rs. 2,266 crores (35.7 per cent of the total) in 1986-87 and Rs. 2,906 crores (50.4 per cent) of the total in 1985-86. During 1987-88 the RBI sold through its open market operations a major portion of securities initially acquired by it. The open market operations of RBI, however, resulted in a net purchase of Central Government securities by Rs. 368.4 crores in 1987-88 as against net sale of Rs. 1,612.1 crores during 1986-87.

In addition to the Centre's own market borrowings, as in the previous year, a few public sector undertakings have also been permitted to raise resources through issue of bonds in the domestic market and commercial borrowings abroad for financing their developmental programmes. In the budget for 1988-89, it is estimated that these public sector undertakings would raise Rs. 2,039 crores through issue of domestic bonds and Rs. 617 crores through external commercial borrowings. As against this, during 1987-88 resources mobilised through domestic bond flotations and external borrowings amounted to Rs. 2,108 crores and Rs. 576 crores, respectively.

Apart from the open market borrowings, the Centre also mobilises resources through other instruments. Some of the changes relating to the existing savings instruments and of new instruments introduced are discussed below.

9 per cent Relief Bonds, 1987

With a view to mobilising resources for meeting the drought-related expenditure, the Government of India introduced a new saving instrument called 9 per cent Relief Bonds—the 'Rahat Patras'. These bonds having a maturity period of five years and carrying a tax free interest of 9 per cent per annum were put on tap initially from December 28, 1987 upto February 29, 1988 and could be subscribed to only by individuals and Hindu Undivided Families. Investment by non-resident Indians in Relief Bonds is permitted. If the investment is financed from convertible foreign exchange, repatriation is also permissible. The amount invested by initial subscribers in these bonds is exempt from wealth tax without any monetary ceiling. Also these bonds are exempt from gift tax in respect of gifts upto a maximum of Rs. 5 lakhs in one or more previous years in the hands of the original subscriber. In the budget for 1988-89, the sale of these bonds was extended beyond February 29, 1988. Total collections from 9 per cent Relief Bonds as on May 31, 1988 amounted to Rs. 106.9 crores.

Kisan Vikas Patra

In order to boost small savings collections, particularly, to mobilise untapped rural savings, the introduction of a new instrument known as 'Kisan Vikas Patra' (KVP) was announced in the Central Budget for 1988-89. The KVP has already been introduced with effect from April 1, 1988. The investment in KVP does not enjoy any tax concession but has the flexibility of encashment after two and a half years of deposit. The rate of interest increases progressively for longer durations. The deposit would double in value after five and half years. Thus the implicit rate of return on the instrument works out to 13.43 per cent.

National Savings Scheme

During 1987-88, Government of India introduced with effect from April 1987 two new small savings schemes, viz., the National Savings Scheme based on "net-savings" principle and the Post Office Monthly Income Account Scheme. The deposit to the National Savings Scheme carrying interest at 9 per cent per annum could be made monthly or in one lump-sum upto a limit of Rs. 20,000 in a year. Fifty per cent of deposit upto a maximum of Rs. 20,000 was eligible for deduction from the income chargeable to tax of an assessee under Section 80CCA of the Income Tax Act. In the year of withdrawal, however, 50 per cent of the amount withdrawn along with the accrued interest is added to the taxable income of the year. With a view to providing further incentive to savings the budget for 1988-89 liberalised the scheme to make it more attractive. The rate of interest on these deposits has been raised from 9 per cent to 11 per cent. The rate of deduction from taxable income at the time of deposit has been raised from 50 per cent to 100 per cent with a corresponding increase in the amount subject to tax at the time of withdrawal. The revised interest rate and rate of deduction was made applicable retrospectively from April 1, 1987. The monetary ceiling of investment qualifying for deduction was Rs. 20,000 for 1987-88 has been raised to Rs. 30,000 from April 1, 1988.

Post Office Monthly Income Scheme

The Post Office Monthly Income Account can be opened by individuals. Deposits in an account shall be for Rs. 5,000 or multiples thereof subject to a limit of Rs. 2 lakhs for Single Account and Rs. 4 lakhs for a Joint Account. Interest at the rate of 12 per cent per annum is payable every month. If the deposit is not withdrawn for a period of six years, bonus at the rate of 10 per cent of the deposit shall be payable in addition to the interest already paid. Premature withdrawal after one year is allowed at a discount. The interest payable in this account did not hitherto qualify for any tax concessions. The budget for 1988-89 has, however, brought the interest income received from deposits in this Account within the purview of Section 80L of the Income Tax Act within the existing ceiling of Rs. 7,000. Total collections outstanding under the scheme as at end-February 1988 amounted to Rs. 169.9 crores

Indira Vikas Patra

The maturity period of five years stipulated for the Indira Vikas Patra (IVP) was increased to five and half years effective April 1, 1987 as a part of rationalisation of interest rate structure on all saving instruments effected from that date. The effective rate of return was thus reduced from 14.87 per cent to 13.43 per cent. The budget for 1988-89 has, however, restored the maturity period to five years on IVP sold from March 1, 1988. The total amount outstanding under the IVP scheme at end of February 1988 amounted to Rs. 1,724 crores.

Foreign Currency denominated Bonds

The Government has decided to introduce a new scheme of foreign currency denominated bonds/deposit certificates for Non-Resident Indians on a non-repatriable basis. The maturity period of these bonds/deposit certificates would be 7 years and would carry an interest rate higher than that applicable to the repatriable foreign currency non-resident (FCNR) deposits. These bonds/deposits certificates will be free from income tax, wealth tax and gift tax.

Market borrowings of Local Authorities and Institutions Sponsored by Central and State Governments

During the fiscal 1987-88 local authorities and institutions sponsored by Central and State Governments borrowed a net amount of

Rs. 2,579.5 crores registering a rise of Rs. 213.7 crores (+ 9.0 per cent) over 1986-87 as compared with that of Rs. 158.3 crores (+ 7.2 per cent) in the previous year (Table VIII-32). Net borrowings of institutions sponsored by Central Government at Rs. 1,682.9 crores were higher by Rs. 81.3 crores (+ 5.1 per cent) than that of 1986-87. The borrowings (net) sponsored by State Governments at Rs. 856.2 crores were also higher by Rs. 124.4 crores (+ 17.0 per cent) over 1986-87. The net borrowings of Local Authorities at Rs. 40.5 crores were higher by Rs. 8.0 crores (+ 24.6 per cent) over 1986-87. In the case of institutions sponsored by Central and State Governments, those engaged in providing long-term finance to industry and export promotion accounted for 67.1 per cent of net aggregate borrowings of all the institutions and local authorities taken together in 1987-88 as compared with 65.7 per cent in the previous year.

Table VIII-32 Net Market Borrowings of Local Authorities and Institutions Sponsored by Central & State Governments

(Rs. crores)

Institutions	1986-87	1987-88
1	2	3
Local Authorities	**32.48**	**40.48**
Municipal Corporations	32.48	40.48
Institutions Sponsored by the Central Government	**1,601.62**	**1,682.88**
Industrial Development Bank of India	760.00	836.00
Industrial Credit and Investment Corporation of India	216.15	260.00
Industrial Finance Corporation of India	290.50	300.00
Export Import Bank of India	43.45	48.00
Industrial Reconstruction Bank of India	41.75	46.00
National Bank for Agriculture and Rural Development	39.85	8.12
Rural Electrification Corporation	39.93	44.00
Housing and Urban Development Corporation	50.00	55.00
National Co-operative Development Corporation	54.40	60.00
Damodar Valley Corporation	40.59	29.50
Delhi Development Authority	15.00	—
Delhi Co-operative Housing Finance Society Ltd.	10.00	12.50
Institutions Sponsored by State Governments	**731.75**	**856.19**
State Electricity Boards	517.77	527.34
State Financial Corporations	187.20	225.00
Industrial Investment Corporation and Industrial Development Corporation	14.84	15.72
Land Development Banks	−55.71	8.81
Housing Boards	7.14	9.95
Other Institutions	62.51	69.37
Grand Total	**2,365.85**	**2,579.55**

Source: R.B.I Records.

Treasury Bills

The Government of India's outstanding treasury bills at the end-March 1988 amounted to Rs.8,028 crores recording a sharp decline of Rs. 11,848 crores (−59.6 per cent) as compared with that of Rs. 6,138 crores (−23.6 per cent) in the previous year. The sharp decline in the outstanding treasury bills during 1987-88 was attributable mainly to conversion of *ad hoc* treasury bills into special rupee securities amounting to Rs. 17,500 crores. The holdings of treasury bills by Reserve Bank of India declined from Rs. 18,561 crores at end-March 1987 to Rs. 7,091 crores at end-March 1988 recording a decline of Rs. 11,470 crores (−61.8 per cent). The decline

was also noticed in the holdings of State Governments (Rs. 380 crores) and Banks (Rs. 2 crores). Holdings by 'others' increased from Rs. 31 crores at end-March 1987 to Rs. 35 crores at end-March 1988.

182 Days Treasury Bills

During 1987-88 (July-June) 12 auctions were held and the amount tendered against these auctions was Rs. 891.6 crores. One hundred and forty five bids aggregating Rs. 535.3 crores in the price range of Rs. 95.5 to Rs. 96.1 were accepted. The outstanding amount against the 182 days Treasury Bills stood at Rs. 310 crores at end-June 1988. These auctions are conducted every fortnight effective July 1988 instead of every month.

Scheduled commercial banks were provided refinance by the Bank equivalent to 75 per cent of their holdings of 182 days Treasury Bills at a rate of interest of 10 per cent per annum. As the cut-off yields in the auctions have risen recently and Discount and Finance House of India (DFHI) is also expected to impart enlarged liquidity to 182 days Treasury Bills which banks would find more attractive than refinance from the Bank, the following changes were made in the refinance provided with effect from April 23, 1988:

i) The refinance limit was made equivalent to 50 per cent of bank's holdings of 182 days Treasury Bills instead of 75 per cent as earlier; and

ii) The interest rate under this facility was raised from 10.0 per cent to 10.25 per cent per annum.

Special Floating and Other Loans

Special floating and other loans are constituents of internal debt of Government of India. They represent mainly the contribution of Government of India towards the capital of international financial institutions such as IMF, IBRD and IDA. At the end of March 1988 special floating and other loans rose to Rs. 5,365 crores from Rs. 4,330 crores at end-March 1987. These are budgeted to rise to Rs. 5,532 crores at end-March 1989. (Table VIII-30).

Special Securities Issued to Reserve Bank of India

Special Securities issued to RBI against compulsory deposits and those in lieu of *ad hoc* treasury bills which had increased from Rs. 5,187 crores at end-March 1986 to Rs. 19,867 crores at end-March 1987 declined to Rs. 19,677 crores at the end of March 1988. The spurt witnessed in these special securities at the end of March 1987 and 1988 over 1986 level was attributable to conversion of *ad hoc* treasury bills of Rs. 15,000 crores in 1986-87 and Rs. 17,500 crores in 1987-88 into special securities and issued to RBI. The Central Budget of 1988-89 anticipates that special securities issued to RBI would be Rs. 19,487 crores at end-March 1989 (Table VIII-30).

Other Liabilities

The non-marketable debt liabilities of the Government of India comprising mainly Small Savings, Provident Funds and Deposits increased to Rs. 71,613 crores at end-March 1988 from Rs. 59,935 crores at end-March 1987 showing a rise of Rs. 11,678 crores (+ 19.5 per cent) as compared with that of Rs. 11,642 crores (+ 24.1 per cent) in the previous year. The budget for 1988-89 assumes an increase of Rs. 12,623 crores under this head and consequently the outstanding would be Rs. 84,236 crores at end-March 1989. The share of non-marketable liabilities in aggregate liabilities moved up from 36.1 per cent at end-March 1987 to 37.0 per cent at end-March 1988 and is estimated to go up to 37.6 per cent by end-March 1989. As a proportion of GDP (at current market prices), the non-marketable liabilities formed 21.8 per cent at end-March 1988 as against 20.5 per cent at end-March 1987. (Table VIII-30).

Small Savings

The outstandings of small savings at the end of March 1988 amounted to Rs, 29,234 crores as compared with Rs. 25,929 crores at end-March 1987 registering an increase of Rs. 3,305 crores (+ 12.7 per cent). With the exception of savings under Post Office Time Deposits, savings under all other schemes registered increases during the year. Outstandings of Post Office Time Deposits declined from Rs. 11,772 crores at end-March 1986 to Rs. 11,518 crores at end-March 1987 and

stood still lower at Rs. 11,333 crores at end-March 1988. On the other hand, small savings under Certificates (comprising mainly 6 year and 7 year National Saving Certificates, Annuity Certificates, Indira Vikas Patras and Social Certificates) registered an impressive rise; the outstanding amount rose to Rs. 16,787 crores at end-March 1988 from Rs. 13,431 crores at end-March 1987 and Rs. 9,873 crores at end-March 1986. Within the group the outstandings under Indira Vikas Patras introduced from November 1986 rose to Rs. 1,846 crores at end-March 1988 from Rs 838 crores at end-March 1987. During the year under review the Government of India launched a number of small savings instruments. These include 9 per cent Relief Bonds, 1987, Kisan Vikas Patras, the National Savings Scheme and the Post Office Monthly Income Scheme. Details of these schemes have been mentioned earlier.

B. State Governments

The outstanding debt liabilities of the State Governments at Rs. 69,857 crores at the end of March 1988 were higher by Rs. 9,219 crores (+ 15.2 per cent) over 1986-87. During 1986-87 these liabilities had risen by Rs. 8,894 crores (17.2 per cent) over 1985-86. The total outstanding debt of the States is expected to reach the level of Rs. 79,548 crores recording a rise of Rs. 9,691 crores (+ 13.9 per cent) at the end-March 1989.

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. 49,958 crores at end-March 1988 recording a rise of Rs. 5,820 crores (+ 13.2 per cent) over end-March 1987; the rise in the preceding year was Rs. 4,787 crores (+ 12.2 per cent). These are estimated to increase by Rs. 6,215 crores (+12.4 per cent) to Rs. 56,173 crores by end-March 1989. The Centre's share in the total debts of States which had declined from 72.8 per cent at end-March 1987 to 71.5 per cent at end-March 1988 is estimated still lower at 70.6 per cent at end-March 1989.

Market Loans and Bonds

The outstanding market loans and bonds of the State Governments (comprising market loans and compensation and other bonds) amounted to Rs. 8,652 crores at end-March 1988 recording a rise of Rs. 1,439 crores (+ 19.9 per cent) over the year; the rise during the preceding year was Rs. 1,151 crores (+ 18.9 per cent). They are expected to increase by Rs. 1,702 crores (+19.7 per cent) to Rs. 10,354 crores by end-March 1989.

Loans from Banks and Other Institutions

Loans from banks and other institutions include loans and cash credit from State Bank of India and other commercial banks and loans from 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. 1,885 crores at end-March 1988 showing a rise of Rs. 108 crores (+ 6.1 per cent) over end-March 1987. These are budgeted to increase by Rs. 392 crores (+ 20.8 per cent) to Rs. 2,277 crores by end-March 1989.

Provident Funds and Other Funds

Provident Funds and Other Funds comprise mainly State Provident Funds, Insurance and Pension Funds, Trusts and Endowments. The outstanding amount under this head increased by Rs. 1,816 crores (+ 24.7 per cent) to Rs. 9,170 crores at end-March 1988 from Rs. 7,354 crores at end-March 1987. These funds are anticipated to go up by Rs. 1,380 crores (+ 15.0 per cent) to Rs. 10,550 crores at end-March 1989. The bulk of these funds is accounted by State Provident Funds; State Provident Funds formed around 84 per cent of total Provident Funds at end of March of 1987 and 1988. This ratio, however, is estimated marginally lower at 83 per cent by end-March 1989.

Market Borrowings: 1987-88@

Twenty State Governments entered the market on August 17 and 18, 1987 with a notified amount of Rs 1,525.8 crores on a cash-cum-conversion basis. All these loans were issued on par with a maturity period of 15 years and carry an interest

@ Figures are actuals and compiled from RBI records.

rate of 11 per cent. The gross market borrowings of the State Governments in 1987-88 were placed at Rs. 1,789 crores, of which an amount of Rs. 1,755 crores was received in cash and the balance of Rs. 34 crores by way of conversion. After taking into account the repayment in cash of maturing loans amounting to Rs. 284 crores, the net market borrowings of States amounted to Rs. 1,505 crores showing an increase of Rs. 342 crores or 29.4 per cent over the previous year. During 1987-88 the monthly gross redemption yield was 7.61 per cent as compared to 7.14 per cent in 1986-87 (Reference Statement 71 in Volume II of the Report).

State Borrowings: 1988-89

Twenty-two State Governments entered the market on August 29, 1988 with a notified amount of Rs. 1,239.40 crores on a cash-cum-conversion basis. All these loans were issued on par with a maturity period of 20 years and carry an interest rate of 11.5 per cent, the total subscription from these loans amounted to Rs. 1,362.30 crores of which cash component was Rs. 1,337.49 crores and conversion Rs. 24.81 crores. Fourteen states again entered the market on September 26, 1988 with a notified amount of Rs. 603.10 crores on cash basis. These loans were issued on par with a maturity period of 20 years carrying interest of 11.5 per cent. The total subscription aggregated Rs. 662.93 crores. The gross loans raised in the two issues aggregated Rs. 2,025.23 crores. After providing for maturing loans of Rs. 282.85 crores, the net subscription amounted to Rs. 1,742.38 crores.

Chapter IX

Capital Market

The developments in the capital market and operations of term-lending institutions during 1987-88 are reviewed in this Chapter.

During the major part of 1987-88 (July-June), the capital market exhibited further slackening in new investment activity and continued the sluggish trend which had commenced from 1986-87. However, signs of beginning of a revival appeared from May 1988 onwards. The total value of approvals (consents/acknowledgements) by the Controller of Capital Issues (CCI) to non-Government public and private limited companies for fresh issues of capital (including premium allowed on shares and excluding bonus issues) declined by 49.5 per cent to Rs.2,126.2 crores in 1987-88 (April-March) as compared with that of Rs.4,213.9 crores in 1986-87. Fresh capital issues by non-Government public limited companies were considerably lower by 31.2 per cent at Rs. 1,762.5 crores during 1987-88 than that of Rs.2,560.8 crores in the preceding year.

The public sector undertakings offered 11 issues of bonds aggregating Rs.1,823.5 crores in 1987-88.

The equity prices which had turned sluggish during the major part of 1987-88 (July-June), staged a recovery after the last week of April 1988 following the announcement of various tax concessions to the industrial sector.

All-India and State level term-lending institutions sanctioned financial assistance aggregating Rs.9,337.4 crores during 1987-88 (April-March) which indicated a growth rate of 17.3 per cent as compared with 20.6 per cent observed in the preceding year. Their disbursements recorded growth of 20.3 per cent to Rs.6,773.3 crores as compared with that of 14.1 per cent in 1986-87.

Consents for Capital Issues

Approvals (consents/acknowledgements) granted by CCI to non-Government public and private limited companies for fresh issues of capital including premium allowed on shares and excluding bonus shares aggregating Rs.2,126.2 crores in 1987-88 (April-March) were considerably lower than that of Rs.4,213.9 crores in 1986-87 (Table IX-1). It would be worthwhile to note in this context that decline in approvals was smaller in respect of equities and preference shares than that for debentures. Approvals for fresh issue of equity and preference shares together (the latter constituting negligible portion) amounted to Rs.1,439.6 crores and for debentures to Rs.686.6 crores in 1987-88. The respective approvals in 1986-87 were Rs.1,599.9 crores and Rs.2,614 crores. Thus, while the decline in approvals for equities and preference shares was of 10.0 per cent in 1987-88 from that of 1986-87, there was a marked fall of 73.7 per cent in respect of debenture issues. Consequently, the proportion of approvals for equity and preference shares in total approvals (excluding bonus issues) rose to 67.7 per cent in 1987-88 from 38 per cent in the preceding year, while in case of debentures, this proportion declined sharply to 32.3 per cent from 62 per cent. This was reflected in approvals for both convertible and non-convertible debentures. As regards convertible debentures, approvals which had recorded many-fold rise from Rs. 372 crores in 1985-86 to Rs.1,962 crores in 1986-87, due mainly to consents to Reliance Industries, Aravalli Fertilisers, TELCO and Indian Rayon, fell steeply to Rs.377 crores in

1987-88. During these years, approvals for non-convertible debentures also declined from Rs.1,477 crores in 1985-86 to Rs.652 crores in 1986-87 and further to Rs. 310 crores, in 1987-88.

Approval for issue of 13 per cent and 9 per cent (tax free) public sector bonds amounted to Rs.1,948.4 crores in 1987-88 as compared with Rs.1,981.1 crores in the previous year (for 14 per cent and 10 per cent tax free bonds).

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)	Equity and Preference Shares+	Debentures	Sub-Total (2+3)	Bonus Shares	Grant Total (4+5)
1	2	3	4	5	6
1982-83	254.8	531.3	786.1	107.3	893.4
	(32.4)	(67.6)	(100)		
1983-84	319.5	609.3	928.8	94.7	1023.5
	(34.4)	(65.6)	(100)		
1984-85	779.5	919.6	1699.1	88.3	1787.4
	(45.9)	(54.1)	(100)		
1985-86	1082.5	1848.8	2931.3	235.5	3166.8
	(36.9)	(63.1)	(100.0)		
1986-87	1599.9*	2614.0	4213.9*	302.6	4516.5*
	(38.0)	(62.0)	(100)		
1987-88@	1439.6*	686.6	2126.2*	296.8	2423.0*
	(67.7)	(32.3)	(100)		

@ Data are provisional.
+ The preference shares constitute a negligible portion.
* Includes premium allowed to be raised—Rs. 90 crores in 1986-87 and Rs. 408.4 crores in 1987-88.
Note: Figures in brackets in columns 2 & 3 indicate percentage to totals in column 4.
Source: The Controller of Capital Issues, Government of India.

Capital Issues

According to the data compiled by the Reserve Bank, fresh capital issues (including premium and excluding bonus shares, miscellaneous issues, and issues privately placed with financial institutions) by non-Government public limited companies amounted to Rs.1,762.5 crores (through 223 issues) during 1987-88 (April-March) which indicates a decrease of 31.2 per cent as compared with that of Rs.2,560.8 crores (through 524 issues) in 1986-87 (Table IX-2). While equity issues increased to Rs.1,096.7 crores in 1987-88 from Rs.1000.4 crores in 1986-87, the amount of debentures offerred at Rs.658.9 crores was even less than half of Rs.1,559.7 crores in the preceding year. The fall in debenture issues in 1987-88 was observed in respect of convertible (CD) as well as non-convertible debentures (NCD); the former declined to Rs.520.4 crores and the latter to Rs.138.5 crores from Rs.1,082.5 crores and Rs.477.2 crores, respectively in the preceding year. The capital issued through prospectus witnessed sharp decline to Rs.700.9 crores from Rs.1,366.3 crores; rights issues were also lower at Rs. 1,061.6 crores than Rs.1,194.5 crores in 1986-87 (Table IX-3). The equity issues accounted for a major part of the rights in 1987-88.

The number of capital issues by newly established public limited companies, i.e., companies which have made fresh investments but are yet to commence production/business, decreased sharply to 87 in 1987-88 from 246 in 1986-87, mobilising Rs.340.6 crores, i.e., just half of the amount mobilised in the previous year (Rs.730.2 crores). The capital issues by leasing companies amounted to Rs.7.2 crores only during 1987-88 as compared with Rs.82.9 crores in 1986-87.

The available data regarding public response to 82 fresh capital issues of non-Government

Table IX-2: New Capital Issues during 1987-88 by non-Government Public Limited Companies*

(Amount in Rupees crores)

Year (April-March)	Equity Shares		Preference shares		Debentures		Total	
	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount
	1	2	3	4	5	6	7	8
1985-86**	758	898.0	9	1.2	83	843.3	850	1742.5
1986-87**	425	1000.4	3	0.7	96	1559.7	524	2560.8
		(11.4)				(85.0)		(47.0)
1987-88**	172	1096.7	5	6.9	46	658.9	223	1762.5
		(9.6)				(-57.8)		(-31.2)
April-June								
1987**	40	101.0	2	0.2	17	140.2	59	241.4
1988**	36	131.8	—	—	9	128.7	45	260.5
		(30.5)				(-8.2)		(7.9)

* Other than term-lending institutions and exclude bonus issues.

** 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; information received/collected from Stock Exchange Divison of Ministry of Finance, stock Exchanges, press reports/handouts, etc.

public limited companies during 1987-88 revealed that 55 issues were over-subscribed, 7 issues fully-subscribed and 20 issues under-subscribed.

As regards bonds of public sector undertakings, there were 11 issues amounting to Rs.1,823.5 crores in 1987-88 as against an amount of Rs.1,978.0 crores (including oversubscription) through 9 issues in the previous year.

During the quarter April-June 1988, the primary market indicated potential for revival as observed from the amount issued by the companies in the capital market. There were 45 issues by non-Government public limited companies for Rs.260.5 crores as compared with 59 issues for Rs.241.4 crores in the corresponding period of 1987.

Capital Raised

Capital raised (paid-up) (excluding bonus shares) by non-Government companies against approvals (consents/acknowledgements) granted by CCI aggregated Rs.629.6 crores (as per provisional data) during 1987-88 as against Rs.2,338.7 crores in 1986-87 (Table IX-4). The security wise break-up indicates that capital raised through equity and preference shares and through debentures, at Rs.260.2 crores and Rs. 369.4 crores were lower than those of Rs.611.2 crores and Rs.1,727.5 cores, respectively in the previous year.

Developments in Policy and Institutional Structure

A number of measures were introduced by the Government to strengthen the capital market and improve investment environment. The Union Budget for 1988-89 contained certain proposals aimed at encouraging savings and stimulating investment in the capital market of which important ones are indicated below. (i) A separate exemption limit upto Rs.3,000 for dividend income from Indian companies was introduced under Section 80L of the Income Tax Act. This exemption will be in addition to the existing concessions available for certain types of incomes including dividends upto Rs.7,000 and a further income of Rs.3,000 from investments in Unit Trust of India and certain other specified investments. (ii) As small investors generally find it difficult to take advantage of the tax concession available for investment in equity shares of new industrial undertakings, the benefit of tax concession in respect of direct investment in

Table IX-3: Capital Issues during 1987-88 through Prospectus and Rights by non-Government Public Limited Companies*

(Amount in Rupees crores)

Year (April-March)	Issues through Prospectus					Issues through Rights					Grand Total		Distribution between			
	Number of Issues	Equity Shares	Preference Shares	Debentures	Total (2+3+4)	Number of Issues	Equity Shares	Preference Shares	Debentures	Total (7+8+9)	Number of Issues (1+6)	Amount (5+10)	Number of Issues of New Cos.	Amount	Number of Issues of Existing Cos.	Amount
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1985-86**	721	799.7	0.9	91.7	892.3	129	98.3	0.3	751.6	850.2	850	1742.5	536	627.1	314	1115.4
	(19)	(11.1)			(11.1)	(13)	(24.5)			(24.5)	(32)	(35.6)				
1986-87**	414	883.9	0.2	482.2	1366.3	110	116.5	0.5	1077.5	1194.5	524	2560.8	246	730.2	278	1830.6
	(30)	(17.5)			(17.5)	(10)	(17.6)			(17.6)	(40)	(35.1)				
1987-88**	140	510.5	6.7	183.7	700.9	83	586.2	0.2	475.2	1061.6	223	1762.5	87	340.6	136	1421.9
	(14)	(44.9)			(44.9)	(16)	(394.2)			(394.2)	(30)	(439.1)				
April-June																
1987**	32	61.2	Neg.	49.6	110.8	27	39.8	0.2	90.6	130.6	59	241.4	20	65.1	39	176.3
	(2)	(0.4)			(0.4)	(3)	(20.5)			(20.5)	(5)	(20.9)				
1988**	29	75.0	—	2.4	77.4	16	56.8	—	126.3	183.1	45	260.5	26	70.6	19	189.9
	(1)	(1.9)			(1.9)	(6)	(35.1)			(35.1)	(7)	(37.0)				

* Other than term-lending institutions and exclude bonus issues.

** Provisional.

Neg. Negligible.

Note: Figures in brackets indicate data in respect of premium on capital issues which are included in respective totals.

Sources: Prospectuses/circulars/advertisements issued by companies; replies given by companies to the Reserve Bank's questionnaires; information received/collected from Stock Exchange Division of Ministry of Finance, Stock Exchanges, press reports/handouts, etc.

shares of new industrial undertakings under Section 80CC of the Income Tax Act has been extended to investment in special units of mutual funds set up by public sector banks or other financial institutions whose resources are earmarked for investment in new projects. This measure is expected to help new companies to raise capital with greater ease and also attract a wider segment of small investors. (iii) A scheme would be formulated under which approved venture capital companies/funds will be enabled to invest in new companies and be eligible for concessional treatment of capital gains available to non-corporate entities. (iv) The Government has decided to introduce a new scheme of foreign currency denominated bonds/deposit certificates for non-resident Indians on a non-repatriable basis. These bonds/deposits will be free from income tax, wealth tax and gift tax. (v) The Government has decided to set up a Small Industries Development Bank of India as a subsidiary of IDBI, with equity capital of Rs.250 crores. The new bank will administer both the Small Industries Development Fund and the National Equity Fund for providing equity support to projects in tiny and small sector.

In April, 1988 the Finance Minister announced the reintroduction of the investment allowance scheme and extended 'tax holiday' provision to 100 per cent export oriented units for a period of five years. He also announced that Section 115J of the Income Tax Act relating to payment of minimum tax on book profits would be amended to grant 100 per cent exemption to export profits. State electricity boards and companies engaged in generation and distribution of electric power would also be exempt from the minimum tax payable under Section 115J. The benefit of tax concession under Section 80 CC of the Income Tax Act will be extended to investment in new equity issues of the hotel industry and other specified tourism-related activities. The benefit of tax exemption on export profits which was so far available for merchandise exports has been extended to hotels and tour operators.

During 1987-88, two more mutual funds were launched. The SBI Mutual Fund was floated in November 1987 under its Magnum Regular Income Scheme - 1987 for a total amount of Rs.100 crores. It was created as Trust with State Bank of India as settler and the SBI Capital Market Limited as Trustees. The Scheme assures a return of 12 per cent plus per annum. In addition, it provides the benefit of capital appreciation. The Magnum is not listed on the stock exchanges. The SBI Mutual Fund, however, offers repurchase facility under which designated branches of the State Bank Group would repurchase Magnums at the repurchase price declared from time to time. The Canbank Mutual Fund, set up in December 1987 under its Mutual Fund Scheme 1987, issued a total amount of Rs. 50 crores under Canstocks and Rs. 50 crores under

Table IX-4: Capital Raised (paid-up) by non-Government Public and Private Limited Companies against Approvals (Consents/Acknowledgements) granted by Controller of Capital Issues

(Rupees crores)

Year (April-March)	1985-86+	1986-87+	1987-88*
1	2	3	4
I) Equity and Preference Shares	418.2	611.2	260.2
a) Initial	323.9	322.8	198.4
b) Further	94.3	288.4	61.8
II) Debentures	739.2	1727.5	369.4
Total (I+II)	**1157.4**	**2338.7**	**629.6**

\+ Revised.

* Data are provisional and are likely to undergo significant revision in view of delays involved in receiving reports from some companies following delays in finalisation of allotments etc.

Source: The Controller of Capital Issues, Government of India.

Canshares. Canbank Mutual Fund is a close-ended investment trust constituted by the Canara Bank with a view to providing long-term capital appreciation and reasonable return on the investors' fund. Canstock is an income and growth scheme while Canshare is a pure growth scheme. The investor in Canstock is assured of a minimum return of 12.5 per cent per annum. The scheme for investment in Canshares provides for a 'safety net' to ensure that Canshares are always saleable at par value or above and the trustees will make necessary arrangements for this purpose. The actual subscriptions collected through Canstock/Canshares were Rs. 120 crores while those collected through SBI Magnum were Rs. 133 crores.

The Government modified in April 1988 the guidelines relating to oversubscription to public and rights issues of shares and debentures by companies. While approaching the Controller of Capital Issues for approvals of their equity, debenture and other issues for the amounts that they wish to raise from public and shareholders, companies are required to make a realistic assessment of their needs preferably in consultation with financial institutions and banks. Retention of oversubscription would normally be permitted upto 15 per cent of the amount approved. Companies desiring to retain such oversubscription are required to indicate their intention to do so in the original application itself to the CCI and obtain the necessary approval. Hitherto, companies were allowed to retain oversubscription upto 25 per cent in case of shares and 50 per cent in case of debentures. The revised guidelines are thus expected to ensure more equitable availability of funds in the capital market.

The rules under Securities Contracts (Regulation) Act, 1957 were amended in July 1987 to permit corporate membership of the stock exchanges. Hitherto, only individuals were allowed to be members of the stock exchanges and this restriction has been removed to enable members to form companies for the purpose of conducting stock broking business. The amendments also permit IFCI, IDBI, LIC, GIC, UTI, ICICI, their subsidiaries and any subsidiary of State Bank of India or any nationalised bank set up for providing merchant banking services, buying and selling of securities and other similar activities, to become members of the stock exchanges. These amendments are aimed at broadbasing the membership of the stock exchanges and injecting professionalism in the conduct of business of the exchanges.

On April 12, 1988 the Central Government constituted the Securities and Exchange Board of India (SEBI). Pending enactment of a comprehensive legislation for setting up a statutory apex board to promote orderly and healthy growth of the securities market and to provide protection to investors, the Government has constituted an interim Board, namely SEBI. SEBI will operate under the overall administrative control of the Ministry of Finance. The initial financing of SEBI would be through contributions from public financial and investment institutions. SEBI will deal with all matters relating to development and regulation of the securities market and investor's protection and advise the Government on these matters. It will also prepare a comprehensive scheme of legislation for the regulation and development of the securities market. SEBI would submit reports to the Government periodically on various aspects of the securities market and on such other specific matters as may be called for by the Government.

The Reserve Bank liberalised the loan facilities from scheduled commercial banks to individuals for purchase of shares and debentures. In June 1987, the Reserve Bank raised the limit for advances against shares/debentures from Rs. 2 lakhs per individual borrower to Rs. 3 lakhs for subscribing to rights or new issues of shares/debentures against the security of existing shares/debentures. In November 1987, the Reserve Bank permitted scheduled commercial banks to sanction loans upto revised limit to individuals for purchase of shares and debentures in the secondary market against the security of existing shares/debentures. In January 1988, this limit was raised further to Rs. 5 lakhs per borrower.

In August 1987, a National Equity Fund Scheme was launched for providing assistance by way of seed capital to new as also potentially viable sick units in cottage, tiny and small industries sector.

The Industrial Credit and Investment Corporation of India Ltd. in association with the Unit Trust of India has promoted a company called Credit Rating Information Services of India Ltd. (CRISIL) to provide credit rating services to the corporate sector.

Industrial Security Market

Equity prices on major stock exchanges after moving down to lower levels during major part of 1987-88 (July-June), staged a recovery in May and June 1988. This was in contrast to the decline in equity prices noticed during May and June 1987. The Reserve Bank's all India index number of ordinary share prices (base: 1980-81 = 100) which rose from 198.9 in the week-ended June 27, 1987 to 227.1 by the week-ended August 29, 1987 declined thereafter almost continuously to 193.5 by the week-ended December 19, 1987. Subsequently, though the index recovered to 210.5 in the week-ended January 16, 1988, it moved down again to 187.1 in the week-ended April 2, 1988. There was a recovery since then to 218.6 by the week-ended June 11, 1988 and it was at 212.2 for the week-ended June 25, 1988. At this level, on a point to point basis, the index showed a rise of 6.7 per cent over its level of 198.9 a year ago. On the other hand, the annual index based on monthly averages at 205.3 for the year 1987-88 (July-June) showed a decline of 7.8 per cent as compared with that of 222.6 for the previous year.

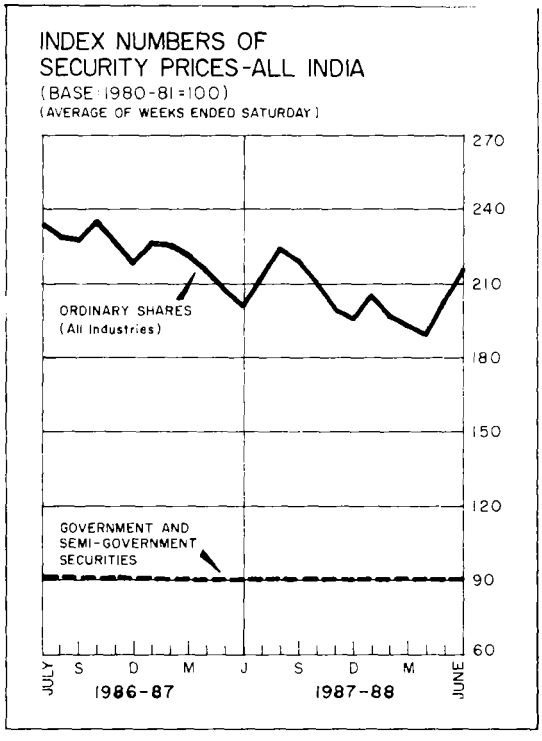


Table IX-5: Index Number of and Yield on Ordinary Share Prices

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)	3.9
1987-88	212.2	227.1	187.1	205.3 (−7.8)	4.3

* Average of the Index of last week (ended Saturday) of the months as the remaining weekly indices are not compiled for the year 1981 to 1984.

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.

Equity prices staged a recovery in July and August 1987 due mainly to substantial buying support extended by financial institutions, encouraging corporate news and continuation of stringent curbs imposed by the stock exchange authorities on speculative selling. The announcement by State Bank of India to set up a mutual fund on the lines of the one set up earlier by the Unit Trust of India and the decision to create a secondary market for public sector bonds, also aided market sentiment. In view of the improved market conditions, the stock exchange authorities partly relaxed the trading restrictions.

Equity prices turned sluggish in September and the downward movement continued till the middle of December 1987. The market sentiment was affected by widespread drought in the country and levy of a surcharge by Government on income tax on individuals and companies for financing the expenditure on drought relief.

As the brokers protested that the restrictions imposed on trading affected the volume of business, a six member Informal Working Group on "Current System of Restrictions on Trading in Stock Exchanges" with Dr. S.A. Dave, Executive Director of Industrial Development Bank of India as its Chairman was appointed by the Controller of Capital Issues to examine the trading restrictions on the stock exchanges. This Group submitted its Report in October 1987 which recommended a phased relaxation of the trading restrictions. The first phase of trading relaxation which became effective from October 22, 1987, permitted fresh deals within stipulated daily and fortnightly price bands but did not allow the facility of carrying forward of transactions from one settlement to another. The brokers, however, felt that this relaxation was not adequate for improving the volume of business and equities recorded further declines. There was however a short rally in the third week of November under the influence of institutional support and aided by the Reserve Bank's announcement permitting commercial banks to grant loans upto Rs. 3 lakhs (raised to Rs. 5 lakhs in January 1988) to individuals for fresh purchase of shares and debentures in the secondary market against the security of shares/debentures already acquired by individuals.

In the second fortnight of December 1987 and in the first fortnight of January 1988 equities recovered partially as market sentiment improved following the Union Finance Minister's statement at the Silver Jubilee function of the Bangalore Stock Exchange that the Government was determined to reverse the downtrend in capital market and improve the prospects of major industries.

In the second fortnight of January, equities declined again and continued to move downward till the first week of March due to delay in relaxation of trading curbs in accordance with the phase II of Dave Group's recommendations, the announcement of hikes in freight rates and passenger fares in the Railway Budget, increases in telecom and postal tariffs and announcement in the Union Budget for 1988-89 of continuation of the tax on book profits of companies under section 115J of the Income Tax Act and the surcharge on income and wealth tax and auxiliary customs duty and levy of fresh tax on transfer of wealth therein. The provision of an exclusive limit of Rs. 3,000 for dividend income qualifying for exemption under section 80L would augment to some extent the flow of funds to the capital market. Equities recorded modest recovery in the second week of March on emergence of fresh buying support and encouragement given by government's decision to implement Stage I of phase II of Dave Committee's recommendations from March 11, 1988 allowing brokers to carry forward their business upto Rs. 25 lakhs from one settlement to another. However, equities declined again in the third week of March and moved in a narrow range in the first three weeks of April. The establishment of the Securities and Exchange Board of India (SEBI) on April 12, 1988 to promote orderly and healthy growth of securities market and for investor protection was welcomed by the market.

In the last week of April, equity prices moved up and their recovery continued in May and early June. The market sentiment improved following a number of favourable measures announced by the Union Finance Minister on April 27, 1988, which included (1) reintroduction of investment allowance scheme, (2) extension of tax holiday provision for 100 per cent export-oriented units for a period of five years, (3) exemption of export profits from the requirement of minimum tax under Section 115J of the Income Tax Act, (4) excise and custom duty concession for certain products and (5) extension of tax concessions on new investment and export profits of hotel industry and tourism related activities. Further consolida-

tion of the recovery took place in May and early part of June as market sentiment improved with the decision to implement the second stage of phase II of Dave Group's recommendations permitting larger carryover facilities (from one settlement to another) upto Rs. 50 lakhs per broker as against the previous limit of Rs. 25 lakhs with effect from May 6, 1988. Towards the close of June, equities turned firm on all-round support from institutional investors, particularly UTI and mutual funds.

Yield on Industrial Securities

The average gross yield on ordinary shares rose from 3.2 per cent in 1985-86 (July-June) to 3.9 per cent in 1986-87 and further to 4.3 per cent in 1987-88.

Open Market Operations

During the financial year 1987-88, under the Reserve Bank open market operations, net sales of Central Government securities witnessed a sharp decline of as much as 57.0 per cent over the previous year.

Whereas purchases of securities during 1987-88 rose by 86.2 per cent to Rs. 3,141.2 crores from Rs. 1,686.8 crores in the previous year, sales of securities decreased by 2.4 per cent to Rs. 4,317.7 crores from Rs. 4,425.7 crores in 1986-87. In the result, the net sales of securities were lower by 57.0 per cent to Rs. 1,176.5 crores from Rs. 2,738.9 crores in 1986-87 when net sales had increased by 58.2 per cent.

During the first quarter of the financial year 1988-89, both purchases and sales of securities were substantially higher than those in the corresponding quarter of the previous year. The sales and purchases of securities at Rs. 1,999.8 crores and Rs. 1,600.0 crores, respectively, during April-June 1988, were sizeably higher than those of Rs. 1,154.6 crores and Rs. 233.7 crores in the corresponding quarter of the previous year. However, as a result of relatively sharper increase in purchases, net sales of securities decreased to Rs. 399.8 crores during the first quarter of 1988-89 as compared with Rs. 920.9 crores in the first quarter of 1987-88.

Data on the purchases and sales of Government securities for the preceding five years are presented in Table IX-6. Data presented in brackets in the table include transactions effected periodically out of the surplus funds of IDBI, EXIM Bank, NABARD and other institutions under a special arrangement with them. There was a substantial fall in the net sales of Government securities under the special arrangement from Rs. 3,699.6 crores in 1986-87 to Rs. 848.7 crores in 1987-88.

Gilt-edged Market

The gilt-edged market remained generally steady during the financial year 1987-88 (April-March). Among different groups of securities, the prices of Central Government securities increased marginally by 0.3 percentage point, while those of State Government securities decreased marginally by 0.2 percentage point. The Semi-Government securities declined by 1.1 percentage points during the same period. Within the Central Government securities, a few medium-dated and long-dated securities recorded sizeable declines, while short-dated securities registered marginal increases in prices over the year. There was no change in the coupon rates of Central Government securities over the 1986-87 level but there was some improvement in yields ranging between 0.01 and 8.2 per cent during 1987-88 as compared with that of 0.01 to 3.75 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 90.4 at end-March 1987, remained unchanged at that level upto May 9, 1987, but showed an upward trend subsequently. After reaching 90.7 on July 11, 1987, it remained unchanged at that level till August 8, 1987, but declined to 90.3 on August 15, 1987. However, barring some minor fluctuations, the index remained at 90.3 upto January 16, 1988. The index edged upto 90.7 on January 23, 1988, but declined marginally to 90.6 in the first week of February and to 90.5 in the second week of February and remained steady at that level upto end-March 1988, registering a marginal rise of 0.1 percentage point in 1987-88 as compared with a decline of 1.0 percentage point in 1986-87.

The price index of Central Government securities,which stood at 88.4 at end-March 1987, moved upto 88.9 by April 11, 1987. The index

declined to 88.4 in the following week and retained this level till May 2, 1987, but it improved to 88.5 in the second week of May 1987 and later moved in the range of 88.6 and 88.8 from May 23 to July 4, 1987. Thereafter, it remained steady at 88.8 upto August 8, 1987 but dropped to 88.4 in mid-August 1987 and remained unchanged at that level till January 16, 1988. It rose again to 88.9 on January 23, 1988, but fell to 88.8 in the first week of February and to 88.7 in the following week and remained at that level upto end-March 1988—a rise of 0.3 percentage point over the year against a decline of 1.3 percentage points during 1986-87.

The index number of State Government securities, which stood at 98.1 at end-March 1987, moved either way ranging between 98.1 and 98.2 upto May 16, 1987. It rose marginally to 98.3 on May 23 and continued at that level upto end-May 1987 but moved down to 98.2 on June 6, 1987; the easy trend persisted upto August 8, 1987 when the index touched 97.8. The index again recovered to 98.1 on August 29 and remained around that level upto October 10 but fell again to 97.3 on October 17. It edged up to 98.1 in the following week and remained unchanged till end-November 1987. It dropped to 98.0 on December 5, 1987 and further to 97.9 a week later but improved to 98.0 on December 19, 1987 and retained that level till mid-January 1988. Then it rose slightly to 98.1 in the following week and remained steady upto first week of February but receded again to 97.6 in the immediately following week and resumed the rising trend in the following weeks reaching 98.0 in the last week of February and remained unchanged at that level upto second week of March 1988. The index stood at 97.9 at end-March 1988, recording a fall of 0.2 percentage point over the year as compared with a decline of 0.1 percentage point in 1986-87.

The index of Semi-Government securities which stood at 98.7 at end-March 1987 moved to 99.4 at the start of financial year 1987-88 and remained steady at that level upto July 4, 1987. Thereafter, it declined to 99.3 on July 11, 1987 and continued to retain the same level upto end-November 1987. In the beginning of December 1987, the index eased further to 98.7 and to 97.6 in the second week of December 1987 at which level it remained unchanged upto end-March

Table IX-6: Reserve Bank's Open Market Operations

(Rupees crores)

Year	Purchases	Sales	Net Sales
1	2	3	4
1983-84	827.5	891.3	63.8
	(3,026.1)	(3,717.9)	(691.8)
1984-85	898.9	1,199.1	300.2
	(4,444.7)	(4,419.3)	(-25.4)
1985-86	882.4	2,613.3	1,730.9
	(5,345.7)	(7,276.7)	(1,931.0)
1986-87	1,686.8	4,425.7	2,738.9
	(6,225.8)	(9,925.4)	(3,699.6)
1987-88	3,141.2	4,317.7	1,176.5
	(9,989.7)	(10,838.4)	(848.7)
April-June			
1987-88	233.7	1,154.6	920.9
	(2,502.5)	(2,655.4)	(152.9)
1988-89	1,600.0	1,999.8	399.8
	(3,388.9)	(3,438.7)	(49.8)

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.

Table IX-7: Price and Yield Variations of Central Government Securities

Loans		Prices as on			Variation		Yield as on			Variation	
		31.3.87 (Rs.)	30.3.88 (Rs.)	29.6.88 (Rs.)	Col. 3 over Col. 2	Col. 4 over Col. 3	31.3.87 (per cent)	30.3.88 (per cent)	29.6.88 (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%	1988	97.95	—	—	—	—	7.10	—	—	—	—
6%	"	96.20	98.75	—	+2.55	—	8.53	8.01	—	−0.52	—
4¾%	1989	85.00	85.00	85.00	—	—	13.36	21.56	26.98	+8.20	+5.42
6%	"	90.10	94.75	94.75	+4.65	—	10.36	9.52	10.12	−0.84	+0.60
6¼%	"	94.75	97.90	97.90	+3.15	—	8.98	8.18	8.71	−0.80	+0.53
6¾%	"	97.50	97.50	97.50	—	—	7.86	8.52	8.84	+0.66	+0.32
7¾%	"	100.00$	100.00$	100.00$	—	—	7.75	7.75	7.75	—	—
5½%	1990	87.50	90.00	90.00	+2.50	—	10.07	10.58	11.19	+0.51	+0.61
6½%	"	99.10	99.10	99.10	—	—	6.80	6.92	6.98	+0.12	+0.06
9%	"	100.15	101.00	101.00	+0.85	—	8.95	8.56	8.52	−0.39	−0.04
5½%	1991	87.40	87.40	87.40	—	—	9.07	10.04	10.39	+0.97	+0.35
6¼%	"	97.40	97.40	97.40	—	—	6.92	7.06	7.14	+0.14	+0.08
6¾%	"	94.55	94.55	94.55	—	—	8.28	8.67	8.82	+0.39	+0.15
7¾%	"	100.05	100.05	100.05	—	—	7.73	7.73	7.72	—	−0.01
8%	"	97.00	97.00	97.00	—	—	8.93	9.22	9.32	+0.29	+0.10
10%	"	100.00$	100.00$	100.00$	—	—	10.00	10.00	10.00	—	—
5½%	1992	78.50	84.00	84.00	+5.50	—	10.84	10.13	10.39	−0.71	+0.26
7¼%	"	94.75	94.75	94.75	—	—	8.52	8.79	8.86	+0.27	+0.07
9¼%	"	100.00$	98.00	98.00	−2.00	—	9.25	9.82	9.85	+0.57	+0.03
5 to 10 Years											
6%	1993	74.00	76.10	76.10	+2.10	—	11.76	12.06	12.33	+0.30	+0.27
6¼%	"	88.40	88.40	88.40	—	—	8.69	9.07	9.20	+0.38	+0.13
10.20%	"	100.00$	100.00$	100.00$	—	—	10.20	10.20	10.20	—	—
10.20%	1993 II	100.00$	—	—	—	—	10.20	—	—	—	—
10.20%	1993 III	100.00$	100.00$	—	—	—	10.20	10.20	—	—	—
10.20%	1993 IV	100.00$	100.00$	—	—	—	10.20	10.20	—	—	—
6%	1994	91.50	91.50	91.50	—	—	7.54	7.74	7.80	+0.20	+0.06
6¾%	"	90.80	90.80	90.80	—	—	8.54	8.78	8.86	+0.24	+0.08
7%	"	89.00	89.00	89.00	—	—	9.04	9.28	9.35	+0.24	+0.07
8½%	"	92.55	92.55	92.55	—	—	9.93	10.11	10.17	+0.18	+0.06
5½%	1995	63.25	63.25	63.25	—	—	12.46	13.27	13.51	+0.81	+0.24
6¼%	"	93.50	93.50	93.50	—	—	7.32	7.44	7.47	+0.12	+0.03
6½%	"	87.10	87.10	87.10	—	—	8.74	8.98	9.05	+0.24	+0.07
8¼%	"	88.00	88.00	88.00	—	—	10.31	10.52	10.58	+0.21	+0.06

Table IX-7: Price and Yield Variations of Central Government Securities *(Contd.)*

Loans		Prices as on			Variation		Yield as on			Variation	
		31.3.87 (Rs.)	30.3.88 (Rs.)	29.6.88 (Rs.)	Col. 3 over Col. 2	Col. 4 over Col. 3	31.3.87 (per cent)	30.3.88 (per cent)	29.6.88 (per cent)	Col. 8 over Col. 7	Col. 9 over Col. 8
1		2	3	4	5	6	7	8	9	10	11
9½%	1995	100.00$	100.00$	100.00$	—	—	9.50	9.50	9.50	—	—
6¼%	1996	83.10	83.10	83.10	—	—	8.89	9.11	9.17	+0.22	+0.06
10½%	"	100.00$	100.00$	100.00$	—	—	10.50	10.50	10.50	—	—
10½%	1996 II	100.00$	—	—	—	—	10.50	—	—	—	—
6¼%	1997	81.75	81.75	81.75	—	—	8.94	9.14	9.19	+0.20	+0.05
6½%	"	84.30	84.30	84.30	—	—	8.86	9.04	9.09	+0.18	+0.05
7¼%	"	98.15	98.15	98.15	—	—	7.51	7.55	7.54	+0.04	−0.01
8½%	"	—	—	90.00	—	—	—	—	10.15	—	—
10½%	"	—	100.00$	100.00$	—	—	—	10.50	10.50	—	—
10½%	1997 II	—	100.00$	100.00$	—	—	—	10.50	10.50	—	—
10½%	1997 III	—	100.00$	—	—	—	—	10.50	—	—	—
10½%	1997 IV	—	100.00$	—	—	—	—	10.50	—	—	—
10 to 15 years											
6%	1998	72.90	72.90	72.90	—	—	9.78	10.06	10.14	+0.28	+0.08
6¼%	"	97.95	97.95	97.95	—	—	6.51	6.52	6.53	+0.01	+0.01
7%	"	85.05	85.05	76.00	—	−9.05	9.17	9.31	10.79	+0.14	+1.48
5½%	1999	62.50	62.50	62.50	—	—	10.69	11.04	11.15	+0.35	+0.11
5½%	1999*	69.00	63.25	63.25	−5.75	—	9.55	10.85	10.92	+1.30	+0.07
5½%	2000	60.55	60.55	60.55	—	—	10.72	11.04	11.14	+0.32	+0.10
6½%	2000	71.00	71.00	71.00	—	—	10.22	10.44	10.50	+0.22	+0.06
5¾%	2001	72.75	72.75	72.75	—	—	8.92	9.09	9.14	+0.17	+0.05
5¾%	2001@N.D.L.	71.75	71.75	71.75	—	—	8.98	9.15	9.19	+0.17	+0.04
6½%	2001	79.35	79.35	79.35	—	—	9.12	9.23	9.27	+0.11	+0.04
7½%	"	80.50	80.50	80.50	—	—	9.85	9.97	10.00	+0.12	+0.03
5¾%	2002	71.35	54.00	54.00	−17.35	—	8.94	11.76	11.84	+2.82	+0.08
6½%	"	69.75	69.75	69.75	—	—	10.01	10.17	10.21	+0.16	+0.04
7¾%	"	89.55	89.55	89.55	—	—	9.03	9.07	9.09	+0.04	+0.02
11%	"	—	101.75	101.75	—	—	—	10.84	10.77	—	−0.07
11%	2002 II	—	100.00$	—	—	—	—	11.00	—	—	—
11%	2002 III	—	100.00$	—	—	—	—	11.00	—	—	—
15 years and above											
5¾%	2003	55.50	55.50	55.50	—	—	11.04	11.28	11.35	+0.24	+0.07
6½%	"	68.75	68.75	68.75	—	—	10.03	10.18	10.22	+0.15	+0.04
6½%	2004	66.00	66.00	66.00	—	—	10.27	10.42	10.46	+0.15	+0.04
9½%	"	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		Prices as on			Variation		Yield as on			Variation	
		31.3.87 (Rs.)	30.3.88 (Rs.)	29.6.88 (Rs.)	Col. 3 over Col. 2	Col. 4 over Col. 3	31.3.87 (per cent)	30.3.88 (per cent)	29.6.88 (per cent)	Col. 8 over Col. 7	Col. 9 over Col. 8
1		2	3	4	5	6	7	8	9	10	11
11.30%	2004	100.00 $	100.00 $	100.00 $	—	—	11.30	11.30	11.30	—	—
6½%	2005	64.00	64.00	64.00	—	—	10.36	10.50	10.54	+0.14	+0.04
8¼%	"	91.05	91.05	91.05	—	—	9.15	9.18	9.19	+0.03	+0.01
10½%	"	100.00 $	95.00	90.00	−5.00	−5.00	10.50	11.08	11.69	+0.58	+0.61
6¾%	2006	65.00	65.00	65.00	—	—	10.46	10.58	10.61	+0.12	+0.03
11½%	"	100.40	102.50	102.00	+2.10	−0.50	11.45	11.21	11.21	−0.24	—
11½%	2006 II	100.00 $	—	—	—	—	11.50	—	—	—	—
11½%	2006 III	100.00 $	—	—	—	—	11.50	—	—	—	—
11½%	2006 IV	100.00 $	—	—	—	—	11.50	—	—	—	—
11½%	2006 V	100.00 $	—	—	—	—	11.50	—	—	—	—
6¾%	2007	64.00	64.00	64.00	—	—	10.40	10.52	10.55	+0.12	+0.03
11½%	"	—	100.00$	100.00$	—	—	—	11.50	11.50	—	—
11½%	2007 II	—	100.00$	100.00$	—	—	—	11.50	11.50	—	—
9½%	2008	97.50	80.00	80.00	−17.50	—	9.74	11.70	11.72	+1.96	+0.02
10.80%	"	94.75	94.75	94.75	—	—	11.35	11.36	11.37	+0.01	+0.01
10.80%	2008 III	100.00 $	—	—	—	—	10.80	—	—	—	—
7%	2009	68.00	68.00	68.00	—	—	10.09	10.17	10.20	+0.08	+0.03
7½%	2010	71.50	71.50	71.50	—	—	10.22	10.29	10.30	+0.07	+0.01
8¼%	"	89.00	89.00	89.00	—	—	9.77	9.78	9.79	+0.01	+0.01
8%	2011	80.85	80.85	80.85	—	—	9.74	9.79	9.80	+0.05	+0.01
10¼%	2012	96.00	96.00	96.00	—	—	10.62	10.64	10.64	+0.02	—
9%	2013	81.70	81.70	81.70	—	—	10.69	10.72	10.74	+0.03	+0.02
10%	2014	88.80	88.80	88.80	—	—	11.04	11.05	11.06	+0.01	+0.01
10½%	"	91.75	91.75	91.75	—	—	11.27	11.28	11.29	+0.01	+0.01
11½%	2015	100.60	98.90	98.90	−1.70	—	11.44	11.60	11.60	+0.16	—

N.D.L. @ = National Defence Loans

* = Bank (Acquisition & Transfer) Compensation Bonds.

$ = Issue Prices.

1988, recording a fall of 1.1 percentage points over the year 1987-88, as compared to that of 0.4 percentage point in 1986-87.

In Bombay, prices of most of the short-dated securities, barring seven, remained unchanged over the year. Six of them were quoted higher, whereas one scrip was quoted lower. The increase in the six scrips ranged between Re. 0.85 and Rs. 5.50, while the decline in one scrip was Rs. 2.00. There was improvement in the yield of ten short-dated securities ranging between 0.12 and 8.20 per cent, while five securities showed decline in the yield ranging from 0.39 per cent and 0.84 per cent. The prices of a few long-dated securities declined over the year in the range of Rs. 5.75 and Rs. 17.35 in the case of loans with a maturity of 10 to 15 years and between Rs. 1.70 and Rs. 17.50 in the case of loans maturing after 15 years. The improvement in yield in respect of medium-dated securities ranged between 0.01 to 2.82 per cent, while that of long-dated securities ranged between 0.01 to 1.96 per cent. However, one long-dated loan recorded a decline in yield of 0.24 per cent. While prices of some of the State Government securities remained steady, a few securities particularly of Maharashtra, Andhra Pradesh, Tamil Nadu, Madhya Pradesh, Uttar Pradesh and Karnataka showed a mixed trend. Some securities of these State Governments registered increases ranging between Re. 0.40 and Rs. 10.20, while certain other securities of these States showed declines ranging between Re. 0.75 and Rs. 8.50. The 6¾ per cent loan, 1992 of Punjab Government declined by Rs. 9.10 and 6¾ per cent loan, 1992 of Jammu and Kashmir Government declined by Rs. 8.50. Apart from this, a few securities of Assam, Haryana, Bihar, Kerala, Rajasthan, West Bengal and Gujarat showed only marginal price variations.

During the quarter ended June 1988, the all-India weekly price index (Base: 1980-81 = 100) for Government and Semi-Government securities moved in a narrow range of 90.5 and 90.6, recording a marginal rise of 0.1 per cent over the quarter. The index for Central Government securities followed a similar trend; the index moved between 88.7 and 88.8 registering a rise of 0.1 per cent only. The State Government securities moved in a wider range of 98.0 to 98.4 and recorded an increase of 0.5 percentage point over the quarter. The weekly index of Semi-Government securities remained steady at 97.6 throughout the quarter.

In Bombay, prices of short-dated Central Government securities remained steady during the quarter ended June 1988. Prices of most of the medium-dated securities recorded no change except in respect of one scrip, viz., 7 per cent loan, 1998 which declined by Rs. 9.05. In the case of long-dated securities, two scrips recorded variations,viz., 10½ per cent loan, 2005, declined by Rs. 5.00 and 11½ per cent loan, 2006, eased by Re. 0.50 during the quarter. The prices of State Government securities remained, by and large, steady during this period.

Term-lending Institutions

Financial assistance sanctioned by all-India and State level term-lending institutions (i.e., IDBI, IFCI, ICICI, IRBI, UTI, LIC, GIC and its subsidiaries, SFCs and SIDCs) during 1987-88 (April-March) increased by 17.3 per cent to Rs. 9,337.4 crores (Table IX-8) as compared with the rise of 20.6 per cent in the preceding year. Assistance disbursed by these institutions recorded an accelerated growth rate of 20.3 per cent to Rs. 6,773.3 crores as compared with that of 14.1 per cent during the preceding year.

Institution-wise, IDBI provided the largest share of assistance. It accounted for 35.9 per cent of sanctions and 39.5 per cent of disbursements by all-term lending institutions.

Industrial Development Bank of India

Aggregate financial assistance sanctioned (excluding guarantees but including subscriptions to shares and bonds of financial institutions) by Industrial Development Bank of India (IDBI) rose by 11.6 per cent to Rs. 4,857.8 crores in 1987-88 (April-March) as compared with that of Rs. 4,351.8 crores in 1986-87 (Table IX-9). Disbursements during the year at Rs. 3,606.4 crores were also higher by 17.1 per cent than those of Rs. 3,078.9 crores in 1986-87. The growth rates in sanctions and disbursements in 1986-87 were 18.5 per cent and 17.8 per cent, respectively. The cumulative assistance sanctioned and disbursed as at the end of March 1988 aggregated Rs. 27,055.1 crores and Rs. 20,057.0 crores respectively.

Direct assistance sanctioned by way of project

Table IX–8: Institution-wise Financial Assistance

(Year: April-March) (Rupees crores)

Institutions	1986-87		1987-88*		Percentage change in 1987-88 over 1986-87	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7
IDBI ≠	3,097.9	2,232.6	3,351.4	2,672.8	+8.2	+19.7
	(38.9)	(39.7)	(35.9)	(39.5)		
IFCI ≠	798.1	459.3	1,046.0	646.2	+31.1	+40.7
	(10.0)	(8.2)	(11.2)	(9.5)		
ICICI ≠	1,117.4	695.5	1,283.3	771.2	+14.8	+10.9
	(14.0)	(12.4)	(13.7)	(11.4)		
IRBI	148.9	94.6	186.5	101.9	+25.3	+7.7
	(1.9)	(1.7)	(2.0)	(1.5)		
UTI	465.0	417.6	1,024.8	749.1	+120.4	+79.4
	(5.9)	(7.4)	(11.0)	(11.0)		
LIC	363.8	389.8	362.7	342.3	−0.3	−12.2
	(4.6)	(6.9)	(3.9)	(5.1)		
GIC and its subsidiaries	153.3	131.6	98.3	103.5	−35.9	−21.4
	(1.9)	(2.3)	(1.0)	(1.5)		
SFCs	1,243.6	783.6	1,342.8	928.2	+8.0	+18.5
	(15.6)	(13.9)	(14.4)	(13.7)		
SIDCs ≠	571.3	423.6	641.6	458.1	+12.3	+8.1
	(7.2)	(7.5)	(6.9)	(6.8)		
Total	**7,959.3**	**5,628.2**	**9,337.4**	**6,773.3**	**+17.3**	**+20.3**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**		

≠ Including guarantees * Provisional

Notes: 1. The data include: a) Suppliers' credit, equipment leasing and venture capital 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.

2. 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) resource support to other institutions and short-term loans by LIC.

3. Figures in brackets indicate percentage shares of each institution in total.

Source : Respective financial institution.

loans, underwriting and direct subscriptions to shares and debentures of industrial units, and loans under technical development fund scheme in 1987-88 aggregated Rs. 1,609.5 crores which was 4.4 per cent higher than that of Rs. 1,541.6 crores during the preceding year. Disbursement of direct assistance at Rs. 1,289.9 crores during the year was also higher by 43.8 per cent than that of Rs. 896.9 crores in 1986-87. Sanctions of project loans rose to Rs. 1,467.7 crores in 1987-88 from Rs. 1,373.0 crores in 1986-87. However, sanctions for underwriting and direct subscriptions together were lower at Rs. 115.9 crores in 1987-88 as compared with Rs. 132.3 crores in the preceding year.

Sanctions and disbursements of indirect assistance by way of refinance of industrial loans and rediscounting of bills during the year aggregated Rs. 3,047.5 crores and Rs. 2,152.2 crores, respectively recording a rise of 17.0 per cent and 7.3 per cent, respectively over the year under review. Refinance assistance rose markedly by 24.9 per cent and constituted 61.2 per cent of indirect assistance. For the first time, IDBI extended leasing finance and a sum of Rs. 14 crores was sanctioned during the year. Assistance to backward areas by IDBI at Rs. 1,915.9 crores constituted 39.3 per cent of total assistance sanctioned during the year. The small sector was sanctioned Rs. 1,510.6 crores during 1987-88 which

Table IX–9: Scheme-wise Assistance Sanctioned and Disbursed by IDBI

(Year: April-March) (Rupees crores)

Scheme	Sanctions			Disbursements		
	1986-87	1987-88	Cumulative sanctions upto end March 1988	1986-87	1987-88	Cumulative disbursements upto end March 1988
1	2	3	4	5	6	7
I. Direct Assistance	**1,541.6**	**1,609.5**	**9,150.2**	**896.9**	**1,289.9**	**6,209.7**
1. Project Finance						
a) Project loans	1,373.0	1,467.7	8,183.7	839.7	1,230.7	5,843.7
b) Underwriting and direct subscription	132.3	115.9	783.3	30.2	34.5	218.5
2. Technical Development Fund	36.3	25.9	183.2	27.0	24.7	147.5
II. Indirect Assistance	**2,810.2**	**3,248.3**	**17,904.9**	**2,182.0**	**2,316.5**	**13,847.3**
3. Refinance of industrial loans	1,591.8	1,988.7	10,562.5	1,246.3	1,357.8	8,160.7
4. Rediscounting of bills	1,014.2	1,058.8	6,272.9	758.7	794.4	4,734.4
5. Subscription to shares and bonds of financial institutions	191.3	176.3	976.5	162.9	152.8	891.3
6. Seed capital assistance	12.9	10.5	79.0	14.1	11.5	60.9
7. Leasing Finance	—	14.0	14.0	—	—	—
Sub-Total (I + II)	**4,351.8**	**4,857.8**	**27,055.1**	**3,078.9**	**3,606.4**	**20,057.0**
III. 1. Guarantees for loans/ deferred payments	22.7	21.1	381.5	102.0*	—	275.3*
2. Guarantees in respect of foreign currency loans	—	—	24.0	—	—	24.0*
Grand Total	**4,374.5**	**4,878.9**	**27,460.6**	**3,180.9**	**3,606.4**	**20,356.3**

Note : Data are provisional. * Guarantees executed.

Source: Industrial Development Bank of India.

was higher by 21.9 per cent as compared with that of Rs. 1,239.5 crores during the previous year.

The salient policy changes and new initiatives of IDBI during 1987-88 included introduction of new schemes covering assistance for setting up of hospitals/nursing homes, introduction of New Debt Instrument, Technology Upgradation Scheme, National Equity Fund Scheme and establishment of Voluntary Executive Corps Cell for the benefit of the small sector.

In order to provide assistance for establishment, expansion and upgradation of hospitals/ nursing homes, IDBI introduced Project Finance and Refinance Schemes of assistance.

With a view to supplementing the resources of State Financial Corporations/State Industrial Development Corporations and to facilitate adherence to the norms stipulated for refinance availment, IDBI has started providing them with special assistance by way of New Debt Instrument (NDI). NDI assistance is in the form of a special loan repayable in four equal annual instalments after initial moratorium of four years.

A new scheme was introduced by IDBI during the year for technological upgradation of industrial units engaged in manufacture of electrical machinery, power generation equipment, ferrous castings and steel forgings, machine tools and selected industrial machinery. For the

purpose of the scheme, technology upgradation refers to induction of commercially proven advanced technology leading to significant improvements in quality, productivity, cost reduction, saving of energy, saving of scarce materials and introduction of new products, designs and manufacturing methods. Expenditure on induction of new technology, systems engineering as well as R & D efforts are also eligible for finance under the scheme besides capacity expansion incidental to upgradation.

A Voluntary Executive Corps Cell (VECC) was also set up by IDBI during the year to utilise services of experienced professionals for counselling small units and providing consultancy support in specific areas. The services of the Cell would be available to tiny and cottage units in clusters and generally to small-scale units with investments above Rs. 5 lakhs.

During the year, IDBI also launched the National Equity Fund Scheme for providing support in the nature of equity to tiny and small scale industrial units engaged in manufacturing activity having project cost not exceeding Rs. 5 lakhs. The scheme is administered by IDBI through nationalised banks.

Besides liberalising existing schemes, IDBI also effected procedural simplifications during the year. For instance, IDBI, alongwith IFCI and ICICI, extended the single window concept to cover foreign currency loans.

With a view to meeting foreign currency requirements of assisted units during the year under review, IDBI *raised* several lines of credit which included export credit of US $ 50 million from Yugoslav Bank for International Economic Co-operation, US $ 30 million equivalent line of credit from Nordic countries, Yen 10 billion line of credit from Export Import Bank of Japan and $ 100 million line of credit from Asian Development Bank. Besides, it secured Yen 10 billion loan from a syndicate of Japanese banks and insurance companies and entered the German bond market with public issue of DM 200 million.

Some of the new schemes launched and policy initiatives introduced by IDBI after March 1988 are indicated below. To encourage energy conservation in industry, IDBI launched new schemes of financial assistance to eligible industrial units (which have been in operation for a minimum period of five years) called Energy Audit Subsidy (EAS) Scheme and Equipment Finance for Energy Conservation (EFEC) Scheme. Under EAS, IDBI subsidises the cost of preparation of preliminary audits by approved energy consultants to the extent of 50 per cent of cost. Assistance under EFEC Scheme would be by way of term loans for acquisition of equipments. The novel features of the EFEC Scheme is that interest on loans granted for installation of energy conservation equipment would enjoy a rebate linked to the extent of energy saving actually achieved, in relation to standard of datum level for industry, subject to floor level of interest at 10 per cent per annum. A scheme for discounting of bills/promissory notes, arising out of sale of indigenous machinery/equipment on deferred payment basis was also introduced. The scheme will operate concurrently with existing Bills Rediscounting Scheme. To start with, the facility under the new scheme will be extended on a selective basis to machinery manufacturers who have been in production for atleast 5 years and have a sound financial position. Minimum down payment required under scheme is 10 per cent as against 15 per cent under bills rediscounting. IDBI also introduced the single window scheme for grant of term loan and working capital assistance to new tiny and small scale units whose working capital requirements are upto Rs. 2.5 lakhs and whose project cost does not exceed Rs. 5 lakhs.

Industrial Finance Corporation of India

The Industrial Finance Corporation of India (IFCI) sanctioned and disbursed financial assistance of Rs. 1,046.0 crores and Rs. 646.2 crores respectively during 1987-88 (April-March) (Table IX-10). The sanctions rose by 31.1 per cent and disbursements by 40.7 per cent over those of the previous year when the respective growth rates were 59.9 per cent and 13.6 per cent. The assistance during the year covered 733 projects as against 485 in the previous year.

While sanctions of rupee loans rose by 63.4 per cent to Rs. 823.5 crores, foreign currency loans sanctioned declined by 36.4 per cent to Rs. 140.8 crores during the year under review. Disbursements of rupee loans at Rs. 505.4 crores and of foreign currency loans at Rs. 119.3 crores rose by

Table IX—10: Financial Assistance Sanctioned and Disbursed by IFCI

(Year: April-March) (Rupees crores)

Type of Assistance	1986-87		1987-88		Cumulative Assistance as at the end of March, 1988	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7
1. Rupee loans	504.0	346.3	823.5	505.4	3,443.3	2,634.7
2. Foreign currency loans	221.4	94.4	140.8	119.3	820.0	540.6
3. Underwriting and direct subscriptions (i+ii)	53.3	10.9	67.1	20.3	337.2	98.7
i) Ordinary and Preference shares	51.2	8.2	66.4	18.9	308.0	81.7
ii) Debentures	2.1	2.7	0.7	1.4	29.2	17.0
4. Guarantees	19.4	7.7	14.6	1.2	125.9	66.8
Total (1 to 4)	**798.1**	**459.3**	**1,046.0**	**646.2**	**4,726.4**	**3,340.8**

Source: Industrial Finance Corporation of India.

45.9 per cent and 26.4 per cent respectively during the year.

Out of total sanctions of direct loans (including both rupee and foreign currency) of Rs. 1,031.7 crores during 1987-88, newly established companies accounted for Rs. 481.7 crores and existing companies for Rs. 550.0 crores. The direct loans sanctioned to existing companies included Rs. 129.3 crores for new projects and Rs. 420.7 crores for expansion of existing capacity/modernisation etc. Sanctions for underwriting of and direct subscriptions rose to Rs. 67.1 crores in 1987-88 from Rs. 53.3 crores in 1986-87 and disbursements thereof nearly doubled to Rs. 20.3 crores from Rs. 10.9 crores. Guarantees sanctioned and issued by IFCI during the year aggregated Rs. 14.6 crores and Rs. 1.2 crores, respectively.

About 219 new projects received sanctions amounting to Rs. 504.0 crores from IFCI during the year under review. Assistance was also sanctioned to 370 projects in backward districts which amounted to Rs. 508.3 crores—about 48.6 per cent of total sanctioned assistance. Financial assistance amounting to Rs. 197.1 crores was approved to 205 projects for modernisation purpose during 1987-88. This included Rs. 70.7 crores for 67 projects under Soft Loan Scheme for modernisation, Rs. 55.7 crores for 72 projects under Textile Modernisation Fund Scheme and Rs. 11.3 crores for 6 projects under Jute Modernisation Fund Scheme. The rest of the assistance under the scheme was mainly in the form of foreign currency loans for import of equipment etc., for modernisation purpose. As on March 31, 1988 cumulative assistance of Rs. 447.3 crores was approved by IFCI under the Soft Loan Scheme for modernisation of 589 projects.

During the year, IFCI introduced two new schemes of financial assistance viz., (i) Financial Assistance to Leasing and Hire-purchase Concerns and (ii) Suppliers' Credit Scheme. IFCI launched on November 1, 1987 a new scheme for leasing and hire purchase concerns in corporated and co-operative sectors. The assistance under the scheme is available only to the existing industrial concerns which have been in leasing and or hire purchase business for at least three complete accounting years and have a satisfactory track record of performance and sound financial position. The eligible concern should be engaged in leasing, sub-leasing or giving on hire or hire-purchase, industrial plants, equipments, machinery or other fixed tangible assets including vehicles, ships and aircrafts. The financial assistance may be extended by way of line of credit or loans simplicitor or discounting of notes drawn against lease rentals. The financial assistance under the scheme is available at 15 per cent annum interest payable monthly. IFCI launched Suppliers' Credit Scheme on

August 27, 1987 in terms of which a non-revolving line of credit can be provided to machinery, equipment and computer manufacturing concerns for sale of machinery equipment on deferred payment basis to actual user-purchaser concerns. The basic objective of the scheme is to provide facility to the manufacturing concerns to sell their equipment and the needy industrial concerns to acquire the same for their actual use on deferred payment basis. Both Equipment-seller-units and Equipment-purchaser-units must be eligible industrial units within the meaning of the IFCI Act, 1948 carrying on their operations in India and must have a satisfactory performance record and credit rating. The rate of interest under this scheme is variable from time to time. The current rate of interest on the deferred payment credit is 15 per cent per annum upto five year facility and 15.5 per cent per annum upto seven year facility.

Merchant Banking Division of IFCI improved its activities and successfully managed 22 public issues during the year mobilising Rs. 271.1 crores for its clients during the year.

With a view to providing encouragement to entrepreneurs, Risk Capital Foundation (RCF) sponsored by IFCI was converted into Risk Capital and Technology Finance Corporation Ltd. (RCTC) on January 12, 1988. In its new role, RCTC, apart from providing assistance in the form of risk capital, will also provide technology finance, the accent of which is on funding specifically, the following activities: (a) Provision of substantial innovative technologies, products, processes, quality, market services, technological upgradation, energy conservation, and to bring to the commercial stage the devices of control of environmental pollution developed through in-house Research and Development (R & D) and recognised research laboratories and Universities. This would include setting up pilot plants, demonstration scale plants and studies, R & D activities, training proto-type manufacturing and evaluation of market acceptability etc., as also supporting infrastructure for advanced or complex technology. (b) Meeting the expenditure of national and international consultants/institutions for substantial products/process/technology improvement and innovation. (c) Sponsored commercial R & D programmes.

The authorised share capital of RCTC is Rs. 25 crores. It is proposed to raise the paid-up capital of Rs. 5 crores within the next three years. In addition to its paid-up capital, RCTC continues to be supported through the grants and loans of IFCI out of the Interest Differential Funds (the Interest Differential Funds are made available to IFCI under the relative loan agreements entered with Kreditanstalt-fur-Wiederaufbau, West Germany in respect of loans granted to IFCI by it). During 1987-88 (April-March), RCF/RCTC sanctioned assistance amounting to Rs. 4.3 crores to 40 promoters of 30 projects against the assistance of Rs. 3.0 crores sanctioned to 36 promoters of 20 projects during the previous year.

The Industrial Credit and Investment Corporation of India Ltd.

The financial assistance sanctioned by the Industrial Credit and Investment Corporation of India Ltd. (ICICI) rose by 14.8 per cent to Rs. 1,283.3 crores and disbursements by 10.9 per cent to Rs. 771.2 crores (Table IX-11) during 1987-88 (April-March).

Sanctions of rupee loans rose significantly by 64 per cent to Rs. 700.1 crores and their disbursements by 23.1 per cent to Rs. 408.6 crores in 1987-88. However, both sanctions and disbursements of foreign currency loans declined by 44 per cent to Rs. 195.6 crores and 4.8 per cent to Rs. 195.4 crores, respectively, during the year. While sanctions by way of underwriting and direct subscriptions to capital issues declined to Rs. 72.9 crores from Rs. 78.4 crores in 1986-87, related disbursements increased to Rs. 28.8 crores from Rs. 24.5 crores during the preceding year. Sanctions by way of Suppliers' Credit rose to Rs. 163.4 crores from Rs. 146.6 crores while disbursements under the same declined to Rs. 69.8 crores from Rs. 85.8 crores. Sanctions and disbursements in respect of leasing rose to Rs. 121.3 crores and Rs. 64.0 crores, respectively, during 1987-88 as compared with Rs. 91.8 crores and Rs. 47.2 crores respectively during 1986-87. Sanctions and disbursements under Venture Capital Scheme amounted to Rs. 3.9 crores and Rs. 3.0 crores, respectively, during 1987-88.

Assistance sanctioned to projects in backward areas declined marginally to Rs. 475.7 crores in 1987-88 from Rs. 480.4 crores in 1986-87, whereas disbursements made for such projects rose to Rs. 350.0 crores from Rs. 273.5 crores. Sanctions to backward areas accounted for 47.8 per cent of

Table IX–11: Financial Assistance Sanctioned and Disbursed by ICICI

(Year: April-March) (Rupees crores)

Type of Assistance	1986-87		1987-88		Cumulative Assistance as at the end of March, 1988	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7
1. Rupee loans	427.0	332.0	700.1	408.6	2,742.2	2,048.2
2. Foreign currency loans	349.1	205.3	195.6	195.4	2,753.7	2,375.3
3. Underwriting and direct subscriptions (a+b)	78.4	24.5	72.9	28.8	474.0	203.3
(a) Ordinary and Preference shares	50.9	9.5	67.5	22.7	362.2	124.1
(b) Debentures	27.5	15.0	5.4	6.1	111.8	79.2
Total (1+2+3)	**854.5**	**561.8**	**968.6**	**632.8**	**5,969.9**	**4,626.8**
4. Guarantees	24.5	0.7	26.1	1.6	184.7	3.6
5. Suppliers' credit	146.6	85.8	163.4	69.8	631.3	356.4
6. Leasing	91.8	47.2	121.3	64.0	303.1	147.7
7. Venture capital	—	—	3.9	3.0	4.8	3.0
Total (1 to 7)	**1,117.4**	**695.5**	**1,283.3**	**771.2**	**7,093.8**	**5,137.5**

Source: Industrial Credit and Investment Corporation of India Ltd.

total project finance sanctioned in 1987-88; this proportion was lower than that of 54.7 per cent in the previous year.

Direct loans sanctioned to newly established companies rose marginally to Rs. 298.3 crores in 1987-88 from Rs. 293.1 crores and accounted for 33.3 per cent of total direct loans amounting to Rs. 895.7 crores. While sanctions of direct loans for new projects rose substantially to Rs. 87.8 crores in 1987-88 from Rs. 14.9 crores in 1986-87, sanctions for expansion of existing capacity, modernisation etc., rose to Rs. 509.6 crores from Rs. 468.1 crores.

ICICI in association with the Unit Trust of India has promoted a company called Credit Rating Information Services of India Limited (CRISIL) to provide credit rating services to the corporate sector.

In order to broad-base technology development oriented activities, ICICI has promoted a new company called Technology Development and Information Company of India Ltd. (TDICI). The major functions of this company would be related to financing of transfer and upgradation of technology and providing technology information. Technology financing will include financing of commercial research and development (R & D) schemes through grants and conditional loans, venture capital financing and technology upgradation financing. Technology Information Service is proposed to be provided by establishing an extensive knowledge network.

ICICI has been entrusted with the administration and management of Program for the Advancement of Commercial Technology (PACT) under which a grant of US $ 10 million has been provided by USAID. The primary emphasis of PACT is on market-oriented R & D activity from which India and USA would derive economic benefit. Under this, each of the assisted projects is jointly undertaken by an Indian and a US company which will provide an opportunity for Indian companies to acquire US techniques for management of market-oriented R & D activities.

ICICI launched an innovative project to encourage consortium and contract research in the field of energy called Program for Acceleration of Commercial Energy Research (PACER) funded by the USAID with grant of US $ 20 million. PACER is designed to support selected

research and technology development proposals in Indian energy sector and to create an institutional environment for relevant technology innovation. Assistance under PACER will be mainly in the form of conditional grants.

Unit Trust of India

The gross sales of units of Unit Trust of India (UTI) under the various schemes operated by it crossed Rs. 2,000 crore mark during 1987-88 (July-June) and aggregated Rs. 2,015.0 crores as against that of Rs. 1,261.1 crores in the last year; thus recording a rise of 60 per cent in 1987-88 over gross sales in 1986-87 (Table IX-12). The number of unit-holding accounts rose further to 38.20 lakhs from 29 lakhs in the previous year, while the Trust's total investible funds recorded a rise of 46.4 per cent to Rs. 6,680.5 crores during the year under review from Rs. 4,563.7 crores in last year. The factors accounting for such a noteworthy growth in sales are amongst others, stepping up of dividend rates for certain schemes, launching of Parents' Gift and Growth Fund Unit Scheme, reintroduction of 2 series each of Monthly Income Unit Scheme (MIS) and Growing Income Unit Scheme (GIUS) and appointment of agents on a large scale across the country and improvement in services provided to unit-holders as also special drives to motivate investors to buy units.

Sales of units under the Trust's main scheme, viz., Unit Scheme 1964 moved up significantly to Rs. 847.0 crores in 1987-88 from Rs. 149.5 crores in 1986-87 and unit capital under this scheme also rose sharply to Rs. 2,210.9 crores as at the end of June 1988 from Rs. 1,406.6 crores as at the end of June 1987. Sales under Unit Linked Insurance Plan also rose to Rs. 88.5 crores in 1987-88 from Rs. 54.8 crores in the previous year. However, sales under Capital Gains Unit Scheme (CGS)-1983 declined to Rs. 235.1 crores during 1987-88 from Rs. 318.8 crores in the last year.

During 1987-88, the Trust introduced five more schemes of which one was open-ended and four were close-ended. Parents' Gift and Growth Fund Unit Scheme 1987 an open ended scheme, was launched on December 15, 1987. The scheme is primarily aimed at providing an opportunity for the younger generation to create a fund for the benefit of their parents and elders. Moreover, this scheme is also open to companies, bodies corporate and eligible trusts who can invest for the benefit of their employees. The scheme operates in two stages. Under the first stage, the amount invested in units grows at a compound rate by reinvestment of dividend on half yearly basis at 12.5 per cent per annum and cumulated for a period of 4 or 5 years as opted by applicant. Under Stage two, the amount thus accumulated will be reinvested together with any appreciation for a period of 5 years in the nearest Monthly Income Unit Scheme which offers an income distribution at 12 per cent per annum by post-dated dividend warrants encashable on monthly basis. This scheme is likely to be extended to Non-resident Indians. The sales of units under the scheme during the period of five and half months in 1987-88 aggregated Rs. 8.75 crores.

The Growing Income Unit Scheme (II) 1987, a close-ended scheme, is a conversion scheme for unitholders under Income Unit Scheme 1982 (IUS-82) to convert their holdings into Growing Income Unit Scheme (II) 1987. The unitholders opting for Growing Income Unit Scheme (II) 1987 were paid a capital appreciation of about 4 per cent in addition to dividend ranging between 12.5 per cent and 14 per cent per annum, either payable on half yearly basis or reinvested at half yearly intervals, thus offering opportunity to the unit holders to double their holdings in the period of five and a half years.

The Growing Income Unit Scheme (III) 1987, the second close-ended scheme, was on tap during September and October 1987. The scheme assures doubling of investment in 5 years and 9 months under the cumulative scheme with the rate of dividend payable under the scheme ranging between 12 per cent and 13.5 per cent. The sales of the units under this scheme amounted to Rs. 160.6 crores. The Monthly Income Unit Scheme with Extra Bonus Plus Growth (9) 1987 was launched on November 1, 1987 and the Scheme was on tap for two months. A dividend of 12 per cent per annum payable at monthly rests and 2 per cent minimum growth on maturity was offered under the scheme. Also, issue of bonus dividend in the fourth year was envisaged. Units under the scheme were issued at the face value of Rs. 100 per unit. The sales mobilised under this scheme aggregated Rs. 249.5 crores. The Monthly Income

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 (per cent)
	1986-87	1987-88*	1986-87	1987-88*	1987	1988*	1987-88
1. Unit Scheme 1964	149.5	847.0	27.7	42.8	1,406.6	2,210.9	16.50
2. Unit Scheme 1971 (ULIP)	54.8≠	88.5≠	8.5	18.9	190.7	260.3	13.50
3. CRTS 1981	9.1	22.0	1.7	1.5	49.4	69.9	14.75
4. Income Unit Scheme 1982	—	—	0.6	65.3*ff*	65.3	§§	—
5. Monthly Income Unit Schemes (1,2,3,4 &5)£	—	—	7.0(c)+	3.9(e)	43.0	39.1	12.00
6. Growth and Income Unit Scheme 1983	—	—	0.4	0.1	12.7	12.6	10.00
7. Capital Gains Unit Scheme 1983	318.8	235.1	74.2	198.5	821.9	858.5	9.60
8. Income Unit Scheme 1985	3.1#	3.6#	0.1+	1.3	60.6	62.9	13.00
9. Monthly Income Unit Scheme with Growth (6)-1986	—	∞$$	0.7+	0.4+	74.9	74.4	12.00
10. Growing Income Unit Scheme (1 & 2)**	114.8(d)	19.0#	0.2+	0.5+	220.4	238.9	12.50
11. Children's Gift Growth Fund Unit Scheme 1986	38.6@	64.9	∞	—	57.3	122.2	12.50
12. India Fund Unit Scheme 1986	139.5	—	—	—	139.5	139.5	5.25
13. Mutual Fund Unit Scheme 1986	150.4	—	—	—	150.4	150.4	13.00
14. Monthly Income Unit Scheme with Extra Growth(7) 1986	77.6	—	0.2+	0.5+	77.5	77.0	12.00
15. Monthly Income Unit Scheme with Extra Bonus & Growth(8) 1987	204.9(c)	3.5$$	—	1.0+	355.9(b)	358.4	12.00
16. Growing Income Unit Scheme II—1987	—	45.2	—	—	—	45.2	12.50
17. Growing Income Unit Scheme III—1987	—	160.6	—	—	—	160.6	12.00
18. Monthly Income Unit Scheme with Extra Bonus Plus Growth(9) 1987	—	249.5	—	∞+	—	249.5	12.00
19. Parents' Gift and Growth Fund Unit Scheme 1987	—	8.8	—	—	—	8.8	12.50
20. Monthly Income Unit Scheme with Extra Bonus Plus Growth(10) 1988	—	267.3	—	—	—	267.3	12.00
Total	**1,261.1@@**	**2,015.0**	**121.3(c)@@**	**334.7**	**3,726.1@@**	**5,406.4**	

* Provisional

≠ Includes sales from reinvestment of dividend, initial contribution from new entrants and renewal contribution from exisiting members.

\# Sales on account of dividend reinvestment.

@ Includes Rs.24.34 lakhs pertaining to the year 1985-86 effected as sales on clearance of objections during 1986-87 and re-investment of dividend amounting to Rs.31.15 lakhs.

(d) Includes sales on clearance of objections (Rs.3.09 lakhs) and reinvestment of dividend under cumulative scheme (Rs.950.27 lakhs).

(c) Excludes conversion to MISG(8) from MIS(1) to MIS(5).

\+ Premature withdrawals.

∞ Negligible.

@@ Scheme-wise break-up of figures may not add upto the aggregate due to rounding off of certain figures.

(b) Includes conversion to the tune of Rs.151.0 crores from MIS(1–5) to MISG(8) 87.

$$ Sales on clearance of objections.

§§ Scheme terminated w.e.f. July 1, 1987.

ff Includes conversions to GIUS-II—87.

£ Monthly Income Unit Schemes 1 and 2 relate to 1983, 3 to 1984 and 4 and 5 to 1985.

** Growing Income Unit Scheme I relates to 1986 and II to 1987.

(e) Includes 0.34 crores of premature withdrawals.

Source: Unit Trust of India.

Unit Scheme with Extra Bonus Plus Growth (10)—1988 (MISG (10) 1988) was launched on April 1, 1988 and was on tap till May 31, 1988. The rate of dividend offered was 12 per cent per annum with a bonus dividend in the 4th year. A minimum capital appreciation of 2 per cent at the end of the fifth year was offered to the investors. With a view to enabling investors to obtain a loan from a bank, the facility of noting a lien was extended under this scheme. The offer of conversion of unit-holdings into MISG(10) 1988 was extended to MIS(1)-1983 and GIS-1983 unit holders.

Repurchases under the various schemes amounted to Rs. 334.7 crores during the year under review as compared with Rs. 121.3 crores in the previous year. At the end of June 1988, Unit Capital under all the schemes aggregated Rs. 5,406.4 crores as compared with that of Rs. 3,726.1 crores a year ago.

Dividend rates for all the on-going schemes were stepped up in 1987-88. The dividend for the main Unit Scheme 1964 was raised from 16.0 per cent to 16.50 per cent and for Unit Scheme 1971 (ULIP) from 13.25 per cent to 13.50 per cent. For CRTS 1981, the dividend rate was increased from 14.50 per cent to 14.75 per cent and for Capital Gains Unit Scheme, 1983 marginally from 9.50 per cent to 9.60 per cent. The rate of dividend for Mastershares was raised from 8 per cent (pro-rata) declared in 1986-87 to 13 per cent in 1987-88.

Financial assistance sanctioned and disbursed by the Trust through (a) subscriptions to privately placed debentures and special deposits/loans and (b) underwriting and direct subscription to shares and debentures showed large rise to Rs. 1,024.8 crores and Rs. 749.1 crores respectively in 1987-88 (April-March) from Rs. 465.0 crores and Rs. 417.6 crores respectively in 1986-87 (Table IX-13).

Table IX—13: Financial Assistance Sanctioned and Disbursed by Unit Trust of India

(Year: April-March) (Rupees crores)

Type of Assistance	1986-87		1987-88		Cumulative Assistance as at the end of March, 1988	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7
1. Subscriptions to privately placed debentures/special deposits/loans	142.9	110.7	584.5	420.2	1,378.1	934.3
2. Underwriting and direct subscriptions (a + b)	322.1	306.9	440.3	328.9	1,851.7	1,509.1
(a) Ordinary and Preference shares	44.6	23.3	77.8	56.9	209.8	131.0
(b) Debentures/Bonds	277.5	283.6	362.5	272.0	1,641.9	1,378.1
Total	**465.0**	**417.6**	**1,024.8**	**749.1**	**3,229.8**	**2,443.4**

Source: Unit Trust of India.

As a result of improved sales performance and growth in income, the total investible funds of UTI rose to Rs. 6,680.5 crores as on June 30, 1988 (Table IX-14). Of the total investible funds as on June 30, 1988 a sum of Rs. 4,828.6 crores (72.3 per cent) was invested in the corporate sector, which included investments of Rs. 1,111.6 crores (16.6 per cent) in equity shares, Rs. 12.8 crores (0.2 per cent) in preference shares, Rs. 2,590.4 crores (38.8 per cent) in debentures, Rs. 349.5 crores (5.2 per cent) in term loans, Rs. 73.4 crores (1.1 per cent) in advance deposits against investment commitments, Rs. 350.9 crores (5.2 per cent) in special deposits and Rs. 164.3 crores (2.5 per cent) in unsecured short-term deposits. The rest of the amount was deployed in bridge finance, application money and advance call deposits and other investments with banks and government securities.

Table IX-14: Investments by Unit Trust of India

(Rupees crores)

Type of Investment	As on June 30, 1987	As on June 30, 1988
A. Total investment in Corporate Sector (1 to 10)	3,067.2	4,828.6
	(67.2)	(72.3)
Of which:		
1. Equity shares	620.8	1,111.6
	(13.6)	(16.6)
2. Preference shares	10.2	12.8
	(0.2)	(0.2)
3. Debentures	1,804.9	2,590.4
	(39.6)	(38.8)
4. Advance deposit against investment commitments	94.6	73.4
	(2.1)	(1.1)
5. Unsecured short-term deposits	236.7	164.3
	(5.2)	(2.5)
6. Bridge finance	8.6	25.0
	(0.2)	(0.4)
7. Application money	5.1	150.6
	(0.1)	(2.3)
8. Advance call	0.1	0.1
	(**)	(**)
9. Term loan	42.0	349.5
	(0.9)	(5.2)
10. Special deposits	244.2	350.9
	(5.3)	(5.2)
B. Other investments (11 and 12)	1,496.5	1,851.9
	(32.8)	(27.7)
Of which:		
11. Deposits and other investments with banks	1,166.4	1,315.0
	(25.6)	(19.7)
12. Government securities	330.1	536.9
	(7.2)	(8.0)
C. Total investible funds (A + B)	**4,563.7**	**6,680.5**
	(100.0)	**(100.0)**

** Negligible.

Note : Figures in brackets indicate percentage to total.

Source: Unit Trust of India.

The Trust gave further thrust to the marketing efforts during the year by creating awareness about units, increasing visibility and intensifying sale of units in semi-urban and rural areas. During this period, as many as 11,022 agents were appointed throughout the country and 47 more Chief Representatives (CRs) were appointed which raised the number of functioning CRs to 216 in 268 districts as against 176 CRs in 229 districts last year.

The system of appointment of women agents, initiated last year, got further impetus with appointment of as many as 4,159 new women agents during 1987-88, thus raising their cumulative total to 4,474 as at the end of June, 1988.

Life Insurance Corporation of India

Financial assistance* sanctioned and disbursed by Life Insurance Corporation of India (LIC) during 1987-88 (April-March) aggregated Rs. 362.7 crores and Rs. 342.3 crores respectively, as com-

* Relates to term loans (excluding short and medium term loans) to companies, industrial co-operatives, sugar co-operatives and underwriting and direct subscriptions (including subscription to right issues) to shares and debentures of companies.

pared with those of Rs. 363.8 crores and Rs. 389.8 crores, respectively, during 1986-87 (Table IX-15). Assistance sanctioned and disbursed by way of term loans (excluding short and medium term loans) rose to Rs. 127.2 crores and Rs. 128.6 crores, respectively, in 1987-88 from Rs. 67.0 crores and Rs. 109.8 crores, in 1986-87. Both sanctions and disbursements in respect of underwriting and direct subscriptions to shares and debentures declined to Rs. 235.5 crores and Rs. 213.7 crores respectively in 1987-88 from Rs. 296.8 crores and Rs. 280.0 crores in 1986-87.

Table IX–15: Assistance Sanctioned and Disbursed by LIC

(Year: April-March) (Rupees crores)

Type of Assistance	1986-87		1987-88		Amount outstanding as on March 31, 1988
	Sanctions	Disbursements	Sanctions	Disbursements	
1	2	3	4	5	6
1. Term Loans (a+b+c)	67.0	109.8	127.2	128.6	532.4*
a) Public Sector	1.1	11.4	41.0	37.5	
b) Private Sector (including Joint Sector)	62.9	89.0	79.2	85.5	
c) Co-operative Sector	3.0	9.4	7.0	5.6	
2. Underwriting and direct subscriptions (i+ii)	296.8	280.0	235.5	213.7	1,310.1@
i) Ordinary and Preference shares	22.8	16.4	46.7	27.6	374.5
ii) Debentures	274.0	263.6	188.8	186.1	935.6
Total (1+2)	**363.8**	**389.8**	**362.7**	**342.3**	**1,842.5**

@ This includes market purchases also.
* Sector-wise break-up not available.
Source: Life Insurance Corporation of India.

The investments of Life Insurance Corporation of India increased by 14.8 per cent to Rs. 14,712.2 crores as at the end of March 1988 from Rs. 12,812.9 crores as at the end of March 1987 (Table IX-16). The sector-wise classification of LIC's investment indicates that the public sector accounted for Rs. 11,833.4 crores (80.4 per cent), the private sector Rs. 1,630.0 crores (11.1 per cent), co-operative sector Rs. 1,160.3 crores (7.9 per cent) and joint sector Rs. 88.5 crores (0.6 per cent) as at the end of March 1988.

Rates of interest charged by LIC to companies and industrial co-operatives remained unchanged

Table IX–16: Investments by LIC

(Rupees crores)

Sector	As at the end of March		Net during April-March	
	1987*	1988*	1986-87	1987-88
1	2	3	4	5
1. Public Sector	10,259.3	11,833.4	1,195.5	1,574.1
2. Private Sector	1,408.1	1,630.0	286.8	221.9
3. Joint Sector	86.9	88.5	18.9	1.6
4. Co-operative Sector	1,058.6	1,160.3	21.8	101.7
Total (1 to 4)	**12,812.9**	**14,712.2**	**1,523.0**	**1,899.3**

* Provisional.
Source: Life Insurance Corporation of India.

during the year at 14 per cent per annum on consortium loans, 16 per cent on non-consortium loans and 15 per cent on group gratuity loans.

General Insurance Corporation of India

Total financial assistance sanctioned and disbursed by General Insurance Corporation of India (GIC) and its subsidiaries@ aggregated Rs. 98.3 crores and Rs 103.5 crores respectively, during 1987-88 (April-March) recording a decline of 35.9 per cent in sanctions and 21.4 per cent in disbursements as compared with those in the preceding year (Table IX-17). While the sanctions by way of loans rose to Rs. 25.1 crores in 1987-88 from Rs. 15.3 crores in 1986-87, those by way of underwriting and direct subscriptions to shares and debentures declined to Rs. 73.2 crores from Rs. 138.0 crores.

Table IX-17: Assistance Sanctioned and Disbursed by GIC and its Subsidiaries

(Year April-March) (Rupees crores)

	1986-87		1987-88	
	Sanctions	Disbursements	Sanctions	Disbursements
1.	2.	3.	4.	5.
A. Type of Assistance				
1. Loans	15.3	29.4	25.1	25.7
2. Underwriting and direct subscriptions (i+ii)	138.0	102.2	73.2	77.8
i) Ordinary & Preference shares	7.5	11.3	3.3	22.0
ii) Debentures	130.5	90.9	69.9	55.8
Total	**153.3**	**131.6**	**98.3**	**103.5**
B. Sector-wise Assistance				
1. Public Sector	22.6	25.1	22.7	3.7
2. Private Sector	129.4	97.5	73.2	95.4
3. Joint Sector	0.5	9.0	2.4	2.0
4. Co-op. Sector	0.8	—	—	2.4
Total	**153.3**	**131.6**	**98.3**	**103.5**
Of which: for Projects in Backward Areas	7.5	9.9	0.1	5.6

Source: General Insurance Corporation of India.

According to sector-wise classification, projects in the private sector received bulk of total sanctions (74.5 per cent) followed by public sector (23.1 per cent) during the year 1987-88.

Assistance sanctioned for projects in areas classified as backward amounted to Rs. 0.1 crore, while disbursements amounted to Rs. 5.6 crores during the year.

Industrial Reconstruction Bank of India

Total assistance sanctioned and disbursed by Industrial Reconstruction Bank of India (IRBI) during 1987-88 (April-March) amounted to Rs. 186.5 crores and Rs. 101.9 crores respectively, indicating a rise of 25.3 per cent and 7.7 per cent, respectively, over the year (Table IX-18). In 1986-87, the rise in sanctions and disbursements were 98.0 per cent and 39.5 per cent, respectively.

IRBI's assistance by way of term loans aggregated Rs. 180.3 crores to 180 units during 1987-88 as against Rs. 147.7 crores to 163 units during the preceding year. Of the sanctions of term loan assistance of Rs. 180.3 crores, a sum of Rs. 161.0 crores (89 per cent) was assigned to capital expenditure of the assisted units for their modernisation, diversification, upgrading of technology, etc. The balance amount was sanctioned for correcting imbalance on current position (margin for working capital), resource gap, meeting immediate liabilities, etc.

@ National Insurance Co. Ltd., The New India Assurance Co. Ltd., Oriental Insurance Co. Ltd., and United India Insurance Co. Ltd.

Table IX-18: Financial Assistance Sanctioned and Disbursed by Industrial Reconstruction Bank of India

(Year April-March) (Rupees crores)

Type of Assistance	1986-87		1987-88	
	Sanctioned	Disbursed	Sanctioned	Disbursed
1.	2.	3.	4.	5.
1. Term loans	147.7 (126)	93.7	180.3 (127)	100.1
2. Textile Processing Corporation of India Ltd. (TPCI)	0.3	0.4	0.4	0.2
3. Equipment leasing scheme	0.1	*	2.2	0.1
4. Hire-purchase	0.8	0.2	1.6	0.4
5. Lines of credit scheme for assisting sick small units through various state level agencies	—	0.3	2.0	1.1
Total	**148.9**	**94.6**	**186.5**	**101.9**

* Rs. 1 lakh only.

Note: 1.Figures are provisional

2. Figures in brackets indicate number of fresh cases sanctioned during the year.

Source: Industrial Reconstruction Bank of India.

Disbursements by way of term loans during the year amounted to Rs. 100.1 crores as compared with Rs. 93.7 crores in the last year. Among the industries assisted, textiles (cotton, jute and others), cement, basic metal industries, paper and paper products, chemicals, machinery except electrical, electrical machinery and transport equipment accounted for 82 per cent of total term loan assistance sanctioned during the year. While private sector units accounted for the largest share of term loans of Rs. 149.0 crores (82.6 per cent), the share of public sector units (inclusive of units since nationalised) was Rs. 20.8 crores (11.5 per cent) and the rest of the assistance sanctioned was for units in joint and co-operative sectors. IRBI sanctioned during the year Rs. 55.4 crores by way of term loans to units located in backward areas. Under its line of credit scheme, IRBI sanctioned Rs. 2.0 crores to units in small scale sector during the year and disbursed Rs. 1.1 crores.

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 Limited, Government of India and exporters' bankers approved 196 export bids valued at Rs. 8,155.0 crores for supply, construction, turnkey and consultancy projects during 1987.

Exim Bank made commitments-in-principle amounting to Rs. 828.0 crores of funded assistance and Rs. 1,047.0 crores by way of non-funded assistance for export bids and for enlarged scope of work on on-going projects during 1987. Out of projects where Exim Bank made in-principle commitments in 1987 and earlier, 86 contracts worth Rs. 656.0 crores were secured by Indian exporters during the year. Of these, consultancy contracts were for Rs. 228.0 crores, product export contracts for Rs. 166.0 crores, turnkey projects for Rs. 144.0 crores and construction projects for Rs. 118.0 crores. While the value of consultancy projects increased substantially, that of construction contracts decreased considerably.

During the year, Exim Bank sanctioned Rs. 690.5 crores under various programmes of funded assistance recording a rise of 22.8 per cent over the previous year (Table IX-19). Utilisation of funded assistance at Rs. 598.9 crores was also higher by 14.3 per cent over the year. It also sanctioned non-funded assistance in the form of guarantees worth Rs. 51.7 crores and issued guarantees valued at Rs. 54.7 crores. Outstandings at the end of December 1987 under funded

Table IX-19: Operations of Export-Import Bank of India
(January-December)

(Rupees crores)

Lending Programmes	1986			1987		
	Sanctions	Utilisations	Out-standings	Sanctions	Utilisations	Out-standings
1.	2	3	4	5	6	7
A. Funded						
Direct Financial Assistance	86.1	44.3	233.2	132.2	56.9	225.8
Lines of Credit	5.0	24.3	120.5	20.7	25.5	141.2
Pre-shipment Credit	29.2	25.1	23.0	90.3	98.6	94.4
Export Credit Refinance	33.1	30.2	90.3	45.2	26.3	82.4
Buyer's Credit	14.0	8.1	67.6	—	3.6	64.5
Export Bills Rediscounting	200.0	200.0	50.0	200.0	200.0	50.0
Small Scale Industry Export Bills Rediscounting	189.0	189.0	50.0	179.4	179.4	50.0
Finance for Export Oriented Units	5.4	2.7	3.3	11.1	7.8	10.7
Overseas Investment Finance	0.3	0.4	5.0	0.3	0.6	3.9
Agency Credit Line	—	—	—	1.5	0.2	0.2
Relending Facility	—	—	0.9	—	—	0.1
Finance for Computer Software Exports	—	—	—	9.8	—	—
Total	**562.1**	**524.1**	**643.8**	**690.5**	**598.9**	**,723.2**
B. Non-Funded@	**76.3**	**39.6@@**	**529.0**	**51.7**	**54.7@@**	**484.4**

@ 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 using the exchange rate prevailing at the time of sanction/utilisation and in the case of outstandings at the end of the year.
Source: Export-Import Bank of India.

and non-funded assistance stood at Rs. 723.2 crores and Rs. 484.4 crores, respectively compared with Rs. 643.8 crores and Rs. 529.0 crores, a year ago.

Industry-wise, construction projects and consultancy services accounted for about two-third of funded sanctions*. Other important categories of capital and engineering goods sanctioned assistance were power generation and distribution equipment, computer software, textile machinery, railway rolling stock, commercial vehicles, machine tools, telecommunications, diesel engines and pumps and auto ancillaries and spares (Table IX-20). Industry-wise distribution of utilisation* reveals that 43 per cent has been accounted for by construction projects. Finance was also utilised for export of products like commercial vehicles, bicycles and bicycle parts, railway rolling stock, textile machinery, consultancy services, auto ancillaries and spares, cement plant machinery, sugar plant machinery, jute machinery, machine tools, diesel engines, pumps, power generation and distribution equipment. In the case of non-funded assistance, construction projects accounted for about half the sanctions and issues and consultancy services for about one-fourth of sanctions.

Region-wise, the largest share of funded assistance sanctioned* was for exports to West Asia (69 per cent), followed by South East Asia/Far East and Pacific (15 per cent), Sub-Saharan Africa (12 per cent) and Americas (3 per cent) (Table IX-21). Funded assistance was utilised mainly for exports to West Asia (50.2 per cent) followed by Sub-Saharan Africa (24.1 per cent), South East Asia/Far East and Pacific (11.4 per cent), and South Asia (10.7 per cent). Major part of non-funded assistance was sanctioned and issued for projects in West Asia.

* In the region-wise and industry-wise analysis, pre-shipment credit and bills rediscounting are excluded, in region-wise analysis, finance for export-oriented units, agency credit line and finance for computer software exports are excluded and in industry-wise analysis, lines of credit are excluded from sanctions because of conceptual and data-related reasons.

Table IX-20: Operations of Exim Bank—Industry-wise*

(January-December 1987)

(Rupees crores)

Lending Programmes	Construction goods and services		Textile Machinery		Machine Tools		Commercial vehicles		Consultancy services		Computer software		Power generation and 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	**68.68**	**51.72**	**7.70**	**6.42**	**6.30**	**1.11**	**4.02**	**13.07**	**58.25**	**2.33**	**10.22**	—	**14.72**	**0.77**	**30.20**	**45.49**
Direct Financial Assistance	58.90	40.04	4.88	0.75	4.30	0.21	—	0.90	35.98	2.33	—	—	14.72	—	13.40	12.68
Lines of Credit	—	0.28	—	3.58	—	0.15	—	7.46	—	—	—	—	—	0.06	—	14.01
Export Credit Refinance	9.78	11.40	2.82	1.59	2.00	0.75	4.02	4.71	22.27	—	—	—	—	0.71	4.27	7.12
Buyer's Credit	—	—	—	0.50	—	—	—	—	—	—	—	—	—	—	—	3.07
Finance for Export Oriented Units	—	—	—	—	—	—	—	—	—	—	0.40	—	—	—	10.74	7.84
Overseas Investment Finance	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.29	0.60
Agency Credit Line	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1.50	0.17
Finance for Computer Software Exports	—	—	—	—	—	—	—	—	—	—	9.82	—	—	—	—	—
Non-funded Programmes	**25.69**	**28.88+**	—	—	—	—	—	—	**14.67**	**13.26+**	—	—	**1.70**	**1.38+**	**9.59**	**11.19+**

S — Sanctions U — Utilisations

@ Others include bicycle and bicycle parts, railway rolling stock, auto ancillaries and spares, cement plant machinery, sugar plant machinery, jute machinery, diesel engines and pumps, pharmaceuticals, telecommunications, machinery for electric components, steel pipes, mining, refractory industry, tea industry and miscellaneous industrial machinery exports. This classification also includes units set up for export of granite slabs and tombs, titanium equipment, sports goods, garments, finished leather and leather goods.

* 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.

\+ Guarantees issued

Source: Export-Import Bank of India.

Table IX-21: Operations of Exim Bank—Regionwise

(January-December 1987)

(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	**136.79**	**56.70**	**25.12**	**29.04**	**6.41**	**1.76**	**29.06**	**12.94**	**0.85**	**12.07**	**0.07**	**0.37**
Buyer's Credit	—	—	—	3.07	—	0.50	—	—	—	—	—	—
Direct Financial Assistance	105.18	44.94	5.01	9.78	4.87	1.26	17.12	0.93	—	—	—	—
Export Credit Refinance	31.61	11.76	10.11	11.61	1.54	—	1.27	1.34	0.56	1.49	0.07	0.07
Lines of Credit	—	—	10.00	4.58	—	—	10.67	10.67	—	9.98	—	0.30
Overseas Investment Finance	—	—	—	—	—	—	—	—	0.29	0.60	—	—
Non-Funded Programmes	**45.67**	**44.08+**	**0.85**	**3.88+**	**—**	**0.62+**	**2.85**	**1.63+**	**2.28**	**2.75+**	**—**	**1.75+**

S — Sanctions U — Utilisations

\+ — Guarantees issued.

* 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 Rediscounting, Finance for Export Oriented Units, Pre-shipment Credit, Agency Credit Line and Finance for Computer Software Exports.

Source: Export-Import Bank of India.

Following the Government's policy on computer software export announced in December 1986, Exim Bank introduced in 1987 a new lending programme to finance computer software export. Under this programme, Exim Bank offers foreign currency and rupee term finance to software exporters. Exim Bank sanctioned in 1987 a sum of Rs. 9.8 crores under programme for computer software exporters.

In continuation of its efforts to diversify sources and instruments for raising funds on competitive terms in international capital markets, Exim Bank supplemented its portfolio of multi-currency resources by tapping the yen market, for raising equivalent of US $ 25 million through a swap-related loan. Exim Bank raised fixed interest rate yen funds and simultaneously swapped them into floating rate dollar funds enabling it to obtain floating rate dollar funds at sub-LIBOR pricing.

Housing and Urban Development Corporation Ltd.

During 1987-88 (April-March), Housing and Urban Development Corporation Ltd. (HUDCO) sanctioned loans amounting to Rs. 496.7 crores. Its disbursements amounted to Rs. 324.6 crores. The corresponding figures of sanctions and disbursements during preceding year were Rs. 392.0 crores and Rs. 270.2 crores, respectively. Upto the end of March 1988, HUDCO had sanctioned schemes with project cost of Rs. 4,294.8 crores, its own loan commitment being Rs. 2,866.2 crores for construction of 2.81 million dwelling units in 21 States and 5 Union Territories; over 88 per cent of these dwelling units are meant for the poorer sections of the society.

Housing Development Finance Corporation Ltd.

Housing Development Finance Corporation Ltd., (HDFC) sanctioned housing loans amounting to Rs. 297.1 crores for about 52,000 units during 1987-88 (April-March) recording a rise of 45.2 per cent over the loans sanctioned in the previous year. Disbursements during the year at Rs. 220.7 crores also recorded an increase of 29.7 per cent as compared with that in the previous

year. HDFC sanctioned loans for dwelling units in more than 380 additional towns during the year, raising the total number of towns and cities covered by it to nearly 1,300. As at the end of March 1988, cumulative loan sanctions aggregated Rs. 1,060.6 crores in respect of more than 2,35,000 units and cumulative loan disbursements aggregate Rs. 768.2 crores. There was no change in the lending rates charged by HDFC during 1987-88 (April-March).

During the year, HDFC raised term loans of Rs. 26.5 crores from commercial banks under the Reserve Bank guidelines and also mobilised Rs. 92.1 crores through its various deposit schemes. The outstanding term loans and deposits as at the end of March 1988 were Rs. 236.7 crores and Rs. 376.3 crores, respectively.

HDFC also finalised the borrowing of additional US $ 15 million in the US Capital Market during the year 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 Bank of India whereby HDFC exchanged the funds so raised in the US Capital Market to Bank of India, London and in turn Bank of India sanctioned a term loan of Rs. 18 crores to HDFC, in India.

Chapter X

Developments in India's Foreign Trade

I. INDIA'S FOREIGN TRADE DURING 1987-88 (April-March)

Overall Trends

The performance of the foreign trade sector showed further improvement during 1987-88 for the second year in succession, despite widespread drought conditions in the country. The data (provisional) released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S) showed an increase of 25.3 per cent in exports in 1987-88 on top of the rise of 20.4 per cent noticed in the previous year. The noteworthy improvement in exports can be ascribed in large measure to various policy initiatives taken by the Government for export promotion in recent years. Imports went up by 11.4 per cent as compared with a rise of 9.2 per cent during the preceding year. However, as the rate of growth in exports was higher than the growth in imports the merchandise trade deficit which had already declined to Rs 7,513 crores in 1986-87 narrowed down further to Rs 6,624 crores or by 11.8 per cent during 1987-88 (Table X-1). In terms of SDRs, exports recorded a significant growth rate of 13.0 per cent in 1987-88 as compared to that of 0.8 per cent in 1986-87. Imports, however, were higher by 0.5 per cent as against a decline of 8.6 per cent during the preceding year.

Table X-1: India's Trade Balance

(Rs. crores)

Year	Imports	Exports	Balance
1987-88 (P)	22,343	15,719	-6,624
	(+11.4)	(+25.3)	
1986-87 (P)	20,063	12,550	-7,513
	(+9.2)	(+20.4)	
1985-86 (P)	18,371	10,420	-7,951
1986-87 (PR)	20,201	12,569	-7,632
	(+2.8)	(+15.4)	
1985-86	19,658	10,895	-8,763

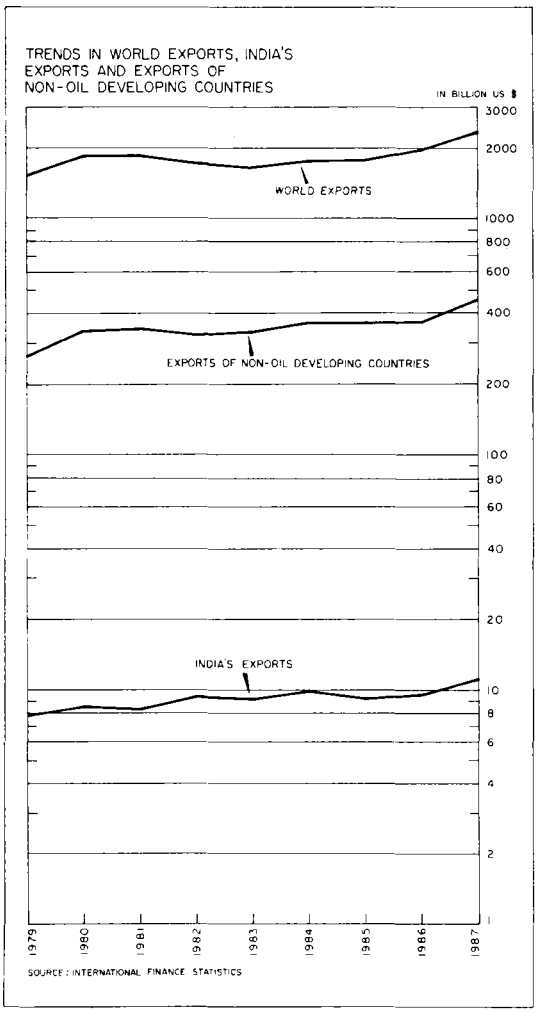
Note : Figures in brackets indicate percentage variations over the preceding year.
P-Provisional.
PR-Partially Revised.
Source: DGCI&S.

Exports

India's total exports (including re-exports) increased markedly by 25.3 per cent during 1987-88 to Rs. 15,719 crores from Rs. 12,550 crores in 1986-87 which in itself was higher by 20.4 per cent than the level reached a year ago. Exports of petroleum products amounted to Rs. 633 crores during the year. Non-oil exports (i.e., excluding exports of POL products) at Rs. 15,086 crores rose by 24.3 per cent in 1987-88 as compared to a rise of 24.1 per cent in 1986-87. In terms of SDRs, the non-POL exports rose by 12.1 per cent in contrast to a marginal decline in 1986-87. Data on the volume growth of exports are not yet available. However, taking into account the international price movements, the volume growth of India's exports in 1987-88 may be placed at about 7-8 per cent as envisaged for the Seventh Five Year Plan.

India's export performance in SDR terms at 13 per cent during 1987-88 was in keeping with the overall expansion in world exports as well as exports of developing and industrial countries.

World exports rose by 7.4 per cent during 1987 in contrast to a fall of 4.2 per cent in the previous year. The exports of non-oil developing countries also showed a growth of 10.8 per cent during 1987 as against a decline of 12.1 per cent in 1986. Similarly developing countries as a group recorded a rise of 9.2 per cent as against a steep fall of 17.4 per cent in the preceding year. The performance of industrial countries also showed a higher growth of 6.4 per cent during 1987 as compared to a meagre growth of 0.8 per cent in 1986.



The performance of India's exports, in volume terms, can be assessed on the basis of data available for 12 items. The volume of exports increased in respect of 4 items, viz., rice, coffee and coffee substitutes, tea and mate, sugar and sugar preparations, while in respect of 7 items viz., fish and fish preparations, cashew kernels, spices, oilcakes, tobacco unmanufactured and tobacco refuse, raw cotton and jute manufactures including twist and yarn, there was a decline. In respect of iron ore, the volume of exports remained unchanged over the year.

In recent years, a significant change in the composition of exports has taken place under the impact of India's widening industrial base. The share of primary goods has shown a steady decline while that of manufactured products has increased to nearly two-thirds of total exports.

The principal items of exports which showed substantial increases over the previous year were gems and jewellery, readymade garments, chemicals and related products, petroleum products, engineering goods, leather and leather manufactures, rice, works of art, marine products, spices, meat and meat preparations and handmade carpets. These commodities together accounted for more than 90 per cent of the increase in the total exports during the year. Commodities which showed declines were cotton raw, tobacco, coffee, oilcakes and jute and jute manufactures. Detailed performance of some of the major items during the year is reviewed below.

Gems and jewellery continued to be the single largest contributor to the foreign exchange earnings accounting for about one-sixth of the total exports in 1987-88. Exports of these items rose by Rs. 545 crores or by 26 per cent to Rs. 2,614 crores from Rs. 2,069 crores in 1986-87. The impressive growth in exports of this item was the result of several incentives given to the industry by the Government, which included the liberalisation in imports of machinery and equipments needed for this sector, softening of value added requirements to encourage the setting up of gold jewellery units in the 100 per cent Export-Oriented Complexes and export processing zones. Existing schemes for promotion of exports of gold jewellery were extended to cover the sale of silver jewellery and articles. Export promotion measures such as exhibitions abroad and setting up of special complexes for manufacture of silver jewellery and articles subject to the achievement of value addition of 20 per cent over the price of silver content were some of the measures to assist exports of these items.

Table X—2: India's Exports of Principal Commodities

(Rs. crores)

Sr. No.	Commodities	Unit of Quantity	1983-84		1984-85		1985-86		1986-87 (Partially revised)		Increase(+) Decrease(−) Absolute (10 over 8)	1987-88 (Provisional)		Increase (+)/ Decrease(−) in 1987-88 over 1986-87 (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.	Meat and meat preparations			72		83		74		76	+2		86	+10	+13.2
2.	Fish and fish preparations	'000 tonnes	92.9	359	90.4	381	88.5	409	99.4	479	+70	97.9	525	+46	+9.6
3.	Rice	'000 tonnes	175.7	114	247.7	169	245.1	196	181.1	165	−31	371.6	325	+160	+97.0
4.	Vegetables & fruits (excluding cashew kernels)			140		183		178		147	−31		151	+4	+2.7
5.	Cashew kernels	'000 tonnes	36.9	151	32.4	180	37.1	225	46.6	321	+96	36.1	307	−14	−4.4
6.	Coffee and coffee substitues	Million kgs.	70.9	182	67.5	210	100.1	273	74.5	306	+33	88.7	263	−43	−14.1
7.	Tea and mate	Million kgs.	188.1	515	213.9	767	205.6	626	190.5	550	−76	197.1	592	+42	+7.6
8.	Spices	'000 tonnes	94.2	117	103.0	207	89.1	278	94.8	269	−9	83.1	309	+40	+14.9
9.	Oil cakes	'000 tonnes	979	152	829	137	807	134	990	187	+53	684	173	−14	−7.5
10.	Sugar and sugar preprations	'000 tonnes	983	175	279	36	39	17	1.8	1	−16	2.3	1	—	—
11.	Tobacco unmanufactured and tobacco refuse	'000 tonnes	77.7	156	72.0	151	60.8	137	71.1	140	+3	60.7	109	−31	−22.1
12.	Cotton raw	'000 tonnes	174.4	169	52.8	63	44.9	70	175.6	182	+112	73.0	95	−87	−47.8
13.	Iron ore	Million tonnes	22.1	402	25.5	459	30.1	579	28.1	543	−36	28.3	543	—	—
14.	Crude vegetable materials			130		206		195		..			..		
15.	Mineral fuels, lubricants and related products (including exports of Bombay High Crude)			1,590		1,823		655		411(a)	−244		633(a)	+222	+54.0
16.	Chemicals and related products			328		483		394		475	+81		823	+348	+73.3
17.	Leather and leather manufactures (except footwear)			429		627		647		787	+140		1,148	+361	+45.9

Table X—2: India's Exports of Principal Commodities (Concld.)

(Rs. crores)

Sr. No.	Commodities	Unit of Quantity	1983-84		1984-85		1985-86		1986-87 (Partially revised)		Increase(+) Decrease(−) Absolute (10 over 8)	1987-88 (Provisional)		Increase (+)/ Decrease(−) in 1987-88 over 1986-87 (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.	Rubber and rubber manufactures			42		74		83		..			..		
19.	Cotton fabrics, yarn made-ups etc.			476		748		653		562	−91		1,064	+502	+89.3
20.	Readymade garments			741		985		1,108		1,218	+110		1,791	+573	+47.0
21.	Silk fabrics			41		56		72		74	+2		..		
22.	Jute Manufactures (including twist & yarn)	Lakh tonnes	4.3	172	3.0	340	2.5	263	3.2	265	+2	2.4	243	−22	−8.3
23.	Gems & jewellery			1,294		1,237		1,503		2,069	+566		2,614	+545	+26.3
24.	Engineering goods			776		900		910		969	+59		1,432	+463	+47.8
25.	Works of art			137		165		147		145	−2		248	+103	+71.0
26.	Carpets (hand-made)			194		259		233		287	+54		391	+104	+36.2
	A. Total of above items			**9,054**		**10,929**		**10,059**		**10,628**	**+569**		**13,866**	**+3,238**	**+30.5**
	B. Others			**717**		**815**		**836**		**1,941**	**+1,105**		**1,853**	**−88**	**−4.5**
	C. Total Exports			**9,771**		**11,744**		**10,895**		**12,569**	**+1,674**		**15,719**	**+3,150**	**+25.1**

(a) Relates to Petroleum products only.

Source: DGCI&S.

Exports of *readymade garments* recorded an increase of Rs. 573 crores or 47 per cent to Rs. 1,791 crores from Rs. 1,218 crores in the preceding year. The importance of these exports in India's foreign trade is that they are based mostly on domestic raw materials, making them the largest single net earner of foreign exchange. The renewal of consumer preferences abroad for cotton clothing has resulted in larger access to the markets of the USA, European Common Market and other quota countries under the Multi-Fibre Agreement for 1987-92. Several measures have been taken to boost the exports of readymade garments. These include raising of the replenishment percentage for various types of garments under the Pass Book Scheme and higher rate of cash compensatory support for exports to non-quota countries. The Government has also announced a revised quota distribution policy in October 1987 to provide further incentives for garment exports.

Export of *cotton fabrics, yarn and made-ups* registered a sharp increase of Rs. 502 crores or 89 per cent to Rs. 1,064 crores during 1987-88 from Rs. 562 crores in 1986-87. In order to give a further thrust to the exports of yarn and fabrics and to control cotton prices in local markets, the Government allowed the import of raw cotton against exports of fabrics under the Advance Licensing Scheme.

Exports of *cotton raw* declined by Rs. 87 crores from Rs. 182 crores in 1986-87 to Rs. 95 crores in 1987-88 mainly due to a substantial decline in volume of exports of this item. The Government has, however, decided to allow the exports of raw cotton from the 1987-88 crop.

Leather and leather manufactures recorded an increase of 46 per cent during the year 1987-88 when these exports amounted to Rs. 1,148 crores as compared to Rs. 787 crores during 1986-87. This noteworthy performance was due in large measure to improved access to imported inputs such as raw skin and hides, machinery, metallic and non-metallic embellishments through enlargment of OGL, procurement under the Advance Licensing Scheme and concessional import duties. The Government has set up an Inter-Ministerial Committee to provide single window clearance to enable leather exporters to meet their requirements of imported raw materials, machinery etc. on a priority basis. The export base of this item has been strengthened by the change in the composition of exports wherein there has been an increase in the share of finished products and items with higher value additions. The Leather Export Promotion Council has also taken steps to improve the skills of technical personnel and to promote the development, fabrication and distribution of improved tools for tanning, etc.

The sharp rise in the *engineering goods* exports during the year 1987-88 indicates that despite rising protectionism in the developed countries such as the USA and strong competition in international markets from the newly industrialising countries, these items have achieved acceptable quality standards. In addition, the growing industrial base of the country is also responsible for such an increase. Engineering exports increased sizeably by 48 per cent to Rs. 1,432 crores from Rs. 969 crores during the previous year. The strategy for promotion of exports of engineering goods has involved a degree of selectivity in identifying products and industries with good export potential. These thrust items have been provided with a policy framework conducive to export growth including higher rates of cash compensatory support and revision of duty draw-back schedules for selected items and compensation under the International Price Reimbursement Scheme. The Reserve Bank of India has also permitted Exim Bank to grant pre-bid clearance upto value of Rs. 20 crores as against the earlier limit of Rs. 5 crores for bids/offers for exports of engineering goods on deferred payment basis. Simultaneously, measures were taken to liberalise industrial licensing and imports under the New Import-Export Policy, (1988-91) to facilitate the capacity expansion for export production and also to make the engineering goods sector more competitive through improved access to technology, capital goods and raw materials at international prices.

Exports of *chemicals and related products*, one of the rapidly growing non-traditional items of exports, registered an impressive rise of 73 per cent during 1987-88 and were placed at Rs. 823 crores as compared to Rs. 475 crores during 1986-87. A number of incentives were provided to promote the exports of these items, which included a scheme for duty-free access to raw materials against replenishment licensing for ex-

ports of selected products, provision of advance licensing under Duty Exemption Scheme against firm export orders and rationalisation of customs duty on import of various drug intermediates *vis-a-vis* the corresponding bulk drugs. The Government has also drawn up a 15-year export plan for drugs, pharmaceuticals and fine chemicals manufacturing industry for encouraging their exports.

Exports of *cashew kernels* declined marginally by 4 per cent to Rs. 307 crores in 1987-88 from Rs. 321 crores in 1986-87. The decline was due entirely to the fall in the quantity of cashew kernels exported on account of adverse weather conditions and to lower demand in the USA following a bumper crop in Brazil.

Oilcakes exports declined to Rs. 173 crores in 1987-88 from Rs. 187 crores in the previous year mainly due to a decline in the quantity of these exports. This shortfall can be attributed to lower level of production of oilseeds during 1987-88 on account of the severe country-wide drought.

Exports of *marine products* have shown consistent rise over the years. These exports amounted to Rs. 525 crores during 1987-88 showing a rise of 10 per cent over the previous year's level of Rs. 479 crores. The increase in export receipts was due to rise in the unit value, in spite of quantity exported having shown a marginal decline. The Marine Products Export Development Authority (MPEDA) evolved a scheme under which it provides limited equity capital to support export-oriented deep sea fishing projects. Similarly, subsidy assistance is provided to seafood processors to acquire machinery and equipment. The first commercial prawn hatchery has been set up in Orissa and another one is being set up in Andhra Pradesh.

The exports of *coffee and coffee substitutes* declined from Rs. 306 crores in 1986-87 to Rs. 263 crores during 1987-88, despite an increase in the quantity exported from 75 million kg. in 1986-87 to 89 million kg. in 1987-88. The decline in the price of coffee in international markets resulted in lower unit value realisation at Rs. 29.5 per kg. in 1987-88 as against that of Rs. 41.1 per kg. in 1986-87. With the reintroduction of coffee quotas in October 1987, India has got a quota of 45,782 tonnes for 1987-88, as against that of 40,341 tonnes during 1985-86. Value-added items such as instant coffee were made eligible for Cash Compensatory Support and import replenishment against exports. These items were also included under the Blanket Exchange Permit Scheme. Strategies to boost coffee exports also include a project to increase the area under coffee cultivation and interaction with other quota and non-quota countries.

Exports of *tobacco unmanufactured and tobacco refuse* declined by 22 per cent to Rs. 109 crores in 1987-88 from Rs. 140 crores during 1986-87. Drought conditions prevailing in the country led to a decline in the quantity exported from 71.1 thousand tonnes to 60.7 thousand tonnes. In an effort to boost the production and also exports of unmanufactured tobacco, the Government has recently raised the minimum export price of flue cured virginia tobacco (which constitutes 70-80 per cent of these exports) applicable for the 1988 crop.

The exports of *spices* were placed at Rs. 309 crores during 1987-88 showing a rise of 15 per cent over the export receipts of the preceding year and thus reversing the decline in value terms in these exports registered during 1986-87. In terms of quantity exported, however, there was a decline of 12 per cent during 1987-88 which may be attributed to the drought conditions prevailing in the country. However, the rise in unit value realisation from Rs. 28,375 per tonne in 1986-87 to Rs. 37,184 per tonne in 1987-88 offset the decline in the volume of exports.

Exports of *mineral fuels, lubricants and related products* (including exports of Bombay High Crude) which had declined during 1986-87 increased by 54 per cent to Rs. 633 crores in 1987-88 from Rs. 411 crores in 1986-87. As in the preceding year, there were no exports of crude oil during 1987-88.

Exports of *tea* rose to Rs. 592 crores in 1987-88, from Rs. 550 crores in the preceding year or by 7.6 per cent. This increase was attributable to an increase in the quantity of tea exported of 6.6 million kgs. from 190.5 million kgs. exported during 1986-87. In addition, there was some firming up of prices of tea during 1987-88. Given the highly competitive international market for tea, a series of measures were taken to boost exports

such as improved marketing of value-added teas under the Brand Promotion Fund Scheme, raising of rates of Cash Compensatory Support and raising of rates of agency commission were undertaken. Under the new Import-Export Policy 1988-91, replenishment at the rate of 4 per cent has been extended to exports of tea products.

During 1987-88 exports of *iron ore* remained, both in quantity and value terms, at the preceding year's level. Thus during the year, exports amounted to Rs. 543 crores. This was due to depressed international market conditions and increased competition, resulting in lower prices. The demand for iron ore particularly from Japan, the country's biggest buyer, was also lower. In order to encourage exports, the status of 100 per cent Export-Oriented Units and benefits accruing thereunder have been granted to the Mining Industry.

Exports of *vegetables and fruits excluding cashew kernels* recovered marginally by Rs. 4 crores to Rs. 151 crores during 1987-88, though it was much short of the levels reached in 1984-85 and 1985-86.

Exports of *jute manufactures including twist and yarn* continued to decline during 1987-88 to Rs. 243 crores from Rs. 265 crores in 1986-87 due to lower volume of exports. The poor performance of exports of jute manufactures was on account of various adverse factors such as escalation in domestic cost of production, reduced demand from industrial countries and severe competition from countries such as Bangladesh.

Exports of *rice* recorded a substantial increase of 97 per cent during 1987-88, to Rs. 325 crores as against Rs. 165 crores in 1986-87. In volume terms too, exports more than doubled to 372 thousand tonnes from 181 thousand tonnes in 1986-87. While Basmati rice constituted the major portion of these exports, the exports of non-Basmati rice also showed a rise. The minimum export price of Rs. 4,000 per tonne for non-Basmati rice has been withdrawn.

Exports of *carpets 'hand-made'* increased for the second year in succession to Rs. 391 crores in 1987-88, as compared to those of Rs. 287 crores in 1986-87. The increase of 36 per cent in exports of carpets during 1987-88 was on top of a rise of 23 per cent during the preceding year. To boost the exports of this item, a ten-year export-plan has been finalised so as to achieve an export level of Rs. 1,000 crores within a decade.

Imports

According to provisional data on imports furnished by DGCI&S, India's imports during 1987-88 totalled Rs. 22,343 crores indicating an increase of Rs. 2,259 crores or 11 per cent over the level a year ago (Table X-3).

The substantial rise in imports was due mainly to petroleum and petroleum products and other related materials (Rs. 1,403 crores), edible oils (Rs. 308 crores), pearls, precious and semi-precious stones (Rs. 499 crores) and non-ferrous metals (Rs. 161 crores). The increase in the imports of these items was much more than the fall in imports of machinery and transport equipment (Rs. 554 crores), iron and steel (Rs. 181 crores) and fertilizers manufactured (Rs. 323 crores).

Oil imports rose steeply from Rs. 2,680 crores in 1986-87 to Rs. 4,083 crores, a rise of more than 50 per cent over the level last year. Non-oil imports, taken together also registered an increase of Rs. 856 crores to Rs. 18,260 crores.

By and large, the commodity composition of India's imports comprises mainly of capital goods, industrial raw materials, bulk items and petroleum products. Thus, during 1987-88 in the order of importance, machinery and equipment accounted for 21.1 per cent of imports followed by petroleum and petroleum products (18.3 per cent), pearls, precious and semi-precious stones (8.9 per cent), iron and steel (5.7 per cent), organic and inorganic chemicals (4.7 per cent), vegetable oils (4.1 per cent), non-ferrous metals (2.6 per cent), artificial resins and plastic materials (2.5 per cent), professional, scientific controlling instruments and photographic optical goods (2.2 per cent), metalliferrous ores, metal scrap, etc. (1.9 per cent), paper, paper boards and manufactures thereof (1.2 per cent). The value of other items of imports was comparatively small. Trends in imports of selected commodities in 1987-88 are discussed in the following paragraphs.

Imports of *petroleum, petroleum products* and *related materials* (POL) totalled Rs. 4,083 crores in 1987-88 constituting 18.3 per cent of overall imports. Compared to the previous year, these imports increased by Rs. 1,403 crores or 52.4 per cent. These imports showed higher dimensions both in quantitative and as well as value terms. Spurt in imports was due mainly to rising trends in oil prices in the international markets coupled with higher volume of imports necessitated by a marginal decline in the growth of domestic production and sustained domestic demand.

Imports of *machinery and transport equipment* accounted for about one fourth to one fifth of India's total imports. During the year 1987-88, these imports declined by Rs. 554 crores to Rs. 4,714 crores constituting 21.1 per cent of total imports.

During 1987-88 there was a substantial rise of Rs. 499 crores in the imports of *pearls, precious and semi-precious stones,* over and above the rise of Rs. 395 crores registered last year. Thus, the total imports under this head amounted to Rs. 1,994 crores during the year under review. The rise in the import of these items reflected the increasing demand for processed jewellery and diamonds abroad whose exports during 1987-88 amounted to Rs. 2,614 crores.

Imports of *iron and steel* which increased by 4 per cent last year decelerated by Rs. 181 crores or 12.5 per cent to Rs. 1,269 crores in 1987-88. The lower imports may be attributed to higher domestic production during the year.

Imports of *organic and in-organic chemicals* were placed more or less at the previous year's level. Imports during 1987-88 amounted to Rs. 1,046 crores constituting 4.7 per cent of total imports. Imports of *chemical materials and products* increased substantially by Rs. 54 crores to Rs. 174 crores. Imports of *medicinal and pharmaceutical products* declined by Rs. 21 crores in 1987-88 to Rs. 137 crores. Together the share of import of chemicals in total imports constituted 6.1 per cent in 1987-88.

Growth in the imports of *professional, scientific controlling instruments, photographic optical goods* noticed last year continued in 1987-88 also. Imports of these items were placed at Rs. 488 crores in 1987-88 as against Rs. 456 crores during the previous year. Similarly, imports of artificial resin, plastic materials etc. recorded an increase of Rs. 112 crores to Rs. 548 crores during 1987-88 from Rs. 436 crores in the previous year.

The decline in *manufactured fertilisers* noticed during last year continued during 1987-88. These imports declined by Rs. 323 crores to Rs. 172 crores during the year under review, which may be attributed to a comfortable supply situation in the country due to higher domestic production and lower off-take due to drought conditions in several parts of the country.

Sugar imports declined for the second year in succession and amounted to Rs. 174 crores during 1987-88 as compared to Rs. 205 crores in 1986-87 and Rs. 418 crores in 1985-86 indicating better supply position in the country due to increase in domestic production.

Imports of *edibile oil* rose by Rs. 308 crores in 1987-88 representing an increase of 50 per cent in value terms over the previous year. The sharp increase in value terms was the combined effect of increase in quantity as well as higher unit value as compared to last year. The drought conditions prevailing in the oil producing tracts in the country led to a decline in domestic production, necessitating larger imports. Imports of other items which are not enumerated in Table X-3 rose by 16.6 per cent over and above the rise of 130.4 per cent witnessed during the last year. Thus, these imports rose to Rs. 4,646 crores during 1987-88 constituting nearly 21 per cent of India's total imports.

Direction of India's Foreign Trade

Region-wise data of India's foreign trade for 1987-88 have been furnished in Table X-4 along with data for four previous years. Data for 1986-87 and 1987-88 are provisional.

As stated earlier, India's trade deficit declined to Rs. 6,624 crores in 1987-88 as compared to Rs. 7,513 crores during the previous year. Among six regions out of the total ten regions, either the surplus increased or deficit decreased. In the remaining four regions trade deficits widened. The regions showing improvements in trade balance

Table X—3: India's Principal Imports

(Rs. crores)

Sr. No.	Commodities	Unit of Quantity	1983-84		1984-85		1985-86		1986-87 (Provisional)		Increase(+) or Decrease(−) in 1986-87 over 1985-86 (in value)		1987-88 (Provisional)		Increase (+) or Decrease(−) in 1987-88 over 1986-87 (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	20.3	4832	19.7	5409	19.0	4989	18.0	2680	−2309	−46.3	22.4	4083	+1403	+52.4
2.	Machinery and transport equipment	Value	—	3174	—	3027	—	4084	—	5268	+1184	+29.0	—	4714	−554	−10.5
3.	Iron and steel	000' T	2582.9	1049	1875.4	941	2360.8	1395	2401.0	1450	+55	+3.9	2249.1	1269	−181	−12.5
4.	Pearls, precious and semi-precious stones	Value	—	1098	—	1032	—	1100	—	1495	+395	+35.9	—	1994	+499	+33.4
5.	Cereals and cereal preparations	000' T	4212.4	809	954.0	242	297.2	110	129.4	47	−63	−57.3	67.8	33	−14	−29.8
	Of which: a) Wheat	-do-	3038.6	643	554.2	130	175.9	61	107.6	37	−24	−39.3	10.0	4	−33	−89.2
	b) Rice	-do-	408.8	100	348.6	90	43.7	14	2.5	1	−13	−92.9	5.7	2	+1	+100.0
6.	Sugar	-do-	5.8	3	403.1	96	1811.8	418	725.5	205	−213	−51.0	571.4	174	−31	−15.1
7.	Organic and inorganic chemicals	Value	—	660	—	857	—	1089	—	1036	−53	−4.9	—	1046	+10	+1.0
8.	Vegetable oils, fixed (edible oils)	000' T	1383.8	734	1173.9	950	1048.3	749	1415.5	612	−137	−18.3	1800.6	920	+308	+50.3
9.	Non-ferrous metals	Value	—	391	—	412	—	542	—	415	−127	−23.4	—	576	+161	+38.8
10.	Professional, scientific controlling instruments, photographic optical goods	Value	—	315	—	287	—	379	—	456	+77	+20.3	—	488	+32	+7.0
11.	Paper, paper boards and manufactures thereof	000' T	245.2	157	271.2	195	237.2	226	240.0	195	−31	−13.7	283.7	258	+63	+32.3
12.	Artificial resins, plastic materials etc.	Value	—	199	—	223	—	322	—	436	+114	+35.4	—	548	+112	+25.7
13.	Manufacture of metals	-do-	—	149	—	141	—	201	—	199	−2	−1.0	—	149	−50	−25.1

Table X—3: India's Principal Imports (Concld.)

(Rs. crores)

Sr. No.	Commodities	Unit of Quantity	1983-84		1984-85		1985-86		1986-87 (Provisional)		Increase(+) or Decrease(−) in 1986-87 over 1985-86 (in value)		1987-88 (Provisional)		Increase (+) or Decrease(−) in 1987-88 over 1986-87 (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.	Metalliferrous ores, metal scrap etc.	Value	—	193	—	185	—	363	—	368	+5	+1.4	—	418	+50	+13.6
15.	Textile yarn, fabrics, made up articles etc.	-do-	--	136	—	113	—	153	—	125	−28	−18.3	—	187	+62	+49.6
16.	Medicinal & pharmaceutical products	-do-	—	147	—	137	—	177	—	158	−19	−10.7	—	137	−21	−13.3
17.	Non-metallic mineral manufactures	-do-	—	179	—	82	—	102	—	85	−17	−16.7	—	84	−1	−1.2
18.	Chemical materials & products	-do-	—	145	—	135	—	144	—	120	−24	−16.7	—	174	+54	+45.0
19.	Synthetic and regenerated fibre	000' T	73.2	105	39.2	60	43.3	69	25.5	44	−25	−36.2	17.0	28	−16	−36.4
20.	Fertilizer, crude	-do-	1447.4	107	1605.9	137	1904.2	163	1567.7	131	−32	−19.6	1766.3	138	+7	+5.3
21.	Fertilizer, manufactured	-do-	1254.1	204	4893.9	1007	5171.9	1053	2908.7	495	−558	−53.0	1229.6	172	−323	−65.3
22.	Crude rubber (including synthetic and reclaimed)	-do-	62.8	82	60.2	87	76.0	101	59.9	81	−20	−19.8	68.5	107	+26	+32.1
	A. Total of the above			**14868**		**15755**		**17929**		**16101**	**−1828**	**−10.2**		**17697**	**+1596**	**+9.9**
	B. Others			**963**		**1379**		**1729**		**3983**	**+2254**	**130.4**		**4646**	**+663**	**+16.6**
	C. Grand Total			**15831**		**17134**		**19658**		**20084**	**+426**	**+2.2**		**22343**	**+2259**	**+11.2**

Note : Grand total figure for the year 1986-87 has been revised to Rs. 20,201 crores as per March 1988 Press note.
Source: DGCI&S.

Table X—4: Regional Pattern of India's Trade

(Rs. crores)

Region	1983-84			1984-85			1985-86			1986-87(P)			1987-88(P)		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Blance	Export	Import	Balance	Export	Import	Balance
1. North America	1557	2174	−617	1897	2200	−303	2106	2515	−409	2507	2343	+164	3077	2317	+760
	(15.9)	(13.7)		(16.2)	(12.8)		(19.3)	(12.8)		(20.0)	(11.7)		(19.6)	(10.4)	
2. Western Europe	1950	4428	−2478	2211	4742	−2531	2146	5830	−3684	3179	7664	−4485	4413	8524	−4111
	(19.9)	(28.0)		(18.8)	(27.7)		(19.7)	(29.7)		(25.3)	(38.2)		(28.1)	(38.2)	
3. Eastern Europe	1551	1965	−414	2242	2152	+90	2394	2169	+225	2319	1507	+812	2537	1629	+908
	(15.8)	(12.4)		(19.1)	(12.6)		(22.0)	(11.0)		(18.5)	(7.5)		(16.1)	(7.3)	
4. West Asia	890	3343	−2453	1002	3853	−2851	929	3968	−3039	827	2092	−1265	1100	3545	−2445
	(9.1)	(21.1)		(8.5)	(22.5)		(8.5)	(20.2)		(6.6)	(10.4)		(7.0)	(15.9)	
5. Japan	829	1447	−618	1029	1240	−211	1164	1774	−610	1341	2555	−1214	1615	2114	−499
	(8.5)	(9.1)		(8.8)	(7.2)		(10.7)	(9.0)		(10.7)	(12.7)		(10.3)	(9.5)	
6. Other Asia	875	1442	−567	978	1801	−823	992	1705	−713	1480	2119	−639	1680	2402	−722
	(8.9)	(9.1)		(8.3)	(10.5)		(9.1)	(8.7)		(11.8)	(10.6)		(10.7)	(10.8)	
7. Africa	379	395	−16	353	422	−69	336	611	−275	316	813	−497	359	623	−264
	(3.9)	(2.5)		(3.0)	(2.5)		(3.1)	(3.1)		(2.5)	(4.1)		(2.3)	(2.8)	
8. Other Developing Countries	11	397	−386	14	444	−430	17	517	−500	30	406	−376	33	500	−467
	(0.1)	(2.5)		(0.1)	(2.6)		(0.2)	(2.6)		(0.2)	(2.0)		(0.2)	(2.2)	
9. Oceania	118	179	−61	164	231	−67	143	483	−340	173	476	−303	211	550	−339
	(1.2)	(1.1)		(1.4)	(1.3)		(1.3)	(2.5)		(1.4)	(2.4)		(1.3)	(2.5)	
10. Unclassified	1611	61	+1550	1854	49	+1805	668	86	+582	378	88	+290	694	139	+555
	(16.5)	(0.4)		(15.7)	(0.3)		(6.1)	(0.4)		(3.0)	(0.4)		(4.4)	(0.6)	
Grand Total	**9771**	**15831**	**−6060**	**11744**	**17134**	**−5390**	**10895**	**19658**	**−8763**	**12550***	**20063***	**−7513**	**15719**	**22343**	**−6624**

a) West Asia Group includes Bahrain, Iran, Iraq, Kuwait, Jordan, Quatar, Saudi Arabia, United Arab Emirates, Oman, Israel, Syrian Arab Republic, Lebanon, Yemen, Arab Republic and Yemen P. Dem Republic.

b) Other Asia Group includes Afghanisthan, Bangladesh, Burma, Nepal, Pakistan, Sri Lanka, Indonesia, Malaysia, Philippines, Singapore, Thailand, Hong Kong, China, P. Republic (Main Land) China Republic (formerly Formosa), Korean Republic, Socialist Republic of Vietnam and Korean Dem P. Republic.

c) Other Developing Countries Group includes Argentina, Bolivia, Brazil, Chile, Colombia, Paraguay, Peru, Uruguay, Venezuela, Bahamas, Barbados, Guatemala, Mexico, Panama Republic, Netherlands Antilles, Nicaragua, Trinidad, Tobago and Guyana.

d) Oceania Group includes Australia, New Zealand and Fiji.

e) Unclassified group consists of countries not included elsewhere and also includes data on exports of POL.

* These figures are further revised to Rs. 12,569 and Rs. 20,201 crores respectively as per March 1988 press note.

Notes: 1. Exports of Bombay High Crude oil for 1983-84, 1984-85, 1985-86 amounting to Rs. 1,231 crores, Rs. 1,563 crores, Rs. 135 crores respectively are taken into account in Grand Total and unclassifed Group but are not shown in Region-wise details, for 1986-87 and 1987-88 these figures are Nil.

2. Exports of petroleum products amounting to Rs. 357 crores in 1983-84, Rs. 255 crores in 1984-85, Rs 510 crores in 1985-86, Rs. 411 crores in 1986-87 and Rs. 633 crores in 1987-88 are taken into account in Grand Total and unclassified group but these are not shown in regionwise details.

3. Figures in brackets are percentages to Grand Total.

P = Provisional.

Source: DGCI&S.

were North America, Western Europe, Eastern Europe, Japan, Africa, and unclassified group of countries while there was further worsening of position in respect of West Asia, other Asia, other developing countries and Oceania.

During 1987-88, exports to Western Europe at Rs. 4,413 crores expanded by 38.8 per cent as compared to Rs.8,524 crores of imports which represented an increase of 11.2 per cent from this region. As a result, the share of Western Europe in India's total exports increased from 25.3 per cent in 1986-87 to 28.1 per cent in 1987-88 whereas share of imports at 38.2 per cent did not show any change. Western Europe accounted for a deficit of Rs. 4,111 crores or 62 per cent of overall deficit of Rs. 6,624 crores. The trade deficit with Western Europe rose steadily from Rs. 2,478 crores in 1983-84 to Rs. 4,485 crores in 1986-87 showing a rise of 81 per cent due to a higher level of imports which increased by 73.1 per cent between 1983-84 and 1986-87. The proportionate increase in exports was lower at 63 per cent. The trade deficit with Western Europe came down by Rs. 374 crores or 8.3 per cent during 1987-88 after a steady increase witnessed during the preceeding 4 years.

As stated earlier, the countries of Western Europe accounted for 62 per cent of the overall trade deficit of India. The Federal Republic of Germany, U.K., Belgium, France amd Sweden together accounted for 84 per cent of the total deficit with the region. The Federal Republic of Germany (FRG) accounted for Rs. 1,115 crores or 27 per cent of the total deficit with Western Europe.

The exports to FRG rose by Rs. 322 crores to Rs. 1,061 crores or 44 per cent in 1987-88 and in proportionate terms this increase was the same as in the previous year. However, India's imports were higher only by 13 per cent in 1987-88 as compared to a rise of 25 per cent in the previous year. The higher growth in exports and lower growth in imports resulted in narrowing the trade deficit in 1987-88 to Rs. 1,115 crores as compared with Rs. 1,194 crores in the previous year.

Exports to U.K. expanded by Rs. 296 crores to Rs. 1,032 crores in 1987-88 and the rate of growth remained unchanged at 40 per cent as in the previous year. However, the rise in imports was lower at Rs. 182 crores to Rs. 1,804 crores or 11 per cent during 1987-88 as compared with an expansion of 30 per cent noticed in the previous year. Thus, the trade deficit with U.K. declined by Rs. 114 crores.

Exports to West Asia rose from Rs. 827 crores in 1986-87 to Rs. 1,100 crores in 1987-88 while the corresponding increase in imports was from Rs. 2,092 crores to Rs. 3,545 crores resulting in a trade deficit of Rs. 2,445 crores in 1987-88. Thus, this region which accounted for 37 per cent of the total deficit in 1987-88 has been a major deficit area since 1983-84 mainly due to heavy imports while exports have remained more or less at the same levels generally forming about one-third to one-fourth of the imports. The trade deficit with this region has been higher at around Rs. 2,500 crores to Rs. 3,000 crores except in the year 1986-87 when it declined to Rs. 1,265 crores. The improvement noticed in 1986-87 was due to a steep cut in imports by about 47 per cent and does not reflect any improvement in exports.

Exports to Saudi Arabia increased from Rs. 219 crores to Rs. 296 crores but there was a steep rise in the imports from Rs. 687 crores to Rs. 1,387 crores during the year resulting in the trade deficit of Rs. 1,091 crores or 45 per cent of the total deficit with West Asia in 1987-88. The other countries which mainly accounted for the remaining portion of the deficit with West Asia were Iraq, Kuwait and United Arab Emirates. Evidently, imports of petroleum accounted for trade deficit with West Asia and the reduced trade deficit in 1986-87 may be due to lower prices of petroleum in international markets.

During the year exports to *Japan* rose by Rs. 274 crores to Rs. 1,615 crores while the imports were lower by Rs. 441 crores to Rs. 2,114 crores resulting in narrowing of trade deficit from Rs. 1,214 crores during 1986-87 to Rs. 499 crores during 1987-88. India's exports to Japan have been on the uptrend during the last 5 years but imports have always outstripped exports resulting in adverse trade balance. Various export promotion measures to increase exports to Japan are being envisaged.

The *Other Asian* group of countries accounted for Rs. 722 crores or 11 per cent of the overall

trade deficit of India in 1987-88 as compared to that of Rs. 639 crores or 9 per cent during the previous year. The bulk of the deficit during the year under review was accounted by Malaysia. Exports from India to Malaysia were around or less than Rs. 100 crores during the last 5 years while imports into India ranged between Rs. 350 crores and Rs 800 crores. South Korea, Singapore and the People's Republic of China are the other countries which accounted for a bulk of the trade deficit with this region. The only 2 countries with which we had sizeable surpluses were Hong Kong and Bangla Desh.

With exports at Rs. 359 crores and imports at Rs. 623 crores during 1987-88, India's trade deficit with the *African region* amounted to Rs. 264 crores which was substantially lower than the deficit of Rs. 497 crores in 1986-87. The improvement was mainly due to decrease in imports. The two major countries with which India has substantial adverse balance of trade in this region are Morocco and Zambia, amounting to Rs. 151 crores and Rs. 129 crores, respectively, during 1987-88. With only a marginal rise in exports, these deficits could be attributed to higher imports only.

With imports outstripping by far the exports, India has a substantial trade imbalance with *other developing countries.* During 1987-88 exports to and imports from these countries amounted to Rs. 33 crores and Rs. 500 crores, respectively, resulting in a trade deficit of Rs. 467 crores. Bulk of this deficit was accounted by Brazil with a deficit of Rs. 347 crores. It may be mentioned in this context that the level of our exports to Brazil is insignificant while imports from that country are substantial.

India has a substantial trade imbalance with the *Oceania region* during 1987-88. Exports from India to the region amounted to Rs. 211 crores while imports amounted to Rs. 550 crores resulting in a trade deficit of Rs. 339 crores. The most important country accounting for a sizeable deficit in this region is Australia. With exports at Rs. 181 crores and imports at Rs. 497 crores during 1987-88, Australia accounted for Rs. 316 crores of deficit in the total deficit ofRs. 339 crores with this region. Another country with which India has an adverse balance of trade in this region is New Zealand with which India has an annual trade deficit of around Rs. 25 crores during the last three years.

India's exports to *East European countries* have picked up since 1984-85. During the year 1987-88 exports improved by Rs. 218 crores to Rs. 2,537 crores while imports increased by Rs. 122 crores to Rs. 1,629 crores resulting in a trade surplus of Rs. 908 crores. The favourable balance of trade with these countries was due to lower imports from these countries during the last two years. Much of the trade surplus was due to the USSR which is one among India's leading trade partners. Out of a trade surplus of Rs. 908 crores with these countries in 1987-88, the USSR accounted for Rs. 692 crores with exports at Rs. 1,971 crores and imports at Rs. 1,279 crores. India had a marginal trade deficit of Rs. 4 crores with Poland in 1986-87 but there was a substantial surplus of Rs. 145 crores in 1987-88. The share of the USSR in India's overall exports was lower at 12.5 per cent in 1987-88 as compared to 14.9 per cent in the previous year.

Exports to *North America* rose sharply by Rs. 570 crores to Rs. 3,077 crores in 1987-88 while imports were marginally lower by Rs. 26 crores at Rs. 2,317 crores. As a result, India's trade surplus rose substantially from Rs. 164 crores in 1986-87 to Rs. 760 crores in 1987-88 which was entirely due to the surplus with the United States of America. The rise in exports to the U.S.A. noticed in 1986-87 continued in 1987-88 also when exports rose by Rs. 549 crores to Rs. 2,906 crores. Imports from the U.S.A. also rose marginally by Rs. 52 crores to Rs. 2,015 crores resulting in a trade surplus of Rs. 891 crores. In the case of Canada, India has a sizeable trade deficit. However, in 1987-88, the trade deficit declined to Rs. 132 crores from the level of Rs. 231 crores in the previous year.

IMPORT LICENCES

Available data on the value of import licences issued to eight categories of importers are presented in Table X-5. The analysis is confined to the value of licences issued unless otherwise specified. The interpretation of these data as in the past is subject to the following limitations: a) the validity period of different categories of licences range between one and two years, b) ex-

tension is granted in some cases in the period of validity or revision in the value of licence and c) there is sometimes revalidation of the licences issued earlier.

Though it is not possible to correlate the data on actual imports in a given period with import licences issued, a broad trend of the relative importance of licensing in import trade is revealed by the data. A relative idea of the importance of import controls through licensing can be had from the ratio of the value of import licences issued during a particular period and the overall imports made during the same period. The ratio of value of licences issued to overall imports rose marginally by 0.7 per cent to 46.6 per cent in 1987-88. A major limitation with regard to this ratio is the possible time lag between the issue of an import licence and its utilisation.

Import licences issued during 1987-88 increased over the year by Rs. 1,202 crores or by 13 per cent and amounted to Rs. 10,415 crores. The increase was entirely due to the licences issued to the private sector which expanded by Rs. 1,649 crores or 30 per cent to Rs. 7,212 crores. The decline in the licences issued to the Government sector noticed during last year continued in the current year also and the value of such licences came down by Rs. 447 crores or 12.2 per cent to Rs. 3,203 crores.

Among the eight categories of importers indicated in Table X-5, licences issued to the registered exporters, small scale industries, licences to DGTD units for import of raw materials and licences for import of capital goods and heavy electrical plants recorded an increase in 1987-88 as compared to the previous year. Out of the four categories mentioned above, which secured more licences as compared to last year, the licences issued to registered exporters recorded a marked increase of Rs. 1,399 crores. Consequently the share of the registered exporters in total licences issued rose from 39 per cent in 1986-87 to 48 per cent in 1987-88. Licences issued to the DGTD Units (for import of raw materials) rose by Rs. 318 crores to Rs. 1,651 crores in 1987-88. Licences to small-scale industries also rose by Rs. 180 crores to Rs. 310 crores. However, licences

Table X—5: Value of Import Licences Issued: Classified by Major Categories and Sectors—1986-87 and 1987-88

(Rs. crores)

Category	Government Sector		Private Sector		Total	
	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88
1	2	3	4	5	6	7
1. Actual Users (Industrial)	219	84	36	22	255	106
	(6.0)	(2.6)	(0.6)	(0.3)	(2.8)	(1.0)
2. Actual Users (Non-industrial)	264	132	11	13	275	145
	(7.2)	(4.1)	(0.2)	(0.2)	(3.0)	(1.4)
3. Raw Materials for Scheduled Industries (DGTD Units)	450	794	883	857	1,333	1,651
	(12.3)	(24.8)	(15.9)	(11.9)	(14.4)	(15.9)
4. Small Scale Industries	—	—	130	310	130	310
			(2.3)	(4.3)	(1.4)	(3.0)
5. Registered Exporters	384	332	3,169	4,620	3,553	4,952
	(10.5)	(10.4)	(57.0)	(64.1)	(38.6)	(47.5)
6. Capital Goods/Heavy Electrical Plants	1,436	1,317	1,022	1,166	2,458	2,483
	(39.4)	(41.1)	(18.4)	(16.1)	(26.7)	(23.8)
7. State Trading Agencies	496	99	—	—	496	99
	(13.6)	(3.1)			(5.4)	(1.0)
8. Others*	401	445	312	224	713	669
	(11.0)	(13.9)	(5.6)	(3.1)	(7.7)	(6.4)
Total	**3,650**	**3,203**	**5,563**	**7,212**	**9,213**	**10,415**

* 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 years.

Source: Chief Controller of Imports and Exports.

for import of capital goods and heavy electrical plants showed only a small increase of Rs. 25 crores to Rs. 2,483 crores in 1987-88. The share of this category in total licences came down from 27 per cent during last year to 24 per cent in 1987-88.

Licences issued to the remaining four categories viz. (i) actual users (industrial) (ii) actual users (non-industrial) (iii) state trading agencies and (iv) the 'others' declined in 1987-88 as compared to last year. The value of the licences issued to all these categories together totalled Rs. 1,019 crores which was lower by Rs. 720 crores or 41 per cent than the value of the licences issued last year. Out of a total decline of Rs. 720 crores recorded by the four categories together, the State Trading Agencies alone accounted for about 55 per cent and licences issued to this category came down from Rs. 496 crores last year to Rs. 99 crores in the current year with a corresponding reduction in the share of this category in total licences from 5 per cent to a mere 1 per cent.

Licences to actual users both industrial and non-industrial totalled Rs. 251 crores in 1987-88 which was only about half the value of the licences issued last year to these categories and consequently the share of these two categories slided down from 6 per cent of the total licences issued last year to about 2 per cent in the current year. The miscellaneous category of 'others' accounted for 6 per cent of the total licences issued in 1987-88 valued at Rs. 669 crores which was lower than the licences valued at Rs. 713 crores issued to this category last year.

The share of the Government sector in the total licences issued during 1987-88 came down to Rs. 3,203 crores or 30.8 per cent from Rs. 3,650 crores or 39.6 per cent last year. On the other hand the share of private sector in total licences went up from Rs. 5,563 crores to Rs. 7,212 crores representing an increase of 29.6 per cent.

The reduced share of the Government sector in total licences was accounted by all the categories in the Government sector excepting the DGTD units importing raw materials and the heterogeneous category 'others'.

Licences issued to the DGTD units in the Government sector rose from Rs. 450 crores in 1986-87 to Rs. 794 crores in 1987-88 and the share of this category in total government sector licences nearly doubled from 12 per cent last year to 25 per cent in the current year. Licences issued to the miscellaneous category 'others' rose from Rs. 401 crores last year to Rs. 445 crores in the current year.

As already stated excepting these two categories mentioned above all the other categories in the Government sector recorded declines. Licences issued to the State Trading Agencies declined from Rs. 496 crores last year to Rs. 99 crores in the current year bringing down the share of this category from 14 per cent of total Government sector licences to a mere 3 per cent in the current year. Licences issued to the actual Users (both industrial and non-industrial) declined sharply to Rs. 216 crores in the current year from Rs. 483 crores in the previous year. Similarly licences issued to registered exporters declined by Rs. 52 crores to Rs. 332 crores in 1987-88.

The increase in the share of the Private Sector in total licences issued in 1987-88 was mainly due to registered exporters, the category of capital goods/heavy electrical plants and small scale industries. Licences issued to the registered exporters rose from Rs. 3,169 crores in 1986-87 to Rs. 4,620 crores in 1987-88 raising the share of this category in total private sector licences from 57 per cent last year to 64 per cent in 1987-88. Licences issued to the category of capital goods/heavy electrical plants rose from Rs. 1,022 crores last year to Rs. 1,166 crores in 1987-88. Licences issued to the small-scale industries in the private sector increased from Rs. 130 crores in 1986-87 to Rs. 310 crores in 1987-88.

Licences to the DGTD units in the private sector recorded a marginal decline from Rs. 883 crores in 1986-87 to Rs. 857 crores in 1987-88 which was in contrast to the increase recorded by the DGTD units in the Government Sector. Similarly licences issued to the miscellaneous category 'others' in the Private Sector came down from Rs. 312 crores last year to Rs. 224 crores in the current year, unlike the Government Sector. Licences issued to Actual Users (both industrial and non-industrial) came down from Rs. 47 crores to Rs. 35 crores in 1987-88.

II. DEVELOPMENTS IN FOREIGN TRADE POLICY

During the year the import-export policy covering the period 1985-88 came to an end and on March 30, 1988 a new import-export policy for the 3 year period April 1988-March 1991 was announced. (Details have been given elsewhere in this chapter).

After a review of foreign trade policy measures in the light of the emerging trends in national and international economic situation, a number of changes in policy were announced during the year 1987-88 which are enumerated below.

Exports made under barter deals were made eligible for grant of replenishment benefits. Supplies to Bhutan and to projects in India supported by Asian Development Bank would also now qualify as "Deemed Exports" for import replenishment purposes. The value limit for grant of import licences for raw materials and components for small-scale units was raised from Rs. 50,000 to Rs. 2.5 lakhs. Licences granted to export houses/trading houses were liberalised so as to include about 600 items of raw materials and components which were so far available only to actual users. New schemes were introduced for export of silver jewellery and articles under which these items would be exported against silver supplied by foreign buyers in advance or to be replenished subsequently. The incentives under the scheme for setting up special export-oriented complexes for manufacturing of gold jewellery were made applicable to the manufacturers of silver jewellery and other articles, subject to the condition that a minimum value addition of 20 per cent over the price of silver content is achieved.

Several concessions were granted in order to make the 100 per cent Export Oriented Units (EOU) and Free Trade Zones (FTZ) more attractive to the investors. Thus, units working in these areas will be permitted to sell upto 25 per cent of their production in the domestic market subject to payment of appropriate custom duties. Similarly, these units can avail of tax holiday for a block of 5 years during the first 8 years from the date of commencement of production. Further, concessions to subcontract a part of their production to the units in domestic tariff area and concessions in the cost of bonding are other facilities given to these units. A minimum annual export turn-over of Rs. 5 crores for each of the 100 per cent export oriented units is necessary except in the case of soft-ware in which case it will be Rs. 2 crores annually. To bring more stability to export policy regarding garments and fabrics and to increase their exports, a Three Year Export Entitlement Distribution Policy for garments and fabrics was announced by the Government. Among others, the policy provided for allotment of past performance quota on the basis of value instead of quantity, thus assuring allotment of higher quotas for exporters realising higher unit values.

The details regarding important announcement in respect of import control policy are indicated in Appendix II A.

Export Controls

The vigorous strategy of export promotion pursued in recent years has entailed identification of export items with good export potential and provision of various incentives to boost their international competitiveness within a broad policy framework that is congenial for export growth. While most of the measures taken aimed at promoting exports, a few export control measures were found necessary. Such controls comprised of stipulation of minimum export prices, ensuring quality control, canalisation, restrictions or banning altogether etc. Notifications on export controls are covered in Appendix I.

During 1987-88, ceilings imposed earlier were released with regard to deoiled rice bran, deoiled groundnut cake, cotton seed expeller cake, solvent extracted cotton seed cakes, wollastonite, hydrogenated oil (vanaspati ghee), crushed and steamed bones and Rajgaro seed/powder and these were allowed to be exported on a first come, first served basis. Exports of items such as writing/printing paper, pure ghee, hatching eggs, live buffaloes, pyrophyllites, corrundum, maize, rayon filament yarn, textile cloth and materials of olive green shade, calcined magnesite, seasame seed, peacock tail feathers and articles made thereof, polyester filament texturised yarn, wild life and wildlife products, granular sillimanite, insoluble sulphur, samo and kodari seeds, pearl barley and iodised salt were allowed within a

specified ceiling during the year. In April 1987, quotas of semi-processed hides and skins were released to eligible quota holders for exports during the year 1987-88. Conditions stipulated for export of non-Basmati rice were liberalised further. The stipulation of minimum export price was removed and exports were also allowed against advance payment in full, in addition to exports allowed against 100 per cent irrevocable confirmed letter of credit or revolving letter of credit. The export of wheat and wheat products was also allowed within a limited ceiling without any minimum export price. Exports of dehusked coconut wholes were permitted within a ceiling subject to a minimum f.o.b. value of Rs. 24 per kg. Exports of live sheep and goats were allowed within an overall ceiling, subject to a minimum f.o.b. value of Rs. 12 per kg., while the minimum export price fixed for export of meat of Indian goat was Rs. 19 per kg. Exports of jowar, bajra and ragi were allowed subject to a ceiling at a minimum export price of Rs. 2,000 per tonne. The ceiling was distributed between NAFED and private trade. For viscose staple fibre yarn, the minimum export price was raised to Rs. 30 per kg. in March, 1988 from Rs. 18 per kg. and exports were allowed within a limited ceiling. Items such as chips made of sandalwood (with certain specifications), processed pulses made out of pulses imported under advance licensing scheme, passbook or by an approved 100 per cent export-oriented unit, and non-iodised salt were placed under OGL.

Exports of manufactured articles made out of specified species of snake-skins and benzene were canalised through the State Trading Corporation, while wheat seeds and paddy seeds were allowed to be exported through the National Seeds Corporation.

The exports of mulberry silk waste were allowed on merits. For silver bearing chemicals, electrical contracts and drug formulations, exports on consignment basis were not allowed under OGL. The exports of frog legs were banned.

Import Controls

Consistent with the policy of promoting exports, it was decided to allow import of machinery and raw materials liberally. Thus a number of commodities were placed under Open General Licence.

In April 1987, import of the following items were brought under Open General Licence (OGL) i) jigs, fixtures, dies and patterns (including contour roller dies) and press tools (excluding those appearing in Appendix I, Part A2 and 3, Part A of the import export policy of 1985-88 (Vol. I). ii) machinery equipments, testing apparatus, tools and implements required for the gem and jewellery industry and (iii) finished drug preparations, life saving and anti cancer drugs.

In May 1987, import of polyurethane leather used in the manufacture of foot-balls for the purpose of exports was brought under OGL.

In August 1987, 28 items of machinery used in the manufacture of sports goods were brought under OGL. These included 1) strap cutting machine, 2) flat bed double needle sewing machines, 3) post bed single needle sewing machine, 4) post bed single needle under-edge trimming machine, 5) sewing machine zib zag flat bed, 6) sewing machine cylinder bed, 7) automatic punching and eyeletting machine, 8) buckles tappling machine, 9) clicking machine hydraulic (bottom), 10) blind eye-letting machine (automatic), 11) heavy duty cylinder bed industrial sewing machine, 12) hole punching machine, 13) punches of all varieties, 14) band knife splitting machine, 15) multiple raw stiching machine, 16) two needle flat bed lock stitch industrial sewing machine, 17) three needle heavy duty chain stitch machine, 18) power driven, cloth cutting machine/tools, 19) label stitching machines, 20) heat transfer press, 21) button and rivet fixing machine and or dies thereof, 22) snap fasteners, 23) clicking die making machine, 24) stamping machine for uppers/linings/stocks, 25) button stitch sewing machine, 26) elastic inserting machine on variety of garments, 27) quiliting machine, 28) piping machine for trimming and embellishment fixing machine.

In September 1987 the following items of machinery used in the manufacture of bicycles and components of bicycles were brought under OGL.

i) Frames (including fork) making machine:

1) Automatic tube strengthening and cutting machine, 2) Tube swaging machine, 3) Tube poke rolling/tapering machine, 4) Special tube drawing and butting machine—single side butting and double side butting, 5) Special three roll thread rolling machine for tubes, 6) Special purpose machine for mitring/notching of the bicycle tubes, 7) Special machine for assembly of bicycle frames, 8) Continuous frame and fork brazing machine with suitable transfer arrangement, 9) Special machine for frame and fork machining, with or without transfer arrangement and with or without electronic control.

ii) Bicycle pu foam saddle moulding machine with accessories electronic control.

iii) Handle manufacturing machine:

1) Automatic high frequency brazing line, 2) Special automatic polish line with transfer arrangements for cycle parts.

iv) Friction parts manufacturing machines:

1) Multi station horizontal/vertical cold and hot forming machines, 2) Special purpose cold upsetting line, 3) Automatic nut tapping machines.

v) Rim manufacturing machines:

1) Rim plant including profiling, welding and sizing, 2) Special purpose automatic spoke hole punching machine, 3) Special purpose machine for rim joint grinding/polishing with electronic control, 4) Automatic transfer line for rim polishing with electronic control, 5) Automatic spoke lacing machine with electronic control, 6) Automatic tuning/alignment machine with or without robot with electronic control, 7) Machine for automatic assembly for tyre and tube on rim with or without robot with electronic control, 8) Automatic machine for swaged and standard spokes, with electronic control, 9) Automatic machine for nipple minimum 120 pcs./min. with header.

vi) Finishing Equipment:

1) High speed electrostatic paint applicator per set with electronic control, 2) Automatic paint change system per set with electronic control.

vii) Chain making plant (bicycle chain 3/32):

1) Automatic chain assembling machine.

Similarly 5 items of machinery used in the manufacture of garment/hosiery/made-ups was also brought under OGL. 1) Steam iron with/without gravity fed arrangement, 2) Dry to dry cleaning machine, 3) Dyeing machine for crimped yarn, 4) Automatic bobin winder, 5) Hand labellers for making the cloth after cutting.

In October 1987 export/trading houses were also permitted to import about 600 items which hitherto only actual users (industrial) were permitted to import.

Changes in Export Duties—1987-88

Export duties are altered from time to time with a view to impound some of the profits accruing to exporters out of favourable changes in international prices and demand conditions or to improve the competitiveness of export items in response to movements in factors such as domestic production, international demand for products, variations in prices prevailing in overseas markets and in exchange rates. However, only limited changes were effected in export-duty in recent years and during 1987-88 only one item, viz., coffee was affected. With the decline in coffee prices in international markets, the export duty on coffee was reduced significantly from Rs. 330 per quintal to Rs. 170 per quintal in May, 1987 (Appendix I-B).

Changes in Import Duties—1987-88

Changes announced in import duties during 1987-88 are presented in Appendix II-B and a resume of the major changes in import duties is detailed below.

During April 1987, a basic duty of 15 per cent was imposed on hot briquetted iron. Similarly there was a 5 per cent increase in the basic and auxiliary duties on Titanium sponge. In May the basic duty on light motor vehicles was reduced.

In June 1987 import duties were levied on tensilised polyester film amounting to 30 per cent basic duty, 5 per cent auxiliary duty and in addition a countervailing duty of Rs. 25 per kilogram. Magnetic tapes attracted a levy of 60 per cent basic duty while the basic duty on dead burnt magnesite was raised by 10 per cent to 55 per cent.

In July 1987 a basic duty of 25 per cent was levied on scientific and technical instruments, apparatus and equipments. In August 1987 a basic duty of 15 per cent with an addition of Rs 1,100 per tonne was imposed on iron or non-alloy steel hot rolled coils. In September a basic duty of 25 per cent and an auxilliary duty of 5 per cent was imposed on lithium carbonate.

In October 1987 N-Paraffin attracted a basic duty of 30 per cent and an auxilliary duty of 5 per cent.

In December 1987, a basic duty of 25 per cent was levied on spares and accessories of liquid nitrogen plants.

In order to give a boost to the industrial sector and to assist industries to export more, the budget for 1988-89 provided many relaxations in custom duties for several items. Thus, food processing and packaging industry was assisted with a reduction in custom duties in respect of 34 specified items from 55 per cent to 35 per cent ad valorem. Import duty on 235 specified drug intermediates was reduced from 115 per cent to 90 per cent ad valorem. The custom duties on import of medical equipment and spare parts was reduced substantially, more particularly on imports financed by non-resident Indians. In order to assist export thrust industries in the export-sector, certain selected items of machinery for garments and hosiery, leather industry, gems and jewellery, textile machinery, tea, bicycles, silk and woollen industries were allowed concessional customs duty of 35 per cent ad volarem. Ivory and ivory powder were totally exempted from custom duties to assit the ivory handicraft industry. The limits for duty-free import of commercial samples were liberalised. In order to assist machinery manufacturers certain selected items of raw materials which were required to be imported were charged reduced customs duty of 55 per cent as against the prevailing 100 to 180 per cent. Raw wool imported by certain specified handloom agencies was exempted from custom duties. The import duty of acetated filament yarn was reduced from 60 per cent to 45 per cent. Import duties on ployester staple fibre and ployester filament yarn were reduced by about 25 percentage points. With a view to providing a stimulus to the electronic sector, 280 items of machinery were extended concessional duties of 60 per cent ad valorem. Similarly components and raw materials required by the electronic industry were given custom duty concessions. Machinery and instruments required for the manufacture of rural automatic exchanges will attract lower rate of duty of 30 per cent. Many items of communication industry now attract a uniform rate of 100 per cent. Similarly, certain selected non-electric components and certain high-tech items relating to electronic industries were permitted to be imported at 15 per cent ad valorem. An uniform rate of 80 per cent plus countervailing duty was provided for all computers, computer systems, computer peripherals and spare parts thereof instead of multiplicity of rates prevailing earlier. Similarly, soft-ware and computerised numerically controlled systems will attract lower custom duties. Certain plastic materials also will attract lower custom duties as per the provision of the budget. Certain selected items of machinery for manufacture of newsprint were provided with concessional rate of custom duty of 25 per cent ad valorem. Similarly, binding and multi-colour sheet-fed offset printing machines will attract concessional rates of custom duties. In respect of 21 items of machinery for the rolling bearing industry, a concessional custom duty at 35 per cent ad valorem was provided. Certain horological machinery also will benefit by reduced custom duties. Energy saving equipments and certain equipments required by hotel industry will also get concessional custom duty. Components of fuel efficient two wheelers and light commercial vehicles will have to pay lower custom duties under the provisions of new budget.

Export Promotion Measures

Export promotion continues to remain an issue of high priority in view of the need to augment as much as possible the external resources to ease the pressure on balance of payments. Many new measures were taken by the Government in this regard during the year, which included steps to reinforce the infrastructure necessary to sustain a dynamic export effort through capacity expansion for export production and upgradation of technology. Further, improved access was provided to capital goods and raw materials at or near international prices to enable exports to be competitive in the external markets. Greater attention was provided to strengthen the marketing capacity of exporters. Broadly, the Government's ap-

proach was selective in identifying products, sectors and industries with good export potential and in providing a policy framework conducive to export growth. Some of the important measures taken in this regard are detailed below.

As mentioned in the last Report, 14 thrust commodities were identified and action plans were drawn, keeping in view their medium and long-term prospects.

The Cash Compensatory Support Scheme (CCS), which allows a remission of unrebated indirect taxes on inputs of exported products, was liberalised further. The policy of making proportionate reduction in CCS rates in individual cases where advance/imprest licences are for a value higher than normal REP was discontinued from July 1987. The existing policy of restricting the CCS ratio to the cut-off point of 25 per cent of value-added was continued and strictly enforced during the year and CCS was granted on nine additional items.

A comprehensive review of the Duty Drawback Schedule was made in April-May, 1987 and a new drawback rate schedule was brought into effect from June 1, 1987. The new schedule seeks to assist thrust industries having considerable exports potential and which are subjected to significant duties on their inputs. Thus considerable reduction in rates was effected for a number of export products, taking into account the burden of duties on various inputs of industries as compared to the average duties assessed last year. Items on which enhanced rates were fixed (with increase of more than 10 per cent over the earlier rates) included a large number of items of engineering goods, a number of specified bulk drugs, certain paints and pigments and a number of other miscellaneous products. To boost exports of electronic items and a number of identified products, "All Industry Rates of Drawback" were fixed for the first time. The list of products eligible for this benefit was enlarged.

The MODVAT System which sought to minimise the incidence of taxation on imports, thereby assisting the export industries to be more competitive in international markets was extended to cover food products, mineral products, leather goods, footwear, paper and paper board, wood and cork products, asbestos, cement products and precious metals.

It was decided that units exporting 25 per cent or more of their production and having captive power supply will be supplied diesel oil at prices comparable to international prices.

It was decided to extend the Export Credit and Guarantee Corporation (ECGC) cover on concessional terms to 'deemed exports'. Exporters will now have the option of availing the ECGC insurance cover for deemed exports on deferred terms. Also, Reserve Bank of India permitted the EXIM Bank to grant pre-bid clearance upto Rs. 20 crores (instead of the prevailing limit of Rs. 5 crores) for bids/offers for export of engineering goods on deferred payment basis.

The Government liberalised norms with regard to agency commission payment by exporters—upto seven and half per cent in the case of non-select products and twelve and half per cent for select products. Even higher agency commission payments were also allowed on approval by the concerned export authority or the Government.

Minerals and Metals Trading Corporation (MMTC) introduced a new scheme for the supply of imported non-ferrous metals to exporters holding valid advance licences with no service charge. Under this scheme, MMTC will arrange supplies of these metals against surrender of valid advance import licences, out of its stocks held in customs-bonded warehouses at Bombay, Calcutta and Madras on first come, first served basis at ex-bond selling prices to be fixed by the Inter-Ministerial Pricing Committee on a month-to-month basis.

An Agricultural and Processed Food Products Export Development Authority and a Spices Board were set-up in addition to the existing institutions for export promotion. Co-ordination committees were also set up with representatives of the Ministries, Export Promotion Agencies and Trade to go through operational and policy issues and boost exports in areas such as agriculture, leather, engineering and chemicals.

In April 1987, the Engineering Export Promotion Council was permitted by the Reserve Bank to establish a warehouse at Rotterdam in Netherlands to facilitate off-the-shelf sales of

engineering goods in Western Europe. Similarly, in January 1988, the Electronic Trade and Technological Development Corporation Ltd., was permitted to establish a warehouse in U.S.A. for promoting exports of Indian electronic goods in that market. The statutory time-limit prescribed for realisation of proceeds of exports made to Indian owned warehouses established abroad with the approval of the Reserve Bank was fixed at 15 months, as against the period of 6 months for other exports, considering the time required for sale of goods on 'stock and sale' basis.

Two Funds were established during the year by the Government of India to promote exports as part of a line of credit of $ 250 million from the World Bank. One Fund viz., the Export Marketing Fund managed by the Exim Bank will provide financial assistance to exporters for undertaking export marketing activities. The disbursals will be in the form of grants. The second Fund viz., the Productivity Fund managed by Industrial Credit and Investment Corporation of India (ICICI) will assist export thrust industries such as engineering and electronics for improving product design, production methods, quality control and maintenance systems, as also for upgrading their technology with a view to promoting export capabilities.

During the year, further liberalisations were effected in the Blanket Exchange Permit Scheme of the Reserve Bank of India. Exporters eligible for assistance from the ICICI under the Productivity Fund would also be considered eligible for issue of blanket permits under the scheme. Since March 1988, exporters of computer software are also eligible for issue of blanket exchange permits by the Reserve Bank of India upto 30 per cent of the net foreign exchange earned through exports of computer software in the previous year. The foreign exchange allocation for the first year will, however, be decided by the Inter-Ministerial Standing Committee set up by the Union Government. Public sector undertakings which were hitherto required to send their applications for blanket permits to the Union Ministry of Finance through their Administrative Ministries are now allowed to apply directly to the Reserve Bank of India.

The Reserve Bank evolved broad guidelines for undertaking overseas consultancy and technological service contract of various types under which they are now able to bid for overseas service contracts on deferred payment terms on a selective basis.

The Union Budget for 1988-89 included some additional measures to promote exports of which the most substantial was the 100 per cent exemption of export profits under Section 80 HHC of the Income-tax Act. This concession was extended to manufacturers exporting through trading and export houses also. A five-year tax holiday was also declared for 100 per cent export-oriented units in order to provide them identical status of units in the free trade zones. The Budgetary concessions on excise and customs levies were also aimed at inducing a number of industries to step up export efforts.

In line with the policy of providing concessional rates of custom duty for specific types of machinery for export-thrust sector, 8 more machines for garments and hosiery, 23 machines for leather industry, 4 more machines for gems and jewellery industry and 3 more items of textile machinery were declared eligible for concessional rates of 35 per cent. Specified items of machinery for tea, bicycles, silk and woollen industries were also declared eligible for concessional custom duty. Ivory and ivory powders were totally exempted from customs duty to encourage exports of ivory handicraft industry. The value limits of duty free import of commercial samples and those of prototypes of engineering goods were enhanced. Full rebate of excise duty on tea exported directly from factories was envisaged. Similarly, green tea was exempted from excise duty altogether. Electronics exports got further incentives under the budget proposals.

It was decided in principle that export production will not be taken into account for purposes of establishing dominance under the MRTP Act and it will be kept outside the licensed capacity. Further, undertakings with firm export orders were exempted from the requirement of obtaining industrial licence for fulfilment of a one-time export order.

The Government decided to allow imports of machinery and raw materials liberally, especially in the identified thrust areas to promote exports. In 1987-88, 19 items of machinery required for leather processing or leather goods manufactur-

ing industry were placed under Open General Licence (OGL). Also, 28 items of machinery required for manufacture of sports goods and 27 items of machinery required for manufacture of bicycle and bicycle components, 5 items of machinery required for manufacture of garment/hosiery/made-ups, 10 items of machinery required for the manufacture of forged handtools and 9 items of machinery required for gems and jewellery industry were placed under OGL. Thirteen items of life saving and anti-cancer drugs were placed under OGL for stock and sale. Imports of polyurethane leather for manufacture of footballs were also placed under OGL.

III. SPECIALISED FOREIGN TRADE AGENCIES

State Trading Corporation of India (STC)

State Trading Corporation of India (STC) plays an important role in the country's foreign trade as a major canalising agency for exports and imports. The exports of the Corporation have increased from Rs. 505 crores in 1986-87 to Rs. 578 crores in 1987-88—a rise of 14.5 per cent; while imports during this period increased from Rs. 2,157 crores to Rs. 3,061 crores.

Exports

During the year khandsari, molasses, ethyl alcohol and benzene were added to the list of canalised items covered by STC, while lemongrass oil, semi-processed hides and skin, footwear and closed leather shoes were deleted. The exports of canalised items increased to Rs. 183 crores in 1987-88 from Rs. 127 crores in 1986-87 and accounted for 32 per cent of STC's total exports as compared with 25 per cent in the previous year (Table X-6). Major increases were noticed under semi-processed leather and castor oil; export of these items showed an increase from Rs. 45 crores and Rs. 15 crores to Rs. 72 crores and Rs. 51 crores, respectively during the above period. Exports of non-canalised items also rose from Rs. 364 crores to Rs. 394 crores, or by 8.2 per cent.

Among the non-canalised items, exports of rice and foodgrains rose significantly from Rs. 6 crores and Rs. 2 crores in 1986-87 to Rs. 47 crores and Rs. 35 crores in 1987-88, respectively, whereas exports of tobacco, tea and jute goods increased from Rs. 5 crores, Rs. 10 crores and Rs. 12 crores to Rs. 11 crores, Rs. 17 crores and Rs. 19 crores, respectively. Smaller increases were also recorded in case of footwear and footwear components, RMG/cotton textiles/fabrics/coir products and engineering products and construction material. However, exports of coffee and instant coffee, finished leather and dyes and chemicals declined. Steep declines were noticed in case of processed food and fruits, spices, livestock, dry fish, meat and marine products and groundnut extractions/other extractions from Rs. 41 crores, Rs. 34 crores, Rs. 33 crores and Rs. 48 crores to Rs. 29 crores, Rs. 23 crores, Rs. 8 crores and Rs. 27 crores, respectively.

Imports

During 1987-88, imports of crude/mineral sodium borote were added to the canalised list of STC, while 20 items comprising chemicals, fibres, spices, paper, cement, etc. were deleted.

Import sales of canalised items increased by 41 per cent from Rs. 2,144 crores in 1986-87 to Rs. 3,019 crores in 1987-88. Commodity-wise, sales of imported edible oils recorded the largest increase of Rs. 898 crores (66.7 per cent) to Rs. 2,245 crores in 1987-88, due mainly to widespread shortage in the country in the wake of drought. Import sales of newsprint and fatty acids also rose during the year by Rs. 37 crores and Rs. 17 crores, respectively. However, there was a fall in sugar import sales from Rs. 384 crores in 1986-87 to Rs. 310 crores in 1987-88. Cement was not imported during the year, although last year their imports were placed at Rs. 12 crores. The imports of non-canalised items went up from Rs. 13 crores in 1986-87 to Rs. 42 crores in 1987-88.

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. Since

Table X-6: Exports and Imports by STC-Major Items

(Rupees crores)

	1986-87 (Provisional)	1987-88 (Provisional)
A. Exports		
I. Canalised		
Sugar	19	14
Semi-processed leather	45	72
Castor Oil	15	51
Opium	6	7
Salt	7	1
Others (including SBO re-export)	35	38
Total I	**127**	**183**
II. Non-Canalised		
Coffee and instant coffee	63	57
Tobacco	5	11
Tea	10	17
Foodgrains	2	35
Footwear and Footwear components	40	42
RMG/Cotton textiles/fabrics/coir products	6	13
Jute goods	12	19
Finished leather	8	6
Engineering products and construction material	10	12
Drugs and chemicals	19	18
Processed Foods and Fruits	41	29
Spices	34	23
Live stock, dry fish, meat and marine products	33	8
Groundnut extractions/other extractions	48	27
Seedlac/shellac	1	—
Rice	6	47
Others	26	30
Total II	**364**	**394**
Total (I + II)	**491**	**577**
Special Trading Arrangement (Off-shore trading)	**14**	**1**
Grand Total	**505**	**578**
B. Imports (Sales Value)		
I. Canalised		
Edibile oils	1347	2245
Newsprint	130	167
Sugar	384	310
Chemicals	112	112
Rubber	67	68
Cement	12	—
Drugs and Pharmaceuticals	9	7
Fatty acids	81	98
Others	2	12
Total I	**2144**	**3019**
II. Total non-canalised	**13**	**42**
Total (I + II)	**2157**	**3061**

then, the Corporation concentrated its attention on export activities.

Exports of cashew kernel by the Corporation were placed at Rs. 4.17 crores in 1987-88 as against the target of Rs. 5 crores. However, in relation to total exports of cashewnuts from India, the Corporation's share was negligible. Hong Kong and Japan emerged as major markets, accounting for more than three-fifths of the total exports of the Corporation in 1987-88. There were no imports of raw cashewnuts during the year.

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 the twin objectives of export promotion and trade development of handicrafts and handloom products. The HHEC exports included handicrafts (including hand-knitted woollen carpets), handloom fabrics, readymade garments, gold jewellery and silver jewellery/articles. From 1987-88 exports of silver jewellery and silver articles were also undertaken by the HHEC. The HHEC does not handle import trade.

Exports of the HHEC declined by 7.8 per cent from Rs. 71.5 crores in 1986-87 to Rs. 65.9 crores in 1987-88. Exports of gold jewellery dropped by 20 per cent from Rs. 52.6 crores to Rs. 41.8 crores during the year. Exports of carpets also declined from Rs. 5.7 crores to Rs. 4.0 crores. However, exports of handicrafts, handlooms and readymade garments showed increases from Rs. 2.3 crores, Rs. 5.5 crores and Rs. 5.4 crores in 1986-87 to Rs. 4.5 crores, Rs. 7.9 crores and Rs. 7.5 crores in 1987-88, respectively.

The HHEC has set a target of Rs. 98.2 crores for exports in 1988-89, inclusive of gold jewellery at Rs. 66.8 crores and silver jewellery and articles at Rs. 2.4 crores.

Tea Trading Corporation of India

The Tea Trading Corporation of India (TTCI), a wholly owned subsidiary of STC, seeks to promote tea exports particularly of value-added items like packet tea, tea bags, etc. Though dealing mainly in exports of tea, it undertakes sales in the domestic market also.

The Corporation exported tea worth Rs. 21.5 crores during 1987-88. A higher target of Rs. 36.2 crores of tea exports has been set for the year 1988-89. Of the total exports during 1987-88, agency sales amounted to Rs. 4.2 crores. Bulk tea (Rs. 3.0 crores), packet tea (Rs. 7.0 crores), green tea (Rs. 7.0 crores) and tea bags (Rs. 0.3 crore) accounted for the rest.

Trade Development Authority (TDA)

The Trade Development Authority (TDA), an export promotion institution under the Ministry of Commerce, strives to promote exports by offering its multi-dimensional services to exporters in India. TDA acts mainly as a catalyst and strives to concentrate on specific products, specific exporters, specific markets and specific buyers without entering into direct commercial transactions by itself.

TDA continued to be very active during the year ended March 1988. Its membership reached an all time high of 2,437 firms during the year 1987-88. The major activities of TDA during the year under review are discussed below.

During 1987-88, the TDA successfully organised two "India Promotion Programmes" in association with (i) Bijenkorf Department Store, Holland and (ii) Globus Department Store, Switzerland. Indian merchandise worth Rs. 6.84 crores was purchased by these stores. Additional orders were also received by Indian parties after this campaign. Further, the TDA organised Buyer-Seller Meets for engineering products in Sweden and for home furnishings in Osaka, Japan. Orders worth Rs. 27.65 crores were received and serious enquiries worth Rs. 5 crores were received during these meets.

The TDA organised three 'Integrated Marketing Programmes' during the year with the assistance of Commonwealth Secretariat/UNDP. The first programme related to export of leather goods and winter garments to U.K., West Germany and France. Under this programme, services of technical designers were requisitioned for design improvement of leather and winter

garments. A sales team visited these countries and export orders worth Rs. 33 lakhs were booked. The second programme related to marketing development of gold jewellery in Japan. It included a survey of market in Japan, hiring of an expert designer in India and visit of a sales-cum-display mission to Japan. This campaign resulted in receipt of export orders worth Rs. 9 lakhs. The third integrated marketing programme related to marketing of electronic components in U.S.A. Under this programme, consultants from U.S.A. were invited to India, market surveys were undertaken in U.S.A. and a sales mission was sent to U.S.A.

To promote specific products in foreign markets which offer export potential, TDA organised four Contact Promotion Programmes (CPP) viz., (i) CPP for export of chemicals and builders' hardware in Thailand and Singapore, (ii) CPP for computer software in West Germany, Netherlands, and U.K, (iii) CPP for processed goods in Kuwait and Saudi Arabia and (iv) CPP for forgings and castings in FRG and U.K. These programmes yielded export orders worth Rs. 33.50 lakhs and enquiries to the tune of Rs. 45 lakhs.

TDA continued to assist a large number of Indian manufacturers and exporters in displaying their products through specialised overseas trade fairs and exhibitions. Prominent among them were the Wescon Electronics Show, San Francisco, U.S.A., Auto Austullung, Frankfurt, West Germany, Singapore Informatics' 87, Singapore; and International Cycle and Motorcycle Exhibition, Milan. Export orders worth Rs. 29 crores were received through these exhibitions.

The TDA was awarded a number of consultancy projects during the year. One such consultancy project awarded by ITC/UNDP was for establishing modern trade information centres in six Export Promotion Organisations in the country. At the instance of the Ministry of Commerce, TDA has also initiated work in the preparation of action plans for boosting exports from North Eastern Region and West Bengal.

In the field of dissemination of export information, the TDA organised display of foreign product catalogues at 7 business centres in India. The purpose was to acquaint Indian business community about the types of products in demand abroad. It also arranged workshops and seminars for the benefit of exporters. Its trade information centre continued to cater to a large number of trade enquiries. TDA also publishes a weekly Trade Intelligence Bulletin besides periodical hand books and the same have been found to be quite useful to exporters. Market surveys on export potential of Indian goods in different countries were also conducted by the TDA during the year.

Free Trade Zones

Kandla Free Trade Zone (KFTZ)

Exports from Kandla Free Trade Zone (KFTZ) at Rs. 185 crores in 1987-88 showed a decline of 21.6 per cent from Rs. 236 crores in 1986-87.

Though exports from the Zone in 1987-88 were spread over 49 countries, the USSR continued to be the largest buyer, absorbing about 83 per cent of exports. However exports to the USSR declined substantially by 28 per cent from Rs. 213 crores in 1986-87 to Rs. 153 crores in 1987-88. Exports to the U.K. increased from Rs. 3.1 crores to Rs. 3.8 crores and to Saudi Arabia from Rs. 3.9 crores to Rs. 4.3 crores in 1987-88. Exports to France and Hungary, however, declined.

The number of units operating in the Zone increased from 122 at the end of March 1987 to 129 at the end of March 1988.

Santacruz Electronics Export Processing Zone (SEEPZ)

The Santacruz Electronics Export Processing Zone (SEEPZ) was established in 1974, exclusively for augmenting the exports of electronic goods. The Government, however, decided last year to establish a gems and jewellery complex also in SEEPZ. Construction for a gems and jewellery building consisting of 6 units was completed during the year. In all, the number of units working at the end of March 1988 was 74 as against 70 in the previous year. During 1987-88, exports from SEEPZ rose by 7.8 per cent to Rs. 110 crores from Rs. 102 crores in 1986-87. The share of SEEPZ in the total electronics exports from the country, however, declined to 35 per cent in 1987 from 42 per cent in 1986 due to substantial 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 and

components and peripherals, accounting for 62 per cent of total exports, followed by other electronic components (18 per cent) and computer software (11 per cent). Consumer electronics (8 per cent) and instruments and communication equipments (1.0 per cent) were other items in the export list.

The share of countries of the Far East in total exports from SEEPZ increased to 48 per cent in 1987-88 from 40 per cent in 1986-87. West Europe and U.K., however, maintained their shares at 8 per cent during the year. U.S.A. and Canada together accounted for 26 per cent of exports, while East Europe and USSR had a share of 16 per cent.

Madras Export Processing Zone (MEPZ)

The Madras Export Processing Zone (MEPZ) has developed rapidly and has received highly encouraging response from the prospective entrepreneurs, both domestic and abroad since its inception in 1984. An area of 98 acres has already been developed and the second phase to develop further area of 223 acres has been taken up to meet the growing needs. So far, 87 units have been licensed of which 28 units have commenced operations. These units manufacture readymade garments, electricals, engineering goods, plastics and rubbers, gems and jewellery, leather products, artificial flowers and toys, perfumery and packing material, textile etc. Out of the 87 units licensed, 41 involved foreign collaborations.

Value of exports from MEPZ during 1987-88 amounted to Rs. 16 crores as compared to Rs. 10 crores in the previous year. The target for 1988-89 is fixed at Rs. 30 crores. All infrastructural facilities such as power, water, labour, residential quarters, cargo handling facilities at Madras Port, warehouse facilities etc. have been provided. Besides, a 'single window' clearance system is in force under which the Development Commissioner is the sole authority to provide all the clearances and facilities expeditiously. Several fiscal and other incentives and subsidies are being made available by the Central and State Government for the units functioning in the zone. Nearly 55 non-resident Indians are participating in the already approved units.

NOIDA Export Processing Zone (NEPZ)

The Government has completed all the infrastructural developments relating to the NOIDA Export Processing Zone (NEPZ) with an investment of Rs. 12.82 crores. A total of 119 project proposals were received upto March, 1988, out of which 73 were approved. It was envisaged that 15 units would start functioning in the year 1987-88 with an export target of Rs. 20 crores. Though the target of setting up of 15 units was achieved, exports were lower at Rs. 16.0 crores due to inadequate power supply because of drought conditions.

Falta Export Processing Zone (FEPZ)

The Falta Export Processing Zone (FEPZ) continued to make good progress during the year under review. Infrastructural development such as land development, compound walls, roads, telephone exchange, housing for labour and supply of electricity for this Zone made considerable headway. The Union Government has incurred, so far, a total expenditure of about Rs. 14 crores of which about Rs. 3 crores was spent in 1987-88. The State Government has also spent so far about Rs. 11 crores for infrastructural development. At present 30 promoters have been licensed with investment proposals totalling Rs. 72 crores. These units when completed are expected to export Rs. 905 crores worth of goods with net foreign exchange earnings at Rs. 470 crores within 5 years. A variety of commodities like computer peripherals, electrical and electronic items, food processing goods, consumer goods, textile and garments and engineering goods will be produced in the Zone. Only 3 schemes relating to computer peripherals, mica products and tennis rackets were commissioned, so far. Only one unit, however, exported computer peripherals and mica products to USSR and Czechoslovakia amounting to Rs. 7.33 crores during the last 3 years.

Cochin Export Processing Zone (CEPZ)

An expenditure of Rs. 12.12 crores has been incurred by Government of India so far for development of infrastructural facilities in the Zone which is being developed in two stages. Land acquisition, construction of compound wall and service facilities under stage 1 will be ready

by end 1987-88. Water, power and telephone services have already been provided.

Out of 27 units licensed under this project uptill end-March 1988, 3 have come up and started production. These 3 units are engaged in the manufacture of natural essential oils, aromatic chemicals and rectified spices oils. Actual export during the year 1987-88 from this Zone amounted to Rs. 3.94 crores.

Five more units are expected to start production during 1988-89 and an export target for the Zone for the year 1988-89 has been fixed at Rs. 8.50 crores.

100 Per cent Export-Oriented Units (EOUs)

The scheme of 100 per cent export-oriented units (EOUs) was introduced in December 1980 to boost exports. Such units were required to undertake manufacture under Customs Bond and export for a period of 10 years in normal cases and 5 years in case of high technology products. Liberal imports of machinery and raw materials free of duty and domestic requirements free of excise duty are available to these units.

So far, the Board of Approvals has granted approvals to 878 applications. Of these, 249 approvals were cancelled and 22 units were debonded leaving 607 valid approvals. So far, 100 units have reported commencement of production and exports. The cumulative exports by 100 per cent EOUs upto the end of March, 1987 were estimated at Rs. 492 crores. Exports during 1986-87 upto which data are available were higher at Rs. 150 crores as compared with Rs. 131 crores during 1985-86.

Government have announced some measures for improving the viability of the units and strengthening their export capabilities on short-term and long-term basis within the scope of the Scheme. Briefly these measures are:

(i) 100 per cent EOUs may, with the prior permission of Government on a case by case basis, sell upto 25 per cent of their production in the Domestic Tariff Area (DTA), such sales being subject to the payment of appropriate duties;

(ii) extension of tax holiday for any continuous block of 5 years within 8 years of the commencement of production;

(iii) 100 per cent EOUs may sub-contract a part of their production for job work to units in the DTA on a case by case basis;

(iv) bonding charges for individual units having bonding arrangements are to be reduced from the level of 150 per cent to 100 per cent of the cost of customs staff;

(v) exemption of 100 per cent EOUs from the operation of Export Control Order on a case by case basis.

IV. TRADE AGREEMENTS AND ECONOMIC AND TECHNICAL COOPERATION AGREEMENTS

In order to boost Trade and Economic and Technical Cooperation for mutual advantage, Government of India enters into agreements with many countries periodically. While, some of these agreements stipulate specific items to be covered in a given period, others indicate only broad guidelines in this regard. In the latter case, annual protocols under these agreements are signed indicating in detail the commodities and the value of trade eitherway, taking into consideration, the international trading environment and the needs of both the countries. The exporters and importers of both the countries, therefore, find it very convenient to transact their business, in these parameters.

During the year, undre review, Trade Protocols were signed by India with many countries and the salient features of these protocols are given below.

A Trade Protocol with Czechoslovakia was signed in November 1987. It provided for a total trade turnover of Rs. 549 crores during 1988, comprising exports from India at Rs. 275 crores and imports from Czechoslovakia at Rs. 274 crores. The main items of exports to Czechoslovakia include deoiled cakes, cotton textiles, cotton yarn and finished leather. A number of new items such as hydraulic system for coal gassification plants and earthmoving machinery were added to the list of exports. Provision was also made for the exports of a number of engineering items.

The trade turnover between India and Poland is targeted at Rs. 594 crores comprising of Rs. 299 crores of imports from Poland and Rs. 295 crores of exports from India under the Indo-Polish Trade Protocol for 1988 signed on November 13, 1987.

The planned exports and imports are higher by 11 per cent and 27 per cent respectively over the trade plan projections of 1987. The main items of exports to Poland are bulk tea, de-oiled cakes, coffee, pepper, cotton yarn and cotton textiles and machinery items like machine tools, diesel engines etc. New items added in the 1988 trade plan of exports were alumina, printing machinery, workshop equipment, boilers and boiler tubes, repair materials for tyres and tubes etc.

India and Romania concluded a Trade Plan for 1988 in New Delhi on November 27, 1987, which provided for a total trade turnover of Rs. 740 crores representing an increase of 8 per cent over the 1987 target. Exports and imports by India would be approximately of the same value as per the plan. The main items of exports from India to Romania are iron ore, manganese ore, coffee, tea, de-oiled cakes, cotton textiles, finished leather, graphite-electrodes and crucibles etc.

The Indo-Soviet Trade Protocol signed on November 24, 1987 between India and the USSR provided for a trade target of Rs. 5,000 crores during 1988, comprising an equal amount of exports from India to the USSR and imports into India representing a 14 per cent growth over the 1987 target of Rs. 4,400 crores.

The Protocol aimed at diversification of trade. New items were added to the list of imports and exports. The main items of imports from the USSR are crude oil, oil products, non-ferrous metals, chemicals, fertilisers, raw materials such as newsprint, asbestos and a wide range of items of machinery and equipment. The new items added in the list of imports from USSR include plastic raw materials, machinery and equipment, lease of civil aviation air craft, coal for energy purposes, jet fuel, metal scrap, copper, timber, logs, match splints and exchange of consumer and industrial goods besides coking coal, soda ash, PVC, sawn goods, raw hides, waste paper etc. India's exports to the USSR comprise mainly of agricultural products, minerals and ores, textiles, chemicals and allied products, leather and leather goods including shoe-uppers and a number of engineering goods. Many new items were added to the list of exports such as methylene chloride, household chemicals, machinery and equipments, colour TV picture tubes, equipments and commodities procured from India by Soviet organisations and enterprises on the basis of exchange of consumer and industrial goods. Cooperation in the services sector was also taken into account in the Protocol. Another agreement was signed with the Soviet Union on November 24, 1987 to encourage new form of cooperation between the two countries in setting up of joint ventures, production cooperation, cooperation in services sector and for encouraging direct relations between the various organisations of the two countries.

India concluded a Trade Plan with the German Democratic Republic (GDR) in December 1987 which envisaged a total trade turn over of Rs. 540 crores comprising an equal value of imports to and exports from India. This would represent a growth of 10 per cent over the trade target of 1987. Major items of exports to the GDR that have been planned are leather and leather goods, shoe-uppers, coffee, spices, de-oiled cakes, iron ore, mica and mica products, textiles including garments, knit-wear and cotton grey cloth, jute manufactures and engineering items such as machine tools, hand tools, roller chains, automobile parts etc. The new items added to the export list are iron ore pellets, cashewnut shell liquid, castor oil based chemicals, organic and inorganic chemicals, petrochemicals, cotton yarn and made-ups of cotton cloth etc. The major items of imports from GDR include muriate of potash, rolled steel products, organic and inorganic chemicals, newsprint, photographic x-ray and other films, printing and mining machinery, machine tools, diesel generating sets etc. The new items added in the list of imports were micro-lithographic equipment, equipment for chemical and petrochemical industry, equipment for manufacture of electronic components, mainframe computers, image processing system for application in science, industry and medicine, active and passive electronic components including TV components, communication cables, titanium di-oxide and petrochemicals.

India's trade with Afghanistan is conducted in accordance with the terms of the Trade Agreement concluded in June 1978, which provides for transactions in freely convertible currencies. Imports of fresh fruits from Afghanistan is governed by a Memorandum Of Understanding (MOU) which provides for 90 per cent of the proceeds of fresh fruit imports to be utilised to finance exports of non-traditional items of exports from India to Afghanistan. The MOU has been extended upto March 31, 1989. The Indo-China Trade Protocol was signed on May 27, 1987 covering the period January 1, 1987 to March 31, 1988 to promote trade among them further.

An Agreement was signed between India and Sri Lanka in July 1987 to strengthen economic and trade relations further. This agreement also provides for setting up of more joint ventures in Sri Lanka.

V. IMPORT-EXPORT POLICY APRIL 1988 TO MARCH 1991

A new import-export policy was announced in March 1988 for a three year period from April 1988 to March 1991. The objectives of the policy are as under:

1) to stimulate industrial growth by providing easy access to essential imported capital goods, raw materials and components to industry and thereby achieve modernisation, technological upgradation and making the industry progressively competitive internationally.

2) to promote import substitution and self reliance

3) to give a new thrust to export promotion by improving incentives and

4) to simplify and rationalise policy and procedures.

The salient features of the new policy are briefly indicated below.

Open General Licences will be issued with the validity upto 31st March 1991. The licensing, however, will continue to be on an annual basis.

A list of 99 new items of industrial machinery used mainly in electronics, silk and tea industries has been included in the list of capital goods allowed for import under Open General Licence. Five items of capital goods have been shifted to restricted list having regard to their indigenous availability. In order to enable Indian exporters to be competitive in international markets it is proposed to allow manufacturer exporters exporting 25 per cent of their production subject to a minimum of Rs. 1 crore or units exporting a minimum of Rs. 10 crores, special considerations in the matter of import of capital goods. The new policy provides for import of capital goods by established exporters on the basis of price and delivery considerations, notwithstanding the indigenous availability of such capital goods.

The facility for import of computer systems subject to export obligations under the Software Export Scheme has been continued. The OGL facility has been made available for import of specific computer systems.

Actual users (industrial) will continue to be eligible to import under OGL, raw materials, components and consumables which are not in the banned/restricted, limited permissible or canalised lists. The list of items under OGL has been expanded and now stands at 944. These items can also be imported by export houses and trading houses against additional licences. The facilities for import of restricted and limited permissible items by actual users under the supplementary licensing procedure has been continued. Supplementary licences can now be utilised for import of any other items appearing in the limited permissible list and required by an actual user upto 10 per cent of the value of licences subject to a maximum of 20 lakhs within the overall value of the licences.

Under the modified procedure, capital goods industries manufacturing tailor-made items can now import 50 per cent of the requirements of raw materials and components of capital goods immediately on application and the balance after approval. Actual users have been permitted to import restricted spares on the basis of value of machinery installed. Similarly, import of spares by manufacturers of capital goods for providing after sales/warranty coverage has been continued. Indian agents for foreign machinery/instrument manufacturers are also eligible for imported spares. The policy also provides for import of spares by consultancy, designing and engineering firms subject to certain value specifications. State Electricity Boards/Projects will be eligible to im-

port emergency spares under OGL. This facility has also been extended to departmentally-run undertakings and railways.

Imports of many items have been decanalised. Only items which are bulkable in nature or having a large number of actual small-scale users or where there are advantages in importing through canalising agencies have been retained in the canalised list. On this basis, import of 26 items have been decanlised. Trading houses are also allowed to import canalised items for promoting exports. The facility of import of capital goods, raw materials, components under OGL has been extended to the department of Posts and Telecommunications, Railways, Doordarshan and All India Radio. Requirements of research and development organisations, hospitals and institutions of higher education continue to be made available under OGL. Licences can also be issued for capital goods and components for actual users (non-industrial) and spares for workshops engaged in repairs of machinery and equipments and vehicles and consumer electronics service centres for their requirements.

The new policy continues special import facilities relating to capital goods which are in the OGL list for non-resident Indians/persons of Indian origin for setting up a new unit or participating in the expansion/diversification of existing units. Besides, they are permitted to import capital goods other than those in the restricted list under OGL upto a landed cost of Rs. 35 lakhs. Imports can also be made by them for setting up of amusement parks. However, no foreign exchange remittance is permitted either for imports or for repatriation of capital and profits. The non-residents have to use their own foreign exchange resources abroad.

Life saving equipments/drugs/X-ray intensifying screens have been put under OGL for import by all persons/institutions/clinics with enhanced limits. Imports of office machines have been liberalised. The policy also provides for grant of licences to public sector undertakings and export houses/trading houses for bulk import of raw materials and components for distribution to actual users, with higher monetary ceiling. Facility for import of video equipments and cameras to professionals has been continued. Several facilities to meet import of capital goods/raw materials, components, consumables, and spares for small-scale units have been offered under the new policy.

The corner stone of the new policy is the modified import replenishment scheme which is sought to be developed as a major policy lever for export promotion. Under the new import policy, exporters are entitled to get import replenishment licences to replenish the raw materials and components used in the manufacture of the products exported. The scope of export products qualifying for import replenishment has been considerably widened to include new items. The import coverage of the replenishment scheme has been broadened so as to enable exporters to import raw materials and components and diversify their production and automatic flexibility has been built into all REP licences on the basis of 10 per cent of net value addition. Import of capital goods upto Rs. 10 lakhs would also be allowed without indigenous clearance. It is expected that these facilities would make imported raw materials, components and capital goods available to the industry without going through the procedural delays attendant on actual user licences. The REP licences will be endorsed for the flexibility right in the beginning, thereby introducing procedural simplification in the scheme. One of the important innovations in the new policy is the encouragement sought to be given to the indirect exporters, i.e. those who provide the inputs to the final exporters. Deemed export benefits will now be available to all indigenous suppliers against duty-free licences. This would encourage holders of duty-free licences to procure the required inputs from indigenous sources, thus resulting in foreign exchange conservation, more value addition and efficient capacity utilisation.

Over the years, the Duty Exemption Scheme which permits the import of raw materials, components, consumables and spares meant for export production duty free has developed as an important insturment of export promotion.

Under the Intermediate Advance Licensing Scheme, duty-free advance licences are granted to registered manufacturer exporters for the supply of intermediate products to an exporter holding a duty-free advance licence. This scheme enables manufacturer exporters of an export product to obtain the supply of intermediate inputs

from the indigenous sources rather than resorting to import. This scheme which was limited to only a few specific products is being broadened to cover all items where two-stage operation can be undertaken jointly by two different manufacturing units as long as the input-output norms and forward and backward linkages are established. This is the second significant innovation which seeks to provide benefits to indirect exporters. Both the manufacturer and the final exporter would be jointly and severally responsible for the fulfilment of the export obligation. This provision is likely to result in saving of foreign exchange and also better utilisation of the indigenous manufacturing capacity.

The facility for importing duty free raw materials and components is currently available under the Import-Export Passbook to manufacturer/exporters having a proven track record and to export houses/trading houses. In the new policy, the coverage of the passbook scheme is being extended to bring within its purview, manufacturers who are well established in the domestic market and having a stipulated turnover. Special REP facility has also been provided to passbook holders at the rate of 10 per cent of value addition achieved by them.

The policy has recognised that in order to promote exports it is essential to develop a strong marketing organisation. Keeping this in view, the scheme of export houses/trading houses has been totally revamped by liberalising the criteria for the eligibility/and providing incentives such as additional licences for better performance to such organisations. Exports of goods manufactured by Small scale industries and cottage industries are given special incentives.

In view of the impressive performance in the exports of gems, special facilities have been given for exporters of gems and jewellery. Thus, procedures have been simplified and incentives given to achieve a breakthrough in this field. Some policy measures have been devised especially for the export of gold and silver jewellery in order to provide the necessary impetus. Considering that numerous small units are involved in cutting and polishing activity, non-transferable diamond imprest licences for diamonds will be granted without Actual User condition. The replenishment facility has been introduced for studdings based on the value addition over and above that stipulated on the metal itself. This has facilitated import of raw materials, components and consumables and capital goods. Wastage on a graded scale upto 10 per cent has been permitted. Facilities available for export of gems under export promotion zones, free trade zones and 100 per cent export oriented units continue.

The export policy has been thoroughly reviewed and simplified and made easy to operate. Controls on exports have been reduced to the minimum both in the coverage and nature of restrictions. The system of quota licensing and free licensing has been abolished. Similarly, licence on first come first served basis has also been abolished. Export of items under ceiling has been partially linked to highest foreign exchange unit value realisation. Export licence/hitherto valid for 45 days will now have a validity of 6 months or 31st March of the licensing year, whichever is earlier. Exports of samples and upper value limits for the same have been enhanced and rationalised. Further, 69 items have been totally decontrolled, 30 placed on 'merits', 21 under 'Limited Ceiling' and 33 under, 'OGL'.

For the first time, an Export Licencing Committee under the chairmanship of Chief Controller of Import and Exports has been constituted to consider applications for items placed 'on merits' and export of samples over and above the upper value limits.

VI. INTERNATIONAL TRADE NEGOTIATIONS

Global System of Trade Preferences (GSTP)

The scheme of Global System of Trade Preferences (GSTP) to promote co-operation in trade among developing countries made further progress during the year. It may be recalled that it was the ministerial meeting of the developing countries held in New Delhi in July, 1985 which provided the thrust to the preparatory work needed to launch the actual negotiations. The Brasilia Ministerial Meeting of 1986 of the participating countries launched the first round of negotiations under GSTP. The GSTP envisages exchange of preferences in tariff as well as non-tariff areas. The negotiations are open for par-

ticipation by the developing countries who are members of G-77.

On April 13, 1988 the third ministerial session of the negotiating committee on GSTP adopted the Belgrade Declaration and finalised the agreement, opening the way for the operations of the system. While 45 countries had negotiated bilateral concession up to April 9, three more (Angola, Guyana and Zimbabwe) were able to join as a result of special procedures evolved by the Bureau and the negotiating committee. On April 13, 46 countries signed the agreement. Signatory countries were urged to ensure early ratification of the treaty, which will enter into force a month after 15 of them from the three G-77 regions deposit their instruments of ratification. Ministers have also set in motion preparations for the next round of negotiations, which will be launched by a committee of the participants once the agreement enters into force.

The Generalised System of Preferences (GSP)

In view of the postponement of the fifteenth session of the Special Committee on Preferences which was scheduled to be held in October 1987, a symposium was organised on GSP to evaluate the scheme. The symposium organised by the UNCTAD in Thailand during October 5-8, 1987 addressed itself towards fulfilling the three main objectives of the GSP, viz. increasing the export earnings of developing countries and consequently achieving industrialisation and economic growth. The GSP schemes of the EEC, Japan and the United States which together account for the bulk of GSP imports by preference-giving countries were selected for study. The study concluded that the removal of preferences, product-wise and/or country-wise, had generally reduced the import shares of affected beneficiaries, either absolutely or below their trend, particularly in the case of the U.S. GSP scheme. Moreover, the removal of preferences has not in general increased the import shares of the less competitive beneficiaries implying that the modifications in the preference schemes had not achieved their stated objectives to distribute more equitably GSP benefits among major and minor beneficiaries; on the contrary it unduly limited the benefits for the former. Though tariff preference had a positive influence on trade flows, in the case of less competitive developing countries, they were not sufficient stimulant for enhancing exports and thereby development prospects. It was concluded that substantial improvements in the GSP were therefore required through expansion of product coverage, particularly agricultural products (as this would increase the benefits for the less competitive beneficiaries) and simplification of the GSP schemes so that they may be more easily administered at a lower cost.

Common Fund for Commodities

With Madagascar, Congo and the Soviet Union having ratified the Common Fund Agreement for Commodities,the number of countries ratifying the agreement reached 99 (during the three months ending mid-January 1988) accounting for US $ 310.2 million or 66 per cent of the Fund's directly contributed capital (DCC). Now, only 0.67 per cent of DCC is required to be contributed to fulfil the requirement of the minimum of two-thirds of DCC for the Fund to become operational. Countries such as Costa Rica, Portugal and Thailand which signed and/or expressed their intention at UNCTAD VII Conference in July 1987 to ratify the Common Fund (CF), or those like Maldives, Mauritania and Laos (whose capital contributions have been promised by OPEC) may soon ratify and provide the balance of the DCC requirements. Entry into force of the CF in the near future, therefore appears likely.

International Agreement/Co-operation in respect of selected commodities

Coffee

The forty-eighth session of the International Coffee Council held in London agreed to reintroduce market control measures for the final two coffee years of the 1983 Agreement. For the coffee year 1987-88 an initial annual global quota of 58 mn. bags was established. However, in coffee year 1988-89 an "objective formula" has been devised for calculating the market shares of those exporting members who are entitled for basic quota. This consists of a fixed component related to the members' average exports and average export availability during recent years and a variable component related to the level of verified stocks of exportable quality coffee. In calculating a

country's market share, the two components are weighted in a ratio of 84:16, respectively, with the proviso that any resulting change in its quota is limited to one-third of the difference between its share of the total quota of exporting members entitled to a basic quota, as determined by the formula and its corresponding share in the initial annual quota for the 1987-88 coffee year. For the first quarter of the 1987-88 coffee year the Council instituted transitional arrangements in the operation of export quotas with the aim of raising market prices to US cents 120 per lb. from January 1, 1988. The export quota arrangement will be used with the aim of maintaining prices within a range of US cents 120-140 per lb.

Sugar

Following the failure of the 1987 International Sugar Agreement to come into effect on January 1, 1988, a special session of signatory states and others provisionally applying its terms was held in London on February 10, 1988 to decide whether the Agreement is to be brought into force among themselves. There was a positive response with a number of countries indicating their willingness to join the Agreement. On March 24, the interested countries decided to put the 1987 ISA into force among themselves in the hope that others (notably Brazil) would seek membership later. At present, 29 exporting countries (including major exporters, viz., the EEC, Australia and Cuba) and 9 importing countries have signed the Agreement, which is due to expire on December 31, 1990, with the option of a two year extension. India is also a member of the Agreement; although the Agreement, like its predecessor, is purely administrative it could provide a forum for negotiation on a market stabilisation facility.

Natural Rubber

On the expiry of the 1979 International Natural Rubber Agreement (INRA) on October 1987, a new INRA has been successfully negotiated and signed by countries accounting for 75 per cent of global natural rubber exports and imports (the minimum participation needed for the Agreement to become operational). However, its ratification by signatory governments may not be achieved before the end of 1988. The International Natural Rubber Council which met in Kuala Lumpur, Malaysia, on April 26-28, 1988, reportedly urged member countries to expedite ratification of the New International Natural Rubber Agreement before it comes into operation from January 1989.

GATT

The Uruguay Round

Mention was made in the last year's Report about the decision of the Ministers of contracting parties to the General Agreement on Tariffs and Trade (GATT) in the eighth round (called The Uruguay Round) to launch a new round of Multilateral Trade Negotiations (MTN). According to the Uruguay declaration, the trade negotiations were to begin by October 31, 1986 and conclude within four years. The declaration on trade in goods called for a standstill and rollback on trade restrictive measures or trade destructive measures under which governments undertook not to increase existing levels of protection and phase out their existing breaches of GATT discipline.

The areas covered by Multilateral Trade Negotiations and the setting up of groups to carry out negotiations were also referred to in the last Report. The 14 negotiating groups thus set up carried on the negotiations on various aspects. By the end of 1987, some 160 submissions and proposals were made. While there was widespread endorsement of the technical progress achieved, it was not possible to complete the initial phase of the work programmes of most of the negotiating groups within a single year, as originally envisaged, and many elements will therefore continue to be examined in 1988. Concern has, however, been expressed over the dichotomy between progress within the negotiations and the continuing deterioration of the world trading environment, most notably in relation to the failure of the Uruguay Declaration's standstill commitment to prevent further increases in protectionism. Understandably participants differ on the extent to which negotiations have adequately addressed the specific issues and broader concerns such as differential treatment of developing countries. Several areas also remain on which divergences exist, both of approach and of position, especially as regards services and trade-related investment measures.

On February 18, 1988, the Group of Negotiations on Goods (GNG) reviewed progress in the first year of the negotiations on trade in goods. While the generally satisfactory situation was acknowledged, several developing countries expressed concern at the uneven pace of the progress, which in areas of importance to them (including textiles, safeguards, tropical products, agricultural, tariff and non-tariff measures) was inadequate. They also underscored the need for the negotiations to give more attention to the issue of special and differential treatment for developing countries—particularly the least developed among them—and parallel progress on monetary and financial issues. Many contracting parties focussed on the necessity of respecting standstill and rollback commitments.

A special meeting of Trade Negotiations Committee (TNC) held on February 15, 1988 decided to hold a ministerial level session in Montreal, Canada, during the first week of December 1988 for a mid-term review of the Uruguay Round.

Chapter XI

Balance of Payments and International Monetary Developments

I. Balance of Payments Developments

Balance of payments data for the year 1987-88 are available only for the first quarter, i.e., April-June 1987. These show a contraction in the current account deficit from Rs. 1,789 crores during April-June 1986 to Rs. 1,367 crores in April-June 1987 due both to a reduction in the trade deficit and an improvement in net invisible receipts. During the quarter, although imports at Rs. 6,170 crores increased by 11.2 per cent, this was more than offset by a sharp rise of 27.3 per cent in exports to Rs. 3,871 crores. Consequently, the trade deficit narrowed down by Rs. 208 crores (8.3 per cent) from Rs. 2,507 crores in April-June 1986 to Rs. 2,299 crores in April-June 1987. Besides, net invisible receipts (including official transfers) showed an improvement from Rs. 719 crores to Rs. 932 crores due to a substantial increase in travel receipts by 30.1 per cent and private transfers by 30.6 per cent. There was a turnaround in miscellaneous transactions from a deficit of Rs. 35 crores in April-June 1986 to a surplus of Rs. 24 crores in April-June 1987. However, there was an increase in net outgo on account of transportation (by Rs. 72 crores) and investment income payments (by Rs. 87 crores).

The net capital inflow during April-June 1987 at Rs. 1,279 crores was higher by Rs. 226 crores or 21.5 per cent than that in the corresponding quarter of 1986, due mainly to a turnaround in banking capital movements (Rs. 46 crores) and higher miscellaneous official capital receipts, which more than offset a fall in net private capital receipts (Rs. 174 crores) and net official loan receipts (Rs. 44 crores) and higher outgo on account of official amortisation payments by Rs. 418 crores. Repurchases from the IMF amounted to Rs. 207 crores as against Rs. 100 crores in April-June 1986. The net capital inflow, net of repurchases from the IMF during April-June 1987 financed 79 per cent of the current account deficit including "errors and ommissions" and the balance was met by a drawdown on reserves. Thus, as the current account deficit was lower and net capital inflow higher, fall in reserves during the quarter at Rs. 340 crores was smaller as compared with that of Rs. 576 crores in April-June 1986 (Table XI-1).

Data for the first quarter of 1987-88 and available information for the remaining quarters of the year, indicate that India's balance of payments position continued to be under pressure during the year 1987-88. The current account deficit which had slightly come down in 1986-87 to Rs. 5,830 crores is likely to be higher in 1987-88. Repurchases from the IMF were substantially higher at Rs. 1,209 crores than those of Rs. 672 crores in the pevious year. As a result, India's foreign exchange reserves (foreign currency assets of the RBI, gold and SDR holdings) recorded a decline of Rs. 465 crores during the year under review as against an increase of Rs. 331 crores during 1986-87. In SDR terms, India's foreign exchange reserves declined by SDR 627 million during 1987-88 as compared with a fall of SDR 615 million in 1986-87.

Invisible transactions (including net official transfers) had resulted in a surplus of Rs. 3,524 crores during 1986-87. Based on available information, net invisible receipts during 1987-88

Table XI—1: India's Balance of Payments

(Rupees crores)

Items	April-June 1987	April-June 1986
1. Imports, c.i.f.	6,169.8	5,547.3
2. Exports, f.o.b.	3,870.9	3,040.1
3. Trade Balance	−2,298.9	−2,507.2
4. Non-monetary gold movement (net)	—	—
5. Official transfer payments (net)	+87.8	+44.9
6. Other invisibles (net)	+843.6	+673.6
7. Current Account (net)	−1,367.5	−1,788.7
8. Capital Account (net)		
i) Private	+327.7	+501.5
ii) Banking	+22.9	−22.7
iii) Official		
—Loans	+989.3	+1,033.2
—Amortisation	−800.9	−382.7
—Miscellaneous	+946.8	+23.6
9. Total Capital Account (net)	+1,485.8	+1,152.9
10. IMF	−206.6	−100.0
11. Capital Account and IMF	+1,279.2	+1,052.9
Current Account, Capital Account and IMF	−88.3	−735.8
13. Errors and omissions	−252.1	+160.0
14. Reserves and monetary gold (decrease +)	+340.4	+575.8

are likely to be higher than in the previous year mainly due to higher travel receipts consequent on a 7.7 per cent increase in tourist arrivals in India during the year (which was, however, substantially lower than the growth of 23.0 per cent in the perevious year). Receipts on account of private transfers representing mainly inward remittances from non-resident Indians might be higher, reflecting partly funds brought in by Indians returning from abroad and larger remittances by non-resident Indians from developed countries. However, interest payments on foreign borrowings both on concessional and commercial terms, would continue to show an increase as in the past few years. Payments in respect of other items of invisibles such as foreign travel, transportation and miscellaneous payments might have increased somewhat in 1987-88. On the capital account side, the net inflow or external assistance (exclusive of official grants) during the year at Rs. 3,073 crores was higher by 64.7 per cent than in 1986-87. During 1987-88, use of commercial borrowings, however, was somewhat lower than in 1986-87. Net inflow under NR(E)R Accounts (excluding estimated interest) during 1987-88 at Rs. 409 crores was lower by Rs. 76 crores or 15.7 per cent than the net inflow of Rs. 485 crores in 1986-87. Net inflow under FCNRA Scheme during the year at Rs. 1,398 crores was higher by 19.6 per cent than in the previous year. Repayments to the IMF (including repayments under the Trust Fund Loan) amounted to Rs. 1,388 crores during 1987-88 which were higher than the repayments of Rs. 840 crores in the previous year.

Developments in Reserves

The foreign currency assets of the Reserve Bank declined by Rs. 358 crores during 1987-88 (April-March) as against an increase of Rs. 261 crores in 1986-87.

The SDR holdings declined by SDR 69.7 million during 1987-88. In the previous year, these had shown a rise of SDR 24:3 million. During 1987-88, repurchases from the IMF under EFF amounted to SDR 704.2 million; payment of

charges on the use of Fund resources and interest on SDRs aggregated SDR 257.1 million. Acquisition of SDRs during the year amounted to SDR 855.0 million. Receipts from the Fund by way of remuneration, interest on SDR holdings and interest subsidy amounted to SDR 13.3 million, SDR 7.8 million and SDR 15.5 million, respectively. During 1986-87, repurchases from the IMF in SDRs had amounted to SDR 431.3 million. Charges paid to the Fund were placed at SDR 298.8 million. Acquisition of SDRs during 1986-87 amounted to SDR 705.0 million. Receipts by way of remuneration, interest on SDR holdings and interest subsidy were placed at SDR 14.1 million, SDR 9.9 million and SDR 25.4 million, respectively.

Gold holdings of the Reserve Bank remained unchanged at the previous year's level of Rs. 274 crores (valued at the statutory price of Rs. 84.39 per 10 grammes).

During the first quarter of 1988-89 (i.e. April-June 1988), the foreign currency assets of the Reserve Bank fell by Rs. 1,468 crores as compared to a fall of Rs. 369 crores in the corresponding quarter of 1987. The SDR holdings increased by SDR 9.7 million to SDR 79.4 million. Repurchases under the EFF amounted to SDR 158.3 million and charges on the use of Fund resources and interest on SDRs totalled SDR 31.1 million. Acquisition of SDRs during the quarter amounted to SDR 195.0 million. Receipts by way of remuneration and interest on SDR holdings amounted to SDR 2.9 million and SDR 1.2 million, respectively. In April-June 1987, SDR holdings had declined by SDR 31.8 million. Gold holdings of RBI remained unchanged at Rs. 274 crores during April-June 1988. On the whole, foreign exchange reserves (foreign currency assets of RBI, gold and SDR holdings) fell by Rs. 1,446 crores as compared to that of Rs. 424 crores during the corresponding quarter of 1987. In SDR terms, the foreign exchange reserves declined by SDR 888 million in April-June 1988 as compared to that of SDR 206 million during April-June 1987.

II. Foreign Investment: Policy and Developments

The liberal policy of encouraging direct and portfolio investment by non-residents of Indian nationality/origin and by overseas corporate bodies owned to the extent of 60 per cent or more by such non-resident Indians was continued during 1987-88. In the Budget for 1987-88, the Government of India had announced that income accruing to NRIs on transfer of foreign exchange assets and held by a non-resident for a period of more than 3 years will be treated as long-term capital gains and shall also be subject to income tax at the flat rate of 20 per cent. However, if the NRIs reinvest or deposit the net proceeds realised on transfer of any foreign exchange asset in any other 'specified asset' or NRE account in any bank in India or in Savings Certificates within six months of transfer, no tax will be levied. Besides, the Government declared certain facilities such as (a) permission to authorised dealers to allow repatriation of sale proceeds of shares (effected under Section 19(5) of FERA 1973) abroad or credit thereof to the NR(E)R accounts of the sellers after payment of taxes in India, and (b) extension of permission to consider the applications for grant of rupee loans/overdrafts to NRIs for investments in India against fixed deposits held in the borrowers' NRE/FCNR accounts subject to the condition that investment cannot be made in commercial activities, agricultural/real estate business, predominantly internal trading activities as also in portfolio investments (vide Section VII—Developments in Exchange Control).

Data on foreign investment in India during the year 1987-88 are not yet available. During the year, there was a decline in the approvals for direct investment by non-resident Indians with full repatriation rights. The number of such proposals approved by the Reserve Bank of India during the year totalled 277 as compared to 436 in 1986-87. The amount involved was Rs. 178.00 crores which was considerably lower than that of Rs. 423.21 crores during 1986-87. As in the past, approvals granted for investment under 40 per cent scheme at Rs. 160.02 crores accounted for bulk of the investments (90 per cent) approved; such approvals granted during 1986-87 were placed higher at Rs. 410.38 crores or 97 per cent of total investments approved. Approvals, under the 74 per cent scheme during 1987-88, however, increased to Rs. 17.98 crores from Rs. 12.83 crores in 1986-87. The proposals approved under direct investment on non-repatriation basis increased from Rs. 57.66 crores in 1986-87 to Rs. 64.23

crores in 1987-88.

The number of approvals granted for portfolio investments on repatriation basis, declined from 974 in 1986-87 to 919 in 1987-88. However, the amount invested by banks on behalf of their non-resident constituents through stock exchange remained at around the previous year's level of Rs. 5.5 crores.

In regard to foreign collaboration in Indian industry, the number of approvals granted during the year declined marginally by 4.2 per cent from 930 to 891. Such approvals granted in 1986-87 had declined by 5.0 per cent. Of the approvals granted during 1987-88, 636 or 71 per cent (as against 72 per cent in 1986-87) were for pure technical collaboration, drawings and design and 255 for technical-cum-financial collaboration. The emphasis on technical collaboration would enhance the productivity and efficiency of Indian industries and in the long-run is expected to improve the competitiveness of Indian export industries and reduce dependence on foreign imports.

During 1987-88, three 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 1988, the number of foreign companies complying with FERA directives stood at 369. The remaining 20 companies to whom directives for Indianisation/ dilution of foreign equity holdings had been issued were at various stages of compliance such as issue or transfer of shares, winding up, etc. Thus, by end-March 1988, 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 section 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 declined by 4.6 per cent to Rs. 5,868 crores in 1987-88 from Rs. 6,149 crores in 1986-87. The number of consents issued to these companies for raising capital from non-residents was higher at 205 in 1987-88 as compared to 183 in 1986-87, while the total amount involved was lower at Rs. 202 crores than Rs. 238 crores in 1986-87. As a result, the share of non-residents in the value of total consents fell from 3.9 per cent in 1986-87 to 3.5 per cent in 1987-88 (Table XI-2).

The fall in the value of consents granted for raising capital from non-residents was noticed mainly under debenture issues and loans. The value of consents issued to non-residents for debenture issues which more than doubled from Rs. 35 crores in 1985-86 to Rs. 72 crores in 1986-87 declined sharply to Rs. 9 crores in 1987-88. Their share in total debenture issues also came down from 1.8 per cent in 1986-87 to 0.2 per cent during the year. The value of consents issued to non-residents for raising loans which declined by 27 per cent in 1986-87 to Rs. 63 crores, came down further to Rs. 30 crores during 1987-88 and their share in the value of total loans consented to be raised declined from 38.8 per cent in 1985-86 to 20.6 per cent in 1986-87 and further to barely 4.3 per cent in 1987-88. The value of consents issued for further issues to non-residents also declined somewhat from Rs. 30 crores in 1986-87 to Rs. 26 crores in 1987-88, but their share to total further issues increased marginally from 4.3 per cent to 4.9 per cent during this period.

The value of consents for initial issues to non-residents increased sharply from Rs. 29 crores in 1986-87 to Rs. 66 crores in 1987-88 and their share in total consents for initial issues rose from 3.5 per cent to 10.7 per cent during this period. The value of consents for bonus issues registered an increase from Rs. 45 crores in 1986-87 to Rs. 72 crores in 1987-88 and their share in the total rose from 12.7 per cent to 24.3 per cent during this period.

Thus, during 1987-88, consents issued to non-residents for initial issues and bonus issues went up by Rs. 37 crores and Rs. 27 crores, respectively, over the previous year. This increase, however, was more than offset by a decline in consents for loans by Rs. 33 crores, further issues by Rs. 4 crores and debenture issues by Rs. 63 crores. As

a result, the total approvals for non-residents declined by Rs. 36 crores over 1986-87, as against an increase of Rs. 49 crores in the previous year.

India's policy to actively participate in the developmental efforts of other countries especially the developing countries by way of encouraging and promoting joint ventures abroad was enthusiastically pursued during the year. As at the end-December 1987, the number of joint ventures *in operation* abroad went up to 158 from 150 as at the end-December 1986. In addition, 24 joint ventures were at different stages of *implementation*. Equity participation by Indian companies in joint ventures in operation abroad stood at Rs. 93.12 crores (including bonus shares) at end-December 1987 from Rs. 92 crores at end-December 1986. The approved Indian equity in Indian joint ventures under implementation increased marginally from Rs. 18.00 crores at end-December 1986 to Rs. 18.43 crores at end-December 1987. Approximately 60 per cent of operating joint ventures are concentrated in developing countries of Far-East and South East Asia. Details regarding inflow of remittance from Indian joint ventures abroad are given below:

(Rupees crores)

Year	Dividends	Other Repatriation*
1985	9.3	29.6
1986	11.6	34.8
1987	18.7	32.5

Note * Include fees for Technical know-how, engineering services, Management Fee, Royalty, etc.

Source: Ministry of Commerce, Government of India, New Delhi.

As may be seen from details given above, remittance received from abroad by way of dividends increased to Rs. 18.7 crores during 1987 from Rs. 11.6 crores in 1986. However, amounts received by way of fees for technical know-how, engineering services and consultancy fees, etc., declined from Rs. 34.8 crores in 1986 to Rs. 32.5 crores in 1987.

III. External Assistance@

The rising trend in fresh authorisations of external assistance noticed since 1984-85 continued during the year. Authorisations during 1987-88 at Rs. 8,872 crores (provisional) were higher by Rs. 2,714 crores (or by 44 per cent) than those of Rs. 6,158 crores in 1986-87, as compared with the increase of Rs. 510 crores in 1986-87 over 1985-86. (In U.S. dollar terms, authorisations which increased by 4 per cent to $ 4,818 million in 1986-87 went up sharply by 42 per cent to $ 6,840 million during the year). Of the total increase in authorisations during the year, 77 per cent (Rs. 2,083 crores) was accounted for by loans and the balance of 23 per cent (Rs. 631 crores) by grants (Table XI-3).

The utilisation of external assistance at Rs. 5,013 crores (provisional) during 1987-88 went up by Rs. 1,435 crores (or by 40 per cent) as compared to the increase of Rs. 682 crores (or by 24 per cent) in 1986-87. While the utilisation of loans during 1987-88 increased by Rs. 1,443 crores (or by 45 per cent), the utilisation of grants, on the other hand, was marginally lower by Rs. 8 crores (or by 2 per cent). In U.S. dollar terms, utilisation increased by 38 per cent during 1987-88 to $ 3,865 million as compared with that of 18 per cent in the previous year ($ 2,800 million).

Debt service payments at Rs. 2,579 crores (provisional) during 1987-88 showed an increase of Rs. 550 crores (or 27 per cent) over the payments in the previous year, viz. Rs. 2,029 crores. In spite of a higher outgo on account of debt service payments, the net inflow of external assistance (net of debt servicing) at Rs. 2,434 crores was higher by Rs. 885 crores (or by 57 per cent) than Rs. 1,549 crores in the previous year due to larger utilisation of loans (Table XI-6). In U.S. dollar terms, the net inflow of external assistance (net of debt service payments) amounted to $ 1,877 million, showing a rise of 55 per cent over those of $ 1,212 million in 1986-87. Such inflows during 1986-87 had registered a decline by 0.3 per cent.

Authorisations

The authorisations of loan assistance during the year increased by Rs. 2,083 crores due mainly to a sharp increase of Rs. 1,357 crores in the authorisations by the IBRD and Rs. 918 crores

@ The discussion in this section is in terms of values at the prevailing exchange rates & not at the pre-December 1971, IMF Parity rates as given in the earlier issues of Report on Currency & Finance.

Table-XI-2: Consents for Capital Issues* — Aggregate and by Non-residents (NR) 1985-86 to 1987-88

(Rupees crores)

YEAR	INITIAL ISSUES			FURTHER ISSUES			BONUS ISSUES			DEBENTURE ISSUES			LOANS			GRAND TOTAL		
April to March	Total	NR	2 as % of 1	Total	NR	5 as % of 4	Total	NR	8 as % of 7	Total	NR	11 as % of 10	Total	NR	14 as % of 13	Total (1+4+7 +10+13)	NR (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
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	28.8	3.5	687.4	29.8	4.3	354.1	45.0	12.7	3976.6	71.9	1.8	305.6	62.9	20.6	6148.7	238.4	3.9
1987-88	612.8	65.7	10.7	519.4	25.5	4.9	297.1	72.2	24.3	3737.4	8.8	0.2	701.7	30.3	4.3	5868.4	202.5	3.5

* By Indian Joint Stock Companies.

Table-XI-3: External Assistance (Fiscal Year)

(Rupees crores)

Items	Loans	Grants	Total (2+3)
1	2	3	4
1. Authorisations during			
a) 1980-81	3237@	76	3313
b) 1981-82	2633	207	2840
c) 1982-83	2542	423	2965
d) 1983-84	1687	387	2074
e) 1984-85	4401	471	4872
f) 1985-86	5335	313	5648
g) 1986-87	5728	430	6158
h) 1987-88P	7811	1061	8872
2. Utilisation during			
a) 1980-81	1228@	396	1624
b) 1981-82	1519	351	1870
c) 1982-83	1911	339	2250
d) 1983-84	1964	281	2245
e) 1984-85	1963	369	2332
f) 1985-86	2495	401	2896
g) 1986-87	3176	402	3578
h) 1987-88P	4619	394	5013
3. Amount undisbursed as at the end of March 1988	**23867**	**1620**	**25487**

Notes: 1. Amounts of authorisations and utilisation under 'Loans' are inclusive of Government and Non-Government loans.
2. Loan amounts are net of surrenders, de-obligations and cancellations, etc.
3. 'Grants' exclude those received from International Institutions such as UNICEF, UNDP, ILO, WHO, UNFPA and UNESCO.
4. Amount undisbursed as at the end of March 1988 represent rupee values calculated at the rates prevalent at end-March.

@ Excludes IMF Trust Fund. P : Provisional.

by the IDA. As a result, the share of the World Bank Group in total authorisations increased to 58 per cent in 1987-88 from 39 per cent in the previous year. Loan authorisations were higher in respect of the following countries also; Japan (by Rs. 260 crores), West Germany (by Rs. 143 crores), the Netherlands (by Rs. 132 crores), France (by Rs. 80 crores), Italy (by Rs. 59 crores), OPEC (by Rs. 42 crores) and Asian Development Bank (by Rs. 41 crores). IFAD, made no authorisations during 1986-87, but made fresh authorisations of Rs. 16 crores during 1987-88. Denmark, on the other hand, which had authorised Rs. 30 crores during 1986-87, made no authorisations during the year 1987-88. Loan authorisations by the U.S.S.R. were significantly lower by Rs. 893 crores during the year (Table XI-4).

Authorisations of grants at Rs. 1,061 crores were almost one and a half times higher than those of Rs. 430 crores in 1986-87. Authorisations of grants by Canada rose from Rs. 6 crores in 1986-87 to Rs. 399 crores during 1987-88 and accounted for 62 per cent of the increase in total grant assistance authorised during the year. Authorisations of grants from the EEC increased from Rs. 51 crores to Rs. 147 crores, while Sweden, Denmark and Switzerland made fresh authorisations of Rs. 160 crores, Rs. 49 crores and Rs. 27 crores, respectively, during the year under review. Authorisations of grants were, however, lower from the U.K. (by Rs. 47 crores) and Netherlands (by Rs. 32 crores), the U.S.A (by Rs. 8 crores) and Japan (by Rs. 7 crores). (Table XI-5).

Utilisation

Utilisation of loans during 1987-88 at Rs. 4,619 crores was higher by Rs. 1,443 crores than that in the previous year. The increase in loan utilisation during the year was mainly on account of a sharp rise of Rs. 904 crores in the loan utilisation from the IBRD. The utilisation of IDA credits was also higher by Rs. 196 crores. Consequently, the share of the World Bank Group in loan utilisation went up from 57 per cent in 1986-87 to 63 per cent in 1987-88. While utilisation of loans from Japan, Italy, the U.S.S.R. and Netherlands increased, that from the U.S.A and Canada declined. For the first time, loans were drawn from Asian Development Bank in 1987-88. In terms of loan utilisation, Japan ranked next to the World Bank Group in 1987-88, followed by West Germany, France and the U.S.S.R.

The utilisation of grant assistance during the year at Rs. 394 crores was marginally lower by Rs. 8 crores than that of Rs. 402 crores in 1986-87. The lower utilisation of grants during the year was mainly accounted for by the U.K. (by Rs. 69 crores), the Netherlands (by Rs. 12 crores) and Sweden (by Rs. 5 crores); the decline was partly offset by the increase in the utilisation of grants from the U.S.A. (by Rs. 27 crores), EEC (by Rs. 18 crores), Switzerland (by Rs. 12 crores) and Denmark (by Rs. 7 crores). From Canada, an amount of Rs. 17 crores was utilised during the year; in 1986-87 there was no utilisation of Canadian grants.

Debt Servicing

Debt service payments increased from Rs. 2,029 crores in 1986-87 to Rs. 2,579 crores during 1987-88. The proportion of debt servicing to gross aid utilisation declined from 57 per cent in 1986-87 to 51 per cent in 1987-88. The shares of amortisation and interest in total debt servicing were 60 per cent and 40 per cent, respectively (Table XI-6).

Aid Pledges for 1987-88

At the Aid-India Consortium meeting held in Paris during June 1988, members pledged assistance to India amounting to U.S. $ 6.3 billion for 1988-89, which was higher by U.S. $ 0.9 billion than U.S. $ 5.4 billion pledged for 1987-88. The above commitment of U.S. $ 6.3 billion includes U.S. $ 3.9 billion on concessional terms. The bulk of the increase in the consortium pledges came from bilateral donors, who contributed 24 per cent more than in the previous year. The World Bank Group's share of the consortium pledges was about U.S. $ 2,700 million, of which U.S. $ 750 million was from the IDA, lower than that of U.S.$ 800 million last year.

Cumulative Assistance

The cumulative external assistance authorised to India upto end-March 1988 aggregated Rs. 61,441 crores. Of this, loans amounted to Rs. 52,268 crores or 85 per cent, grants Rs. 6,399 crores or 10 per cent and P.L. 480/665 assistance accounted the balance of Rs. 2,774 crores or 5 per cent.

Table-XI-4: Loans Authorised and Utilised during 1986-87 and 1987-88 (Fiscal Years)

(Rupees crores)

Country/ Institution	Authorisations		Utilisation	
	1986-87R	1987-88P	1986-87R	1987-88P
1	2	3	4	5
1. I.B.R.D.	1874	3231	801	1705
2. I.D.A.	347	1265	1011	1207
3. I.F.A.D.	—	16	21	21
4. A.D.B.	321	362	—	27
5. Canada	—	—	27	3
6. Denmark	30	—	18	22
7. France	87	167	233	248
8. West Germany	213	356	260	263
9. Italy	52	111	31	93
10. Japan	635	895	385	608
11. Netherlands	37	169	50	79
12. Switzerland	—	—	5	4
13. U.S.A.	58	25	113	75
14. OPEC*	9	51	37	36
15. U.S.S.R.	2056	1163	176	222
16. Others	9	—	8	6
Total	**5728**	**7811**	**3176**	**4619**

* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia, and OPEC Special Fund.

R Revised.

P Provisional.

Table-XI-5: Grants@ Authorised and Utilised during 1986-87 and 1987-88 (Fiscal Years)

(Rupees crores)

Country/ Institution	Authorisations		Utilisation	
	1986-87R	1987-88P	1986-87R	1987-88P
1	2	3	4	5
1. Canada	6	399	—	17
2. Denmark	—	49	21	28
3. West Germany	—	—	—	1
4. Japan	32	25	24	20
5. Netherlands	37	5	58	46
6. Sweden	—	160	21	16
7. Switzerland	—	27	4	16
8. U.K.	266	219	200	131
9. U.S.A. Other than P.L. 480/P.L. 665	38	30	13	40
10. E.E.C.	51	147	61	79
Total	**430**	**1061**	**402**	**394**

Notes: R Revised.
P Provisional.
@ Including Debt relief as under:

(Rupees crores)

Country	Authorisations		Utilisation	
	1986-87	1987-88	1986-87	1987-88
1	2	3	4	5
By way of Grants				
Japan	3.0	11.8	1.8	3.0

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
1980-81	1624	518	286	804	820
1981-82	1870	538	311	849	1021
1982-83	2250	587	360	947	1303
1983-84	2245	616	417	1033	1212
1984-85	2332	647	529	1176	1156
1985-86	2896	776	591	1367	1529
1986-87	3578R	1176	853	2029	1549
1987-88	5013 P	1546	1033	2579	2434

R Revised. P Provisional.

Note: 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).

Assistance utilised upto end-March 1988 amounted to Rs. 42,347 crores or 69 per cent of the total amount authorised. Of the total aid utilised, loans accounted for Rs. 34,421 crores (81 per cent), grants Rs. 5,107 crores (12 per cent) and P.L. 480/665 assistance Rs. 2,819 crores (7 per cent) (Table XI-7).

As at end-March 1988, the share of the World Bank Group in total authorisations was about 45 per cent as compared with 41 per cent as at end-March 1987. The utilisation of loan assistance extended by these institutions constituted 39 per cent of the aid utilised at end-March 1988 as compared with 34 per cent at end-March 1987. Other major donors were the U.S.A., the U.S.S.R., the U.K., West Germany and Japan, which together accounted for 38 per cent of total authorisations and 41 per cent of total utilisation as at end-March 1988 (Table XI-8).

Total aid in the pipeline as at end-March 1988 (at the exchange rate prevailing as on March 31, 1988) amounted to Rs. 25,487 crores, higher by Rs. 2,445 crores than that at the end of March 1987. Out of this, loans constituted Rs. 23,867 crores (or 97 per cent) and grants Rs. 1,620 crores. The World Bank Group accounted for the largest share of assistance in the pipeline followed by the U.S.S.R.

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
1. Authorisations from August 15, 1947				
Upto March 1980	18,894	3,031	2,774	24,699
2. Authorisations during:				
a) 1980-81	3,237	76	—	3,313
b) 1981-82	2,633	207	—	2,840
c) 1982-83	2,542	423	—	2,965
d) 1983-84	1,687	387	—	2,074
e) 1984-85	4,401	471	—	4,872
f) 1985-86	5,335	313	—	5,648
g) 1986-87	5,728	430	—	6,158
h) 1987-88	7,811	1,061	—	8,872
3. Total upto March 1988	**52,268**	**6,399**	**2,774**	**61,441**
4. Utilisation from August 15, 1947				
Upto March 1980	15,546	2,174	2,819	20,539
5. Utilisation during:				
a) 1980-81	1,228	396	—	1,624
b) 1981-82	1,519	351	—	1,870
c) 1982-83	1,911	339	—	2,250
d) 1983-84	1,964	281	—	2,245
e) 1984-85	1,963	369	—	2,332
f) 1985-86	2,495	401	—	2,896
g) 1986-87 R	3,176	402	—	3,578
h) 1987-88 P	4,619	394	—	5,013
6. Total upto March 1988	**34,421**	**5,107**	**2,819**	**42,347**

R Revised. P Provisional.
Note: Refer to notes to Table XI-3.

Table-XI-8: Aggregate External Assistance—Source-wise (upto end-March 1988)[$$]

(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	13,954	—	—	13,954 (22.7)	5,710	—	—	5,710 (13.5)
IDA	13,570	—	—	13,570 (22.1)	10,978	—	—	10,978 (25.9)
EEC	41 $	776	—	817 (1.3)	42	819	—	861 (2.0)
IFAD	173	—	—	173 (0.3)	141	—	—	141 (0.3)
ADB	683	—	—	683 (1.1)	27	—	—	27 (0.1)
U.S.A.	3,251	394	2,774	6,419 (10.4)	3,217	263	2,819	6,299 (14.9)
U.S.S.R.	5,931	9	—	5,940 (9.7)	1,818	8	—	1,826 (4.3)
U.K.	1,223	2,598	—	3,821 (6.2)	1,256	2,164	—	3,420 (8.1)
West Germany	3,297	53	—	3,350 (5.5)	2,898	51	—	2,949 (7.0)
Japan	3,688	183	—	3,871 (6.3)	2,611	157	—	2,768 (6.5)
OPEC*	1,992	12	—	2,004 (3.3)	1,651	12	—	1,663 (3.9)
Others	4,465	2,374	—	6,839 (11.1)	4,072	1,633	—	5,705 (13.5)
Total	**52,268**	**6,399**	**2,774**	**61,441 (100.0)**	**34,421**	**5,107**	**2,819**	**42,347 (100.0)**

* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and OPEC Special Fund.
$ Relates to Special Action Credit.
$$ Provisional.
Notes: Figures in brackets represent percentage to the total.

IV. India's Financial Assistance to Other Countries

During 1987-88, the external assistance extended by India to foreign countries amounted to Rs. 160 crores as against Rs. 145 crores in the preceding year (Table XI-9). Loan authorisations increased marginally by Rs. 3 crores and grants by Rs. 12 crores. As a result, the share of loans in total aid declined from 46 per cent in 1986-87 to 44 per cent during 1987-88. Country-wise, Bhutan continued to be the largest recipient of financial assistance accounting for 45 per cent of the total, followed by Nepal (24 per cent), Sri Lanka (16 per cent), Vietnam (4 per cent) and Bangladesh (4 per cent). While authorisations of assistance to Nepal were higher by Rs. 28 crores,

authorisations to Bhutan, Bangladesh and Vietnam were lower. Also, during the year, fresh authorisations of assistance of Rs. 25 crores were made to Sri Lanka, while there were no authorisations in the preceding year. Aid under ITEC Programme amounted to Rs. 13 crores during the year, which was higher by Rs. 4 crores than that of the previous year (Rs. 9 crores).

Utilisation

The utilisation of aid extended by India increased to Rs. 147 crores in 1987-88 from Rs. 114 crores in 1986-87. Grant assistance authorised during the year to Bhutan was fully utilised, while in respect of Nepal and under ITEC Programme, it was largely utilised. Loan assistance authorised during the year, was fully utilised by Bangladesh, Bhutan, Nepal and Vietnam. Sri Lanka, however, utilised only Rs. 2 crores during the year, out of Rs. 25 crores of loans authorised. Country-wise, Bhutan and Nepal together accounted for Rs. 107 crores or 73 per cent of the total utilisation. Other beneficiaries of aid were Bangladesh, Mauritius, Nicaragua, Sri Lanka, Vietnam and Kenya which together accounted for 19 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					
	1986-87			1987-88 P			1986-87			1987-88 P		
	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	10.2	1.4	11.6	4.8	1.1	5.9	10.2	1.1	11.3	4.8	—	4.8
2. Bhutan	21.5	58.1	79.6	8.9	62.4	71.3	21.5	58.1	79.6	8.9	62.4	71.3
3. Mauritius	5.0	—	5.0	—	—	—	2.0	—	2.0	3.5	—	3.5
4. Mozambique	—	—	—	—	—	—	0.2	—	0.2	—	—	—
5. Nepal	0.3	9.4	9.7	25.0	13.2	38.2	0.3	5.8	6.1	25.0	11.0	36.0
6. Nicaragua	12.5	—	12.5	—	—	—	—	—	—	4.5	—	4.5
7. Sri Lanka	—	—	—	25.0	—	25.0	1.9	—	1.9	2.1	—	2.1
8. Vietnam	18.0	—	18.0	6.7	—	6.7	4.4	—	4.4	7.6	—	7.6
9. Kenya	—	—	—	—	—	—	—	—	—	5.0	—	5.0
10. ITEC	—	8.8	8.8	—	13.0	13.0	—	8.8	8.8	—	11.8	11.8
Total	**67.5**	**77.7**	**145.2**	**70.4**	**89.7**	**160.1**	**40.5**	**73.8**	**114.3**	**61.4**	**85.2**	**146.6**

P Provisional.

Notes: 1. Aid to Nepal excludes grant expenditure 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 1988 amounted to Rs. 1,808 crores, of which 61 per cent was by way of grants and the balance by way of loan assistance. The major beneficiaries were Bhutan (Rs. 727 crores), Nepal (Rs. 359 crores), Bangladesh (Rs. 288 crores) and Vietnam (Rs. 140 crores). These four countries accounted for 84 per cent of the total authorisations (Table XI-10).

Aid utilised at end-March 1988 was placed at Rs. 1,672 crores or 92 per cent of the amount authorised. Bhutan, Nepal, Bangladesh and Vietnam together accounted for 85 per cent of the total utilisation.

As utilisation of aid during the year, was lower than fresh authorisations, undisbursed aid in the pipeline increased from Rs. 123 Crores at end-March 1987 to Rs. 136 crores at end-March 1988. Of this, Bangladesh, Nepal and Sri Lanka accounted for 76 per cent of the aid in the pipeline as at the end of March 1988.

Table-XI-10: Aggregate Assistance Extended by India to other Countries (Upto end-March 1988)

(Rupees crores)

Country/Programme	Authorisations			Utilisation			Amount undisbursed as at the end of March 1988 P		
	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	135.4	152.2	287.6	111.6	135.9	247.5	23.8	16.3	40.1
3. Bhutan	151.0	576.1	727.1	151.0	575.8	726.8	—	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	20.0	—	20.0	4.5	—	4.5
9. Mozambique	8.1	—	8.1	7.6	—	7.6	0.5	—	0.5
10. Nepal	66.9	291.8	358.7	59.8	264.2	324.1	7.0	27.6	34.6
11. Nicaragua	12.5	—	12.5	4.5	—	4.5	8.0	—	8.0
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	94.4	—	94.4	65.8	—	65.8	28.6	—	28.6
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	140.3	—	140.3	126.2	—	126.2	14.1	—	14.1
18. Zambia	5.8	—	5.8	5.8	—	5.8	—	—	—
19. Zimbabwe	4.9	—	4.9	4.9	—	4.9	—	—	—
20. Assistance under ITEC	—	74.4	74.4	—	73.2	73.2	—	1.2	1.2
Total	**713.7**	**1,094.5**	**1,808.2**	**623.2**	**1,049.1**	**1,672.3**	**90.5**	**45.4**	**135.9**

P 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.

V Exchange Rate Developments

The exchange value of the rupee continued to be linked to a weighted basket of currencies of India's major trading partners, with the pound sterling as the intervention currency. The rupee-pound parity was changed 140 times during 1987-88 as compared with 148 times in the fiscal year 1986-87. However, during the first quarter of current fiscal year 1988-89, the number of adjustments at 37 was higher than that of 27 in the corresponding quarter of previous year. Month-wise, the maximum number of adjustments during 1987-88 took place in October 1987 when the rupee-pound parity was changed 17 times followed by 14 times each during June and November 1987 and 13 times each in July and December 1987 and March 1988. The minimum number of adjustments (6) took place in May 1987.

Data on the annual averages in the rupee exchange rate *vis-a-vis* the SDR and the four major international currencies, covering the period 1982-83 to 1987-88 are given in Table XI-11.

In terms of annual averages, the trend towards softening in the value of the rupee against the SDR and the US dollar continued since 1981-82, against the yen since 1983-84, against the DM since 1984-85 and against the pound sterling since 1985-86. During the year under review, the depreciation of the rupee in relation to major currencies and SDRs (barring pound sterling) was lower than in the previous year.

The rupee depreciated against the DM by 14.9 per cent during the year from Rs. 6.30 per DM in 1986-87 to Rs. 7.40 per DM as compared with a softening of 27.6 per cent in the previous year. The rupee depreciated against the yen by 14.8 per cent from Rs. 0.0802 per yen to Rs. 0.0941 per yen as compared with a depreciation of 29.9 per cent in the previous year. The rupee depreciated

Table-XI-11: Exchange Rate of the Indian Rupee (Annual Average)*

(Rs. per unit of SDR/foreign currency)

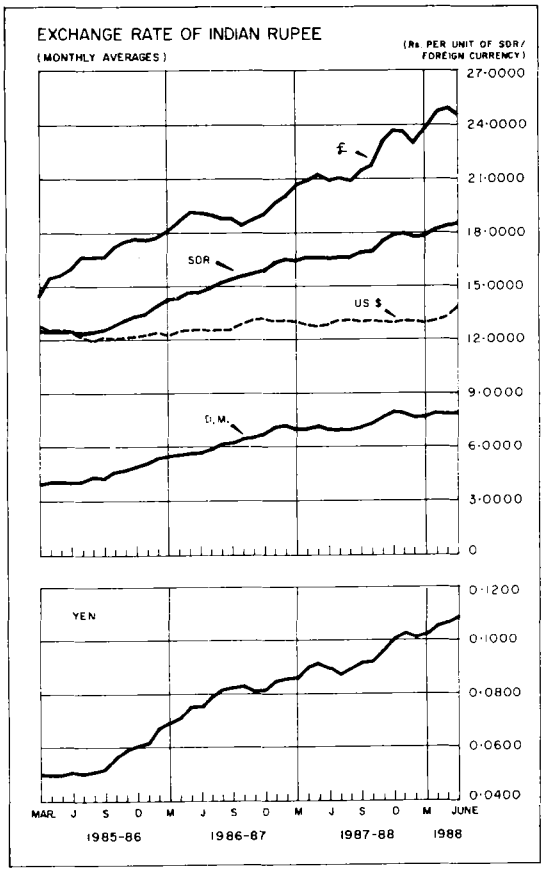
April-March	SDR	U.S. $	£	D.M.	Yen
1982-83	10.5628	9.67	16.14	3.96	0.0389
	(-2.2)	(-7.2)	(+6.0)	(+8.5)	(+1.3)
1983-84	10.9406	10.34	15.42	3.94	0.0438
	(-3.5)	(-6.5)	(+4.7)	(+0.5)	(-11.2)
1984-85	11.9328	11.89	14.87	3.99	0.0487
	(-8.3)	(-13.0)	(+3.7)	(-1.3)	(-10.1)
1985-86	12.9232	12.23	16.85	4.56	0.0562
	(-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)
1987-88	17.1208	12.97	22.09	7.40	0.0941
	(-9.8)	(-1.5)	(-13.7)	(-14.9)	(-14.8)

* 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.

against the pound sterling by 13.7 per cent from Rs. 19.07 per pound sterling to Rs. 22.09 per pound sterling, as compared with a softening of 11.6 per cent in the previous year. The rupee depreciated marginally against the U.S. dollar by 1.5 per cent from Rs. 12.78 per U.S. dollar to Rs. 12.97 per U.S. dollar as compared to a depreciation of 4.3 per cent in 1986-87. The rate of depreciation of the rupee *vis-a-vis* the U.S. dollar during 1987-88 was the lowest in the last 5 years. In relation to the SDR, the rupee weakened by 9.8 per cent from Rs. 15.45 per SDR to Rs. 17.12 per SDR as compared with a depreciation of 16.3 per cent in 1986-87.



Monthly averages in the rupee exchange rates against the major currencies and the SDR for the period March 1986 to June 1988 are given in Table XI-12. These data show that in relation to the SDR, barring June 1987 and February 1988, the rupee ruled easy in all other months of fiscal year 1987-88. The monthly variation ranged between an appreciation of 1.5 per cent (February 1988) and a depreciation of 3.5 per cent (November 1987). Between March 1987 and March 1988, the rupee depreciated against the SDR by 7.9 per cent as compared with a depreciation of 14.0 per cent in the corresponding period of the previous year. The rupee continued to depreciate during the first quarter of the current fiscal year 1988-89, to the

extent of 3.9 per cent, as compared with that of 0.6 per cent in the corresponding quarter of 1987-88.

Against the U.S. dollar, the rupee generally remained stable during the year 1987-88. During April, May, September, November and December 1987 and February and March 1988, the rupee appreciated. The variation in the rupee-dollar exchange rate ranged between a depreciation of 1.4 per cent (July 1987) and an appreciation of 1.0 per cent (April 1987). The rupee weakened only by 0.4 per cent between March 1987 and March 1988 as compared with the depreciation of 5.1 per cent in the corresponding period of the previous year. During the first quarter of 1988-89, the depreciation of rupee was maximum (6.1 per cent) as against an appreciation of 0.6 per cent in the corresponding quarter previous year.

The rupee depreciated against the pound sterling by 13.4 per cent between March 1987 and March 1988 as compared with that of 12.5 per cent in the corresponding period of previous year. The rupee depreciated against the pound sterling in all months of 1987-88, barring June and August 1987 and January and February 1988. The rupee-sterling exchange rate ranged between an appreciation of 2.8 per cent (February 1988) and a depreciation of 6.0 per cent (November 1987). The rupee weakened further by 3.2 per cent during April-June 1988, as compared with that of 1.6 per cent in the corresponding quarter of 1987-88.

In relation to the DM, the rupee weakened by 9.0 per cent between March 1987 and March 1988, as compared with the substantial weakening of 23.2 per cent in the previous year. Barring June and July 1987 and February 1988, the rupee depreciated against the DM in all other months of 1987-88. The rupee-DM rate ranged between an appreciation of 3.0 per cent (February 1988) and a depreciation of 5.9 per cent (November 1987). The rupee weakened further by 1.6 per cent during April-June 1988, as compared with 0.3 per cent in the corresponding quarter of 1987-88.

Against the yen, the depreciation of rupee was maximum by 16.4 per cent over March 1987 to March 1988 though this was lower than that of 19.6 per cent in the corresponding period of previous year. Barring June and July 1987 and February 1988 the rupee-yen exchange rate ruled easy in all other months of 1987-88. The monthly variations in the exchange rate ranged between an appreciation of 2.7 per cent in July 1987 and depreciation of 4.9 per cent in November as well as December 1987. The sofetening trend continued during the first quarter of 1988-89 to the extent by 6.0 per cent, as compared to 4.0 per cent in the corresponding quarter of the previous year.

During 1987-88, the rupee-rouble rate in respect of credit agreements and commercial transactions was changed twice on November 1 and December 19, 1987. The exchange rate of the rupee per rouble varied between Rs. 14.79 (end-March 1987) and Rs. 15.86 (end-March 1988) during the year, reflecting a depreciation of 6.7 per cent. The rupee-rouble rate was changed further to Rs. 16.39 on June 5, 1988, showing a further depreciation of 3.2 per cent during the first quarter of 1988-89. (Please see section VII on "Developments in Exchange Control").

VI. International Monetary Developments

The world economy continued to expand at a moderate pace despite the stock market crisis of October 1987. This demonstrated the capacity of the world economy to absorb such shocks without significant institutional failures. This was made possible by the adaptability of capital markets and timely action by the monetary authorities. An important development in 1987 was the strengthening of policy co-ordination among the major industrial countries. There is growing evidence to show that the exchange rate and economic policy changes that have taken place as a result of such co-ordination are beginning to have an impact albeit slowly, on reducing external imbalances.

The world output grew by 3.0 per cent during 1987 as against 3.2 per cent in 1986. Output in industrial countries expanded by 3.1 per cent during 1987, the same growth being recorded in developing countries also. Inflation rates as measured by consumer prices remained low in the industrial economies at 3.0 per cent in 1987

Table-XI-12: Exchange Rate of the Indian Rupee

(Rupees per unit of SDR/foreign currency)

Month-Year	SDR	U.S. $	£	D.M.	Yen
March 1986	14.1238	12.2798	18.0255	5.4145	0.0687
1986-87					
April	14.2647	12.3753	18.5580	5.4632	0.0708
May	14.5909	12.500	19.0020	5.6101	0.0749
June	14.6783	12.5842	18.9908	5.6366	0.0752
July	14.8828	12.5182	18.8850	5.8165	0.0789
August	15.1979	12.5730	18.6923	6.0972	0.0816
September	15.3584	12.7005	18.6850	6.2244	0.0821
October	15.5773	12.8626	18.3537	6.4192	0.0823
November	15.6943	13.0825	18.6438	6.4664	0.0804
December	15.8902	13.1444	18.9082	6.6117	0.0811
January	16.3167	13.0098	19.6044	7.0096	0.0842
February	16.4938	13.0534	19.9469	7.1602	0.0851
March	16.4212	12.9334	20.5965	7.0483	0.0854
	[−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)	(−1.5)	(−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)
July	16.5349	13.0306	20.9714	7.0516	0.0867
	(−0.1)	(−1.4)	(−0.2)	(+0.2)	(+2.7)
August	16.6127	13.0857	20.9109	7.0493	0.0887
	(−0.5)	(−0.4)	(+0.3)	(−)	(−2.3)
September	16.8143	13.0111	21.4110	7.1815	0.0909
	(−1.2)	(+0.6)	(−2.3)	(−1.8)	(−2.4)
October	16.9199	13.0638	21.7094	7.2650	0.0912
	(−0.6)	(−0.4)	(−1.4)	(−1.1)	(−0.3)
November	17.5254	12.9715	23.0452	7.7196	0.0959
	(−3.5)	(+0.7)	(−6.0)	(−5.9)	(−4.9)
December	17.8898	12.9466	23.6586	7.9211	0.1008
	(−2.0)	(+0.2)	(−2.6)	(−2.5)	(−4.9)
January	17.9902	13.0846	23.6033	7.9307	0.1027
	(−0.6)	(−1.1)	(+0.2)	(−0.1)	(−1.9)
February	17.7217	13.0605	22.9616	7.7001	0.1011
	(+1.5)	(+0.2)	(+2.8)	(+3.0)	(+1.6)
March	17.8284	12.9793	23.7897	7.7435	0.1021
	(−0.6)	(+0.6)	(−3.5)	(−0.6)	(−1.0)
	[−7.9]	[−0.4]	[−13.4]	[−9.0]	[−16.4]
1988-89					
April	18.2386	13.1778	24.7439	7.8825	0.1055
	(−2.2)	(−1.5)	(−3.9)	(−1.8)	(−3.2)
May	18.3232	13.3206	24.9016	7.8631	0.1068
	(−0.5)	(−1.1)	(−0.6)	(+0.2)	(−1.2)
June	18.5573	13.8269	24.5718	7.8700	0.1086
	(−1.3)	(−3.7)	(+1.3)	(−0.1)	(−1.7)
	[−3.9]	[−6.1]	[−3.2]	[−1.6]	[−6.0]

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.

(2.3 per cent in 1986) while consumer prices grew at a faster rate of 40.3 per cent during 1987 in developing countries (29.9 per cent in 1986).

The aggregate current account deficit of industrial countries widened further to around $ 50 billion in 1987 from $ 19 billion in 1986, while developing countries achieved a surplus of $ 4 billion against a deficit of $ 39 billion in 1986. Despite further adjustments in real exchange rates, external payment imbalances in nominal terms persisted among the major industrial countries in 1987. The U.S. current account deficit grew by $ 20 billion to $ 161 billion while the surplus of Federal Republic of Germany rose by $ 6 billion to $ 44 billion and that of Japan remained more or less stable at $ 86.7 billion.

During 1987, for the first time in many years, export earnings of developing countries grew faster than debt. The overall ratio of debt to exports of developing countries declined to 156.6 per cent in 1987, from 167.8 per cent during 1986. Debt service ratio of these countries also declined from 21.9 per cent to 19.1 per cent in 1987. After the precipitous fall from late 1985 through July 1986, oil prices recovered substantially in 1987, averaging $ 17 a barrel for the year as a whole. Oil prices started to weaken again in the latter part of 1987 and came under considerable downward pressure in December and early 1988. The price of oil will continue to be determined by the capacity of the major oil-exporting countries to implement an effective policy of concerted output restraint.

The IMF projections point to a continuation of world output growth of 3.8 per cent in 1988. However, some slowdown in the growth of the world economy is expected in 1989 (3.1 per cent) due to moderation of growth in the Industrial Countries. Output growth in Industrial countries is expected to go up further to 3.9 per cent in 1988 after which it would decline to 2.8 per cent in 1989. Growth in developing countries is projected to increase at 3.6 per cent and 4.0 per cent in 1988 and 1989. Expansion in world trade is also expected to be around 7.5 per cent during 1988 as compared with 5.8 per cent during 1987. The two challenges that face the world economy are the external imbalances among the three largest countries in the industrial world, viz., U.S.A., Japan and West Germany and the debt problems of the developing countries. In both these areas positive developments have taken place, with the narrowing of the real external imbalances between the U.S.A. on the one hand and Japan and West Germany, on the other, and the improvements in the debt-export and debt-service ratios of developing countries. This process is expected to continue over the next two years.

Domestic Activity

Industrial Countries

Output growth in industrial countries continued to be strong in 1987 at 3.1 per cent compared to 2.7 per cent in 1986, against the deceleration of the pace of growth of output of the world economy from 3.2 per cent during 1986 to 3.0 per cent during 1987. All the major industrial countries with the exception of Federal Republic of Germany recorded improvements in their growth rates. The better than expected performance in 1987 could be attributed to the lagged consequences of developments in 1986 including the fall in oil prices early in that year, significant wealth effects that were associated with declining interest rates and rising equity prices and the adjustment of exchange rates among major countries. The stock market crash of October 1987 seems to have produced some beneficial effects through the dampening of inflationary pressures and the promotion of needed policy adaptations.

Against this background, the IMF projections indicates a sustained growth in world output of 3.8 per cent in 1988 and 3.1 per cent in 1989 and a deceleration in output growth of Industrial Countries to 2.8 per cent in 1989 after an increase to 3.9 per cent in 1988. The output of the three major Industrial Countries, viz., the United States, Japan and West Germany is projected to expand by 4.0 per cent, 5.8 per cent and 2.9 per cent respectively during 1988.

Recent labour market performance conforms to earlier trends in employment. Positive developments occurred on both fronts, with the growth of employment slightly accelerating by 1.7 per cent in 1987 as compared to 1.6 per cent during 1986, on the one hand, and the fall in growth

rate of unemployment to 7.6 per cent during 1987 from 8.0 per cent in 1986 on the other.

United States continues to be most successful in creating employment opportunities where employment rose by 2.6 per cent in 1987 as compared to 2.3 per cent in 1986. Japan has maintained a low and fairly stable level of unemployment at 2.8 per cent while in Europe the underlying trend of joblessness has been upward. In Japan employment rose by 1 per cent in 1987 as job creation in domestically-oriented industries picked up; as a result, the rise in unemployment during 1986 and early 1987 appeared to have been largely reversed. With the exception of the United Kingdom, the European labour market situation continued to worsen, reflecting sluggish economic growth in many countries and continued strong incentives for labour-saving techniques. The labour market conditions in most industrial countries are unlikely to change much during 1988 and 1989.

Despite the dampening of inflationary pressures in the wake of the stock market crash, consumer prices increased by 3.0 per cent in 1987 as against 2.3 per cent in 1986. Projections for 1988 and 1989 indicate that consumer prices will be up by 3.1 per cent. Among the major industrial countries, inflation is projected to remain somewhat higher in the U.S.A. (3.9 per cent) than in Japan and Federal Republic of Germany (1.1 per cent each) reflecting, in part, the impact of recent exchange rate changes.

The current stance of policies in the major industrial countries reflects their co-ordinated efforts towards exchange rate and balance of payments together with the need to sustain activity containing inflation at the same time. This coordinated approach could be seen in fiscal developments.

In Fiscal Year (F.Y.) 1987, a reduction in the federal deficit of almost 2 per cent of GNP was achieved in U.S.A. without significant adverse effects on the momentum of economic activity. According to the current estimates of IMF, the federal budget deficit reduced considerably from $ 221 billion in F.Y. 1986 (5.3 per cent of GNP) to $ 151 billion in F.Y. 1987 (3.4 per cent of GNP). However, on the basis of current spending programme and existing tax systems, only a marginal reduction is expected in F.Y. 1988.

Japan's fiscal policy in 1987 was oriented towards supporting the economy by way of boosting public works expenditures and lowering income taxes. Despite the rapid growth in public investment, the Government deficit is expected to rise only moderately in 1987-88, reflecting continued restraint in current spending and tax receipts. The deficit of the general Government in relation to GNP is likely to remain below 1 per cent.

There was a marked change in the fiscal situation of the Federal Republic of Germany with a rise in the deficit in 1987 after continuous downward trends between 1981 and 1986. The increase in deficit may be attributed to the effects of the tax reform programme and the deceleration in the growth of nominal income. Current policy intentions suggest that a moderate tightening of the budget may occur in 1989 in order to contain the budget deficit.

During 1987, the largest industrial countries allowed monetary growth rates to deviate from the announced targets or projections in the context of balancing domestic economic objectives with the desire to resist further changes in exchange rates. In the U.S.A., the Federal Open Market Committee decided to stop setting a target for narrow money (M1) and allowed a sharp slowdown in the growth of the broad money aggregates (M2 and M3). Monetary policy in the Federal Republic of Germany was expansionary for the second year in succession as Central Bank money was allowed to expand faster than the upper limit of its target corridor. In doing so, the Bundesbank emphasised that monetary policy would continue to maintain appropriate conditions for sustained non-inflationary growth, but in the light of the favourable inflation trends in 1986 and 1987 this objective would be promoted more effectively by resisting further appreciation of the DM rather than by keeping the growth of Central Bank money on target. In a similar environment the Bank of Japan tolerated rapid growth of broad money (M2 + CDs) which accelerated to about a 12 per cent rate from the fourth-quarter of 1986 to the fourth-quarter of 1987.

The increased emphasis on exchange rate stability was reflected in the behaviour of national interest rates and international interest rate differentials. Fears of a resurgence of infla-

tionary pressures as well as a desire to support the dollar in line with the Louvre Accord led to a gradual firming up of interest rates in the U.S.A. during much of 1987. Although interest rates edged upward in Japan and the Federal Republic of Germany, short-term interest rate differentials widened significantly between the U.S.A. and a number of other major countries. Interest rates which fell in the aftermath of the October stock exchange crash again widened thereby stabilising the dollar, following its steep fall during the second half of December. In the days following the stock market crisis in October 1987, the monetary authorities acted quickly and in concert to ensure adequate liquidity, but subsequently reabsorbed most of it as the crisis abated.

Developing Countries

There was a decline in the combined growth rate of developing countries in terms of real GDP from 4.1 per cent in 1986 to 3.1 per cent in 1987. Excluding India affected by drought and Brazil, output in the non-fuel exporting countries grew on an average by nearly 5.5 per cent in 1987, about as fast as in 1986. Growth was particularly buoyant among the Asian exporters of manufactures, with China, Korea and Taiwan province of China recording rates of increase in output between 9 per cent and 13 per cent. The modest growth rates of the Sub-Saharan African countries reflected the pursuit of strong adjustment programmes in the face of significant terms of trade losses and modest flow of financing. The projections for 1988-89 point to some convergence in the growth performance of developing countries.

Inflation rate in the developing countries accelerated from 29.9 per cent in 1986 to 40.3 per cent in 1987 reflecting a combination of lax monetary policies in a number of countries and strong inflationary impulses from import prices as a result of currency depreciations. Most significant deterioration in price performance was witnessed in the Western Hemisphere (from 88.4 per cent in 1986 to 130.8 per cent in 1987). Projections for 1988 indicate rising inflationary pressures in developing countries.

A particularly interesting development in 1987 was the significant increase in the exports of the non-fuel exporting countries which rose by 10 per cent in volume terms which may be attributed to the buoyancy of exports from the newly industrialising economies of Asia as also the export performance of other developing countries in Asia, Europe and the Western Hemisphere. Further gains in these countries' market shares are expected in 1988 and 1989. There was a marked improvement in the terms of trade of all developing countries taken together during 1987. The situation, however, is not expected to be sustained during 1988 and 1989.

The fuel-exporting countries have been severely affected by the weakness in oil prices since 1986 as also the significant depreciation of the US dollar. After halving in 1986, world oil prices recovered partially in 1987 and averaged about $ 17 a barrel for the year as a whole. Despite the recovery in oil prices in dollar terms in 1987, these countries suffered a terms of trade loss of almost 60 per cent over the past three years. The current situation in world oil markets does not indicate much scope for a significant recovery in the Middle East oil exporting economies in 1988. Prices of non-oil commodities recovered during 1987 in real terms, about 12 per cent higher than a year earlier. Even at this level in real terms the aggregate level of commodity prices in December 1987 remained 20 per cent below the average level during 1980-84.

International Trade and Payments

World trade in 1987 was influenced by various factors such as a sharp rise in prices of primary commodities, acceleration in growth of world trade in manufactures and agricultural products, increase in imports of developing countries and exports of industrial countries and the adoption of protectionist policies by the industrial countries. On balance, the volume of world trade rose by 4.9 per cent in 1987—the second highest growth after 1979. While exports of developing countries as a group increased by 7.3 per cent,

those of industrial countries increased by 4.3 per cent. Among the developing countries, non-fuel exporters achieved a significant rise of 10.0 per cent in exports. Fuel exporters, on the other hand, recorded a marginal growth rate of 0.1 per cent as against a significant growth rate of 12.4 per cent in 1986. The exporters of manufactures recorded a growth rate of 14.0 per cent in 1987 (12.1 per cent in 1986). As regards primary commodity exporters, their exports increased by 4.4 per cent against 2.9 per cent in 1986.

There was a 6.1 per cent growth in the volume of imports of industrial countries while the growth rate in imports of developing countries was 2.8 per cent. Although there was a rise in the imports of developing countries they were concentrated in the countries in Asia, Europe and Western Hemisphere which recorded increases in the import volume growth of 9.4 per cent, 4.0 per cent and 2.6 per cent, respectively. Imports in countries in Africa and the Middle East declined by 4.8 per cent and 9.5 per cent, respectively, but they were lower than those recorded in 1986, viz., 12.3 per cent and 19.7 per cent, respectively.

The fuel exporters had to reduce their imports by 12.0 per cent in 1987 on top of a reduction of 20.5 per cent in 1986. This was the sixth successive year when the fuel exporters had to compress their imports. The volume of imports of non-fuel exporters increased by 7.3 per cent in 1987 against 1.4 per cent in 1986. The imports of primary product producers recorded a growth rate of 5.1 per cent in 1987 as against 4.1 per cent in 1986.

The growth of world trade is projected to go up to 7.5 per cent in 1988 from 5.8 per cent in 1987. While the export growth of developing countries may decline to 6.4 per cent from 7.3 per cent in 1987, that of industrial countries is likely to show an improvement of 1.3 percentage points to 4.6 per cent in 1988. The deceleration in the export growth of developing countries would be mainly due to the sharp fall in the export of Asian and European countries. In the case of Asian countries exports are projected to fall from the growth rate of 13.8 per cent in 1987 to 8.6 per cent in 1988 whereas in the case of Europe, exports are projected to fall from the growth rate of 6.7 per cent in 1987 to 4.0 per cent in 1988. Among the predominant commodity exporters fuel exporters are likely to register an increase of 4.6 per cent as against a marginal rise of 0.1 per cent in 1987. In the case of non-fuel exporters, the growth rate would be reduced to 6.9 per cent as against a growth rate of 10 per cent in 1987. The primary product exporters will be able to maintain an export growth of 4.2 per cent in 1988 whereas the mineral exporters will be able to more than recover the lost ground.

The growth of imports of industrial countries is expected to come down to 6.0 per cent in 1988 as compared to 6.1 per cent in 1987, reflecting a slowdown in the growth of their domestic demand. However, the growth of imports of developing countries is projected to be 7.2 per cent in 1988, as against 2.8 per cent only in 1987. All predominant exporters except the fuel exporters are expected to increase their imports in 1988. Most pronounced among them are non-fuel exporters and exporters of manufactures, which are expected to register growth rates of imports of 10.1 per cent and 12.6 per cent in 1988, respectively.

In 1987, there was a significant improvement in the merchandise terms of trade of developing countries. The terms of trade increased by 3.4 per cent as against the deterioration of 19.3 per cent in 1986. The terms of trade of industrial countries improved marginally by 0.9 per cent after a rise of 9.4 per cent in 1986. The largest increase of the order of 11.6 per cent was experienced by fuel exporters against a decline of 47.9 per cent in 1986. The non-fuel exporting countries however, experienced a marginal increase of 0.6 per cent. Within the group of non-fuel exporting countries, mineral exporting countries improved their terms of trade marginally whereas agricultural exporters experienced deterioration.

The projected improvement in terms of trade of industrial countries in 1988 is 2.0 per cent. The developing countries, on the other hand, would experience unfavourable terms of trade. The deterioration in their terms of trade by 1.6 per cent is however, expected to be much smaller than the deterioration of 19.3 per cent in 1986.

Non-oil primary commodity prices increased by 3.4 per cent in 1987 in contrast to a decline of 1.2 per cent in 1986. All the three major commodity groups—food, agricultural raw materials

and metals—recorded increases of 7.3 per cent, 29.4 per cent and 19.9 per cent, respectively. However, beverages registered a decline of 28.7 per cent in 1987, as against an increase of 16.2 per cent in 1986. The recovery of prices in 1987 reflected a strengthening of world economic activity throughout the year and lower than expected supplies of commodities. World commodity markets are likely to strengthen in 1988 and the non-oil primary commodity prices are projected to increase by 9.4 per cent during the year.

The current account position of the industrial countries deteriorated substantially in 1987 due to a large fall in their terms of trade, with the result the current account deficit (including official transfers) increased to $ 49.4 billion in 1987 from $ 19.3 billion in 1986. The industrial countries continued to experience large imbalances in their current account position with a further rise in U.S. current account deficit to $ 160.7 billion and surpluses of Japan and Germany increasing to $ 86.7 billion and $ 44.2 billion, respectively.

The current account deficit (including official transfers) of industrial countries is projected to rise to $ 49.8 billion in 1988 mainly because of a larger increase in imports than exports and the increased outflow on account of private and official transfers. Country-wise, while the current account deficit of the U.S. might decline by $ 19.6 billion to $ 141.1 billion, the surpluses of Japan and Germany might contract by $ 8.9 billion and $ 2.8 billion to $ 77.8 billion and $ 41.4 billion, respectively.

The combined current account position of developing countries improved substantially in 1987. The current account recorded a surplus of $ 4.4 billion in 1987 in contrast to a deficit of $ 38.9 billion in 1986. The entire surplus in current account was accounted for by non-fuel exporters; they recorded a surplus of $ 5.4 billion in 1987. However, fuel exporters also reduced the current account deficit to $ 1.0 billion in 1987 as compared to $ 30.4 billion in 1986. The non-fuel exporters recorded a surplus in current account mainly due to the improvement in trade balance, which increased to a surplus of $ 3.8 billion in 1987 from a deficit of $ 8.3 billion in 1986.

The current account deficit of developing countries is expected to record a deficit of $ 7.9 billion in 1988. This deterioration is expected to be on account of both trade and services account. The deficit of fuel exporters will increase to $ 8.8 billion from $ 1.0 billion in 1987 whereas the non-fuel exporters' current account surplus is projected to reduce to $ 0.9 billion in 1988 from $ 5.4 billion in 1987, largely due to a reduction in trade balance.

The current account deficits of the concerned developing countries (in Africa, Middle East and Western Hemisphere) continued to be financed as in earlier years with the help of long-term external borrowings from official creditors which increased marginally from $ 34.5 billion in 1986 to$ 34.7 billion in 1987. The non-debt creating flows comprising official transfers and direct investment flows increased in 1987 by $ 1.8 billion to $ 30.3 billion due mainly to increase in the net investment flow. The net use of Fund resources has been declining over the last four years. In 1987, there was a net payment of the order of $ 6.1 billion to the Fund. However, the net lending from private creditors increased from $ 2.3 billion in 1986 to $ 3.5 billion in 1987.

In 1988, there are signs that the flows from private creditors may decline. Thus, the developing countries' dependence on both non-debt creating flows and official creditors for financing their current account deficit would continue.

Resource Flows

The flow of financial resources to the developing countries increased marginally in 1987, due mainly to official aid and international bank lending despite export credits showing a marginal decline. In fact, official flow increased to U.S. $ 59.1 billion in 1987 from $ 56.2 billion in 1986 and international bank lending from $ 5.2 billion to $ 8.0 billion. However, export credits showed a decline of $ 0.7 billion in 1987.

Total resource flows to developing countries from all sources rose in nominal terms from $ 82.0 billion in 1986 to $ 84.1 billion or by 2.6 per cent in 1987. In real terms there was, however, a decline of $ 8.6 billion and the total flows came

down to $ 73.4 billion in 1987 at 1986 prices and exchange rates. The 1987 figures are, however, affected by massive repayment of bank debts by South Korea. Adjusting for this, the net flow of resources to the other developing countries rose from $ 85 billion to $ 91 billion.

Net disbursements of Official Development Assistance (ODA) from the countries of the Development Assistance Committee (DAC) amounted to $ 41.2 billion in 1987, registering an increase of 12.5 per cent over 1986. However, in real terms (i.e. making allowance for the change of exchange rates *vis-a-vis* the U.S. dollar and price changes) net disbursements represented a decline of 2 per cent compared to 1986.

ODA as a per cent of Gross National Product (GNP), went down to 0.34 per cent in 1987 from 0.35 per cent in 1986 for all the DAC countries combined. Finland's ODA disbursements recorded an increase of 38 per cent in volume. Following Finland was Japan which recorded a volume growth of 32 per cent in 1987. Norway continued to rank first with an ODA to GNP ratio of 1.1 per cent followed by the Netherlands (nearly 1 per cent). Other donors whose ODA exceeded 0.7 per cent of the GNP in 1987 were: Denmark (0.88 per cent), Sweden (0.85 per cent) and France (0.75 per cent). However, aid from Austria, Belgium, Ireland, New Zealand and the United States declined both in terms of volume and national currencies.

Net disbursements from the countries of the Council for Mutual Economic Assistance (CMEA) are estimated to have increased by about 10 per cent to $ 5.3 billion in 1987 from $ 4.8 billion in 1986. A large part of CMEA aid is accounted for by Cuba, Mongolia and Vietnam.

Seventy per cent of total net financial resource flows to developing countries now come from official source. Total net export credits remained negative, i.e., repayment and other reductions in export credit liabilities exceeded new lending. Nevertheless, new export credit lending remained substantial at an annual level of nearly $ 20 billion. Foreign direct investment was higher at $ 13.2 billion in 1987 as against $ 12.2 billion in 1986. Net bank lending increased by 35 per cent in volume in 1987 from the all-time low in the previous year, as a result of higher concerted bank disbursements to Latin America and renewed lending to several low-income Asian countries after the pause in 1986. However in real terms, net private flows declined by 14 per cent in 1987. Grants by private voluntary organisations continue to represent a significant resource flow to poorer countries at a level of $ 3.5 billion.

World Bank Group

A major development was the General Capital Increase (GCI) of World Bank by $ 74.8 billion with effect from April 27, 1988. GCI represents an increase of about 80 per cent in the Bank's authorised capital and brings it to $ 171 billion. Increase in subscriptions will be only 3 per cent paid in and 97 per cent will remain callable. With this increase, the Bank's annual lending could grow to more than $ 20 billion by 1992 from the current level lending of about $ 15 billion a year. Another event was the establishment of the Multilateral Investment Guarantee Agency (MIGA).

In fiscal year 1987 (July 1986—June 1987) IBRD (World Bank) and IDA lending to the poorest countries—those with a per capita gross national product of less than $ 400 in 1985—totalled $ 6,430 million (IBRD: $3,253 million, IDA $ 3,177 million) up by $ 545 million or 9 per cent from the previous year. The momentum of reform quickened and many reform programmes deepened notwithstanding difficult political and social constraints. The Bank responded to the needs of adjusting countries by supporting reforms through structural-adjustment and sector-adjustment lending through its project lending and through increased efforts at ajd coordination. The Bank, together with the Fund and other multilateral institutions, plays a central role in promoting growth-oriented adjustment programme and in mobilising resources in their support. It remains committed to an active leadership role. In addition to developing growth-oriented programmes, the Bank together with the International Finance Corporation (IFC) has continued to assist interested borrowers in developing debt equity swaps and other arrangements. The Bank is also prepared to lead in seeking new approaches to direct private invest-

ment promotion in developing countries through the IFC and Multilateral Investment Guarantee Agency. The World Bank attaches great importance to trade liberalisation, which it has actively supported through its adjustment programmes.

Although lending for sector adjustment and structural adjustment increased in recent years from less than 10 per cent of total lending during the period FY 1981-82 to 23 per cent in FY 1986-87, the Bank remains a development institution committing the major portion of its funds in support of specific investment projects. The issues of population, environment and women in development have a high priority on the Bank's current and future agenda. The Bank's initiatives in all these areas intensified during fiscal 1987.

During FY 1987, World Bank commitments to the twelve highly-indebted countries amounted to $ 6,514 million as against $ 5,988 million in the previous year. Disbursements to them also rose sharply from $ 3,954 million in 1986 to $ 5,931 million in 1987.

During July 1986-June 1987 the World Bank Group approved total loans amounting to $ 17.7 billion, as against $ 16.3 billion in FY 1986. At this level the loan commitments were higher by $ 1.4 billion or 8.6 per cent than in fiscal 1986; however, there had been an increase of $ 1.9 billion or 13.4 per cent in FY 1986. Disbursements by the IBRD and the IDA totalled $ 14.5 billion exceeding those during the previous year by $ 3.1 billion or 26.7 per cent as compared with a small increase of only $ 0.3 billion or 2.5 per cent during FY 1986. While there was a fall of $ 67 million in disbursements made by the IDA, those by the IBRD showed an increase of $ 3,120 million or 37.8 per cent. However, the net transfer of resources (disbursements minus debt servicing) from IBRD and IDA declined from $ 2,846 million in FY 1986 to $ 2,416 million in FY 1987.

In FY 1988, the total lending commitments by World Bank Group increased by $ 1.5 billion or by 8.8 per cent as compared to an increase of $ 1.3 billion or 8.3 per cent in the previous year. The disbursements by the IBRD and IDA totalled $ 15.0 billion, higher by about $ 0.6 billion. Disbursements of IBRD and IDA in 1987-88 increased by $ 0.3 billion each. The net transfer of resources by the IBRD and IDA in FY 1988 aggregated (−) $ 3.5 billion and $ 2.9 billion, respectively (Table XI-13).

Table XI-13: Loans by World Bank*

($ million)

	IBRD		IDA		World Bank	
	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88
1. Lending Commitments	14,188	14,762	3,486	4,459	17,674	19,221
	(+7.7)	(+4.0)	(+11.0)	(+27.9)	(+8.3)	(+8.8)
2. Disbursements	11,383	11,636	3,088	3,397	14,471	15,033
	(+37.8)	(+2.2)	(−2.1)	(+10.0)	(+26.7)	(+3.9)

* Exclude figures for Special Facility for Sub-Saharan Africa.
Note: Figures in brackets are percentage changes over the previous year.

International Bank for Reconstruction and Development (IBRD)

Although fresh commitments of the IBRD in FY 1987 rose by $ 1.0 billion or 7.7 per cent to $ 14.2 billion over the year, the number of operations was marginally reduced from 131 in FY 1986 to 127 in FY 1987. IBRD disbursements increased sharply by $ 3.1 billion or 37.8 per cent to $ 11.4 billion. For FY 1988, while the new lending commitments increased by $ 0.6 billion to $ 14.8 billion, disbursements rose by $ 0.3 billion or by 2.2 per cent.

Of the 127 countries which received financial support from IBRD in 1986-87, 5 countries, viz., Indonesia, India, Turkey, Brazil and Mexico secured loan commitments in amounts exceeding $ 1 billion each and together they accounted for

$ 7.2 billion or 50.7 per cent of the total approvals. Of the above five countries, India received the largest amount of $ 2.1 billion followed by Mexico [$ 1.7 billion], Brazil [$ 1.3 billion], Turkey [$ 1.1 billion] and Indonesia [$ 1.0 billion]. The share of India in total IBRD approvals increased to 15.0 per cent in 1986-87 from 13.2 per cent in 1985-86. The six projects for which amounts were sanctioned were power ($ 1,190 million-55.9 per cent of total loan commitment), energy ($ 480 million-22.6 per cent of total loan commitment), telecommunication ($ 345 million-16.2 per cent of total loan commitment), water supply and sewerage ($ 93 million-4.4 per cent of total loan commitment) and urban development ($ 20 million-0.9 per cent of total loan commitment). Gross disbursements to India increased by $ 153 million to $ 1,519 million in 1986-87. However, net transfers declined by $ 28 million to $ 888 million during the same period.

Fresh IBRD loans have been made at variable rates since July 1982. The lending rate on all loans made under the variable rate system is adjusted semi-annually for interest-rate periods from January 1-June 30 and July 1-December 31, by adding a spread of 0.50 per cent to the IBRD's weighted average cost of borrowing. The variable lending rate steadily declined from its initial July 1, 1982 level of 11.43 per cent to 7.92 per cent on January 1, 1987. On July 1, 1987, the lending rate was reset at 7.76 per cent which declined to 7.72 per cent from January 1,1988. On July 1, 1988 the lending rate was again changed to 7.59 per cent. The IBRD's subscribed capital increased by $ 7,705 million in fiscal 1987. Of that amount, $ 2,420 million was the result of subscriptions authorised by the general capital increase approved in January 1980.

The Special Facility for Sub-Saharan Africa began operations on July 1, 1985. Funds are used to provide credits to IDA-eligible countries that have undertaken or are committed to undertake, appropriate medium-term programmes of policy reform.The Facility's total resources of $ 1,946 million (at June 30,1987 exchange rates) are available for commitments through Fiscal 1988. During Fiscal 1986, twelve operations were financed with Facility credits amounting to $ 421 million. Special joint financing amounted to $ 192 million. The number of countries receiving assistance from the Facility during its first two years increased to twenty. Total disbursements amounted to $ 604 million, with $ 480 million disbursed from Facility credits and $ 124 million under special joint financing.

For Fiscal 1988, loan commitments and disbursements under the Facility amounted to $ 112 million and $ 351 million, respectively, as compared with $ 421 million and $ 379 million in 1987.

Multilateral Investment Guarantee Agency (MIGA)

The Multilateral Investment Guarantee Agency (MIGA), a World Bank affiliate, came into being on April 12, 1988. Nearly 54 per cent of MIGA's initial $ 1.1 billion in authorised capital has been subscribed to by 29 countries including nine capital-exporting countries.

The MIGA, which will be legally and financially separate from the World Bank, aims to encourage, protect and promote investment flows among its member countries—especially to developing country members. It will complement the existing network of political risk insurance, which includes national investment guarantee schemes, regional entities and private insurers.

The MIGA's guarantee function extends to any non-commercial risk that impedes the flow of investment. In the MIGA convention, these risks comprise transfer risks that result from host government restrictions on conversion and transfer, expropriation risks, risks of a repudiation of contract by a host government when investors lack a competent legal forum, face unreasonable delays, or are unable to enforce a final judgement, and war and civil disturbance risks.

The MIGA will focus on equity interests, including equity-type loans. It will also extend its coverage to other types of investment co-operation which can include management and service contracts, licensing and franchise agreements, turnkey contracts and arrangements involving technology transfer.

The following are the 20 developing countries, which together have subscribed to the equivalent of 9.4 per cent of the initial capital of MIGA and have ratified the convention : Bahrain, Bangladesh, Barbados, Chile, Cyprus, Ecuador, Egypt, Grenada, Indonesia, Jamaica, Jordan, Korea, Kuwait, Lesotho, Malawi, Nigeria, Pakistan, Saudi Arabia, Senegal and Western Samoa. The nine industrial countries are: Canada (with a subscription equal to 2.965 per cent of initial capital), Denmark (0.718 per cent), the Federal Republic of Germany (5.071 per cent), Japan (5.095 per cent), the Netherlands (2.169 per cent), Sweden (1.049 per cent), Switzerland (1.5 per cent), the United Kingdom (4.86 per cent) and the United States of America (20.519 per cent).

The International Development Association (IDA)

The IDA credit sanctioned during Fiscal 1987 (July 1986-June 1987) totalled $ 3,486 million showing a rise of $ 340 million or 11.0 per cent as compared with an increase of 3.7 per cent ($ 112 million) during the previous year.

During the year India received the largest amount of $ 678 million followed by China ($ 556 million) and Bangladesh ($ 389 million). However, proportionately India's share in the total sanctions declined marginally from 19.9 per cent in 1985-86 to 19.4 per cent in 1986-87. While Bangladesh's share in total credits sanctioned declined from 14.7 per cent to 11.2 per cent,that of China increased from 14.3 per cent to 15.9 per cent during the same period.

Disbursements from IDA in FY 1987 were lower at $ 3,088 million as compared to $ 3,155 million in FY 1986.

For Fiscal 1988, the fresh commitments of IDA amounted to $ 4,459 million showing a rise of $ 973 million or 27.9 per cent. Disbursements of IDA at $ 3,397 million in Fiscal 1988 showed an increase of $ 309 million or 10.0 per cent as compared to a decline of $ 67 million or 2.1 per cent last year.

For projects approved from July 1, 1987 onwards the period of maturity of IDA credits has been reduced from 50 years to 40 years for the least developed countries and to 35 years for other recipient countries. IDA's commitment fee of 0.5 per cent was discontinued from July 1, 1988. However, it will continue to levy the service charge of 0.75 per cent on credit disbursed to cover administrative expenses. World Bank approved a modest easing of repayment terms on the Bank's loans to Third World nations. On World Bank loans, it was decided that newly-authorised credit should carry a five-year "grace period", compared with the current system under which borrowers get from three to five years before they start repaying principal as well as interest. The Bank will review this decision after three years.

The International Finance Corporation (IFC)

During Fiscal 1987, the IFC expanded its assistance to the private sector in member countries through support for a record number of projects and, in addition, took significant steps to enhance its ability to continue this assistance by placing more emphasis on real growth in its disbursed loan and equity portfolio. The disbursed portfolio increased by 6.2 per cent to a total of $ 1,878 million. The number of companies in which the IFC had investments outstanding at the end of the year rose from 377 to 404.

It is expected that by the end of Fiscal 1989 the Corporation will have approved new investments for its own account of $ 4.42 billion over five years and that the total disbursed and outstanding portfolio at that stage will be about $ 2.63 billion. The Corporation will aim to achieve this expansion so as to make a growing contribution to economic development and to do so in a manner which will continue to strengthen its finances. In the long run, it expects to achieve a return of about 5 per cent on its net worth.

During Fiscal 1987, the third year in IFC's current five-year programme, the Corporation approved 92 projects located in 41 countries for a total investment of $ 920 million which was $ 236 million lower than the investment of $ 1,156 million made in Fiscal 1986 in 39 countries. Of the total investment approved, $ 790 million was to be invested on IFC's own account and $ 130 million was to be syndicated or sold to other investors. The investment of $ 920 million com-

prised $ 793 million for loans and $ 127 million for equity investment. Of the loans, $ 117 million involved corporate restructuring.

During Fiscal 1987, total disbursements of committed loans and equity investments amounted to $ 327.5 million, comprising $ 256.2 million of loans and $ 71.3 million of equity investment.

The distribution of IFC's own investments, region-wise was as follows:

Region	1986		1987	
	Amount US $ Million	No. of projects	Amount US $ Million	No. of projects
1. Africa	112	24	106	23
(of which: sub-Sahara)	(94)	(20)	(74)	(19)
2. Asia	159	22	192	23
3. Europe and Middle East	153	10	74	9
4. Latin America	277	28	403	36
5. Worldwide	9	1	15	1
Total	710	85	790	92

In Fiscal 1987, investments were approved in two countries-Hungary and Togo – for the first time. Of the total approved investments of $ 920 million, 36 ventures with a total value of $ 275 million were located in countries with a per capita annual income of less than $ 800. These investments accounted for 39 per cent and 30 per cent of the number of projects approved and the total value of approved investments by IFC, respectively, during the year.

Manufacturing was an important sector of investment with 25 investments totalling $ 213 million, compared to $ 185 million in FY 1986. Food processing and agri-business continued to attract the Corporation's investments in 1987 with 13 ventures accounting for $ 64 million. Capital markets projects were particularly significant with 12 projects ($ 97 million). The range of sectors represented by investments approved during the year reflects the increasing diversity of the projects. They included agriculture, ammonia, chlorine, fertilizers, financial institutions, food processing, glass, motorcycles, oil exploration, palm oil, pharmaceuticals, pulp and paper, shipping, telecommunications, textiles, tourism, trucks, shoes, watches and wood processing.

IFC estimates that 52 per cent of the total project financing of investments approved in 1987 would have come from sources in the countries where the projects are located. Most of the foreign funds involved were in the form of suppliers' credits or funding from international sources. Some 105 companies from industrialised countries and 14 from developing countries also participated in one form or another in business ventures that were supported by the IFC. Government-related financial institutions in industrialised countries specialising in assistance to private enterprises in developing countries were expected to have provided approximately $ 228.0 million of investments approved by IFC.

Net income of the Corporation for 1987 reached an all-time high of $ 53.8 million. Paid-in capital as on June 30, 1987 amounted to $ 721.6 million and retained earnings, including the fiscal year's net income, were $ 337.6 million. In addition to borrowing from the World Bank the Corporation raised funds from the private markets, arranged swaps and lent and funded itself in six non-dollar currencies. The Corporation's total borrowing during 1987 amounted to $ 441 million of which $ 200 million was from the World Bank. The Corporation borrowed $ 241 million in five private placements on the international markets in Fiscal 1987 – three Eurodollar borrowings of $ 50 million each, a Dutch Guilder private placement of 52 million, equivalent to approximately $ 25 million and a syndicated Yen loan of 10 billion, equivalent to approximately $ 66.3 million.

Use of International Monetary Fund (Fund) Resources

The use of Fund resources continued to decline for the fourth consecutive year in 1987. Total purchases by members declined by 45 per cent to SDR 4.0 billion in 1985 from SDR 7.3 billion in 1984 and further to SDR 3.8 billion and SDR 3.3 billion in 1986 and 1987, respectively. Total repurchases continued to rise and accounted for SDR 7.9 billion in 1987 as compared with SDR 5.7 billion in 1986, SDR 3.6 billion in 1985 and SDR 2.3 billion in 1984. Thus, the net purchases (drawings minus repurchases) from the Fund to member countries became negative for

the second consecutive year to the extent of SDR 4.6 billion in 1987 as compared with the negative financial flows of SDR 1.9 billion in 1986. Consequently, Fund credit (outstanding) declined to SDR 29.2 billion at end-1987 as compared with SDR 33.4 billion and SDR 35.2 billion at end-1986 and 1985, respectively.

Most purchases in 1987 (64 per cent) were subject to upper credit tranche conditionality. Drawings under stand-by arrangements accounted for SDR 1.9 billion (58 per cent), while those under extended arrangements were SDR 247 million (6 per cent). However, drawings under the compensatory financing facility doubled during the year 1987 to SDR 1,182 million (36 per cent of total drawings) from SDR 567 million (15 per cent of total drawings) during 1986. As in earlier year there were no drawings under the buffer stock financing facility.

During the first quarter (January-March) of 1988, the purchases were at SDR 1.1 billion as against SDR 0.3 billion during the same quarter of 1987. The repayments to the Fund accounted for SDR 1.8 billion in the first quarter of 1988 as compared with SDR 1.6 billion in 1987 resulting in the net repurchases of SDR 0.7 billion and SDR 1.3 billion in first quarter of 1988 and 1987, respectively.

Table XI-14: Fund Purchases and Repurchases

(Billion SDRs)

			January-March	
	1986	1987	1987	1988
1. **Total Purchases**[1]	3.8	3.3	0.3	1.1
Of which:				
Credit Tranche[2]	3.0	1.9	0.1	0.6
Extended Fund Facility	0.3	0.2	0.1	..
Compensatory Financing Facility	0.6	1.2	0.1	0.5
Buffer Stock Financing Facility	—	—	—	—
2. **Total Repurchases**	5.7	7.9	1.6	1.8
3. **Net Purchases**	(−)1.9*	(−)4.6*	(−)1.3*	(−)0.7*

1. Excludes purchases under the reserve tranche and disbursements under Structural Adjustment Facility.
2. Includes purchases under stand-by arrangements.
* Repurchases exceed total purchases.
— Negligible.

Two members (Argentina and Hungary) made purchases of more than SDR 100 million under the stand-by arrangements in 1988. No purchases under the extended arrangements were made during the year.

As on May 31, 1988, 25 members availed of the Structural Adjustment Facility (SAF) and the total amount sanctioned was SDR 1,357.4 million of which SDR 597.0 million was drawn in the range of SDR 143.8 million (Bangladesh) and SDR 1.5 million (Guinea-Bissau).

At the end of March 1988 the Trust Fund loans outstanding fell to SDR 1.2 billion as against SDR 1.7 billion a year earlier. (The Trust Fund made its final disbursement in March 1981).

Total Fund credit declined to SDR 28.6 billion at end-March 1988 as compared with SDR 32.1 billion a year earlier.

Policy on Enlarged Access to Fund Resources and Limits to Special Facilities

The Fund decided on December 10, 1987 to extend the enlarged access policy which governs member countries' access to the Fund's general resources to 1988 also with the same percentage limits in relation to quotas, as in 1987. 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 arrangements approved under the policy on enlarged access during 1988 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 member's balance of payments need and the strength of its adjustment efforts.

The annual and triennial 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.

The limits and the enlarged access policy will be reviewed before the end of 1988.

Rate of Charges of the Fund and the System of Burden Sharing

The Fund aims at achieving a positive net income in each year to add to its reserves. In July 1986, after an examination of the financial consequences to the Fund of overdue obligations from members, the Executive Board decided that they should be shared between debtor and creditor member countries in a simultaneous and symmetrical fashion. For the financial years 1986-87 and 1987-88 the Fund's target amount of net income was raised from 5 per cent to 7.5 per cent of the reserves at the beginning of each year. This increase was financed equally by a higher rate of charge than would otherwise have been levied and by a lower rate of remuneration than would otherwise be payable. In January 1988 the Fund decided to allocate the increased target income over 5 per cent for 1987-88 to the Special Contingent Account established in 1987. It was further decided to generate through adjustments in both the rate of charge and the rate of remuneration an additional amount equal to 2.5 per cent of the reserves at the beginning of the year for placement under this account. Besides, an amount of income equal to the charges being deferred would be generated through simultaneous upward adjustment of the rate of charge and a downward adjustment of the rate of remuneration, the latter being subject to a limitation that precluded its being taken to a level less than 85 per cent of the SDR interest rate. In the light of the level of deferred charges in the fourth quarter of 1987-88 that could not be generated fully by a symmetrical adjustment of the rate of remuneration and the rate of charge the Executive Board decided in May 1988 to reduce the amount of addition to reserves from 5.0 per cent to 4.1 per cent. The shortfall is to be made up through an additional placement to reserves in 1988-89.

The basic rate of charge on the use of ordinary resources is determined at the beginning of the financial year on the basis of the estimated income and expenses of the Fund and target amount of net and supplemental income during the year. For the financial year 1987-88, the basic rate of charge was set at 5.80 per cent per annum taking into account the adjustment necessary to generate half of the increase in the target net income from 5 per cent to 7.5 per cent; in the fourth quarter of the year the rate was increased from 5.80 per cent to 6.15 per cent. Subsequent adjustments of this rate to make up for one half of periodic charges deferred during the year and a return to debtors of SDR 58 million, representing net income earned by the Fund in excess of the target amount for the year, resulted in an average rate of charge for the year of 6.0 per cent compared with the average of 6.49 per cent in 1986-87.

To cover the cost to the Fund resulting from overdue obligations, the Fund levies an additional "special charge" on such obligations. The rate of special charge on overdue repurchases is equal to the difference between the SDR interest rate and the basic rate of charge whenever the SDR interest rate is greater than the rate of charge before adjustments to recover deferred income. Thus, the rate of charge on overdue charges is equal to the SDR interest rate. In the year ended April 30, 1988, special charges levied by the Fund amounted to SDR 20.0 million (SDR 12.1 million in 1986-87). Of this amount, SDR 19.8 million was treated as deferred income (SDR 11.6 million in 1986-87). Special charges included in current income amounted to SDR 0.3 million (SDR 0.5 million in the previous year).

Members that made purchases financed with resources borrowed by the Fund at market-related

rates of interest pay charges to the Fund that reflect its cost of borrowing plus a small margin. In 1987-88 the average rates of charge on purchases under the Supplementary Financing Facility and under policy on enlarged access were 8.70 per cent and 7.39 per cent, respectively, compared with 7.11 per cent and 6.94 per cent, respectively, in 1986-87.

The rate of remuneration to creditor members was raised to 100 per cent of the SDR interest rate on February 1, 1987. However, after adjustment made to generate one half of the increase in the target amount of income (SDR 60 million) and one half of deferred charges, the actual rate of remuneration paid to creditor members of the Fund in 1987-88 averaged 5.12 per cent as against 5.34 per cent in 1986-87.

SDR Allocation and SDR Interest Rate

SDR allocations are made for "basic periods", which are specified in the Articles to be of five years' duration unless the Executive Board decides otherwise. So far, SDR allocation has been made only for two basic periods of three-years i.e., 1970-72 and 1979-81, SDR allocation on January 1, 1981 was the most recent allocation. SDRs so far allocated amount to SDR 21.4 billion.

The question of SDR allocation in the fifth basic period was discussed in the five successive meetings of the Interim Committee in 1986, 1987 and April 1988 but no allocation could be agreed to as the requisite majority support was not forthcoming.

In the Interim Committee meeting of October 1987 most committee members reiterated the view that there is a long-term global need to supplement existing reserve assets and that many countries have a need for reserve supplementation. However, some other members of the Committee, mainly the advanced industrial nations, continued to feel that the conditions for SDR allocation, i.e., the existence of a long-term global need, had not been demonstrated. As there was no change in the circumstances, the Committee requested the Executive Board to continue to monitor developments in international liquidity and consider the question of SDR allocation and increasing the usefulness of the SDR to all members.

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 the five countries whose currencies comprise the SDR valuation basket. The rate of remuneration to be paid by the Fund on members' remunerated position with the Fund, which was set at the level of 100 per cent from February 1, 1987 continued to be at the same level of 100 per cent.

The quarterly rate of interest of SDR and the rate of remuneration for some recent quarters are presented in Table XI-15. The SDR interest rate which was at 5.68 per cent in June 1987 varied between 5.91 per cent in December 1987 and 5.55 per cent in March 1988.

Table XI-15: SDR Interest and Remuneration Rates@

(Per cent per annum)

For the quarter ended	SDR Interest Rate/ Rate of Remuneration
June 1987	5.68
September 1987	5.88
December 1987	5.91
March 1988	5.55
June 1988	5.66

@ 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.

IMF Quota Review

The Committee of the Whole on the Ninth General Review of Quotas established in March 1987 began its work by considering preliminary quota calculations and reviewing issues bearing on the size of the Fund. The Interim Committee in its meeting in April 1988 indicated that the Executive Board will submit the proposals not later than April 30, 1989 and also report the progress to it at its next meeting.

Enhanced Structural Adjustment Facility

On December 29, 1987, the Fund established a new concessional lending facility, viz., the Enhanced Structural Adjustment Facility (ESAF), expected to provide new resources totalling

SDR 6.0 billion. Its objectives, basic procedures, and financial conditions are generally parallel to those of the existing Structural Adjustment Facility (SAF) which was established in March 1986 to be financed by about SDR 2.7 billion of Trust Fund reflows available during 1985-91. SDR 6.0 billion of ESAF resources will be additional to the SDR 2.2 billion that remains to be disbursed under the existing SAF, thus bringing the total to SDR 8.2 billion. The facility is designed in particular to assist the adjustment efforts of low income countries faced with high levels of indebtedness as well as those whose exports are concentrated in one commodity or a few commodities the prices of which remain persistently weak in world markets.

The 62 presently eligible members may seek assistance under the SAF or the ESAF and access under the SAF is, at present, a uniform 63.5 per cent of quota. Members borrowing resources under the ESAF or the SAF will retain access to the general resources and special facilities of the Fund. The repayment will take place in 10 equal semi-annual instalments, beginning 5½ years and ending 10 years from the date of disbursement. An interest rate of ½ of 1 per cent will be charged on ESAF loans as in the case of SAF.

China and India are members eligible to use ESAF resources. However, the Chinese and Indian authorities have indicated that, for the present, they do not intend to make use of ESAF resources.

Malawi is the first Fund member to use resources under the ESAF and will have the right to obtain six loans from the Fund totalling SDR 55.8 million.

Compensatory Financing Facility and External Contingency Mechanism

The Compensatory Financing Facility established in 1963 was the first special facility set up by the Fund. Its purpose is to provide financial assistance to members—particularly primary commodity exporting countries—experiencing deficits in balance of payments resulting from temporary shortfalls in exports largely attributable to circumstances beyond the members' control. Initially the facility covered only shortfalls in earnings from merchandise exports but subsequently in August 1979 it was extended to include shortfalls in receipts from travel and workers' remittances. In May 1981 the coverage was extended further to provide assistance to members whose balance of payments was adversely affected by sharp increases in the cost of cereal imports.

At the spring meeting of the Interim Committee held during April 14-15, 1988 it was decided that the existing CFF would be combined with a new external contingency mechanism in a single facility.

The aim is to help maintain the momentum of adjustment in the face of adverse external shocks. On August 23, 1988, the Fund's Executive Board established the Compensatory and Contingency Financing Facility (CCFF). The new facility replaces the Compensatory Financing Facility for Export Fluctuations, established in 1963, and the Facility for Compensatory Financing of Fluctuations in the Cost of Cereal Imports, established in 1981. The CCFF will provide financial assistance to member countries that encounter balance of payments difficulties that arise out of a) temporary export shortfalls, b) adverse external contingencies or c) excess costs of cereal imports. The amounts of financing available are 40 per cent of quota each on account of the export shortfall and the external contingency elements and 17 per cent of quota for the cereal import costs element; in addition, there is an optional tranche of 25 per cent of quota available to supplement any one of these elements, at the choice of the member. In case a member has a satisfactory balance of payments position except for the effect of an export shortfall or an excess in cereal import costs, the limit of 83 per cent of quota under either element has been maintained. In addition, there is a combined limit of 105 per cent of quota on the use of any two of the three elements of the CCFF and a combined limit of 122 per cent of quota on the use of all three elements.

International Reserves

In 1987, the international non-gold reserves (foreign exchange, SDRs and reserve position in the Fund) had a rise of SDR 87 billion (or 20.8 per cent) to SDR 505.7 billion. In 1986, the reserves had increased by SDR 15.3 billion or 3.8 per cent to SDR 419.6 billion. In 1985, the reserves had declined by SDR 1.6 billion or 0.4 per cent and in 1984 there was a rise of 12.5 per cent.

In 1987, the foreign exchange component of the reserves rose by SDR 90.1 billion or 24.8 per cent to SDR 454 billion. There was also a 3.7 per cent rise (of SDR 0.7 billion to SDR 20.2 billion) in the holdings of SDRs. However, there was a decline of SDR 3.9 billion or 11 per cent to SDR 31.5 billion in the reserve position in the Fund for the third successive year (from SDR 41.6 billion in 1984 to SDR 38.7 billion in 1985 and SDR 35.3 billion in 1986 and further to SDR 31.5 billion in 1987). This implies the greater reliance of developing countries on the utilisation of reserve position in the Fund for meeting their needs due to difficulties experienced by them in availing of the various facilities of the Fund.

The total non-gold reserves increased due to rise in reserve holdings of industrial countries which rose from SDR 248.9 billion to SDR 319.4 billion in 1987. The non-gold reserves of industrial countries have been rising since 1983 and during the five years ending 1987 their reserves increased by SDR 135 billion or by 73 per cent. Reserves of the developing countries had a rise of just 0.2 billion after a continuous decline between 1984 and 1986. Consequently the share of developing countries in total non-gold reserves declined by 5.4 percentage points from 31.5 per cent in 1986 to 26.1 per cent in 1987 and that in foreign exchange holdings by 6.1 percentage points from 31.9 per cent to 25.8 per cent.

The declining trend in non-gold reserves of oil-exporting countries remained unchanged in 1987 for the third successive year.

The Fund-related reserve assets of all countries which had declined by SDR 2.1 billion to SDR 54.8 billion in 1986 fell further by SDR 3.1 billion to SDR 51.7 billion in 1987. This decline was mainly accounted for by a fall in reserve position in the Fund of SDR 2.8 billion to SDR 31.5 billion partially offset by a rise in SDR holdings of SDR 0.7 billion to SDR 20.2 billion. The increase in SDR holdings and decrease in reserve position in the Fund was shared equally both by 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, W. Germany and U.K. 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 reserves in 1987 continued in first quarter of 1988 and as at the end of March 1988 the reserves of all countries stood at SDR 514.5 billion, higher by SDR 8.8 billion as compared to end-1987 level. The entire increase was accounted for by industrial countries with oil-exporting countries reporting a fall at SDR 4.6 billion.

Developments in Exchange Rates of Major Currencies

As in the two preceding years, exchange market developments in 1987-88 (April-March) were dominated by downward pressures on the U.S. dollar relative to other major currencies, reflecting the continuing external imbalances of the United States, Japan and Germany. The Louvre (Paris) Accord of February 1987 and concerted intervention in support thereof ensured a measure of exchange rate stability in respect of major currencies till October 1987 crash. In the months following the Louvre Accord the US dollar did indeed stabilise temporarily against the other major currencies. This phase did not come to a stop until October 1987 crash in the world stock markets. The stock market crash renewed persistent decline in the US dollar and pressures for further realignment in exchange rates. By December 1987 the exchange markets had steadied with U.S. dollar declining further. The statement of G-7 ministers emphasising renewed co-operation among them to stabilise the US dollar had a salutary effect in stabilising the exchange market. The policy directives and commitments set forth in the December statement were reaffirmed by G-7 countries on 13 April 1988 in Washington. However, due to continued

large current account imbalances (of major countries), the exchange markets remained volatile.

The value of the U.S. dollar continued to decline in 1987-88 (April-March), maintaining the trend that had begun in March 1985. On a monthly average basis between March 1987 and March 1988, the depreciation amounted to over 9 per cent in nominal effective terms. Currency-wise, the U.S. dollar depreciated during 1987-88 by about 16 per cent against Japanese yen, 13 per cent against the pound sterling, 9 per cent against DM (Deutsche Mark), 10 per cent against the Swiss franc, 7 per cent against the French franc and 5 per cent against the Italian lira. The main reasons for the continued decline in the external value of the dollar were (i) the continuation of large trade and budget deficits in the United States, (ii) the surge in the net foreign debt of the United States, (iii) huge current account deficit and (iv) a sharp decline in the influx of private capital to the United States. It is probable that at times there were even net outflows of private capital from the United States. The decline in prices in stock markets also caused the dollar to fall after October 1987.

During the three-month period ending June 1988, the U.S. dollar showed a mixed trend. The U.S. dollar firmed up by nearly 5 per cent against the D.M., by 5 per cent against the lira, by over 4 per cent against the French franc, by 3 per cent against the pound sterling and marginally against the yen. However, it eased by nearly 3 per cent against the Canadian dollar.

The Japanese yen emerged as the strongest of all six major currencies during 1987-88 (April-March). Currency-wise, the yen persistently rose against the dollar, the pound sterling, French franc, the DM and the Swiss franc. Over the year, on a monthly average basis, the Japanese yen had appreciated by over 19 per cent against the U.S. dollar, 13 per cent each against Canadian dollar and the Italian lira, 11 per cent against the French franc, 9 per cent against the DM, over 7 per cent against the Swiss franc and 4 per cent against the pound sterling. In nominal effective terms, the yen gained over 14 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 a negative inflation rate in 1987 and expected low inflation in 1988. The underlying strength of the Japanese economy also aided the sentiment.

During the three months ending June 1988, the Japanese yen appreciated against all major currencies except the Canadian dollar. It appreciated by 3 per cent against the pound sterling, over 4 per cent against the French franc, nearly 5 per cent against the DM and 5 per cent against the Italian lira. However, it depreciated by nearly 3 per cent against the Canadian dollar and negligibly against U.S. dollar.

The Deutsche Mark (DM) showed a mixed trend during 1987-88 (April-March). On a monthly average basis between March 1987 and March 1988, it appreciated by over 9 per cent against the U.S. dollar, 4 per cent against the Italian lira, 4 per cent against the Canadian dollar and 2 per cent against the French franc. However, it depreciated by over 8 per cent against the yen, 5 per cent against the pound sterling and 1 per cent against the Swiss franc. In nominal effective terms it strengthened by over 1 per cent. The strength of DM is attributed mainly to (i) strong growth of the West German economy fuelled by strong increase in domestic demand and (ii) a moderate rate of inflation.

During April-June 1988, the DM depreciated against all major currencies except the Italian lira and the Swiss franc. It depreciated by nearly 2 per cent against the pound sterling, nearly 5 per cent against the yen and U.S. dollar, 7 per cent against the Canadian dollar and by 1 per cent against the French franc. However, it appreciated by nearly 1 per cent against the Swiss franc and marginally against the Italian lira.

The pound sterling ruled firm during 1987-88 (April-March) against all major currencies except the Japanese yen. The rise was prominent particularly against the U.S. and Canadian dollar. On a monthly average basis between March 1987 and March 1988, the pound sterling appreciated by 15 per cent against the U.S. dollar, 10 per cent against the Canadian dollar, 9 per cent against the Italian lira, 7 per cent against the French franc, 5 per cent against the D.M. and 4 per cent against the Swiss franc. However, it depreciated by nearly 4 per cent against the Japanese yen. In

nominal effective terms the pound sterling strengthened by about 7 per cent during the year under review. The major factors which contributed to the strength of the pound sterling were: (i) relatively high domestic interest rates (ii) strong economic growth and (iii) a moderate rate of inflation.

During the three months ended June 1988, the pound sterling showed a mixed trend. It appreciated by 2 per cent against the Italian lira and the D.M., by 1 per cent against French franc and by over 2 per cent against the Swiss franc. However, it depreciated by nearly 3 per cent against the U.S. dollar and the yen and over 5 per cent against the Canadian dollar.

As in the case of pound sterling, the French franc also showed a mixed trend during the year under review. It strengthened by 7 per cent against the U.S. dollar, 2 per cent against the Canadian dollar and 2 per cent against the Italian lira. It eased by 10 per cent against the Japanese yen, 7 per cent against the pound sterling, 2 per cent against the DM and 3 per cent against the Swiss franc. However, in nominal effective terms the French franc depreciated only marginally (0.4 per cent) during 1987-88 (April-March).

During April-June 1988, the French franc showed a mixed trend. It appreciated by nearly 1 per cent against the Italian lira and the DM and over 1 per cent against the Swiss franc. However, it depreciated by 4 per cent against the U.S. dollar and the yen, 1 per cent against the pound sterling and over 6 per cent against Canadian dollar.

External Debt of Developing Countries

The debt problem remains an obstacle to the growth of the debtor countries and a threat to the world economy. The outstanding debt of developing countries has continued to rise since 1982. The total external debt of developing countries rose from $ 847 billion in 1982 to $ 1195 billion at the end of 1987.

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) which had crossed the 1 trillion mark in 1986 further went up to $ 1132 billion in 1987. The external debt of capital-importing developing countries as a percentage of exports of goods and services (debt ratio) was, however, reduced markedly to 172 per cent in 1987 from 184 per cent in 1986. On the other hand, the ratio of external debt to GDP increased from 40.9 per cent in 1986 to 41.8 per cent in 1987. The small low income countries had the highest debt ratio of 453.1 per cent. The Western Hemisphere countries which belong to the group of middle-income countries also recorded a very high debt ratio of 331.9 per cent.

The debt service ratio of capital-importing developing countries which had been on the rise since 1984 showed a break in the trend. It declined in 1987 to 19.1 per cent from 21.9 per cent in 1986. Similarly, the debt service ratio of countries with recent debt servicing problems declined from 35.0 per cent in 1986 to 29.0 per cent in 1987. In value terms, the debt service payments of capital-importing countries in 1987 amounted to $ 137.6 billion comprising $ 71.5 billion of interest payments (52 per cent) and $ 66.0 billion of amortization payments.

The Fund staff estimate that the external debt of capital-importing developing countries is likely to grow by about 3 per cent to $ 1163.9 billion in 1988. The debt ratio will reduce to 158 per cent and the ratio of external debt to GDP to 39.3 per cent. The debt service ratio, however, would remain almost unchanged at 19.3 per cent. Regionwise the debt ratio would decrease for countries in Africa, Asia, Europe and Western Hemisphere. However, it is expected to increase for the Middle East. In the case of net oil importers and fifteen heavily-indebted countries the debt to exports ratio would reduced by 13.0 and 10.0 percentage points to 135.6 per cent and 319.3 per cent, respectively.

Gold in International Markets

During 1987-88 (April-March) gold prices in London market experienced fluctuations ranging from $ 426.15 to $ 492.50 per fine ounce. The amplitude of variation in prices in 1987-88 was much greater in absolute terms than during the

preceding 12 months. The month-end price of gold rose sharply in the first month of the year, i.e., April 1987, reaching a level of $ 453.25 per fine ounce from $ 421.00 in March 1987 thereby registering a substantial rise of $ 32.25 or 7.7 per cent. The notable factors underlying the price rise were continuing bearish sentiment against the U.S. dollar on exchange markets and fears of a trade war between the United States and Japan leading to inflationary expectation in many quarters which diminished the perceived attractiveness of investments in financial assets. Thereafter the prices of gold moved within a narrow range and settled at $ 459.50 per fine ounce by end-September 1987 largely owing to the weakening of the U.S. dollar and continuing tension in the Middle East. Gold prices firmed up following the stock market crash of October 19, 1987. They touched a peak of $ 492.50 in November 1987, thereby showing a significant absolute rise of $39.25 over April 1987. The failure of the U.S. dollar to strengthen in response to official interest rate cuts in Europe during the period, the Federal Reserve's increasing supply of reserve to the banking system and the 1.9 per cent jump in the Commodities Research Board Index to its highest level for the year all raised fears of inflation and did much to increase the demand for gold. On the other hand, the price was also reportedly pushed up on speculation that the Bank of France was actively buying gold ahead of January 1988, the redemption date of the gold-denominated "Giscard bonds". However, gold prices tumbled to $ 458.00 and $ 426.15 as of end-January and end-February 1988, respectively, on account of forecasts giving more weightage to deflation rather than inflation in the months ahead, the strengthening of the U.S. dollar and continuing rumours of Central Bank gold sales to finance intervention in foreign exchange markets. As of end-March 1988 gold price stood at $ 456.95, an increase of $ 35.95 over the price a year ago.

During the first month of the current financial year 1988-89 (April) prices of gold declined to $ 449.00. The main factors contributing to the decline were steadiness in the value of the dollar and disappointment among investors that the rise in price above $ 455 an ounce at the end of March had not been sustained. However, gold prices moved up to $ 455.5 by end-May 1988, but again fell to $ 436.6 by end-June 1988.

VII. Developments in Exchange Control

1. Sale of U.S. dollars by Reserve Bank to Authorised Dealers

With effect from July 20, 1987, in terms of the facility of sale of U.S. dollars by Reserve Bank, the minimum amount of sale was reduced from U.S. $ 0.250 million to U.S. $ 0.100 million with a view to enabling smaller banks to avail of the benefits of the scheme. Authorised dealers have also been allowed to buy the U.S. dollars not only for covering their genuine merchant transactions in U.S. dollars but also in certain other permitted currencies, viz., Deutsche mark, Japanese yen and Swiss franc.

2. Sale of Japanese yen and DM to Reserve Bank

The Reserve Bank restored to ADs with effect from November 2, 1987 the facility of spot sale and sale for delivery upto one month to Reserve Bank of Japanese yen and DM (which was disallowed since March 22, 1982) against their spot purchases from their overseas branches/ correspondents for laying down rupee funds in the latter's accounts in India.

3. Revision in RBI's forward rates for pound sterling

Reserve Bank had been purchasing pound sterling from authorised dealers for forward deliveries upto the 9th month at a fixed forward margin of £ 0.0060 per Rs. 100/- per month over the spot rate. From December 7, 1987 the discount on forward purchase of pound sterling was revised to £ 0.0040 per Rs. 100/- per month. Rates for extension of forward contracts were not changed and these continued at £ 0.0075 per month over the contracted rate so long as the date of option was within 12 months from the date of the contract.

4. Rupee Loans/Overdrafts to Non-Resident Indians against NRERA/FCNRA Deposits

Hitherto, Reserve Bank had permitted authorised dealers to grant loans/overdrafts upto Rs. 2 lakhs to non-resident account holders of Indian nationality or origin for purposes other than investment against the security of fixed

deposits held in the borrowers' NRER and FCNR Accounts. To encourage NRI investments in India on non-repatriation basis, Reserve Bank decided with effect from July 31, 1987 to consider applications for grant of rupee loans/overdrafts to NRIs against fixed deposits held in NRER/FCNR Accounts even for investment purposes, subject to certain conditions.

5. Foreign Exchange Conservation (Travel) Tax

With effect from October 15, 1987, all persons drawing exchange for travel abroad other than for medical treatment, higher studies and pilgrimage to certain places are required to pay Foreign Exchange (Conservation) tax at the rate of 15 per cent of the rupee equivalent of foreign exchange released to them.

6. Liberalisation of International Credit Card Facility

The Scheme of International Credit Card Facility available to holders of blanket permits issued by the Reserve Bank was further liberalised with effect from November 23, 1987 by (i) raising the number of eligible executives/officials of any Company/firm to hold international credit cards from 5 to 8 in respect of large exporters (ii) automatic renewal of the credit card, if the blanket permit issued had been renewed (iii) dispensing with the procedure of endorsing on the passports of card holders the amount of foreign exchange notionally allocated to them against the credit cards and (iv) extension of the facility of holding such credit cards to firms/companies holding exchange permits under the Composite Allocation of Foreign Exchange (CAFEX) Scheme.

7. Levy of Cess on Payments towards Import of Technology

Under the Research and Development Cess Act, 1986, a cess at a rate not exceeding 5 per cent had been levied on all payments towards the import of technology with effect from December 1, 1987. The proceeds of the Cess so levied were transferred to the Industrial Development Bank of India, to be credited into a Venture Capital Fund. The Fund was intended to provide, *inter alia,* equity capital or other forms of financial assistance to industrial concerns attempting commercial application of indigenous technology or adopting imported technology.

8. Scheme for Export of Silver Jewellery against Import of Silver

In order to obviate the necd for the Handicrafts and Handlooms Export Corporation of India (HHEC) and State Trading Corporation (STC) to approach Reserve Bank for grant of permission to import silver or export jewellery on a case by case basis, HHEC and STC have been granted special permission with effect from December 30, 1987, to import silver and export silver jewellery/articles under the Scheme initially for one year from December 30, 1987.

9. Liberalisation of Blanket Exchange Permit Scheme

With effect from March 3, 1988, the following liberalisations were made in the Blanket Exchange Permit Scheme introduced by the Reserve Bank in June 1987.

(i) Extension of Scheme to Exporters eligible for assistance under Productivity Fund of ICICI

A Productivity Fund had been set up by the ICICI out of U.S. $ 10 million earmarked from a loan of $ 250 million provided by the World Bank for the Industrial Export (Engineering Projects) Project. This Fund will be utilised for providing financial assistance to export thrust industries such as engineering and electronics industries for improving product design, production methods, productivity, quality control and maintenance systems as also for upgrading their technology with a view to improving their export capabilities. Exporters eligible for assistance from this Productivity Fund would also be considered for issue of blanket permits on account of foreign exchange expenditure towards various purposes as per terms and conditions laid down by the ICICI.

(ii) Extension of Scheme to Exporters of Computer Software

Consequent to the policy on Computer software exports, software development and training,

announced by the Government of India, exporters of software were eligible for issue of blanket exchange permits for amounts upto 30 per cent of the net foreign exchange earned in the previous year through export of computer software for meeting expenditure on business travel abroad, procurement of drawings/designs and payment of agency commission, etc. Foreign exchange allocation for the first year is, however, to be decided by the Inter-Ministerial Standing Committee set up by the Government of India.

(iii) Issue of Blanket Permits to Public Sector Undertakings

Public Sector Undertakings, applying for blanket permits were, hitherto, required to send their applications to the Ministry of Finance through their Administrative Ministries. This stipulation was dropped and all eligible Central/State Government Undertakings were permitted to apply direct to the concerned offices of the Reserve Bank for issue of blanket permits.

(iv) Advertisements in Special Supplements brought out by Foreign Newspapers/Journals Abroad

a) Hitherto, all remittances towards cost of advertisement in special supplements/issues brought out by foreign newspapers required Reserve Bank's prior approval. It was decided that prior clearance of Reserve Bank was no longer necessary for remittances on behalf of holders of blanket permits towards such advertisements.

b) Authorised dealers were permitted to henceforth release exchange upto U.S. $ 3,000/- for advertisements in all types of publications including advertisement in special supplements/ issues on behalf of their export clients even if they are not holding blanket permits.

10. Remittance towards export claims

Hitherto, authorised dealers were permitted to allow remittances towards quality claims upto 10 per cent of f.o.b. values of the export shipment or Rs. 30,000/- whichever was lower. In order to facilitate quick disposal of exporters' applications for remittances towards settlement of quality claims, the monetary limit of Rs. 30,000/- for disposal of such applications by authorised dealers was enhanced to Rs. 1,00,000/- with effect from June 14, 1988 within the existing percentage ceiling of 10 per cent of f.o.b. value of a shipment remaining unchanged. This would enable clearance of a larger number of applications directly by authorised dealers. As far as exporters holding valid blanket permits were concerned, no monetary ceiling was stipulated on remittances towards export claims to be made against their blanket permits so long as any such claim is within 10 per cent of the value of the relative shipment.

11. Changes in Interest Rates on Deposits under FCNRA and NR(E)R Scheme

Taking into account changes in the interest rates prevailing abroad, the Reserve Bank made revisions in the interest rates on FCNR deposits of various maturities as shown below:

(Per cent per annum)

	October 12, 1987	November 30, 1987	February 8, 1988	May 23, 1988	July 13, 1988
1. 6 months and above but less than 1 year	8.50	8.00	7.50	8.25	8.50
2. 1 year and above but less than 2 years	10.00	9.50	8.50	9.00	9.25
3. 2 years and above but less than 3 years	10.50	9.75	9.25	9.25	9.50
4. 3 years only	11.00	10.00	9.50	9.50	9.75

Effective August 1, 1988, Foreign Currency (Non-Resident) Accounts Scheme (FCNRA) was extended to include deposits in two more currencies, viz., Deutsche mark and the Japanese yen. It was also decided to pay different interest rates for deposits denominated in different currencies. In view of the recent rise in interest rates abroad for major currencies, the Reserve Bank raised the interest rates by 0.25 to 0.75 per cent with effect from August 15, 1988 as shown below:

(Interest rates per cent per annum)

	£		U.S. $		D.M.			Yen	
	August 1, 1988	August 15, 1988	August 1, 1988	August 15, 1988	August 1, 1988	August 9, 1988	August 15, 1988	August 1, 1988	August 15, 1988
1. 6 months and above but less than 1 year.	11.25	11.50	9.00	9.50	5.75	6.00	6.50	5.25	5.75
2. 1 year and above but less than 2 years	11.50	11.75	9.50	10.00	6.00	6.25	6.75	5.50	6.00
3. 2 years and above but less than 3 years	11.75	12.00	9.75	10.25	6.25	6.50	7.00	5.75	6.25
4. 3 years only	11.75	12.00	10.00	10.50	6.50	6.75	7.25	5.75	6.25

As regards NR(E)R deposits, there was no revision in the interest rates except for deposits of maturities of 6 months to one year in respect of which the rate was revised to 8.50 per cent per annum from 8.00 per cent per annum with effect from October 12, 1987.

12. Rupee-Rouble Exchange Rates

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 U.S.S.R. to India were revised in November and December 1987 and June 1988 during the year as under:

	Rs. per Rouble	
	(a)	(b)
As on March 31, 1987	14.7923	15.6342
From November 1, 1987	15.3915	16.2675
From December 19, 1987	15.8619	16.7647
From June 5, 1988	16.3924	N.A.

13. Opening of Offices

During 1987-88 (April-March), permission was granted to Indian companies/firms for opening of 30 trading and 49 non-trading offices and for 25 companies for posting representatives at various centres. During April-June 1988, such permission was granted to 13 trading offices, 33 non-trading offices and 8 representatives abroad.

During the fiscal year 1987-88, 60 overseas companies were granted permission to open new liaison/representative offices and 16 project offices for execution of specific contracts. Such permission was granted to 16 liaison/representative offices and 4 project offices during April-June 1988.

14. Indian Projects Abroad

During 1987-88, the Working Group on Project Exports accorded pre-bid approvals for 74 proposals involving an aggregate value of Rs. 6,484 crores. These covered 25 proposals for civil construction contracts valued at Rs. 5,506 crores, 13 proposals for turnkey projects valued at Rs. 676 crores, 5 proposals for supply contracts on deferred payment terms valued at Rs. 127 crores and 31 proposals for service contracts valued at Rs. 175 crores.

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
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
July 1, 1987	4.8054	20.81	4.7870	20.89	20.85
July 3, 1987	4.7939	20.86	4.7755	20.94	20.90
July 6, 1987	4.8054	20.81	4.7870	20.89	20.85
July 7, 1987	4.7824	20.91	4.7642	20.99	20.95
July 8, 1987	4.7720	20.96	4.7529	21.04	21.00
July 10, 1987	4.7596	21.01	4.7416	21.09	21.05
July 13, 1987	4.7710	20.96	4.7529	21.04	21.00
July 14, 1987	4.7483	21.06	4.7304	21.14	21.10
July 15, 1987	4.7710	20.96	4.7529	21.04	21.00
July 16, 1987	4.7259	21.16	4.7081	21.24	21.20
July 20, 1987	4.7596	21.01	4.7416	21.09	21.05
July 21, 1987	4.7824	20.91	4.7642	20.99	20.95
July 28, 1987	4.7939	20.86	4.7755	20.94	20.90
August 4, 1987	4.8286	20.71	4.8100	20.79	20.75
August 5, 1987	4.8520	20.61	4.8333	20.69	20.65

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
August 10, 1987	4.8757	20.51	4.8567	20.59	20.55
August 11, 1987	4.8638	20.56	4.8450	20.64	20.60
August 13, 1987	4.8403	20.66	4.8216	20.74	20.70
August 17, 1987	4.8054	20.81	4.7870	20.89	20.85
August 18, 1987	4.7939	20.86	4.7755	20.94	20.90
August 19, 1987	4.7483	21.06	4.7304	21.14	21.10
August 20, 1987	4.7371	21.11	4.7192	21.19	21.15
August 24, 1987	4.7148	21.21	4.6970	21.29	21.25
August 26, 1987	4.7371	21.11	4.7192	21.19	21.15
August 28, 1987	4.7148	21.21	4.6970	21.29	21.25
September 2, 1987	4.7037	21.26	4.6860	21.34	21.30
September 3, 1987	4.6816	21.36	4.6642	21.44	21.40
September 8, 1987	4.6707	21.41	4.6533	21.49	21.45
September 10, 1987	4.6926	21.31	4.6751	21.39	21.35
September 11, 1987	4.6816	21.36	4.6642	21.44	21.40
September 18, 1987	4.6707	21.41	4.6533	21.49	21.45
September 21, 1987	4.6598	21.46	4.6425	21.54	21.50
September 23, 1987	4.6707	21.41	4.6533	21.49	21.45
September 30, 1987	4.6926	21.31	4.6751	21.39	21.35
October 1, 1987	4.7037	21.26	4.6860	21.34	21.30
October 6, 1987	4.6926	21.31	4.6751	21.39	21.35
October 7, 1987	4.6707	21.41	4.6533	21.49	21.45
October 8, 1987	4.6598	21.46	4.6425	21.54	21.50
October 9, 1987	4.6490	21.51	4.6318	21.59	21.55
October 12, 1987	4.6382	21.56	4.6211	21.64	21.60
October 13, 1987	4.6598	21.46	4.6425	21.54	21.50
October 15, 1987	4.6168	21.66	4.5998	21.74	21.70
October 19, 1987	4.5746	21.86	4.5579	21.94	21.90
October 20, 1987	4.6062	21.71	4.5893	21.79	21.75
October 21, 1987	4.6275	21.61	4.6104	21.69	21.65
October 22, 1987	4.6382	21.56	4.6211	21.64	21.60
October 26, 1987	4.5746	21.86	4.5579	21.94	21.90
October 27, 1987	4.5537	21.96	4.5372	22.04	22.00
October 28, 1987	4.5126	22.16	4.4964	22.24	22.20
October 29, 1987	4.4524	22.46	4.4366	22.54	22.50
October 30, 1987	4.4623	22.41	4.4464	22.49	22.45
November 2, 1987	4.4425	22.51	4.4267	22.59	22.55
November 3, 1987	4.4228	22.61	4.4072	22.69	22.65
November 4, 1987	4.4033	22.71	4.3879	22.79	22.75
November 6, 1987	4.3554	22.96	4.3403	23.04	23.00
November 10, 1987	4.3365	23.06	4.3215	23.14	23.10
November 11, 1987	4.3271	23.11	4.3122	23.19	23.15
November 13, 1987	4.3459	23.01	4.3309	23.09	23.05
November 16, 1987	4.3649	22.91	4.3497	22.99	22.95

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
November 17, 1987	4.3745	22.86	4.3592	22.94	22.90
November 19, 1987	4.3365	23.06	4.3215	23.14	23.10
November 23, 1987	4.3178	23.16	4.3029	23.24	23.20
November 25, 1987	4.2992	23.26	4.2845	23.34	23.30
November 27, 1987	4.2900	23.31	4.2753	23.39	23.35
November 30, 1987	4.2535	23.51	4.2391	23.59	23.55
December 1, 1987	4.2445	23.56	4.2301	23.64	23.60
December 2, 1987	4.2808	23.36	4.2662	23.44	23.40
December 3, 1987	4.2535	23.51	4.2391	23.59	23.55
December 4, 1987	4.2717	23.41	4.2571	23.49	23.45
December 7, 1987	4.2808	23.36	4.2662	23.44	23.40
December 8, 1987	4.2717	23.41	4.2571	23.49	23.45
December 10, 1987	4.2626	23.46	4.2481	23.54	23.50
December 11, 1987	4.2176	23.71	4.2034	23.79	23.75
December 16, 1987	4.2265	23.66	4.2123	23.74	23.70
December 22, 1987	4.2176	23.71	4.2034	23.79	23.75
December 23, 1987	4.2088	23.76	4.1946	23.84	23.80
December 24, 1987	4.2176	23.71	4.2034	23.79	23.75
December 28, 1987	4.1911	23.86	4.1771	23.94	23.90
January 1, 1988	4.1477	24.11	4.1339	24.19	24.15
January 6, 1988	4.1911	23.86	4.1771	23.94	23.90
January 7, 1988	4.2265	23.66	4.2123	23.74	23.70
January 8, 1988	4.2445	23.56	4.2301	23.64	23.60
January 11, 1988	4.2265	23.66	4.2123	23.74	23.70
January 13, 1988	4.2088	23.76	4.1946	23.84	23.80
January 18, 1988	4.3178	23.16	4.3029	23.24	23.20
January 19, 1988	4.3085	23.21	4.2937	23.29	23.25
January 21, 1988	4.2808	23.36	4.2662	23.44	23.40
January 25, 1988	4.3085	23.21	4.2937	23.29	23.25
February 1, 1988	4.3365	23.06	4.3215	23.14	23.10
February 2, 1988	4.3459	23.01	4.3309	23.09	23.05
February 8, 1988	4.3745	22.86	4.3592	22.94	22.90
February 11, 1988	4.3649	22.91	4.3497	22.99	22.95
February 15, 1988	4.3937	22.76	4.3783	22.84	22.80
February 17, 1988	4.3840	22.81	4.3687	22.89	22.85
February 19, 1988	4.3937	22.76	4.3783	22.84	22.80
February 22, 1988	4.3840	22.81	4.3687	22.89	22.85
February 23, 1988	4.3554	22.96	4.3403	23.04	23.00
February 24, 1988	4.3459	23.01	4.3309	23.09	23.05
February 26, 1988	4.3365	23.06	4.3215	23.14	23.10
February 29, 1988	4.3271	23.11	4.3122	23.19	23.15
March 7, 1988	4.3178	23.16	4.3029	23.24	23.20
March 8, 1988	4.2626	23.46	4.2481	23.54	23.50
March 9, 1988	4.2265	23.66	4.2123	23.74	23.70

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
March 10, 1988	4.1999	23.81	4.1859	23.89	23.85
March 14, 1988	4.1824	23.91	4.1684	23.99	23.95
March 17, 1988	4.1736	23.96	4.1597	24.04	24.00
March 18, 1988	4.1824	23.91	4.1684	23.99	23.95
March 21, 1988	4.1911	23.86	4.1771	23.94	23.90
March 22, 1988	4.1824	23.91	4.1684	23.99	23.95
March 24, 1988	4.1649	24.01	4.1511	24.09	24.05
March 29, 1988	4.1391	24.16	4.1254	24.24	24.20
March 30, 1988	4.1220	24.26	4.1085	24.34	24.30
March 31, 1988	4.1135	24.31	4.1000	24.39	24.35
April 4, 1988	4.0634	24.61	4.0502	24.69	24.65
April 5, 1988	4.0552	24.66	4.0420	24.74	24.70
April 7, 1988	4.0634	24.61	4.0502	24.69	24.65
April 11, 1988	4.0800	24.51	4.0667	24.59	24.55
April 13, 1988	4.0883	24.46	4.0750	24.54	24.50
April 14, 1988	4.0967	24.41	4.0833	24.49	24.45
April 15, 1988	4.0634	24.61	4.0502	24.69	24.65
April 18, 1988	4.0306	24.81	4.0177	24.89	24.85
April 19, 1988	4.0064	24.96	3.9936	25.04	25.00
April 21, 1988	4.0145	24.91	4.0016	24.99	24.95
April 22, 1988	4.0064	24.96	3.9936	25.04	25.00
April 25, 1988	4.0306	24.81	4.0177	24.89	24.85
May 3, 1988	4.0388	24.76	4.0258	24.84	24.80
May 4, 1988	4.0469	24.71	4.0339	24.79	24.75
May 9, 1988	4.0388	24.76	4.0258	24.84	24.80
May 10, 1988	4.0145	24.91	4.0016	24.99	24.95
May 13, 1988	4.0064	24.96	3.9936	25.04	25.00
May 16, 1988	3.9984	25.01	3.9857	25.09	25.05
May 19, 1988	4.0225	24.86	4.0096	24.94	24.90
May 23, 1988	4.0145	24.91	4.0016	24.99	24.95
May 26, 1988	4.0225	24.86	4.0096	24.94	24.90
May 30, 1988	4.0306	24.81	4.0177	24.89	24.85
June 1, 1988	4.0552	24.66	4.0420	24.74	24.70
June 2, 1988	4.0717	24.56	4.0584	24.64	24.60
June 3, 1988	4.0883	24.46	4.0750	24.54	24.50
June 7, 1988	4.0717	24.56	4.0584	24.64	24.60
June 8, 1988	4.0552	24.66	4.0420	24.74	24.70
June 10, 1988	4.0388	24.76	4.0258	24.84	24.80
June 15, 1988	4.0717	24.56	4.0584	24.64	24.60
June 16, 1988	4.0634	24.61	4.0502	24.69	24.65
June 17, 1988	4.0717	24.56	4.0584	24.64	24.60
June 20, 1988	4.0552	24.66	4.0420	24.74	24.70
June 23, 1988	4.0800	24.51	4.0667	24.59	24.55
June 24, 1988	4.1051	24.36	4.0917	24.44	24.40
June 27, 1988	4.1391	24.16	4.1254	24.24	24.20
June 28, 1988	4.1477	24.11	4.1339	24.19	24.15
June 29, 1988	4.1563	24.06	4.1425	24.14	24.10

APPENDIX-I
IMPORTANT EXPORT CONTROL/PROMOTION ANNOUNCEMENTS
APRIL 1987-MARCH 1988

A. CHANGES IN EXPORT CONTROL

Sr. No-	Item	Month(s) of Announcements	Details
1.	2.	3.	4.
1.	Semi-processed hides and skins including crust leather and ready-to-finish leather	April 1987	Quotas of cow hides, buffalo hides, cow calf skins, buff calf skins and sheep goat skins released for export to eligible quota holders during the licensing year April 1987-March 1988.
2.	De-oiled Rice Bran (Rice Bran Extraction)	April 1987	Ceiling released and export allowed on "first-come, first served", basis against registration of contracts with the solvent Extractor's Association of India, Bombay.
3.	Frog Legs	April 1987	Export of frog legs has been banned with immediate effect.
4.	Mulberry silk waste including cleaned and degummed silk waste and noils and noil droppings	April 1987	Export was allowed "on merits".
5.	Non-Basmati Rice	April 1987	Export was allowed within a limited ceiling on "first-come, first-served", basis without any minimum export price against 100 per cent confirmed irrevocable letter of credit or against revolving letter of credit against firm contracts.
		April 1987	Export was allowed within a limited ceiling, subject to registration of contracts with the Agricultural and Processed Food Products Export Development Authority backed by 100 per cent confirmed Irrevocable letter of credit only.
		May 1987	Export was also allowed if an exporter has received advance payment in full subject to the production of bank certificate from a scheduled Bank in India covering 100% f.o.b. value against specific export order in addition to export allowed against 100% confirmed irrevocable letter of credit or revolving letter of credit.
6.	Writing/Printing Paper of all sorts including Airmail Tissue below 34 GSM	April 1987	Export was allowed within a limited ceiling on "first-come-,first served", basis.
7.	De-oiled Groundnut Cake (Extraction)	April 1987	Ceiling was released and export allowed on "first-come, first-served", basis against registration of contracts with the Groundnut Extractions Export Development Association, Bombay.
8.	Cotton seed Expeller Cakes	April 1987	Ceiling was released and export allowed on "first-come, first-served", basis against registration of contracts with the All India Cotton Seed Crusher's Association, Bombay.
9.	Solvent extracted cotton seed cakes (De-corticated and un-decorticated)	April 1987	Ceiling was released and export allowed on "first-come, first-served", basis against registration of contracts with the All India Cotton Seed Crusther's Association, Bombay.
10.	Wollastonite	April 1987	Ceiling was released and export allowed on "first-come, first-served", basis.
11.	Pure Ghee	April 1987	Export was allowed within a ceiling which would be regulated on "first come, first-served", basis only against 100% irrevocable letter of credit opened and accepted by an Indian bank or against full payment received in advance.
12.	Hatching Eggs	April 1987	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.

1.	2.	3.	4.
13.	Live Buffaloes	April 1987	Export was allowed within a ceiling for the first six months by making endorsement on shipping bills by licensing authorities to all permissible destinations.
14.	Pyrophyllite	April 1987	Export was allowed within a limited ceiling on "first-come, first-served", basis by issue of export licences.
15.	Corrundum (other than Saphires and Rubies)	April 1987	Export was allowed within a limited ceiling on "first-come, first-served," basis.
16.	Dehusked coconut whole, coconut flour and dessicated coconut	April 1987	Export was allowed within a limited ceiling on "first-come, first-served", basis. Export of dehusked coconut whole was allowed subject to minimum f.o.b. value of Rs. 24/- per kg.
17.	Chips made of sandal wood	April 1987	Sandal Wood in the form of chips, flakes, dust and powder was allowed freely under OGL-3 provided the chips should be rough and of irregular size and shape and of different sizes and with a weight not exceeding 200 grammes each.
18.	Live sheep & Goat (Adult)	April 1987	Export was allowed within an overall ceiling on "first-come, first-served", basis on production of irrevocable letter of credit or proof of receipt of payment against specific export order, subject to minimum export price of Rs. 12/- per kg. (fob) of live weight of the animal and certain other conditions, by all categories of exporters and to all permissible destinations.
19.	Meat of Indian Goat	April 1987	Quota was released for export subject to minimum export price of Rs. 19/- per kg. f.o.b. on presentation of Shipping Bills/Airway Bills and subject to other conditions.
20.	Jowar & Ragi	April 1987	Ceiling was released and export allowed on "first-come, first-served", basis and subject to minimum export price of Rs. 2,000 (two thousand) per tonne f.o.b. This ceiling is distributed between the NAFED and Private Trade.
21.	Bajra	April 1987	Ceiling was released and export allowed subject to minimum export price of Rs. 2,000/- per tonne (f.o.b.) ceiling was distributed between NAFED and Private Trade.
22.	Hydrogenated Oil (Vanaspati Ghee)	April 1987	Ceiling was released and export allowed on "first-come, first-served", basis on production of certificate of pre-shipment inspection and permission from the Directorate of Vanaspati, Vegetable Oils and fats before shipment.
23.	Maize	April 1987	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.
24.	Silver bearing chemicals, electrical contacts and drug formulations	May 1987	Export on consignment basis was not allowed under OGL-3.
25.	Rayon Filament Yarn	May 1987	Export was allowed within a limited ceiling on "first-come, first-served", basis.
26.	Manufactured Articles made out of specified Reptile/Snake Skins	May 1987	Export was allowed of the manufactured articles made out of specified species of snake skins through the State Trading Corporation subject to certain conditions.
27.	Crushed Bones and Steamed Crushed Bones	June 1987	Ceiling was released and export allowed on "first-come, first-served", basis by all categories of exporters to all permissible destinations against firm sale contracts backed by 100% Irrevocable Letter of Credit.
28.	Textile Cloth and Materials thereof of Olive Green Shade	June 1987	Export was allowed within a limited ceiling on "first-come, first-served", basis.

1.	2.	3.	4.
29.	Calcined Magnesite with Silica content 4.5% to 7.5%	June 1987	Export was allowed within a limited ceiling on "first-come, first-served", basis.
30.	Seasame Seed	June 1987	Export was allowed within a limited ceiling on "first-come, first-served", basis by all category of exporters against registration of contracts with the Indian Oil & Produce Exporters' Association.
31.	Peacock Tail Feathers and Articles/Handicrafts made of Peacock Tail Feathers	June 1987	Export was allowed within a limited ceiling of Feathers by all categories of exporters against valid Irrevocable Letters of Credit/ Advance Payments covering 100% f.o.b. value against specific export order. Export of Crest Feathers or any other part of Peacock was not allowed.
32.	Wheat and Wheat Products viz. Maida, Suji and Whole meal Atta (Wheat Flour of not less than 95% extraction)	June 1987	Export was allowed within a limited ceiling on "first-come, first-served", basis without any minimum export price.
33.	Polyester Filament Texturised Yarn	June 1987	Export was allowed within a limited ceiling on "first-come, first-served", basis.
34.	Viscose Staple Fibre Spun Yarn	June 1987	Export was allowed within a limited ceiling on "first-come, first-served", basis with minimum export price of Rs. 18.00 per kg. f.o.b.
35.	Benzene	July 1987	Export was canalised under OGL-4 through the State Trading Corporation.
36.	Processed Pulses made out of the pulses imported under Advance Licensing Scheme/Pass Book, or by an approved 100% Export Oriented Unit.	July 1987	Export was allowed as provided under OGL-3 to the extent of the f.o.b. value indicated in the licence. Export of Pulses processed out of indigenous pulses shall not be permitted.
37.	Magnesite	July 1987	Export of calcined Magnesite of Salem origin with silica content between 4.5% to 7.5% and of Almora Origin containing at least 4.5% S_1O_2 and not less than 2.0% CaO was allowed within a limited ceiling on "first-come, first-served", basis. Export of calcined Magnesite of Salem Origin with Silica content above 7.5% was allowed on "Licensed freely" basis.
		August 1987	Export of the above was allowed on the basis of the certificate issued by Indian Bureau of Mines, Nagpur, in respect of origin of Magnesite.
38.	Wild Life and Wild Life Products	July 1987	Export was allowed within a limited ceiling indicated against each on "first-come, first-served", basis on production of Legal Procurement Certificate issued by the concerned Chief Wild Life Warden.
39.	Granular Sillimanite	August 1987	Export of Granular Sillimanite produced by Indian Rare Earth Ltd. and Kerala Minerals Metals Ltd. within a limited ceiling on the recommendation of the Department of Atomic Energy.
40.	Insoluble Sulphur	August 1987	Export was allowed within a limited ceiling on "first-come, first-served",, basis. Export of all other types of sulphur will not be allowed.
41.	Non-iodised/Iodised salt (used for human consumption)	August 1987	Export of non-iodised salt was allowed under OGL-3 without any condition and of Iodised salt was allowed only to neighbouring countries under OGL-4 through State Trading Corporation.
42.	Polyester Staple Fibre/Yarn (All types)	September 1987	Export was allowed within limited ceiling on "first-come, first-served", basis.
43.	Calcined Magnesite of Salem Origin and Almora Origin	October 1987	On reconsideration, it was decided to dispense with the condition regarding production of certificate from Indian Bureau of Mines, Nagpur, in respect of origin of Magnesite.

1.	2.	3.	4.
44.	Wheat seeds and Paddy seeds (Certified)	October 1987	Ceiling released and export allowed through National Seeds Corporation Ltd. on permission of port licensing authorities by making endorsements on shipping bills.
45.	Samo and Kodari seeds	October 1987	Exports were allowed within a limited ceiling on "first-come, first-served", basis by issue of an export licence.
46.	Pearl Barley	October 1987	Exports were allowed within a ceiling on "first-come, first-served", basis to all permissible destinations on production of firm sale contract or cable offer and acceptance.
47.	Rajgaro seed/powder	October 1987	Ceiling released and export allowed on "first-come, first-served", basis.
48.	Granular Sillimanite Powder	November 1987	Sillimanite Powder was treated as Granular Sillimanite for the purpose of export and its export was allowed within the ceiling released.
49.	Wool Tops and Noils	December 1987	Export of wool tops and noils manufactured out of imported wool under customs bond was allowed without licensing formalities.
50.	Polyester Staple Fibre	January 1988	Export was allowed within a limited ceiling on "first-come, first-served", basis.
51.	High value added processed Food and Indian Snacks	January 1988	Export of instant mix Ganthiya Powder (Processed Food based on Gram flour) was allowed within a limited ceiling on "first-come, first-served", basis subject to minimum export price of Rs. 9/- per kg.
52.	Iodised salt (used for human consumption)	January 1988	Export was allowed within a limited ceiling on "first-come, first-served", basis.
53.	Viscose Staple Fibre Spun Yarn	March 1988	Export was allowed within a limited ceiling with MEP @ Rs. 30/- per kg. f.o.b. value on "first-come, first-served", basis.
54.	Wild Life and Wild Life Products (Processed cut material and shavings)	March 1988	The Port-wise ceiling for export of processed cut material and shavings of Shed Antlers are decided to be reallocated in Bombay, Calcutta, New Delhi and Madras.

APPENDIX - I

B—CHANGES IN EXPORT DUTY

(April 1987 to March 1988)

Sr. No.	Item	Date of Announcement	Duty		Cess	
			Present	Previous	Present	Previous
1.	Coffee	19.5.1987	Rs. 170 per quintal	Rs. 330 per quintal	Rs. 11.80 per quintal	Rs. 11.80 per quintal

Source: Customs Notification, Ministry of Finance, Government of India.

APPENDIX—II

A — IMPORTANT ANNOUNCEMENTS WITH REGARD TO IMPORT CONTROL POLICY (APRIL 1987-MARCH 1988)

Sl. No	Item	Month of Announcement	Details
1	2	3	4
1.	Open General Licence No.1	April 1987	The following raw materials, components and consumables, but excluding instruments, are allowed to be imported by the Actual Users (Industrial) subject mainly to the following conditions: (1) Import of components by DGTD Units, textile machinery manufacturing units and small scale units (both under phased manufacturing programme as also in cases where such programmes have expired) shall be subject to the list attestation procedure laid down in Import Policy for 1985-88. (2) Actual Users (Industrial) with provisional registration and even sponsored by the sponsoring authority can import these materials. (3) In respect of man-made fibre, tow yarns, raw wool/greasy wool/scoured wool (not carded or combed) angora goat hair (mohair)/greasy angora goat hair (mohair)/scoured angora goat hair (mohair) (not carded or combed), woollen rags/synthetic rags/shoddy wool in completely premutilated condition, all eligible importers shall be required to register their import contracts with the Textile Commissioner. (4) In the case of Soda Ash, PVC Resin and Copper scrap/copper mill scale; all eligible importers shall be required to register their contracts with the DGTD. (5) In the case of Rifampicin, all eligible importers shall be required to register their contracts with the Joint Secretary and Development Commissioner (Drugs). (6) In the case of Vitamin B.6 (Pyridoxin HCL/Pyridoxin base) and intermediate Pyridoxin all eligible importers shall be required to first place an order to the extent of 33% of their total requirements with M/s Indian Drugs & Pharmaceuticals Ltd., the balance requirement can be cleared by customs on documentary evidence. (7) In the case of raw cashewnuts and of man-made fibres, tow and yarns, imports can be made by Cashew Corporation of India and State Trading Corporation respectively for distribution to eligible actual users. (8) In the case of pig iron containing phosphrous not more than 0.1 per cent, Carbon Steel items and alloy steel items, the eligible importers shall be required to register their import contracts with the Iron & Steel Controller. (9) In the case of insecticides including pesticides and weedicides the actual users (industrial) concerned shall, within seven days of the clearance of each consignment, intimate to the Department of Agriculture (Plant Protection Division). (10) In the case of polysilicon, single crystal silicon ingots/bars/rods/wafers and diffused wafers/dices/chips other than Metallurgical grade silicon, import contracts shall be registered with the Department of Electronics. (11) In the case of unmanufactured ivory, import shall be subject to the regulations of convention on International Trade in endangered species of wild Fauna & Flora (CITES). (12) In case of greases and lubricating oils, import can be made upto Rs. 10,000/- after obtaining NOC from IOC. (13) Items covered under Appendix 6, List 8, Part II of the Import Export Policy, 1985-88 (Vol.I) can be imported by actual users (industrial) subject to 'actual users' condition and Export Houses/Trading Houses against the additional licences as per policy for sale to eligible actual users (industrial) and others for stock and sale. (14) In the case of brass/copper pipes & tubes imported as scrap, their size shall not

1	2	3	4
			exceed 15 cm. in length unless imported as scrap in hydraulically pressed briquttes.
2.	Open General Licence No.2	April 1987	Actual users (Industrial or Non-Industrial) registered with DGTD or concerned State Director of Industries or other sponsoring or Government Authority concerned shall have to fulfil 'actual user' condition in respect of imports made for use in his factory/ commercial establishments, institution, professional office or other premises concerned. (2) Import of the machine tools specified in Appendix I, Part B of Import-Export policy for April 1985-March 1988, shall be of new manufactures. Normally second-hand items are not permitted but imports of such machineries can be made if they are not more than seven years old and have remaining life for atleast five years.
3.	Open General Licence No. 3	April 1987	Permission is granted to import 'permissible' spares, i.e., all those parts required as spares, other than the items appearing in Appendices 2, 3 part-A, 8 or 10, in the Import and Export Policy, 1985-88 (Vol.I), for their own use for maintenance of capital goods, including accessories, ancillary equipments control and laboratory equipment and safety appliances installed, or in use as on 1st April of the licensing year by Actual Users (Industrial or Non-Industrial). (2) These imports are subject to conditions and in the case of computer systems, import of permissible spare parts will be allowed at 5% of the c.i.f. value of imported computers or two per cent per annum of the purchase price of the indigenously manufactured computer system or five per cent of computer which are integral part of the photo composing machines.
4.	Open General Licence No. 4	April 1987	(1) General permission is given for importation of following items: (a) Re-import of items after repairs abroad, free of charge on c.i.f. basis or on payment not exceeding 10% of the c.i.f. value or Rs. 1 lakh, whichever is lower, of imported machinery, (b) free gift of trade catalogues and circulars upto a value of Rs. 2,000/- (c) Blue prints and drawings relating to machinery and plant sites, work and building research data, supplied free of charge, (d) technical and trade samples supplied free of charge not exceeding Rs. 20,000/- (e) advertisement materials supplied free of charge not exceeding Rs, 2,000/- (2) The shipment of these goods has to be made within 24 months from the date of clearance of previously imported goods; no remittances are allowed except for payment of insurance and freight charges subject to documentary evidence of re-import, the authorised insurance surveyor certificate confirming defective item in the original import; evidence of guarantee when imported beyond the prescribed time of 24 months, etc. (3) Drugs and medicines supplied free of charge require prior approval of the Drug Controller of India. Trade samples of these supplies made to the supplier's agent in India should not exceed Rs. 10,000/- in c.i.f. value in one consignment. (4) Human vaccines and sera supplied free of charge or against payment, animal including poultry vaccines, supplied free of charge or against payment and trade samples of insecticides (including pesticides and weedicides) supplied free of charge were required to be imported on written recommendations of the Drugs Controller of India, Animal Husbandary Commissioner to the Government of India and the Registration issued by the Registration Committee of the Insecticide Act, 1963 respectively.

1	2	3	4
5	Open General Licence No. 5	April 1987	(1) General permission is granted for import of raw materials, components, consumables, machinery equipment, instruments, accessories, tools & spares, required by any research and development unit, scientific or research laboratory, institution of higher education and hospitals, recognised by Central and State Governments, subject to the condition as under (a) importers shall produce declaration of its recognition by Central or State Government, (b) consumer goods and office machines are not permitted for imports, (c) prior permission is required for import of computer/computer sub-system/computer peripherals from the Department of Electronics and import of live and attenuate of micro organism in any form for R & D purposes with the prior permission from the Animal Husbandry Commissioner (GOI), (d) importers shall furnish particulars of goods imported for value of Rs. 1 lakh or more within 30 days of clearance from customs. (2) This licence shall also be subjected to the condition No. 1 in schedule V of the Imports (Control) Order 1955.
6.	Open General Licence No. 6	April 1987	General permission given to import the goods of description specified in Appendix 5 of IM/EX Policy, 1985-88 (Vol. I) by designated Public Sector (Canalising) Agencies with the following conditions (a) the import shall be made against the foreign exchange released by the Government for the purpose, (b) imported goods shall be distributed by the canalising agency concerned in accordance with the policy and procedure laid down.
7.	Open General Licence No. 7	April 1987	General permission given to import Jigs, Fixtures, Dies and Patterns (including contour roller dies), moulds (including moulds for die-casting) and press tools (other than those appearing in Appendices I, Part A, 2 and 3 Part A of the IM/EX Policy, 1985-88 Vol. I and parts thereof subject to the following conditions. (a) the importer is an actual user (industrial) and registered with the concerned authority, (b) goods so imported shall be of new manufacture. If they are second-hand their import will be permitted if the machinery is not more than 7 years old and have a remaining life for atleast 5 more years.
8.	Open General Licence No. 8	April 1987	Permission was granted to import items of raw materials, components, consumables, machinery equipment, instruments, accessories, tools & spares (but not consumer goods) by the ONGC, OIL, GAIL and M/s Bharat Mines Ltd., subject to the following conditions. (a) the items permitted for imports by ONGC, OIL and GAIL shall be those cleared by the empowered committee on Indigenisation in Oil Industry under the Ministry of Petroleum and Natural Gas from indigenisation angle. Evidence to that effect shall be produced to the customs authorities, (b) the items permitted for imports by M/s Bharat Gold Mines Ltd. shall be those cleared by the DGTD, from indigenous angle, where import of any electronics items including fascimile equipment for a c.i.f. value, Rs. 5 lakhs or more and marine electronics equipment and parts irrespective of value is involved, or communication equipment for a value more than Rs. one lakh is involved, the import shall be allowed only after clearance is given by the Department of Electronics, (c) the import shall be made only against foreign exchange released by the Government for the purpose. Where service contract is awarded to a foreign contractor the latter may import necessary materials with the con-

1	2	3	4
			dition that those will be re-exported after the contract is executed by them, (d) the permitted imports involving payments shall be subject to 'actual user' condition.
9.	Open General Licence No. 9	April 1987	General permission given to Air India, Indian Airlines and other Airlines who are members of the IATA and other categories for import of spares, consumables, aircraft tyres and tubes, manuals, technical drawing illustrations and other technical literatures pertaining to the fleet of aircraft operated and maintained by them and the associate test and training equipment was granted. This licence does not permit import of consumer goods. The imported item shall be subjected to the actual user condition.
10.	Open General Licence No. 10	April 1987	General permission was accorded to import by eligible 'actual users' of materials specified in the schedule. The imports shall be made within the value limit prescribed and the importers are required to give the declaration of c.i.f. import value. Some of the items in this list are medical instruments, scientific instruments and chemicals and spare parts of motor vehicles and agricultural tractors.
11.	Open General Licence No. 11	April 1987	Permission given to actual users engaged in ship repairing work for import of (i) capital goods, (ii) raw materials, (iii) components, and (iv) consumables and (v) spares. The imported goods are used in the repairing of ocean going vessels, whether Indian or foreign and are subject to procedure applicable to customs bonding including transit bond.
12.	Open General Licence No. 12	April 1987	Permission given to import any goods by Government Departments (Central or State) or projects owned or controlled by Governments. Such imports are free of cost and in accordance with the relevant agreement entered into between the Government of India and the foreign Government concerned.
13.	Open General Licence No. 13	April 1987	Permission given for import of machinery, equipments, testing apparatus, tools and implements, required for Gem and Jewellery industry and their related bodies. The machinery shall be new manufacture and in case of second hand machinery it should not be more than 7 years old with remaining life of atleast 5 more years. The eligible importers should be registered with Gem and Jewellery Export Promotion Council and the import will be allowed subject to certificate issued by any one of the designated certifying bodies. The importer should be an 'actual user'.
14.	Open General Licence No. 14	April 1987	General permission has been given to Government Departments, Departmentally run Government industrial undertakings, Railways, State Electricity Boards Undertakings/Projects in the Public Sector, Public Sector Industrial Undertakings under the Ministry of Defence, to import capital goods, raw materials, components, consumables and spares. The specified items are subject to prior clearance from DGTD.
15.	Open General Licence No. 15	April 1987	General permission granted to import 31 categories of items subject to the prescribed conditions. Broadly, items such as teaching aids, family welfare equipments, drugs, photographic materials, films for medical purposes etc. feature in this list.
16.	Open General Licence No. 16	April 1987	General permission given for import of (a) poultry vaccines (all types) by poultry farms/hatcheries approved by Department of Agriculture, Government of India, (b) Medical Gas Cylinders of 10.2 litre water capacity and below, (c) CO_2 Gas Cylinders upto 15 litre water capacity for fire extinguishers, (d) broken-electric motors,

1	2	3	4
			(e) Magnetic/Electromagnetic water conditioning system, (f) Grape guard paper, (g) Photographic chemicals-developers, fixers, intensifier, reducers, toners and cleaning agents, (h) ¾ inch U-matic & 1 inch video cassettes/tapes and (i) computer software in any mdeia, were allowed for imports by actual users (industrial) subject to adherence of various conditions stipulated.
17.	Open General Licence No. 17	April 1987	General permission granted to import capital goods by the coalieries (numbering 8) which are listed as eligible importers. Imports of specified items do not require indigenous clearance certificate by DGTD.
18.	Open General Licence No. 18	April 1987	General permission granted to non-resident Indians fulfiiling the 'actual user' criteria to import into India capital goods, raw materials, components, consumables and spares subject to various conditions including a) the non-resident shall return to India within 2 years of issue of the licence, b) the imports shall have to be financed out of their own earnings of foreign currency, c) certain specified items which have been banned can not be imported d) while the import of capital goods for electronic industry is not subject to any value limit, for other purposes it is limited to Rs. 35 lakhs, e) capital investment and dividends are not allowed to be repatriated.
19.	Pass Book Scheme	April 1987	a) application by eligible exporters who have completed 75% or more of the total export obligation will be entertained. In the cases where the export obligations are not fulfilled, the entitlement of the Pass Book will be deducted for the amount of shortfall in exports but will be restored once the export quota is reached, b) import entitlement can be used for obtaining pass book for 'related product', c) export/supplies made from the date of receipt of application for entitlement, are counted towards discharge of export obligation subject to either prior or post sanction of the application.
20.	Export and manufacture of Silver Jewellery	April 1987	a) Sale of silver jewellery and articles shall also be allowed through exhibition. abroad for replenishment of silver. b) scheme for special export oriented complexes shall be extended for manufacture of silver jewellery and articles, c) scheme for manufacture of jewellery in FREE Trade Zone shall be allowed for silver jewellery and articles.
21.	Fascimile Machine	April 1987	An exporter with an export performance of Rs. 25 lakhs in f.o.b. value, is allowed to import one fascimile machine of value not exceeding Rs. 1 lakh (c.i.f.).
22.	Increase in c.i.f. value under duty exemption scheme	April 1987	Increase in c.i.f. value of import licences will be considered under duty exemption scheme towards upward revision in exchange rates.
23.	Issue of Imprest Licences	May 1987	Imprest licences may also be issued to registered exporters for the 'deemed exports'. This facility, however, is not available to those exporters who have opted for issue of Special Imprest Licences.
24.	Amendment of OGL No. 16	May 1987	In the case of Polyurethane leather, import shall be allowed to actual users (industrial) engaged in the manufacture of footballs for the

1	2	3	4
			purpose of exports, and STC for distribution to actual users for manufacture of footballs for export purposes.
25.	Deletion of item from OGL	May 1987	'Lifting magnets' is transferred from list of OGL to the list of limited permissible items.
26.	Addition & deletion of items under OGL list	May 1987	Pad printing machine, steel and bronze wires in micron tolerances, diamond powder (synthetic coated and uncoated) plug guages, polycrystalline diamond points, copper saws, mechanical comparators, profile projector, single/double/triple and quadruplicate blood plastic bags and polyvinyl acetate/acrylate and co-polymers (excluding emulsions) were included in the OGL list for imports while emulsions of polyvinyl acetate/acrylate and co-polymeres were included in the list of Limited Permissible items.
27.	Addition into list of REP	June 1987	Replenishment for registered exporters is expanded by addition of cold rolled high carbon (carbon of 0.6% and above by weight) steel strips.
28.	Changes in respect of imports by actual users	June 1987	(a) the facility of importing capital goods by actual users (industrial) who intend to set up new capacity (or an expansion of existing capacity) and who use mainly indigenous machinery was withdrawn, (b) the limit on import of raw materials, consumables and components by the SSI is now raised from Rs. 50,000 to Rs. 2.5 lakhs, (c) branches and offices of foreign institutions may import a second car after the expiry of 10 years of the first and after 5 years if the first car has been sold to the STC, (d) limited permissible list is expanded by addition of Nonyl-phenel and mercury/sodium vapour lamps and metal halide lamps.
29.	Amendment of OGL List No. 3	June 1987	Import of non-permissable spares will also be allowed in the case of computer systems within the overall limits mentioned in condition (iii) of the said order of OGL.
30.	Sale of Goods from FTZ/EPZ	June 1987	Goods manufactured in Free Trade Zones/Export Processing Zones are allowed to be sold in Domestic Tariff Areas as well as those of manufactured items whose imports are allowed under OGL.
31.	Changes in various lists	July 1987	Carbon film/carbon composition resisters (all types), kits, ready to assemble sets, assemblies, sub-assemblies, modules and combination thereof consisting of specified electronic items but excluding electronic discrete components were included in the list of restricted items.
32.	Additional Capital Goods allowed under OGL	August 1987	28 items of machinery for the manufacture of sport goods have been included in the list for imports under OGL.
33.	OGL to limited Permissible list		Three items i.e. Methyl chloride, Methylene chloride and Lead alloys are shifted into the list of limited permissible items from OGL.
34.	Additional capital goods allowed under OGL	September 1987	Machinery required for manufacture of bicycle and components thereof consisting of seven categories of items are now eligible for imports under OGL.
35.	Additional capital goods allowed under OGL	September 1987	Five items of machinery for manufacture of garment/hosiery/madeups have been included in the list of capital goods allowed for imports under OGL.
36.	Advance Licensing norms for additional items	October 1987	Specifications are laid down in respect of Carded Yarn, Combed yarn of count below 40 and count above 40.
37.	Deleted from OGL List	October 1987	Single spindle chucking auto with CNC and CNC single spindle turning machine upto 200 mm swing were deleted from the list of capital goods allowed for imports under OGL.

1	2	3	4
38	Additional imports by Registered Exporters	October 1987	For export production of calcined alumina, the requisite materials i.e. caustic soda and packing materials to the extent of 12% of REP are allowed for imports.
39.	Additional items for imports under OGL	October 1987	Items numbering 28 relating to raw materials, components and consumables required for manufacture of electronic items are included for imports under OGL.
40.	Changes in the OGL conditions	October 1987	Raw materials, components and consumables are allowed for import by Export Houses/Trading Houses against additional licences as per policy for sale to actual user (industrial). However, items covered under Appendix 6 List 10 of the Import-Export Policy 1985-88, Vol. I can be imported by an actual user (industrial) holding a manufacturing licence.
41.	Countries of Import/Export	October 1987	Imports and exports of all goods, whether directly or indirectly, into or from any port or place in India from or to any place in Fiji is prohibited.
42.	Open General Licence No. 19	October 1987	General permission is given to import goods manufactured by the units located in Free Trade Zones, Export Processing Zones and 100% Export Oriented Units into Domestic Tariff Area subject to certain conditions.
43.	Imports from Free Trade Zone & Tax holidays to 100% export oriented units	November 1987	Registered exporters in Free Trade Zones/Export processing zones are allowed to sell in Domestic Tariff Area (DTA) upto 25% of the production of the unit on payment of appropriate customs. The benefit of tax holiday will be extended to 100% export oriented units, as applied to others in Free Trade Zones, for a block of 5 years at their option during first 8 years of the commencement of operation.
44.	Revision of norms for Registered exporters	November 1987	Export obligation, in terms of value added, against imports of various categories of diamond have been revised. Per carat realisation of diamond export has been indicated.
45.	Addition to the list of OGL	November 1987	Two additional drugs namely Epirubicin injection and Iopamidol sterile solution are allowed for imports under the OGL.
46.	Addition to the list of canalised items	December 1987	Import of crude/mineral sodium borate are brought under list of canalised items and are deleted from the list of OGL except in cases where letters of credit opened prior to the issues of this notification.
47.	Amendment in the condition under OGL	December 1987	The condition requiring importers of vitamin B-6, to place 33% of their total requirements in the Indian Drugs and Pharmaceuticals Ltd. was withdrawn.
48.	Shifting of item from the list of OGL	December 1987	Vitamin B-6 (Pyridoxin HCL/base) and intermediaries of Pyriodixin have been shifted from the list of OGL to list of limited permissible items.
49.	Addition to duty exempted permissible items of imports	January 1988	16 items of raw materials which are intermediate products have been included in the list of permissible items of import with the benefit of duty exemption. benefit of duty exemption.
50.	Addition to the list of canalised items	January 1988	Import of HR coils has been added to the list of canalised items.
51.	Addition to duty exempted permissible items of imports	February 1988	Import of 4 categories comprising of 8 items of raw materials required for export production are allowed and these are exempted from import duty.
52.	Shifting of item to the list of OGL	March 1988	Fifteen items of insecticides, fungicides, weedicides which appeared earlier both under the list of restricted items or limited permissible items have now been brought into the list of OGL. These can only be imported by co-operatives and State Agro-Industries Corporations for stock and sale.

APPENDIX—II
B—CHANGES IN IMPORT DUTIES
(April 1987 to March 1988)

Sr. No.	Items	Date of Announcement	DUTY						Remarks
			Basic		Auxiliary		Countervailing		
			Present	Previous	Present	Previous	Present	Previous	
1	2	3	4	5	6	7	8	9	10
1.	Drilling rigs and spares thereof	1.4.87	Nil	Nil	Nil	Nil	Nil	Nil	For rural water supply project—Valid till 31.3.1988. conditional.
		29.3.88	Nil	Nil	Nil	Nil	Nil	Nil	Validity extended upto 31.3.1990.
2.	Hot briquetted iron	3.4.87	15%	Nil	30%	25%	Nil	Nil	For use in integrated steel plant. Valid till 31.3.1988.
3.	Titanium dioxide	a) 9.4.87	60%	70%			Nil		Valid till 30.9.1987.
		b) 28.9.87							Validity extended upto 31.3.1988.
		c) 23.3.88							Validity extended upto 30.6.1988.
4.	Titanium Sponge	28.4.1987	30%	25%	30%	25%	Nil	Nil	Validity extended upto 30.4.1988.
5.	Carbon steel billets	15.5.1987	15%	15%	25%	30%	Rs.365-P.M.T	Rs.365/-P.M.T.	Validity extended utp 31.3.1988. Conditional.
6.	Paraxylene	18.5.1987	100%	100%	40%	40%	Nil	Nil	For the manufacture of dimethyl terephthalate validity extended upto 30.4.1988.
7.	Components of light commercial motor vehicles (including components of light commercial motor	20.5.1987	10%	25%	30%	25%	Nil	Nil	For the manufacture of light commercial motor vehicles of pay load not exceeding 4,000 kg. Conditional. Valid till 1.10.1987.
	vehicles in semi-knocked down packs and completely knocked down packs)	29.9.1987	10%	25%	30%	25%	Nil	Nil	Validity extended upto 1.4.1988.
8.	1. Vecuum tube solar collector	22.5.87	Nil	Nil	Nil	Nil	Nil	Nil	For the manufacture of of solar energy equipments. Valdity
	2. Concentrating Solar Collectors	22.5.87	Nil	Nil	Nil	Nil	Nil	Nil	extended upto 31.5.1988.
	3. Stirling engine	22.5.87	Nil	Nil	Nil	Nil	Nil	Nil	
9.	Coal tar pitch	25.5.1987	25%	15%	Nil	Nil	Nil	Nil	Validity extended upto 31.5.1988.
10.	Tensilised polyester film	5.6.1987	30%		5%		Rs.25/-per kg.		For the manufacture of magnetic tapes. Conditional.
11.	Magnetic tapes	5.6.1987	60%		Nil				Conditional.
12.	Laparescope unit	11.6.1987	Nil	Nil	Nil	Nil	Nil	Nil	List enlarged. For Tubel occlusion.
13.	Ocean going vessles	16.6.1987	Nil		Nil	Nil	Nil		Manufactured in wearhouse. Conditional.
14.	Polyurethanes Leather	17.6.1987	Nil	Nil	Nil	Nil	Nil		For the manufacture of foot ball. Conditional,
15.	Di-isebytylene Haptene, Nonen, Hexene & Octenes	29.6.1987	25%	Nil	Nil	Nil	Nil	Nil	For the manufacture of oxo-alcohol, conditional, additional of two more items.
16.	Dead burnt magnesite	29.6.1987	55%	45%	Nil	Nil	12%	12%	Validity extended upto 30.6.1988.
17.	Certain goods specified to be used for Gem & Jewellery Industry	2.7.1987	Nil		Nil	Nil	Nil		Conditional.
18.	Scientific and technical instruments, appratus & equipments	3.7.1987	25%		Nil	Nil	Nil		Conditional. Imported by Aeronautics Ltd. for research purpose connected with defence project.
19.	Styrene monomer	a) 8.7.1987	25% + Rs. 1,700/- per tonne		Nil	45%			Valid till 31.12.1987.
		b) 30.12.87	20% Rs. 1,700/- per tonne	25% + Rs. 1,700/- per tonne	45%	Nil			Validity till 30.6.88
20.	Coking coal	13.7.1987	Nil	Nil	Nil	Nil	Nil	Nil	Ash containing below 12%, Validity till 30.6.1988.
21.	Components required for the manufacture of fuel-efficient two wheeled motor vehicles	10.8.1987	10%	25%			Nil	Nil	Conditional. Valid till 9.8.88.

Sr. No.	Items	Date of Announcement	DUTY						Remarks
			Basic		Auxiliary		Countervailing		
			Present	Previous	Present	Previous	Present	Previous	
1	2	3	4	5	6	7	8	9	10
22.	Iron or non alloy steel hot rolled coils	12.8.1987	15% + Rs. 1,100/- per tonne						
23.	Consumable goods	22.9.1987	Nil	Nil	Nil	Nil	Nil	Nil	Imported for the purpose of research. Conditional.
24.	Steel sheets and blanks	28.9.1987	25%	60%	25%	25%	Nil	Nil	For the manufacture of body panels of fuel efficient motor car or van. Validity extended to 31.3.188. Conditional.
25.	1. Components of fuel efficient motor cycle	29.9.1987	25%	50%	25%	25%	Nil	Nil	Validity extended upto 1.4.1988. Conditional.
	2. Goods (other than raw material) for manufacture of components of motor vechile	a) 29.9.87	25%		25%		Nil		Validity extended upto 1.4.1988. Conditional.
		b) 1.3.88	10%	25%	25%	25%	Nil	Nil	Conditional. Valid till 31.3.1990.
26.	Lithium carbonate	29.9.1987	25%		5%	Nil	Nil	Nil	For use of energy saving & pollution control by aluminium manufacturing firm.
27.	Components of power transmission system for earthmoving machinery	27.10.1987	45%	40%	25%	25%	Nil	Nil	Conditional. Valid till 31.10.1988.
28.	Aluminium ingots	a) 27.10.87	Rs.2,000/- per metric tonne		5%	Nil	Nil	Nil	
		b) 15.1.88	Rs.1,000/- per metric tonne	Rs.2,000/- per metric tonne	Nil	5%	Nil	Nil	
29.	N-Paraffin	29.10.1987	30%		5%	Nil	Nil	Nil	for manufacture of linear Alkyl Benezene.
30.	Liquid nitrogen plant its accessories and spares	17.12.87	25%	Nil	Nil	Nil			Valid till 31.12.1988.
31.	Oleo pine resin	1.1.1988	25%		Nil	Nil			Valid till 31.12.1988. For the manufacture of gum resin and turpentine.
32.	9 specified items for manufacture of Jewellery	14.1.1988	Nil		Nil	Nil	Nil		To be manufactured by 100% export oriented units. Conditional.
33.	Ivory, ivory powder and waste	1.3.1988	Nil	60%	Nil	Nil			Conditional.
34.	112 specified bulk drugs	1.3.1988	45%		Nil				Conditional.
35.	15 various chemicals for pesticides	1.3.1988	25%		Nil				
36.	6 various chemicals for pesticides	1.3.1988	15%		Nil				Conditional.
37.	Raw wool	1.3.1988	Nil	20%	Nil	Nil	Nil	Nil	Conditional.
38.	31 various items for used in Woollen industry	1.3.1988	35%		Nil		Nil		Conditional.
39.	26 various items for manufacture of Bicycle	1.3.1988	35%		Nil		Nil		Conditional.
40.	27 various items for use in Silk industry	1.3.1988	35%		Nil		Nil		
41.	8 various items for use in processing and packing of tea	1.3.1988	35%		Nil		Nil		
42.	3 various items for use in manufacture of news print	1.3.1988	25%		Nil		Nil		
43.	21 various items for use in manufacture of Rolling Bearings	1.3.1988	35%		Nil		Nil		

Sr. No.	Items	Date of Announcement	DUTY						Remarks
			Basic		Auxiliary		Countervailing		
			Present	Previous	Present	Previous	Present	Previous	
1	2	3	4	5	6	7	8	9	10
44.	Book Binding machinery	1.3.1988	35%	50%	5%	25%	Nil	Nil	Conditional
45.	Offset printing machinery (Four or above four colours)	1.3.1988	30%	50%	30%	25%	Nil	Nil	Conditional
46.	Components of fuel-efficient motor car of Engine Capacity not exceeding 1000 c.c	1.3.1988	50%	25%	30%	25%	Nil	Nil	Conditional. Valid till 31.3.1990.
47.	Components (including components of fuel-efficient motor cars in semi-knocked down packs and completely knocked down packs) For the manufacture of fuel-efficient-motor car of engine capacity not exceeding 1000 c.c.	1.3.1988	25%	10%	30%	25%	Nil	Nil	Conditional. Valid till 31.3.1990.
48.	Polyurethane films & foils	1.3.1988	60%	40%	Nil		40%	40%	For manufacture of finished leather. Conditional.
49.	Machinery & instruments for the manufacture of Rural Automatic Exchange equipments.	1.3.1988	30%		Nil	Nil	Nil	Nil	Conditional.
50.	Various telecommunication equipments.	1.3.1988	55%				Nil		
51.	Various components for manufactures of telecommunication equipments.	1.3.1988	35%				Nil		
52.	Populated printed circuits boards	1.3.1988	35%				10%	Conditional.	
53.	Polycrystalline Silicon, wafers, discse & chips	1.3.1988	30%	35%	Nil	Nil	Nil	Nil	Conditional.
54.	Viscose staple fibre and viscose tow	1.3.1988	60%	50%	Nil	Nil			
55.	Video tapes and cassettes recorded with educational materials	7.3.1988	Nil	Nil	Nil	Nil	Nil	Nil	Validity extended till 31.3.1990.
56.	Fogging machine	29.3.1988	25%	15%			Nil	Ni	To be used for ante malaries operation by Municipal Authority. Conditional. Valid till 30.9.1988.

Source: Custom Notifications, Ministry of Finance, Government of India.

Subject Index

A

Page

Agricultural Credit Stabilisation Fund 230
Agricultural extension 58
Agricultural Finace Corporation 235
Agriculture—institutional finance 198
—direct finance 199
—indirect finance 200
Agricultural implements and machinery 57
Agricultural output—commodity-wise review 23
Agro-industries Corporation 58

B

Balance of payments—Developments 381
Bank credit
—Advances to priority sector 156
Public Sector Banks 156
—Distribution according to interest range 167
—Industry-wise deployment 153
Private Sector Banks and Foreign Banks 157
—Qualitative changes in distribution 151
—Regional and rural/urban pattern of credit deployment 158
—Sectoral deployment 151
—Credit Deposit Ratio 161
—Investment + Credit-Deposit Ratio 161
Banking developments 134
—Other 186
—Overall review 134
Banking trends 140
—Expansion in Bank Credit 142
—Deposit growth 141
—Call money market 146
Banking—committees and working groups 189
Banking—working of various schemes 177
Banks
—Branch expansion 167
—Geographical and functional coverage 167
—Offices abroad 169
—Foreign Banks' offices in India 169
—Primary (Urban) Co-operative Banks 171
—Scheduled Commercial Banks deposits and credit Area-wise and State-wise 164
Budget—combined position of Central and State Governments 250
—Economic and functional classiciation of the Central Government Budget 260
Budgetary operations 250
—Central Government 255
—State Governments 279
—Revised estimates, 1987-88 279
—Capital receipts 288

Page

—Revenue receipts 288
—Disbursements 285, 290
—Receipts 279, 282
—Budget estimates, 1988-89 285
—Resource mobilisation, additional 294
—Transfer of resources from the Centre 282
—State-wise position 285

C

Capital markets 316
Capital issues 317
—Capital raised 318
—Consents for 316
—Developments in Policy 318
—Gilt-edged market 324
—Industrial security market 322
Cashew Corporation of India 368
Cement 78
Chemicals and chemical products 93
Coal 74
Coarse grains 28
Cochin Export Processing Zone 372
Coffee 44
Committee on Agricultural Productivity in Eastern India 235
Co-operative structure—strengthening and future development of 219
Cotton 28
Credit Authorisation Scheme 174, 223
Credit policy 136
Crop Insurance Scheme 55, 185
Currency and coinage 125
—Demonetisation of notes 128
—Lost, destroyed and mutilated notes 128
—Note forgeries 128
—Issue of notes and coins 128
—Trends in bullion prices 128

D

Department of Posts and Department of Telecommunications—Finances of 301
—Revised estimates, 1987-88 301
—Budget estimates, 1988-89 301
Deposit Insurance and Credit Guarantee Corporation 194
Differential Rate of Interest Scheme 177
District Industries Centres 68
Drought Prone Areas Programme and Desert Development Programme 59
Dryland Farming 59

Page

E

Electricity ... 81
Electronics industry ... 88
Engineering Industries ... 85
—Electrical ... 86
—Heavy mechanical ... 85
—Light mechanical ... 85
—Electronics industry ... 86
Exchange control—developments in ... 415
Exchange rate—developments ... 394
—Major currencies ... 412
Export control ... 362
—Changes in ... 423
Export Credit Guarantee Corporation of India ... 193
Export duties—changes in 1987-88 ... 364, 384
Export-Import Bank of India ... 342
External assistance ... 385
Export promotion measure ... 365
External Debt-Developing countries ... 414

F

FALTA Export Processing Zone ... 372
Fertilisers and manures ... 56
Foodgrains ... 19
—Availability ... 19
—Procurement and buffer stocks ... 21
—Production and distribution ... 19
Fiscal developments ... 250
Foreign investment—policy and developments 383
Developments in Foreign Trade Policy ... 362
Foreign Trade agencies, specialised ... 368
Foreign trade-trends in ... 347
—Direction of ... 354
—Exports ... 347
—Imports ... 353
Free Trade Zones ... 371

G

General Insurance Corporation of India ... 341
Gold ... 128
—Domestic market ... 128
—International Markets ... 129
—Spread between domestic and international prices ... 130
—Trends in bullion prices ... 128
GATT ... 379
Generalised System of Preference Scheme ... 378

H

Handicrafts and Handloom Export Corporation 370
High-yielding Varieties Programme ... 51
Housing Development Finance Corporation Ltd. 345
Housing and Urban Development Corporation Ltd. ... 345

I

Import controls ... 363
Import control-important announcements ... 427
Import duties—changes in 1987-88 ... 364
Import-Export Policy April 1988 to March 1991 ... 375
Import licences ... 359
India's financial assistance to other countries ... 392
India's foreign trade during 1987-88 347
Industrial Credit and Investment Corporation of India ... 334
Industrial Development Bank of India ... 329
Industrial Finance Corporation of India ... 332
Industrial licensing policy ... 70
Industrial Production ... 64
—Trends in ... 64
Industrial sickness ... 69
Industrial Reconstruction Bank of India ... 341
Industries
—Basic ... 74
—Capital goods ... 85
—Consumer goods ... 98
—Intermediate goods ... 90
—Selected—a review ... 74
—Small-scale Sector ... 65
Iron-ore ... 76
Iron and Steel ... 79
Irrigation ... 52
—Command Area Development Programme ... 54
Integrated Rural Development Programme ... 182
International Bank for Reconstruction and Development (IBRD) ... 404
International Development Association (IDA) ... 406
International Finance Corporation (IFC) ... 406
International monetary developments ... 396
International Monetary Fund (IMF)
—Special Drawing Rights ... 410
—Uses of Fund Resources ... 407
International reserves ... 412
International trade negotiations ... 377
International trade and payments ... 400
Investment
—Trends in domestic investment ... 14
—Non-Resident Inians ... 417

J

Jute-raw and mesta ... 30
Jute textiles ... 90

K

Kandla Free Trade Zone ... 371

Page

L

Lead Bank Scheme 183
Life Insurance Corporation of India 339

M

Madras Export Processing Zone 372
Metallurgical industries (other than iron and steel) 89
Minority Communities
—Advances 182
Money—income velocity of 125
—Reserve 121
Monetary developmens—overall trends 117
Monetary relationships 121
Money supply—components 118
—Seasonal trends 121
—Sources of change in 118
Multilateral Investment Guarantee Agency 405

N

National Bank and Rural Credit 200
—Resources of 200
—Assistance for Agriculture 204
—Assistance for non-agriultural sector 220
—Rural Credit 200
—Uses of funds 200
—Credit limits 204
—Short-term 204
—Medium-term 207
—Long-term — 207
—Important policy changes 207
National income-trends in 7
National Co-operative Development Corporation 231
National Rural Employment Programme 60
Non-banking companies—control over 191
NOIDA Export Processing Zone 372

O

Oilseeds 33
Open market operations 324

P

Paper, paper boards and newsprint 101
Petroleum—crude oil and refinery products 82
Plan outlay—States 293
Plant protection measures 56
Price indices—consumer 108
Price policies 113
Price trends 103
—Fuel, power, light and lubricants 108
—Manufactured products 108
—Primary articles 104

Page

Production—strategy and related developments ... 46
Public debt and other liabilities 305
—Borrowings, market-Central 308
—Borrowings, market—State 314
—Central Government 305
—External 308
—Internal 308
—Foreign currency denominated bonds 311
—Other liabilities 313
—Coupon rates on Central Government Loans.. 310
—9 per cent Relief Bonds 310
—Kisan Vikas Patra 311
—Post Office Monthly Income Scheme 311
Small Savings
National Savings Scheme 311
—Special floating on other loans 313
—Loans and advances from the Centre 314
—Loans from banks and other institutions 314
—Market loans and bonds 314
—Treasury bills 312
Pulses 28

R

Railway finances 295
—Revised estimates 1987-88 295
—Budget estimates 1987-88 298
—Developmental expenditre, 1988-89 299
—Social obligations—Financial effect of 297
—Budget proposals 299
Regional Rural Banks 174
Rice 23
Rubber and rubber manufactures 91
—Rural Credit 198
—and commercial banks 227
—developments 223
—Other institutions 231
—Study teams/committees 235
Rural Electrification Corporation 233
Rural Landless Employment Guarantee Programme 62

S

Santacruz Electronics Export Processing Zone 371
Saving
—Domestic private corporate sector 14
—Household sector 9
—Public sector 13
—Trends in domestic saving .....
Saving and investment—aggregate 8
Seeds 51
Selective credit control 146
Self-employment scheme for educated unemployed youth 179

	Page
Self Employment Programme for the urban poor	179
Silver	131
—Domestic market	131
—International market	132
Soil and Water Conservation Programme	59
State Trading Corporation of India	368
State Warehousing Corporation	233
Sugar	95
Sugarcane	43
T	
Tea	44
Tea Trading Corporation of India	370
Term-lending institutions	329
Tobacco	45
Textiles—cotton and synthetic	98
Taxation	274
—Direct	274
—Indirect	275
Trade Negotiations	377
Trade agreements and economic and technical co-op. agreements	373
U	
Unit Trust of India	336
W	
Wheat	26
World Bank Group	408