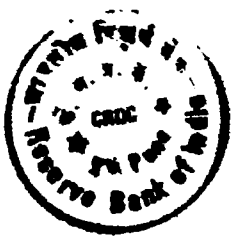
# FOREWORD

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


Federal Reserve Bank of Dallas

# REPORT ON CURRENCY AND FINANCE







**VOLUME I**
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**1988-89**

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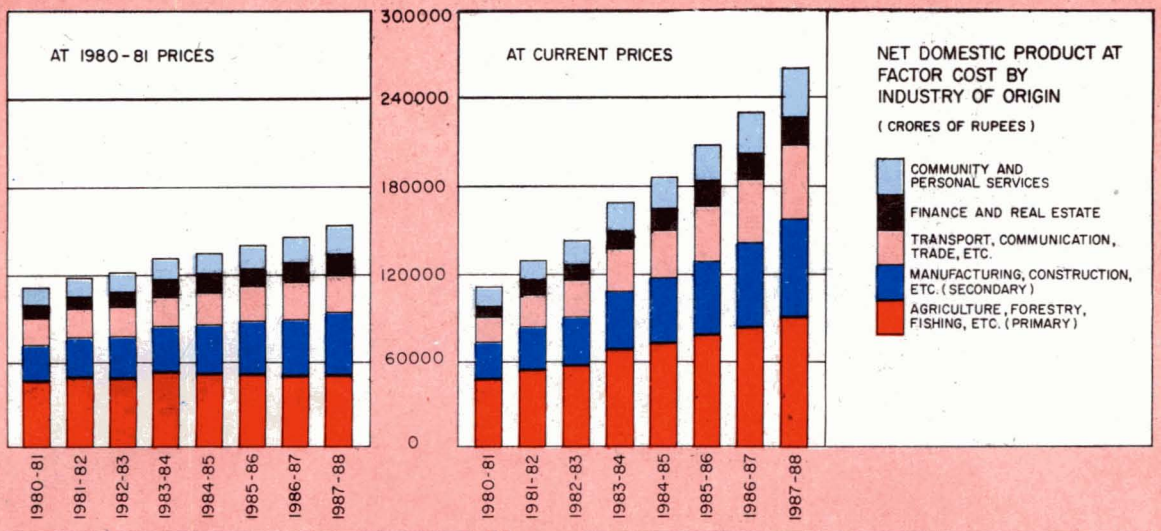
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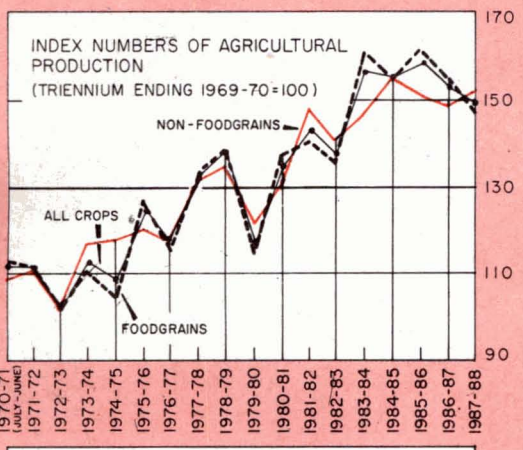

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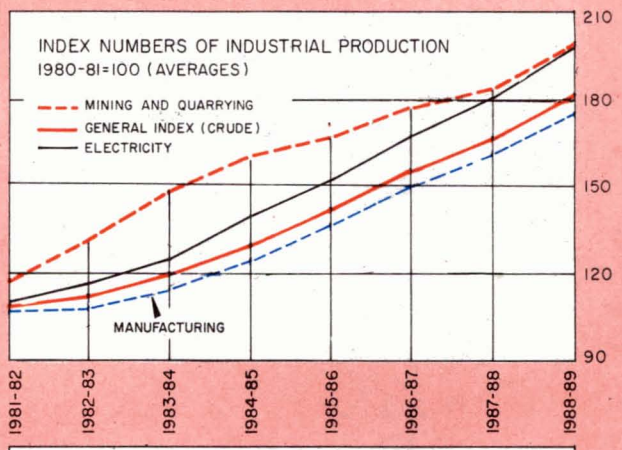

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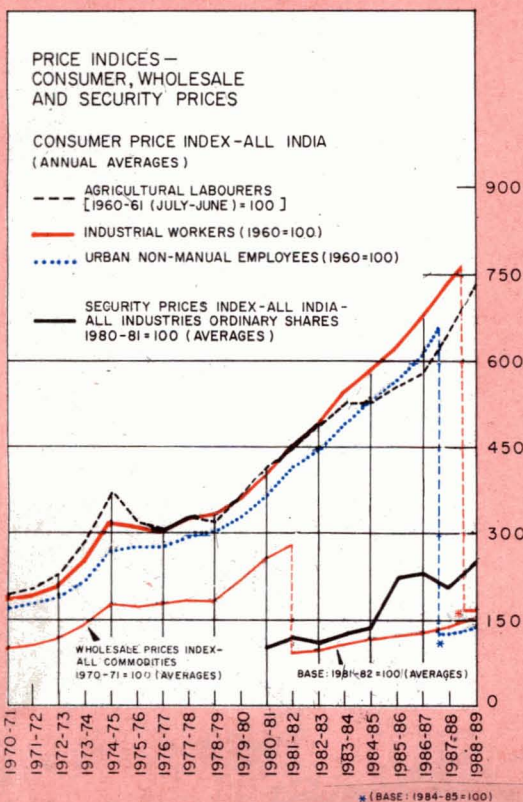

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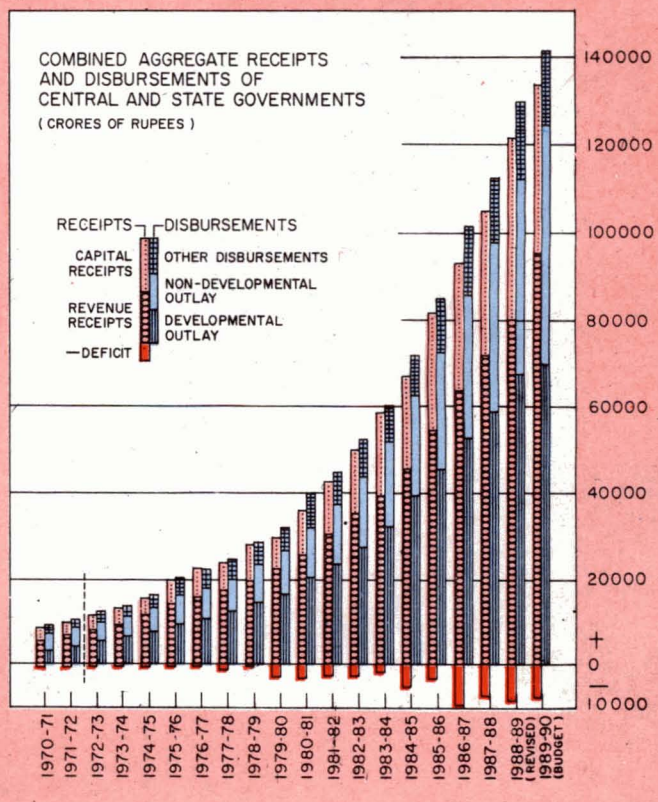
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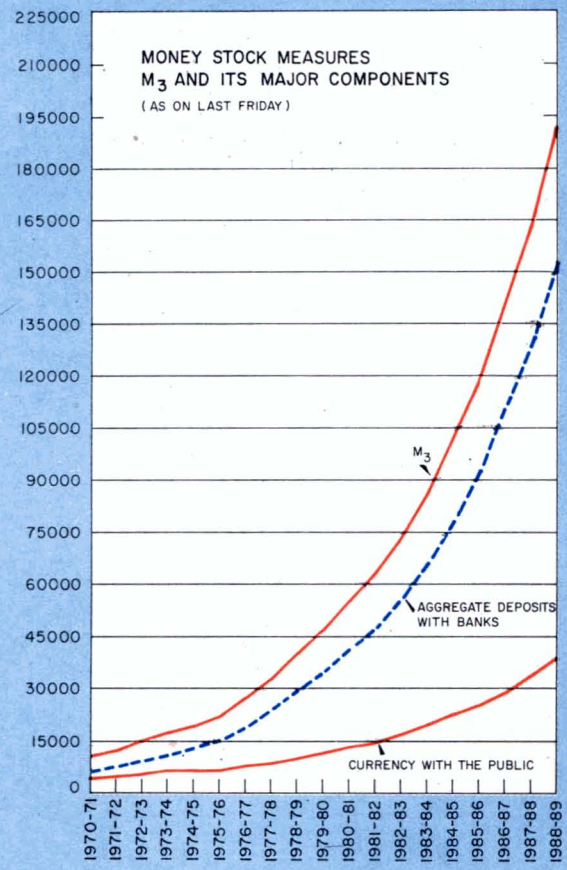



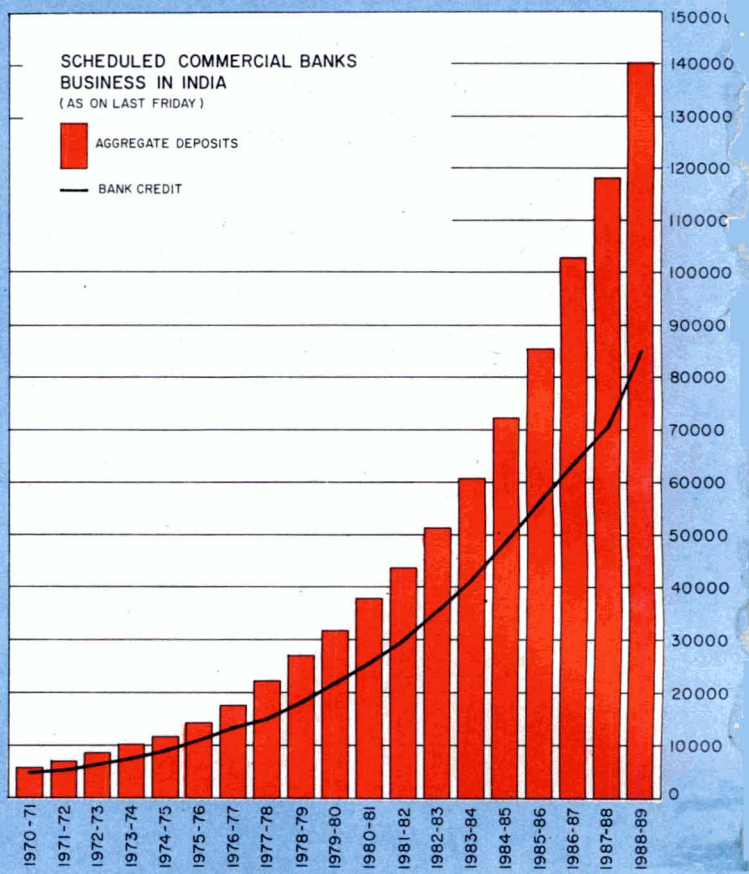



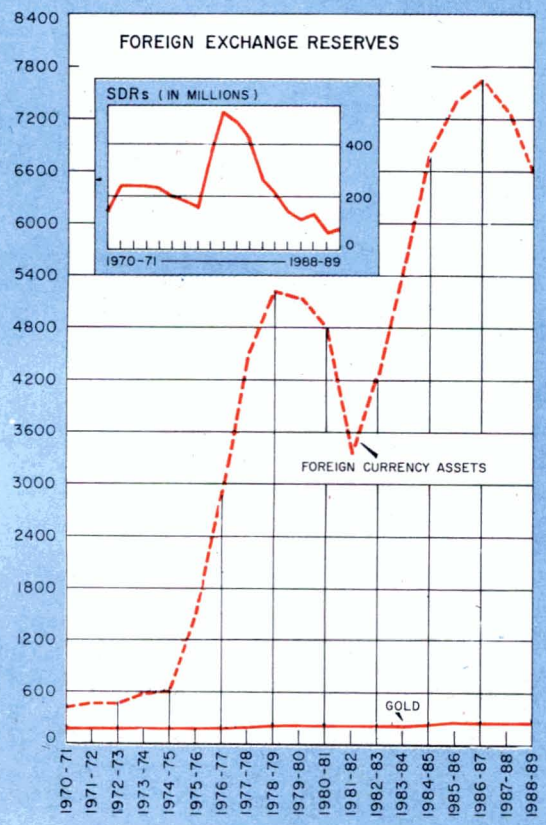



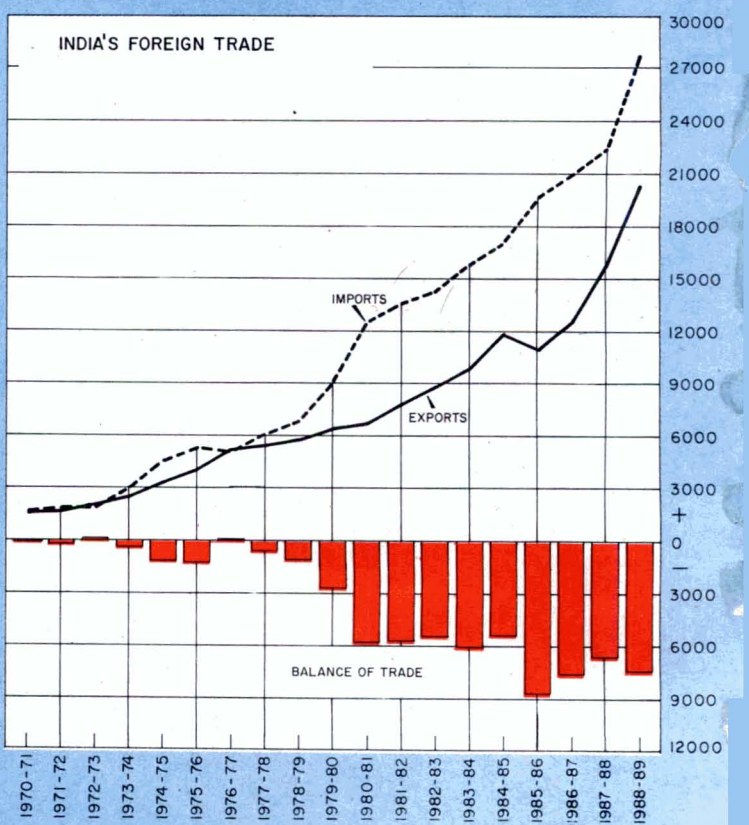
# SELECTED ECONOMIC INDICATORS

CRORES OF RUPEES



## Chapter I

# Review and Outlook*

With the excellent monsoon of 1988 the Indian economy performed exceedingly well in 1988-89 with a real income growth of around 10.0 per cent as compared with about 4.0 per cent in 1987-88. A notable feature was that the performance was good across different crops and different segments of industries.

Agricultural production staged a sharp recovery of about 20 per cent in 1988-89 after declines of 1.2 per cent in 1987-88 and 3.7 per cent in 1986-87.

During the 1988 monsoon, both the quantum and distribution of rainfall were conducive to agricultural growth. Of the 35 meteorological sub-divisions, as many as 32 sub-divisions received either excess or normal rains while the remaining 3 sub-divisions, viz., West Rajasthan, East Rajasthan and Hills of West Uttar Pradesh, received marginally deficient rains. Foodgrains production during 1988-89 is estimated to have reached a new peak of 170.3 million tonnes as against a target of 166.6 million tonnes and actual production of 140.4 million tonnes in the preceding year, the earlier peak in foodgrains production being 152.4 million tonnes in 1983-84. The good performance was due to increase in both *Kharif* and *Rabi* output. Foodgrains production in *Kharif* 1988 at 96.5 million tonnes was higher by 21.9 million tonnes (+29.4 per cent) over the production of 74.6 million tonnes in the previous *Kharif* season. The *Rabi* output at 73.8 million tonnes was above that of the previous *Rabi* season by 8.0 million tonnes (+12.2 per cent).

Production of wheat, rice and pulses estimated at 54.0 million tonnes, 70.7 million tonnes and 13.7 million tonnes, respectively, recorded new peak levels and were above the targets. The production of coarse grains at 31.9 million tonnes was, however, slightly lower than the target of 33.0 million tonnes and the peak level of 33.9 million tonnes achieved in 1983-84; the output of coarse grains in 1988-89 was, nevertheless, higher than the production of 26-27 million tonnes in the previous three years. Among commercial crops, while production of sugarcane, tea and oilseeds recorded new peaks, in the case of raw cotton and jute and mesta the output was higher than that in the previous year.

Total foodgrains procurement by public sector agencies was 14.3 million tonnes during 1988-89 as against 15.0 million tonnes in the previous year. Total procurement of rice during October 1988 - September 1989 (*Kharif* marketing season) amounted to 7.7 million tonnes, as compared with 6.9 million tonnes in the previous *Kharif* season. Wheat procured during the *Rabi* marketing season of 1988-89 (April-March) was 6.5 million tonnes, which was below the procurement of 7.9 million tonnes in 1987-88. With the substantial improvement in foodgrains production there was a decline in the offtake from the Public Distribution System (PDS). During April-March (1988-89) the offtake of foodgrains at 18.0 million tonnes was 21.7 per cent lower than the quantity of 23.0 million tonnes in the previous year.

The stocks of foodgrains with the PDS at the end of September 1989 were 9.9 million tonnes - higher by 1.8 million tonnes or 22.2 per cent than the level a year ago. While wheat stocks at 7.9 million tonnes at the end of September 1989 were higher by 1.9 million tonnes (+32.6 per cent), that of rice at 2.0 million tonnes was only marginally higher than the level a year ago.

Industrial output in 1988-89 showed a rise of 8.8 per cent as compared with a 7.3 per cent growth in 1987-88. Industrial output in 1988-89 was also well dispersed across a wider section of

* Although the reference period of the Report is the financial year April 1988 - March 1989, more recent data are given wherever available.

industries than in the previous year. The higher growth rate in 1988-89 was attributable to improved performance of all the three sectors, viz., mining and quarrying (7.8 per cent against 3.8 per cent in 1987-88), manufacturing (8.7 per cent against 7.9 per cent) and electricity (9.4 per cent against 7.7 per cent). The higher output of electricity and manufacturing sectors was facilitated by the excellent monsoon and improved availability of agriculture-based raw materials. The improvement in output of the manufacturing sector in 1988-89 was broad-based. Out of seventeen major groups in the manufacturing sector, fifteen groups accounting for 64.31 per cent of the total weightage registered positive growth rates in 1988-89 as compared with eleven groups with 51.54 per cent of the weightage in 1987-88; the number of industrial groups showing a decline in output fell from six to two.

The composite index of 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 higher growth of 8.1 per cent in 1988-89 as compared with 6.0 per cent in 1987-88 and 7.5 per cent in 1986-87. Following excellent monsoon, the generation of electricity, particularly hydel generation, improved substantially (9.5 per cent in 1988-89 against 7.6 per cent in 1987-88). The output of saleable steel and cement recorded satisfactory increases. Electricity generation went up from 201.9 billion kwh. to 221.0 billion kwh. while the production of crude oil (petroleum), saleable steel and cement increased from 30.4 million tonnes, 8.6 million tonnes and 39.6 million tonnes, respectively, to 32.0 million tonnes, 9.2 million tonnes and 43.9 million tonnes, respectively.

The rate of growth of output of coal (excluding lignite) decelerated marginally to 8.3 per cent from 8.5 per cent in the previous year. The production of petroleum refinery products also decelerated from 2.7 per cent to 2.2 per cent.

Broad money ($M_3$) expansion accelerated during 1988-89 to 18.1 per cent from 15.7 per cent in 1987-88 largely as a result of rapid growth of deposits which was attributable to higher real income growth and the reversal of buy-back arrangements entered into by banks in Government and other securities. The growth in demand deposits at 16.2 per cent was more than double that of 7.3 per cent registered in 1987-88, while time deposits with banks rose by 19.7 per cent as compared with 17.2 per cent in 1987-88. Currency with the public, however, registered a lower increase of 14.1 per cent as compared with 17.7 per cent in the previous year.

Source-wise, the acceleration in monetary expansion was on account of a surge in bank credit to the commercial sector from 13.3 per cent in 1987-88 to 20.5 per cent in 1988-89. Increase in net bank credit to Government at Rs. 12,771 crores (15.2 per cent) was lower than that of Rs. 12,811 crores (18.0 per cent) in 1987-88. Net foreign exchange assets of the banking sector increased by Rs. 637 crores (11.6 per cent) as compared with an increase of Rs. 682 crores (14.2 per cent) in 1987-88.

With the favourable monsoon and consequent sharp recovery in agricultural production, the increase in the Index of Wholesale Prices (base : 1981-82 = 100), on a point-to-point basis, decelerated to 5.7 per cent in 1988-89 from 10.7 per cent in the previous year. However, several commodities of mass consumption continued to experience strong pressures on prices. The trends in 1988-89 reflected again a departure from the seasonal behaviour of prices. During the first phase between end-March and end-August 1988, the price rise at 3.9 per cent was less than half of that in the corresponding phase of 1987-88 (8.1 per cent). Between end-August and end-December - a phase in which seasonal decline in prices is expected - prices remained steady; in the comparable period of the previous year there was a contra-seasonal rise of 0.9 per cent. During the final phase covering the period end-December 1988 to end-March 1989, the price rise was fractionally higher at 1.7 per cent as compared with a rise of 1.4 per cent in the corresponding phase of 1987-88. The deceleration in the rate of price rise was primarily caused by an absolute decline in the index for the "Primary Articles" group by 0.2 per cent in 1988-89 in contrast to an increase of 15.7 per cent in 1987-88.

The Consumer Price Index (CPI) for Industrial Workers (base : 1982 = 100) registered an increase of 8.6 per cent on a point-to-point basis during 1988-89 which was lower than the increase of 9.8 per cent in 1987-88. The rate of

increase in the CPI, on an average basis, at 9.1 per cent during the year was the same as that recorded in the previous year.

On the external front, in spite of excellent export performance, the pressures on the balance of payments persisted. As a result, the current account deficit which showed an increase of Rs. 463 crores to Rs. 6,293 crores in 1987-88 is estimated to show a sharp rise in 1988-89. The ratio of current account deficit to GDP is estimated to rise from 1.9 per cent in 1987-88 to 2.7 per cent in 1988-89.

Based on DGCI&S data, exports at Rs. 20,295 crores increased by 28.9 per cent in 1988-89 while imports at Rs. 28,194 crores rose by 25.9 per cent over the level in the previous year. The trade deficit at Rs. 7,899 crores in 1988-89 was higher than that of Rs. 6,658 crores in 1987-88. On a payments basis, the trade deficit during 1988-89 is expected to be substantially higher than that in the preceding year. Net receipts from invisibles would, however, be higher during the year under review mainly due to the receipt of Rs. 642 crores as compensation on account of the Bhopal gas victims. Inward remittances from non-resident Indians abroad, a major component of invisibles, are expected in 1988-89 to be at about the same level as in 1987-88. Earnings from tourism may show a rise. Investment income payments, representing mainly interest payments on external assistance/borrowings, and outgo on miscellaneous account comprising largely payments on account of royalties and technical know-how fees are also likely to show an increase.

Repurchases from the IMF under the Extended Fund Facility in 1988-89 at Rs. 1,547 crores were also higher than those of Rs. 1,209 crores during 1987-88. In spite of a substantial inflow of funds under capital account (including an increase of Rs. 622 crores under NRI deposits), there was a fall in reserves (SDRs, gold and foreign currency assets) by Rs. 647 crores during 1988-89 to Rs. 7,040 crores at the end of the year. Net of valuation changes, the fall in reserve was Rs. 1,449 crores as compared with a decline of Rs. 956 crores during 1987-88. In SDR terms, the reserves showed a decline of SDR 771 million in 1988-89 to SDR 3,715 million as against a decline of SDR 627 million during 1987-88.

The economy is expected to register a reasonable overall rate of growth in 1989-90 albeit at a rate significantly below that in 1988-89 which was a year of sharp recovery after the drought of 1987-88. The sector-wise performance may not be as even as it was in 1988-89. In the South-West Monsoon season of 1989 out of the 35 meteorological sub-divisions in the country, six received excess rainfall as against 16 in 1988 while 23 sub-divisions had normal rainfall against 16 in the previous year. There was deficiency in rainfall in 6 sub-divisions as against 3 sub-divisions with a similar position in 1988.

Latest official estimates place *Kharif* (1989-90) foodgrains production at about 97 million tonnes, which would be about one million tonnes less than the target. In view of the good rains during September 1989 which would have contributed substantially to the retention of soil moisture, the *Rabi* prospects are rated to be good and *Rabi* foodgrains target of 77 million tonnes is expected to be attained. Thus, the overall target of 175 million tonnes set for 1989-90 is expected to be achieved.

As regards commercial crops, the prospects are somewhat mixed. The overall outlook is that the total oilseeds crop during 1989-90 may be around the same level recorded in 1988-89 when it was at a high of 18.2 million tonnes. The Cotton Advisory Board has estimated cotton crop to be a record one - 115 lakh bales - as compared with the production of 106 lakh bales in the previous year. The raw jute and mesta production is expected to be around 72 lakh bales as against 65 lakh bales in the previous year, showing a rise of about 11 per cent. The output of sugarcane in 1989-90 is estimated at about 206 million tonnes which is slightly better than that of the previous year.

The growth of industrial output during the year 1989-90 so far has been sluggish. According to the latest quick estimates, the Index of Industrial Production (IIP) released by the CSO (with 1980-81 as the base) shows that during the first seven months of 1989-90 (April-October), the average monthly index of industrial production was 180.2 showing a growth rate of 4.4 per cent as compared with a rate of 9.3 per cent achieved during the same period of 1988-89. The sectoral trends in industrial production during this period reveal that mining and quarrying (accounting for a

weight of 11.46 per cent in IIP) showed an impressive growth of 9.3 per cent as against an increase of 6.3 per cent last year. The growth rate in the generation of electricity (with a weight of 11.43 per cent in IIP) was 12.2 per cent as compared with 6.6 per cent achieved during the same period last year. The output of manufacturing sector, accounting for a weight of 77.11 per cent in IIP, grew by 2.4 per cent during April-October 1989 in sharp contrast to an impressive increase of 10.2 per cent registered in the corresponding period of last year. Although the sharp drop in the growth rate of the manufacturing sector is a matter of concern, it has to be viewed against a substantial rise in the index during the same period of 1988-89 resulting in a relatively higher base.

Data on output of six infrastructure industries [viz., electricity, petroleum crude, petroleum refinery products, saleable steel, coal (excluding lignite) and cement] are available for the first nine months of the financial year 1989-90. For the period April-December 1989, the growth in the index at 6.6 per cent was lower than the growth rate of 7.8 per cent recorded during the corresponding period of the previous year. All the industries except saleable steel and cement have shown higher production in absolute terms during the first nine months of 1989-90. Petroleum (crude) output rose by 6.9 per cent against an increase of 5.4 per cent in the same period of the previous year. The growth rate of output of petroleum refinery products at 8.9 per cent was substantially higher than the 0.4 per cent increase recorded during the corresponding period of the previous year. Coal output recorded a lower increase of 3.6 per cent as against 6.9 per cent recorded in the corresponding period of 1988.

The output of cement remained virtually stagnant in the first seven months of 1989-90 in relation to the level achieved during the corresponding period of 1988-89 but declined in the months of November and December 1989. Thus, for the nine-month (April-December 1989) period, output declined marginally by 0.6 per cent to 32.24 million tonnes from 32.43 million tonnes in April-December 1988. During the same period in 1988-89 the growth was higher at 12.5 per cent. The cement industry is reportedly facing inadequate demand both from private and public sectors. Nevertheless, with the expectations of a revival of demand following a rise in construction activity, the performance of the industry may improve in the remaining months of 1989-90.

In the case of electricity, the performance of hydel power generation was good. The growth rate for the first nine months of 1989-90 was 12.7 per cent against 19.6 per cent in the same months of 1988-89. Thermal power generation rose by 11.6 per cent as compared with 4.9 per cent in the corresponding period of 1988-89. As a result, total electricity generation went up by 11.9 per cent during the period April-December 1989 which was above the growth rate of 8.6 per cent in April-December 1988. The production of saleable steel declined by 3.2 per cent during the period, in contrast with a rise of 10.2 per cent in the same period of 1988. The setback in the production of saleable steel is attributed, among other reasons, to power shortages and inadequate and untimely receipt of both imported and indigenous coal by the steel plants.

On the fiscal side, the structural imbalance between receipts and expenditure of the Central Government witnessed since the mid-1980s has continued, despite efforts at raising additional resources. The deficit on revenue account in 1989-90 is estimated at Rs. 7,012 crores as against Rs. 11,030 crores in 1988-89. A large part of the improvement in the revenue deficit is attributable to the transfer of Rs. 2,300 crores from deposits of Oil Co-ordination Committee (OCC) to the Revenue Account (which are presently lodged in Public Account) and an increase of about Rs. 500 crores in revenue receipts due to revision in the rate of excise duty on indigeneous crude oil. The capital account is also expected to show a deficit of Rs. 325 crores in contrast to a surplus of Rs. 3,090 crores in the previous year. The overall deficit for 1989-90 is estimated at Rs. 7,337 crores (1.7 per cent of GDP at current market prices) which would be lower than the deficit of Rs. 7,940 crores (2 per cent of GDP) in the revised estimates for 1988-89. (The deficit was Rs. 5,810 crores in 1988-89 as per the closure of Government accounts in the Reserve Bank of India books).

Preliminary data on trends in collection of Central revenues from major taxes during the first eight months of 1989-90 (April-November) suggest that the buoyancy in tax receipts observed in the previous year continued.

Aggregate revenues from four major taxes, viz., income and corporation taxes and customs and excise duties during this period are placed at Rs. 28,348 crores as compared with Rs. 24,473 crores in the corresponding period of last year, showing a rise of 15.8 per cent. Receipts from these taxes during the period account for 57.3 per cent of the relevant budget estimate for the whole fiscal year as compared to 59.1 per cent in the same period of 1988-89. Collections from corporation tax at Rs. 1,233 crores were lower by 10.1 per cent than that of Rs. 1,372 crores in the corresponding period of 1988-89. On the other hand, the collections from personal income tax at Rs. 2,299 crores registered a sharp increase of 33.0 per cent over the corresponding period of the previous year. Receipts from excise duties at Rs. 13,610 crores were higher by 18.3 per cent and accounted for 60.2 per cent of budget estimates. Receipts from customs duties at Rs. 11,206 crores were higher by 13.6 per cent and accounted for 62.7 per cent of the budgeted receipts in this regard.

The expenditure of the Central Government is expected to exceed that estimated in the budget. Subsequent to the presentation of 1989-90 budget, Government presented to the Parliament three supplementary demands for grants. After making adjustment for demands, which are matched by additional receipts or corresponding savings, the net additional expenditure is estimated at Rs. 2,118.9 crores. The increase is on account of subsidy to new industrial units in selected backward areas, higher expenditure on Jawahar Rojgar Yojana, Urban Poverty Alleviation Programme, Cash Compensatory Support, interest subsidy on export credit, Comprehensive Crop Insurance Scheme, subsidy on imported and indigenous fertilisers, defence services, etc. A high level of Government's budgetary deficit as well as net RBI credit to Government during the major part of the year which drops sharply only towards the year-end on closure of the Government's accounts has been an area of concern for the monetary authorities. The budget of the Central Government for 1989-90 anticipates an overall deficit of Rs. 7,337 crores and the increase in net RBI credit to the Government of an equivalent amount. During the first half of 1989-90, however, the fortnightly budgetary deficit as well as net RBI credit to Government had exceeded the budgetary level by June 2, 1989 and since then had continued to remain at much higher levels than the estimated budgetary deficit. Thus, as on January 12, 1990, the Centre's budget deficit and the increase in net RBI credit to Central Government were Rs. 14,206 crores and Rs. 15,277 crores, respectively, as against the estimated deficit of Rs. 7,337 crores in the budget. The high fiscal deficit generates excess liquidity in the economy which in turn exerts pressure on the price level.

The overall investment climate continues to be favourable in view of the underlying strength of the economy. According to provisional data, approvals (i.e., consents/acknowledgements) granted by the Controller of Capital Issues during April-November 1989 for raising fresh capital (including those with a premium) by the Government and non-Government companies aggregated Rs. 9,901.5 crores which is more than double that in the corresponding period of the previous year (Rs. 3,730.1 crores). The increase was mainly due to larger approvals in respect of convertible debentures, which amounted to Rs. 4,852.4 crores, showing a more than three-fold increase over those in the corresponding period of 1988 (Rs. 1,321.0 crores).

The amount of new issues (equity, preference and debentures) offered by non-Government public limited companies aggregated Rs. 5,450.0 crores during April-December 1989 recording a sharp increase of 195.6 per cent over the corresponding figure in the previous year (Rs. 1,844.0 crores).

The large amount of capital issues during April-December 1989 was mostly due to "big/mega issues" of convertible debentures by a few established companies. In the more recent period, the primary market has witnessed keen competition from a number of issues; the investors' response to these issues has, however, been selective.

The equity prices on the major stock exchanges during the first nine months of 1989-90 showed an erratic trend. The Reserve Bank of India's All India Index Number of Ordinary Share prices (1980-81=100) rose sharply by 11.1 per cent in April 1989 and edged up further by 2 per cent in the month of May 1989. After a marginal decline in June 1989, the index rose further by 3 per cent in July. The index once again declined by 4.1 per cent in August 1989.

During September the index recorded a rise of 4 per cent and in the subsequent two months the rise was 2.1 per cent. During December there was a further rise of 6.4 per cent. The index at 392.1 for the week ended December 30, 1989 showed an overall rise of 27.2 per cent over the end-March 1989 levels.

According to provisional data, financial assistance sanctioned and disbursed by all-India financial institutions (viz., IDBI,IFCI, ICICI, UTI, LIC, IRBI and GIC and its subsidiaries) during April-September 1989 aggregated Rs. 6,765.9 crores and Rs. 3,825.5 crores, respectively, as compared with Rs. 7,257.1 crores and Rs. 3,836.1 crores, respectively, during the corresponding period of 1988. While the sanctions for financial assistance by these institutions recorded a fall of 6.8 per cent during the period, the disbursements showed a nominal decline of 0.3 per cent.

During the financial year 1989-90 so far (up to January 12, 1990), narrow money ($M_1$) showed a substantial increase of Rs. 11,269 crores (16.9 per cent) compared with an increase of Rs. 6,551 crores (11.3 per cent) in the corresponding period of 1988-89. Broad money ($M_3$) recorded an increase of Rs. 28,527 crores (14.9 per cent) as against Rs. 25,526 crores (15.7 per cent) in the same period of the previous year.

During the financial year 1989-90 up to January 12, 1990, reserve money recorded a sharp increase of Rs. 10,554 crores (16.9 per cent) as compared with that of Rs. 7,154 crores (13.4 per cent) in the corresponding period of 1987-88.

Scheduled commercial banks' operations during the financial year 1989-90 so far (i.e., March 24 to January 12, 1990) have been characterised by higher accretion to deposits and rise in credit in absolute terms. Banks' borrowings from the Reserve Bank declined steeply.

Accretion to aggregate deposits at Rs. 21,371 crores was higher than that of Rs. 20,111 crores in the comparable period of the preceding year; in percentage terms, however, it was lower at 15.2 per cent as against 17.0 per cent. Demand deposits rose sharply by Rs. 4,715 crores (20.2 per cent) as compared with a rise of Rs. 2,453 crores (12.1 per cent) in the same period of the previous year. Time deposits recorded a smaller rise of Rs. 16,656 crores (14.3 per cent) as compared with that of Rs. 17,658 crores (18.1 per cent) in the preceding year.

Expansion in bank credit at Rs. 11,460 crores was higher than that of Rs. 10,179 crores in the comparable period of 1988-89 but the rate of increase at 13.5 per cent was lower than in the previous year (14.4 per cent). This lower rate of expansion was largely on account of non-food credit which experienced lower increase by Rs. 10,682 crores (12.7 per cent) as compared with an increase of Rs. 11,291 crores (16.5 per cent) in the comparable period of 1988-89. It should however be noted that there was a large increase in non-food credit in the second fortnight of December 1988 which explains the difference in rate of growth of non-food credit. Food credit increased by Rs. 779 crores (+101.3 per cent) in contrast to a decline of Rs. 1,112 crores (-50.8 per cent) in the same period in the preceding year. The credit-deposit ratio as on January 12, 1990 at 59.6 per cent was higher by 1.2 percentage points than that a year ago.

Monetary policy continues to emphasise the provision of adequate credit to facilitate the anticipated increase in production while at the same time aiming that the growth of liquidity is brought down to moderate levels. The objective in 1989-90 is to contain the growth of $M_3$ to a level somewhat below the average rate of 17 per cent for the previous four years. The rate of growth of $M_3$ during the current financial year so far has been somewhat lower than in the previous year. However there has been a sharp acceleration in the pace of reserve money growth. The overhang of large reserve money creation during the financial year so far provides a potential for further expansion in overall liquidity.

The stance of credit policy for the second half of 1989-90 has been one of restraint against the backdrop of strong inflationary pressures in the economy and the large monetary expansion in the first half of 1989-90. The emphasis is on the urgent need for moderating the pace of expansion of non-food credit in the second half of the financial year 1989-90. The broad contours of the credit policy measures for the second half of 1989-90 are: (i) Effective November 4, 1989 banks are provided export credit refinance equivalent to 75 per cent of the

increase in export credit over the monthly average of 1987, as against 100 per cent provided earlier: (ii) Each bank has to ensure that expansion in its incremental non-food credit-deposit ratio during 1989-90 does not exceed 60 per cent. Banks which exceed the stipulated incremental non-food credit-deposit ratio would be charged additional interest of 3 percentage points (with effect from November 4, 1989) on refinance drawn from the Reserve Bank of India under all facilities (export, standby, discretionary and 182-Day Treasury Bills) to the extent of the excess non-food bank credit over the stipulated ratio or the refinance drawn, whichever is lower. (iii) Effective October 11, 1989 all term loans which carried 15.0 per cent (fixed) rate would be subject to a minimum rate of 15 per cent without a ceiling rate. Banks have been advised to use this discretion judiciously. For term loans for housing of over Rs. 3 lakhs an interest rate of 16.0 per cent (minimum) is prescribed. (iv) For a better alignment of the returns on short-term deposits, effective October 11, 1989, scheduled commercial banks' term deposit rate for 46 days to 90 days was raised from 6.0 per cent to 8.0 per cent. (v) Effective October 21, 1989, banks would be charged additional interest on borrowings from the Reserve Bank when they lend in the call money market and also have outstanding borrowings from the RBI under standby and/or discretionary refinance facilities. The additional charge would be so determined that the effective refinance rate would be 3 percentage points above the call money lending rate of the Discount and Finance House of India. The additional charge would be payable on the amount of refinance drawn or the lending in the money market, whichever is lower. (vi) To ensure that monetary aggregates are not distorted at the end of March, the facility to draw discretionary refinance without prior sanction from the Reserve Bank of India would not be available to scheduled commercial banks during the fortnight March 24 to April 6, 1990.

On the recommendation of the Reserve Bank of India, the Government of India remitted the stamp duty chargeable on usance bills of exchange where (a) such bills of exchange are payable not more than three months after date or sight; (b) such bills of exchange are drawn on or made by or in favour of a commercial bank or a co-operative bank; and (c) such bills of exchange arise out of *bona fide* commercial or trade transactions. A major administrative constraint has been removed in the use of the bills system. With the remission of stamp duty on such usance bills, banks were advised to strictly enforce the instructions set out on the bills system.

On the external side, the pressures on the balance of payments witnessed in the first four years of the Seventh Plan period continue to prevail. During the first nine months of the financial year 1989-90, India's foreign exchange reserves comprising Reserve Bank's foreign currency assets, gold and SDRs declined by Rs. 1,297 crores as compared with a fall of Rs. 1,051 crores during the corresponding period of 1988-89. During the period April-November of 1989-90 (for which data are available) the vigorous growth in exports witnessed in the past three years was further accelerated. According to provisional data on India's foreign trade, during April-November 1989, exports at Rs. 16,832 crores recorded a significant increase of 38.0 per cent as against 22.5 per cent in the corresponding period of 1988.

Imports during April-November 1989 amounted to Rs. 21,365 crores and unlike in the corresponding period of 1988 when there was a spurt of 24.7 per cent, they rose at a lower rate of 20.7 per cent only. Consequently, the trade deficit contracted by Rs. 972 crores to Rs. 4,533 crores during April-November 1989 from that of Rs. 5,505 crores during April-November in the previous year.

On a payments basis, however, the trade deficit during the period under review might not show a significant improvement over the corresponding period of 1988, in view of the fact that the coverage of imports in DGCI&S statistics is incomplete.

Earnings from tourism in 1989-90 are expected to be higher than in the previous year as there has been a perceptible increase in tourist arrivals. Private transfers representing mainly remittances from non-resident Indians abroad may have been maintained at the preceding year's level, on account of increase in the incomes of oil exporting countries due to a firming up of oil prices. Interest payments on official loans were higher during April-December 1989 than in the corresponding period of the

previous year. Remittances on account ot technicians, technical know-how and professional services would continue to show an increase as in the earlier year. On balance, net receipts from invisibles are likely to be smaller during the period under review than in the same period of 1988-89.

On the capital side, net inflow under FCNRA Scheme during April to December 1989 at Rs. 2,388 crores was substantially higher by Rs. 841 crores than that of Rs. 1,547 crores during the corresponding period of 1988. During the period under review, State Bank of India floated the Magnum Fund in U.S.A. which fetched US $ 156.4 million. Besides, UTI had floated Rights issue of India Growth Fund in October 1989 realising about £41 million (including premium). It had floated the India Growth Fund in U.S.A. in September 1988 realising US $ 60 million. Net inflow of external assistance during the period under review was somewhat lower than in the corresponding period of the previous year. The net utilisation of commercial borrowings, however, seems to have been higher due mainly to larger drawals by financial institutions and public sector undertakings. Repurchases from the IMF during the first nine months of 1989-90 were marginally lower at Rs. 1,047 crores than those of Rs. 1,068 crores during April-December 1988.

As in the recent past, the main impetus for growth would be provided by manufactured items. With the remarkable recovery in agricultural production in 1988-89, the exports of agricultural and allied products are also expected to show a distinct improvement as compared with the preceding year. The present momentum of growth in exports is expected to be sustained over the remaining part of the year and the target of Rs. 28,025 crores set for 1989-90 is likely to be exceeded.

On the imports side, the increase in non-oil imports is likely to be of a lower order during 1989-90 than that in the preceding year. The imports of essential bulk items such as edible oils, pulses and other foodgrains, which raised the import bill in 1988-89, are expected to decline in 1989-90 in view of satisfactory agricultural production. Imports of sugar are, however, expected to be sizeable in view of the shortfall in production unlike in the previous year when there were no imports.

With the firming up of international oil prices in recent months and also with the plateau reached in domestic oil production, the outgo on account of oil imports may be larger than in the preceding year.

On a payments basis, however, the trade deficit during 1989-90 is unlikely to show any significant change over the 1988-89 level. The level of foreign exchange reserves at the end of December 1989 amounted to Rs. 5,743 crores which is somewhat below what is required to pay for two months of imports. As such, there is an imperative need to build up reserves. The balance of payments is under considerable pressure and the present low import cover of reserves does not provide much cushion for meeting unforeseen contingencies. Hence, the country has to strive for accelerating growth in exports and earnings from tourism. The import intensity of exports has of late shown an increase. Exporters need to be encouraged to use more of domestically produced materials with low reliance on those imported. While the policy of liberalisation in imports for achieving the broader economic objectives has to be continued, a closer look at the bulk and maintenance imports may be desirable. The feasibility of shifting imports of raw materials and components, which go directly to increase the production of consumption goods, from OGL to more restrictive categories could be examined. There is an urgent need to restrain the use of petroleum products through strong conservation measures. In regard to imports of capital goods, the overall objective should be to absorb the technology embodied in such imports rather than continue their repetitive importation. Careful planning of imports is thus necessary to contain the trade deficit and stem the pressure on the balance of payments.

Inflationary pressures have worsened in the fiscal year 1989-90 and are a cause of concern. Apart from the sharp increase in prices of some commodities such as sugar, tea, oilseeds and pulses, there is evidence that price increases are getting generalised. Although the *Kharif* foodgrains output is expected to be good and overall agricultural production may show some improvement in 1989-90 as compared with the exceptionally high level attained in 1988-89 there has been no respite on the price front. The sharp increase in reserve money in financial year

1989-90 so far (i.e. up to January 12, 1990) could lead to rapid expansion of liquidity in the coming months and exert further pressure on prices. This calls for utmost vigilance.

As measured by the Index Numbers of Wholesale Prices (Base : 1981-82 = 100), the rate of inflation on a point-to-point basis during the financial year 1989-90 so far (i.e. up to January 6, 1990) has been higher at 5.9 per cent as compared with 4.8 per cent in the corresponding period of the previous year.

Group-wise analysis of price movements on a point-to-point basis (up to January 6, 1990) reveals that price increases during 1989-90 so far have been higher in the case of the two major groups 'Primary Articles' and 'Manufactured Products' the indices of which rose by 3.3 per cent and 8.3 per cent, respectively, as compared with 1.6 per cent and 6.8 per cent, respectively, in the comparable period of 1988-89. The increase of 1.3 per cent in the index of the remaining major group, viz., 'Fuel, Power, Light and Lubricants', has been much less than that (4.1 per cent) in the comparable period of the previous year.

The increase in CPI on a point-to-point basis during the nine months of 1989-90 (April-December) at 5.4 per cent has been lower as compared with a rise of 8.6 per cent in the first nine months of 1988-89.

To sum up, the economy is likely to show an overall growth in real GDP of about 4.5 per cent in 1989-90. With the exception of groundnut and tea, the output of major agricultural crops is expected to be satisfactory and the target of 175 million tonnes set for foodgrains may be achieved. The industrial sector has, however, shown a mixed trend. While the two sectors "mining and quarrying" and "electricity" have performed well, the manufacturing sector has shown a deceleration in growth with a perceptible slowdown in the first quarter of the financial year 1989-90. Though there has been some pick-up in output in the subsequent period of July-October 1989 the overall rate of growth in industrial production in 1989-90 is expected to be significantly lower than in 1988-89. The continued creation of reserve money and expansion of money supply out of alignment with the trends in the real sector are causing considerable pressure on prices. To avoid further pressure on prices from excess liquidity in the system it will be necessary to expeditiously bring down net Reserve Bank credit to Government to more moderate levels during the remaining period of 1989-90. Furthermore, the non-food credit extended by commercial banks needs to be kept within prescribed limits in order to ensure that credit growth is better aligned with the real growth in the economy.

## Chapter II

# National Income, Saving and Investment

The official estimates of the macro economic aggregates are not yet available for 1988-89. However, on the basis of the related economic indicators, the growth rate of Gross Domestic Product (GDP) in real terms (at factor cost at 1980-81 prices) is tentatively estimated to be around 10 per cent during 1988-89 as against 3.6 per cent in 1987-88 (Table II-1). The record growth rate in real GDP is attributed to an exceptionally good performance of agriculture and improvement in the growth rate of industry from 7.2 per cent in 1987-88 to 8.8 per cent in 1988-89. During the first four years of the Seventh Five Year Plan, the real GDP registered an annual average growth rate of 5.7 per cent.

**Performance during 1988-89**

Net Domestic Product (NDP) at current prices adjusted for estimated consumption of fixed capital is expected to show the growth rate of around 10.0 per cent during 1988-89 as against the rate of 3.3 per cent registered during 1987-88. During the first four years of the Seventh Five Year Plan, the real NDP recorded the average growth rate of 5.5 per cent. The growth rate of real national income (net national product at factor cost at 1980-81 prices) is estimated to be around 10.1 per cent during 1988-89 as against 3.4 per cent during 1987-88. Accordingly, the real per capita income is estimated to show the growth rate of 8.0 per cent during 1988-89 as against the growth rate of 1.4 per cent during 1987-88 (Table II-2). During the first four years of the Seventh Five Year Plan, the real national income registered the annual average growth rate of 5.5 per cent.

As regards saving, Gross Domestic Saving (GDS) rate, which had hovered around 21.0 per cent during the first three years of the Seventh Plan, did not move up subsequently. During 1988-89, the rate was estimated to be 21.0 per cent, a little lower than the rate of 21.1 per cent recorded during 1987-88. During the first four years of the Seventh Five Year Plan, GDS rate averaged at 21.3 per cent.Net Domestic Saving (NDS) rate which declined from 13.0 per cent in 1986-87 to 12.0 per cent in 1987-88, is expected to remain same during 1988-89, as the improvement in the saving rate of the private corporate sector and reduction in the dissaving rate of the public sector is counterbalanced by the decline in saving rate of the household sector . NDS rate averaged at 12.4 per cent during the first four years of the Seventh Five Year Plan. However, aggregate investment-income ratio is expected to show an increase from 14.6 per cent in 1987-88 to 15.3 per cent in 1988-89, mainly on account of the increase in the rate of net inflow of foreign resources.

**A. Trends in National Product**

*1. Estimates for 1987-88*

According to the Quick Estimates of the Central Statistical Organisation (CSO), Gross National Product (GNP) at factor cost at 1980-81 prices is estimated to increase by 3.6 per cent to Rs. 1,68,919 crores during 1987-88 as against the increase of 3.8 per cent during 1986-87 and 5.1 per cent during 1985-86 (Table II-1). The decline in the growth rate of GNP during 1986-87 is attributable mainly to the negative growth rate of agricultural production in that year. However, the fall in the growth rate of GNP during 1987-88 is accounted for by the decline in the growth rate of industry as well as the negative growth rate of agriculture. GDP at factor cost at 1980-81 prices originating from agricultural sector showed a marginal decline of 1.0 per cent during 1987-88 as against the decline of 2.1 per cent during 1986-87 and the negligible rise of 0.2 per cent during 1985-86. Consequently, the share of Primary Sector in aggregate GDP (at 1980-81 prices) receded from 35.9 per cent during 1985-86 to 34.0 per cent during 1986-87 and further to 32.6 per cent during 1987-88. On the other hand,

the Secondary Sector recorded a lower growth rate of 6.7 per cent during 1987-88 as compared with the rate of 8.2 per cent registered during 1986-87. The share of secondary sector in aggregate GDP improved from 27.7 per cent during 1986-87 to 28.6 per cent during 1987-88. In the Secondary Sector, income generated in (i) manufacturing, (ii) electricity, gas and water supply and (iii) construction showed the increases of 7.4 per cent, 7.7 per cent and 2.9 per cent, respectively during 1987-88.

The Service Sector which constituted as high as 38.9 per cent of GDP during 1987-88, showed a growth rate of 5.1 per cent during 1987-88 as compared with 6.2 per cent during 1986-87. The growth rate of sub-sector 'finance, real estate and business services' declined from 7.3 per cent during 1986-87 to 4.7 per cent during 1987-88. In this sub-sector, the segment 'banking and insurance' displayed decline in its growth rate from 13.0 per cent during 1986-87 to 6.2 per cent during 1987-88. The growth rate of GDP originating from the sub-sector 'transport, communication and trade' declined from 4.9 per cent during 1986-87 to 4.4 per cent during 1987-88. The growth rate of GDP generated by sub-sector 'community, social and personal services' declined from 7.4 per cent during 1986-87 to 6.6 per cent during 1987-88.

NDP (at factor cost at 1980-81 prices) originating from the agricultural sector declined by 1.1 per cent during 1987-88 after the fall of 2.3 per cent registered during 1986-87. Consequently, the share of Primary Sector in aggregate NDP at 1980-81 prices declined from 35.2 per cent during 1986-87 to 33.7 per cent during 1987-88. The share of the Secondary Sector, on the other hand, showed a marginal improvement from 26.5 per cent during 1986-87 to 27.3 per cent during 1987-88 as it registered the growth rates of 8.4 per cent and 6.7 per cent during 1986-87 and 1987-88, respectively. In the Secondary Sector, income originating from (i) manufacturing, (ii) electricity, gas and water supply and (iii) construction recorded growth rates of 7.5 per cent, 6.1 per cent and 2.8 per cent, respectively during 1987-88. The Service Sector which constituted as high as 39.0 per cent of NDP in 1987-88, showed a lower growth rate of 5.0 per cent during 1987-88 than the rate of 6.2 per cent during 1986-87.

Net National Product (NNP) at factor cost at 1980-81 prices is estimated to increase by 3.4 per cent to Rs. 1,50,573 crores during 1987-88 as against an increase of 3.6 per cent to Rs. 1,45,675 crores during 1986-87. Accordingly, the per capita real income is estimated to increase by 1.4 per cent to Rs. 1,918 in 1987-88 as against an increase of 1.6 per cent to Rs. 1,892 in the previous year. NNP (at factor cost at current prices) showed an increase of 12.6 per cent to Rs. 2,57,813 crores during 1987-88 as compared with the increase of 10.9 per cent to Rs. 2,29,010 crores during 1986-87.Consequently, per capita income in nominal terms increased by 10.4 per cent to Rs. 3,284 in 1987-88 as against an increase of 8.8 per cent to Rs. 2,974 during 1986-87 (Table II-2).

**Table II-1: Trends in Gross National Product**

| Description | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 (Estimated) |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| **1. Gross Domestic Product (GDP) (Rupees Crores)** | | | | | |
| At 1980-81 Prices | 1,50,542 | 1,58,176 | 1,64,441 | 1,70,363 | 1,87,399 |
| | *(4.0)* | *(5.1)* | *(4.0)* | *(3.6)* | *(10.0)* |
| At Current Prices | 2,07,781 | 2,34,063 | 2,60,680 | 2,93,306 | 3,48,750 |
| | *(11.8)* | *(12.6)* | *(11.4)* | *(12.5)* | *(18.9)* |
| **2. Gross National Product (GNP) (Rupees Crores)** | | | | | |
| At 1980-81 Prices | 1,49,365 | 1,56,975 | 1,62,997 | 1,68,919 | 1,85,955 |
| | *(3.9)* | *(5.1)* | *(3.8)* | *(3.6)* | *(10.1)* |
| At Current Prices | 2,06,357 | 2,32,634 | 2,58,875 | 2,91,501 | 3,46,945 |
| | *(11.6)* | *(12.7)* | *(11.3)* | *(12.6)* | *(19.0)* |
| **3. Per Capita GNP (Rupees)** | | | | | |
| At 1980-81 Prices | 2,021 | 2,079 | 2,117 | 2,152 | 2,324 |
| | *(1.8)* | *(2.9)* | *(1.8)* | *(1.7)* | *(8.0)* |
| At Current Prices | 2,792 | 3,081 | 3,362 | 3,713 | 4,337 |
| | *(9.4)* | *(10.4)* | *(9.1)* | *(10.4)* | *(16.8)* |

*Sources* and *Notes* : 1. Estimates upto 1986-87 are provisional and for 1987-88 are Quick Estimates by the Central Statistical Organisation, Government of India.

2. Figures for 1988-89 are tentative and estimated at real growth rate of 10.0 per cent in GDP at factor cost.

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

**Table II-2: Trends in Net National Product and Per Capita Income**

| Description | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 (Estimated) |
|---|---|---|---|---|---|
| 1. | 2. | 3. | 4. | 5. | 6. |
| **1. Net Domestic Product (NDP) (Rupees Crores)** | | | | | |
| At 1980-81 Prices | 1,35,149 | 1,41,848 | 1,47,119 | 1,52,017 | 1,67,219 |
| | *(3.7)* | *(5.0)* | *(3.7)* | *(3.3)* | *(10.0)* |
| At Current Prices | 1,85,697 | 2,07,848 | 2,30,815 | 2,59,618 | 3,08,686 |
| | *(11.5)* | *(11.9)* | *(11.0)* | *(12.5)* | *(18.9)* |
| **2. Net National Product (NNP) (Rupees Crores)** | | | | | |
| At 1980-81 Prices | 1,33,972 | 1,40,647 | 1,45,675 | 1,50,573 | 1,65,775 |
| | *(3.6)* | *(5.0)* | *(3.6)* | *(3.4)* | *(10.1)* |
| At Current Prices | 1,84,273 | 2,06,419 | 2,29,010 | 2,57,813 | 3,06,881 |
| | *(11.2)* | *(12.0)* | *(10.9)* | *(12.6)* | *(19.0)* |
| **3. Per Capita Income (Rupees)** | | | | | |
| At 1980-81 Prices | 1,813 | 1,863 | 1,892 | 1,918 | 2,072 |
| | *(1.5)* | *(2.8)* | *(1.6)* | *(1.4)* | *(8.0)* |
| At Current Prices | 2,494 | 2,734 | 2,974 | 3,284 | 3,836 |
| | *(9.0)* | *(9.6)* | *(8.8)* | *(10.4)* | *(16.8)* |

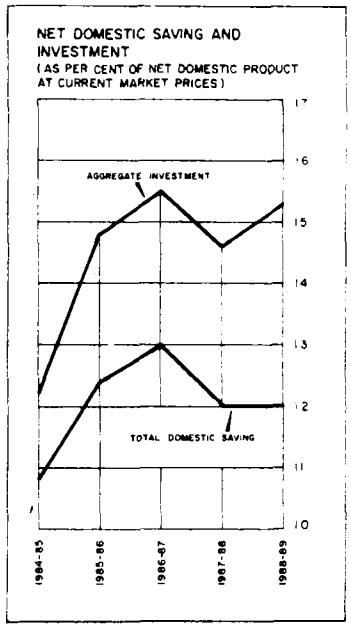
*Sources* and *Notes*: 1. Estimates upto 1986-87 are provisional and for 1987-88 are Quick Estimates by the Central Statistical Organisation, Government of India.
2. Figures for 1988-89 are tentative.
3. Figures in brackets are percentage changes over the previous year.

## (B) Trends in Domestic Saving

GDS at Rs. 81,872 crores during 1988-89 was perceptibly higher by Rs. 11,927 crores or 17.1 per cent than its level of Rs. 69,945 crores during 1987-88. During 1986-87, it was Rs. 63,974 crores. The saving-income ratio during 1988-89 was a shade lower at 21.0 per cent as compared to the ratio of 21.1 per cent during 1987-88 and 21.8 per cent during 1986-87. The fall in saving rate during 1988-89 was mainly due to the decline in the saving rate of household sector. The saving rates of both public sector and private corporate sector showed some improvements. However, the fall in saving rate in 1987-88 was mainly due to the decline in the saving rate of the public sector as the saving rates of both household and private corporate sectors remained unchanged at the previous year's levels (Table II-3).

The share of household sector which is the highest in GDS increased from 79.8 per cent in 1986-87 to 82.3 per cent in 1987-88, but declined subsequently to 80.9 per cent during 1988-89. The share of public sector declined from 12.5 per cent in 1986-87 to 9.6 per cent in 1987-88, but improved to 10.0 per cent in 1988-89. The share of domestic private corporate sector which increased from 7.7 per cent in 1986-87 to 8.1 per cent in 1987-88, is expected to improve further to 9.1 per cent in 1988-89 (Table II-3).

Aggregate net domestic saving at Rs. 41,703 crores during 1988-89 was substantially higher as compared to its level of Rs. 35,929 crores during 1987-88 and Rs. 34,256 crores during 1986-87. However, the rate of NDS during 1988-89 remained at the previous year's level of 12.0 per cent as against the 13.0 per cent recorded during 1986-87 (Table II-4). The aggregate investment-income ratio is expected to increase from 14.6 per cent during 1987-88 to 15.3 per cent during 1988-89, mainly due to the increase in net inflow of foreign resources from 2.6 per cent to 3.3 per cent in the same period (Table II-4).



The share of public sector saving in aggregate NDS, which deteriorated from (−) 14.9 per cent during 1986-87 to (−) 22.9 per cent during 1987-88, is expected to be (−) 21.3 per cent during 1988-89. The share of private corporate sector's saving which declined from 1.8 per cent during 1986-87 to 1.3 per cent during 1987-88, is expected to show substantial improvement to 2.4 per cent during 1988-89. Accordingly, the share of household sector in aggregate NDS which increased from 113.1 per cent during 1986-87 to 121.6 per cent during 1987-88, is expected to decline marginally to 118.9 per cent during 1988-89 (Table II-5). The rate of household sector saving is higher than the rate of net domestic saving on account of the dissaving of the public sector.

## 1. Saving of the Household Sector

The saving of the household sector consisting of individuals and non-government non-corporate enterprises covers (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 increased by Rs. 4,954 crores to Rs. 43,692 crores during 1987-88, is expected to increase further by Rs. 5,875 crores to Rs. 49,567 crores during 1988-89. However, as proportion of NDP, it declined by 0.4 percentage points to 14.2 per cent during 1988-89, mainly on account of the fall in the rate of household sector's saving in financial assets (Table II-5).

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

(Rupees crores at current prices)

| Description | 1986-87 | 1987-88 | 1988-89 (Estimated) |
|---|---|---|---|
| 1. | 2. | 3. | 4. |
| 1. Public Sector | 7,988 | 6,689 | 8,200 |
| | *(12.5)* | *(9.6)* | *(10.0)* |
| *Per cent of Gross Domestic Product at Market Prices* | *2.7* | *2.0* | *2.1* |
| 2. Domestic Private Corporate Sector (including co-operatives) | 4,924 | 5,684 | 7,450 |
| | *(7.7)* | *(8.1)* | *(9.1)* |
| *Per cent of Gross Domestic Product at Market Prices* | *1.7* | *1.7* | *1.9* |
| 3. Household Sector | 51,062 | 57,572 | 66,222 |
| | *(79.8)* | *(82.3)* | *(80.9)* |
| *Per cent of Gross Domestic Product at Market Prices* | *17.4* | *17.4* | *17.0* |
| 4. Total Domestic Saving (1+2+3) | 63,974 | 69,945 | 81,872 |
| | (100.0) | (100.0) | (100.0) |
| *Per cent of Gross Domestic Product at Market Prices* | *21.8* | *21.1* | *21.0* |

*Notes:* 1. Figures in brackets are percentages to total.
2. According to the arrangement arrived at between CSO and RBI, RBI will estimate savings 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 those in the form of physical assets of the household sector. In the absence of data from the CSO for the year 1988-89, savings in the form of physical assets of the household sector and those of the public sector are estimated in the Bank.

**Table II-4: Estimates of Net Domestic Saving and Investment as Percentage of Net Domestic Product at Current Market Prices (Provisional)**

| Description | 1986-87 | 1987-88 | 1988-89 (Estimated) |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. Domestic Saving | 13.0 | 12.0 | 12.0 |
| 2. Inflow of Foreign Resources | 2.5 | 2.6 | 3.3 |
| 3. Aggregate Investment (1+2) | 15.5 | 14.6 | 15.3 |

**Table II-5: Estimates of Net Domestic Saving: Sector-wise**
**(Provisional)**

(Rupees crores at current prices)

| | Description | 1986-87 | 1987-88 | 1988-89 (Estimated) |
|---|---|---|---|---|
| | 1. | 2. | 3. | 4. |
| 1. | Public Sector | −5,115 | −8,218 | −8,886 |
| | | (−14.9) | (−22.9) | (−21.3) |
| | *Per cent of Net Domestic Product at Market Prices* | *−1.9* | *−2.8* | *−2.5* |
| 2. | Domestic Private Corporate Sector (including co-operatives) | 633 | 455 | 1,022 |
| | | (1.8) | (1.3) | (2.4) |
| | *Per cent of Net Domestic Product at Market Prices* | *0.2* | *0.2* | *0.3* |
| 3. | Household Sector | 38,738 | 43,692 | 49,567 |
| | | (113.1) | (121.6) | (118.9) |
| | *Per cent of Net Domestic Product at Market Prices* | *14.7* | *14.6* | *14.2* |
| **4.** | **Total Domestic Saving (1+2+3)** | **34,256** | **35,929** | **41,703** |
| | | **(100.0)** | **(100.0)** | **(100.0)** |
| | *Per cent of Net Domestic Product at Market Prices* | *13.0* | *12.0* | *12.0* |

*Note :* Figures in brackets are percentages to total.

**Table II-6: Composition of Financial Savings of the Household Sector (Gross)**
**(Provisional)**

(Rupees crores at current prices)

| | Assets | 1986-87 | 1987-88 | 1988-89 (Estimated) |
|---|---|---|---|---|
| | 1. | 2. | 3. | 4. |
| | Total Financial Assets | 31,346 | 35,113 | 40,516 |
| | | *(100.0)* | *(100.0)* | *(100.0)* |
| | Per cent of Net Domestic Product at Market Prices | 11.9 | 11.8 | 11.6 |
| 1. | Currency | 3,090 | 4,815 | 4,488 |
| | | *(9.9)* | *(13.7)* | *(11.1)* |
| | Per cent of Net Domestic Product at Market Prices | 1.2 | 1.6 | 1.3 |
| 2. | Deposits | 15,105 | 14,937 | 18,374 |
| | | *(48.2)* | *(42.5)* | *(45.3)* |
| | Per cent of Net Domestic Product at Market Prices | 5.7 | 5.1 | 5.3 |
| 3. | Insurance | 2,116 | 2,584 | 2,823 |
| | | *(6.7)* | *(7.4)* | *(7.0)* |
| | Per cent of Net Domestic Product at Market Prices | 0.8 | 0.9 | 0.8 |
| 4. | Provident/Pension Funds | 5,173 | 6,256 | 7,194 |
| | | *(16.5)* | *(17.8)* | *(17.8)* |
| | Per cent of Net Domestic Product at Market Prices | 2.0 | 2.1 | 2.1 |
| 5. | Claims on Government | 3,091 | 3,563 | 4,549 |
| | | *(9.9)* | *(10.1)* | *(11.2)* |
| | Per cent of Net Domestic Product at Market Prices | 1.2 | 1.2 | 1.3 |
| 6. | Investment in Shares/Debentures including Units of U.T.I. | 2,621 | 2,798 | 2,928 |
| | | *(8.3)* | *(8.0)* | *(7.2)* |
| | Per cent of Net Domestic Product at Market Prices | 1.0 | 0.9 | 0.8 |
| 7. | Trade Debt (Net) | 150 | 160 | 160 |
| | | *(0.5)* | *(0.5)* | *(0.4)* |
| | Per cent of Net Domestic Product at Market Prices | — | — | — |

*Notes:* 1. Figures in brackets are percentages to total.
2. — Negligible.

*(a) Financial Assets*

The household sector's saving in financial assets (net of financial liabilities) showed a substantial increase of Rs. 3,090 crores to Rs. 30,288 crores in 1988-89 as against an increase of Rs. 2,578 crores in 1987-88. But, its share in total net saving of the household sector declined from 63.6 per cent during 1986-87 to 62.2 per cent during 1987-88 and further to 61.1 per cent during 1988-89. As a proportion of NDP also, it declined from 9.3 per cent in 1986-87 to 9.1 per cent in 1987-88 and then to 8.7 per cent in 1988-89.

The financial assets (gross) of the household sector which increased by Rs. 3,767 crores or 12.0 per cent in 1987-88 showed a further rise of Rs. 5,403 crores or 15.4 per cent to Rs. 40,516 crores during 1988-89. The ratio of these assets to NDP marginally declined from 11.9 per cent in 1986-87 to 11.8 per cent in 1987-88 and further to 11.6 per cent in 1988-89 (Table II-6).

*(i) Currency*

The saving of the household sector in the form of currency declined by Rs. 327 crores or 6.8 per cent to Rs. 4,488 crores during 1988-89 as compared with the substantial increase of Rs. 1,725 crores or 55.8 per cent during 1987-88. Consequently, the currency-NDP ratio which increased by 0.4 percentage point to 1.6 per cent during 1987-88, showed a decline of 0.3 percentage points to 1.3 per cent during 1988-89. Accordingly, its share in total financial assets which increased from 9.9 per cent in 1986-87 to 13.7 per cent in 1987-88, showed a decline to 11.1 per cent in 1988-89.

*(ii) Deposits*

The household sector's saving in the form of deposits with commercial banks, co-operative banks and credit/non-credit societies and non-banking companies rose substantially by Rs. 3,437 crores or 23.0 per cent to Rs. 18,374 crores during 1988-89 as against the decline of Rs. 168 crores to Rs. 14,937 crores during 1987-88. Consequently, the share of deposits in the gross financial assets increased by 2.8 percentage points to 45.3 per cent in 1988-89. Deposits as a proportion of NDP also improved from 5.1 per cent in 1987-88 to 5.3 per cent in 1988-89.

The overall increase in deposits during 1988-89 is accounted mainly by the substantial increase in aggregate deposits with commercial banks. The household sector's deposits with commercial banks which decreased by Rs. 273 crores or 2.3 per cent to Rs. 11,796 crores during 1987-88, showed a discernible rise of Rs. 3,419 crores or 29.0 per cent to Rs. 15,215 crores during 1988-89. Its deposits with co-operative sector are estimated to register a marginal increase from Rs. 1,134 crores in 1987-88 to Rs. 1,151 crores in 1988-89. However, deposits with non-banking companies during 1988-89 are expected to remain at the previous year's level of Rs. 2,007 crores. The increase in the household sector's saving in the form of bank deposits was more than offset by the decline in currency holdings of the household sector. However, the combined share of currency and deposits in gross financial assets showed a slight improvement from 56.2 per cent in 1987-88 to 56.4 per cent in 1988-89.

*(iii) Social Security Funds*

Social security funds, which include household's saving through insurance, provident and pension funds, constitute the second major instrument after deposits. Saving in these funds steadily increased from Rs. 7,289 crores during 1986-87 to Rs. 8,840 crores during 1987-88 and further to Rs. 10,017 crores during 1988-89. However, its share in gross financial assets which increased from 23.2 per cent during 1986-87 to 25.2 per cent during 1987-88, declined marginally to 24.8 per cent during 1988-89. As a proportion of NDP, it increased from 2.8 per cent during 1986-87 to 3.0 per cent during 1987-88, but declined thereafter to 2.9 per cent during 1988-89.

Accretion to saving in the form of insurance comprising Life Fund of Life Insurance Corporation of India (LIC), Postal Insurance, State Insurance Fund and Central Government group insurance funds, increased from Rs. 2,584 crores during 1987-88 to Rs. 2,823 crores during 1988-89. Its share in gross financial assets which increased from 6.7 per cent during 1986-87 to 7.4 per cent during 1987-88, is estimated to decline marginally to 7.0 per cent during 1988-89. The percentage of insurance to NDP which increased from 0.8 per cent during 1986-87 to 0.9 per cent during 1987-88, reverted back to 0.8 per cent during 1988-89. Accrual to saving in the form of provident and pension funds is estimated to show a rise of Rs. 938 crores or 15.0 per cent to Rs. 7,194 crores during 1988-89 as against an increase of Rs. 1,083 crores or 20.9 per cent during 1987-88. Their share in gross financial assets rose from 16.5 per cent during 1986-87 to 17.8 per cent during 1987-88 and remained unchanged during 1988-89. As a proportion to NDP, these funds rose from 2.0 per cent in 1986-87 to 2.1 per cent in 1987-88 and did not show any change during 1988-89.

*(iv) Claims on Government*

The household sector's saving in the form of claims on Government includes households' investment in small savings instruments, Government securities, National Rural Development Bonds, Capital Investment Bonds, National Deposit Scheme, Relief Bonds and Compulsory Deposits. Saving in these instruments steadily increased from Rs. 3,091 crores in 1986-87 to Rs. 3,563 crores during 1987-88 and further to Rs. 4,549 crores during 1988-89.

Household sector's investment in small savings instruments showed a steady increase from Rs. 3,395 crores during 1986-87 to Rs. 3,633 crores during 1987-88 and further to Rs. 4,600 crores during 1988-89. The investment in Government securities was about Rs. 35 crores whereas Capital Investment Bonds fetched a small amount of Rs. 1.1 crore during 1988-89. The repayment of Compulsory Deposits increased significantly from Rs. 49 crores during 1987-88 to Rs. 229 crores during 1988-89 whereas the repayment of National Rural Development Bonds increased from Rs. 58 crores during 1987-88 to Rs. 71 crores during 1988-89. There was a repayment of Rs. 3 crores under the National Deposit Scheme during 1988-89. The Relief Bonds fetched an amount of Rs. 216 crores during 1988-89. It is, thus, evident that among the wide array of various instruments of financial savings, the small savings instruments continued to attract a large chunk of funds. The contribution from other saving instruments has either been insignificant or there has been an outgo on account of repayment obligations. The percentage share of claims on Government in gross financial assets showed an increase from 9.9 per cent during 1986-87 to 10.1 per cent during 1987-88 and further to 11.2 per cent during 1988-89. As a percentage to NDP, saving in these instruments which remained at 1.2 per cent during 1986-87 as well as 1987-88, rose marginally to 1.3 per cent during 1988-89.

*(v) Investment in Shares, Debentures and Units*

The household sector's investment in shares and debentures of corporate and co-operative sectors, bonds of public sector enterprises and the units of the Unit Trust of India (UTI) showed a small increase of Rs. 130 crores to Rs. 2,928 crores during 1988-89 as compared to the increase of Rs. 177 crores registered during 1987-88. However, the share of these instruments in gross financial assets steadily declined from 8.3 per cent during 1986-87 to 8.0 per cent during 1987-88 and further to 7.2 per cent during 1988-89. Similarly, its ratio to NDP showed a slight decline from 1.0 per cent during 1986-87 to 0.9 per cent during 1987-88 and further to 0.8 per cent during 1988-89.

The households' direct investment in joint stock companies (including co-operative non-credit societies) marginally declined from Rs. 1,367 crores during 1987-88 to Rs. 1,365 crores during 1988-89. However, this was offset by the increase in their investment in the units of UTI from Rs. 1,092 crores during 1987-88 to Rs. 1,223 crores during 1988-89. It shows the shift in household sector's preference in favour of the units of UTI due to the uncertainties of the stock market.

*(vi) Trade Debt (Net)*

It represents the credit extended to the private corporate sector by the household sector. Net trade debt increased from Rs. 150 crores during 1986-87 to Rs. 160 crores during 1987-88 but remained unchanged at the same level during 1988-89. However, its share in gross financial assets, which remained at 0.5 per cent during 1986-87 and 1987-88, declined to 0.4 per cent during 1988-89. As a proportion to NDP, its share remained negligible during the same period.

(b) Saving in Physical Assets

The household sector's saving in physical assets includes additions to construction, machinery and equipment and inventories. According to the Quick Estimates of CSO, saving in these assets increased from Rs. 14,118 crores during 1986-87 to Rs. 16,494 crores during 1987-88. As a proportion to NDP, it marginally increased from 5.4 per cent in 1986-87 to 5.5 per cent in 1987-88. The official estimates of saving in these assets are not available for 1988-89. However, on the basis of available indicators, these are estimated to be Rs. 19,279 crores during 1988-89 which accounted for 5.5 per cent of NDP (Table II-7).

(c) Financial Liabilities

The Financial liabilities of the household sector covering borrowings from banks (commercial and co-operative), co-operative credit/non-credit societies, LIC, term-lending institutions, Central and State Governments and others,recorded a steady rise from Rs. 6,726 crores during 1986-87 to Rs. 7,915 crores during 1987-88 and further to Rs. 10,228 crores during 1988-89. The ratio of these liabilities to NDP increased from 2.6 per cent in 1986-87 to 2.7 per cent in 1987-88 and further to 2.9 per cent in 1988-89 (Table II-7). The predominant part of these liabilities was the

**Table II-7 : Saving of the Household Sector (Provisional)**

(Rupees crores at current prices)

| Description | 1986-87 | 1987-88 | 1988-89 (Estimated) |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. Financial Assets (Gross) | 31,346 | 35,113 | 40,516 |
| *Per cent of Net Domestic Product at Market Prices* | *11.9* | *11.8* | *11.6* |
| 2. Physical Assets (Net) | 14,118 | 16,494 | 19,279 |
| *Per cent of Net Domestic Product at Market Prices* | *5.4* | *5.5* | *5.5* |
| 3. Financial Liabilities | 6,726 | 7,915 | 10,228 |
| *Per cent of Net Domestic Product at Market Prices* | *2.6* | *2.7* | *2.9* |
| 4. Total Net Saving (Net of Financial Liabilities) (1+2-3) | 38,738 | 43,692 | 49,567 |
| *Per cent of Net Domestic Product at Market Prices* | *14.7* | *14.6* | *14.2* |

household's borrowings from the commercial banks which showed an increase from Rs. 6,061 crores during 1987-88 to Rs. 8,370 crores during 1988-89. Accordingly, their share in total liabilities moved up from 76.6 per cent to 81.8 per cent during the same period.

## 2. Saving of the Public Sector

According to the CSO estimates, the public sector's dissaving increased from Rs. 5,115 crores during 1986-87 to Rs. 8,218 crores during 1987-88. Even though net saving of the non-departmental undertakings showed a substantial increase of Rs. 890 crores to Rs. 2,524 crores during 1987-88, the dissaving of administrative departments went up from Rs. 6,749 crores during 1986-87 to Rs. 10,742 crores in 1987-88. Consequently, the rate of public sector's saving deteriorated from (-)1.9 per cent of NDP during 1986-87 to (-) 2.8 per cent during 1987-88. In the absence of official estimates for 1988-89, the public sector's saving (net) is estimated to be (-) Rs. 8,886 crores forming (-) 2.5 per cent of NDP. The saving of the non-departmental undertakings is expected to increase from Rs. 2,524 crores during 1987-88 to Rs. 2,728 crores during 1988-89 whereas the dissaving of the administrative departments continues unabated and are estimated at Rs. 11,614 crores during 1988-89 (Table II-8).

The share of public sector's saving in NDS which deteriorated from (–)14.9 per cent during 1986-87 to (–)22.9 per cent during 1987-88, is expected to be (–)21.3 per cent during 1988-89 (Table II-5). An improvement in the overall saving rate calls for the improvement in the saving rate of the public sector.

**Table II-8 : Saving of the Public Sector (Group-wise)**

(Rupees crores at current prices)

| Item | Financial Year | | |
|---|---|---|---|
| | 1986-87 | 1987-88 | 1988-89 (Estimated) |
| 1. | 2. | 3. | 4. |
| 1. Administrative Departments including Departmental Enterprises | -6,749 | -10,742 | -11,614 |
| 2. Non-departmental Financial and Non-financial Undertakings | 1,634 | 2,524 | 2,728 |
| **3. Total (1+2)** | **-5,115** | **-8,218** | **-8,886** |
| *Per cent of Net Domestic Product at Market Prices* | *-1.9* | *-2.8* | *-2.5* |

*Note:* Details from CSO for the year 1988-89 are not yet available and hence estimated.

### 3. Saving of the Domestic Private Corporate Sector

Net saving of the domestic private corporate sector (including co-operatives) declined from Rs. 633 crores during 1986-87 to Rs. 455 crores during 1987-88, but rose substantially to Rs. 1,022 crores during 1988-89. As a percentage of NDP, it remained at 0.2 per cent during 1986-87 and 1987-88, but increased subsequently to 0.3 per cent during 1988-89. Its share in total NDS fell from 1.8 per cent during 1986-87 to 1.3 per cent during 1987-88, but increased significantly to 2.4 per cent during 1988-89 (Table II-5). The substantial rise in the private corporate sector's saving is the reflection of its better performance during the year.

## C. Trends in Domestic Investment

Aggregate Net Domestic Investment (NDI) equals net domestic saving and net inflow of foreign resources during a year. NDI, at current prices, is estimated to show a substantial increase of Rs. 9,501 crores to Rs. 53,203 crores during 1988-89 as compared with the increase of Rs. 2,961 crores during 1987-88. Its ratio to NDP declined from 15.5 per cent during 1986-87 to 14.6 per cent during 1987-88, but improved subsequently to 15.3 per cent during 1988-89. The investment-NDP ratio, in real terms (at 1980-81 prices), also declined from 14.1 per cent during 1986-87 to 13.5 per cent during 1987-88, but showed some improvement to 13.8 per cent during 1988-89 (Table II-9).

According to CSO's estimates, the share of public sector's investment in aggregate NDI (unadjusted) declined from 53.3 per cent during 1986-87 to 51.3 per cent during 1987-88. However, as a proportion to NDP, it declined from 9.6 per cent during 1986-87 to 8.0 per cent during 1987-88. The corresponding details are not available for 1988-89.

**Table II-9: Net Investment as percentage of NDP (at 1980-81 Prices)**
**(Tentative Estimates)**

(Rupees Crores)

| Financial Year | Net Investment at Current Prices | At 1980-81 prices | | |
|---|---|---|---|---|
| | | Net Investment | Net Domestic Product (NDP) at Market Prices | Ratio of (3) to (4) (Per cent) |
| 1. | 2. | 3. | 4. | 5. |
| 1986-87 | 40,741 | 24,156 | 1,71,369 | 14.1 |
| 1987-88 | 43,702 | 24,206 | 1,78,676 | 13.5 |
| 1988-89 (Estimated) | 53,203 | 26,942 | 1,95,746 | 13.8 |

However, on the basis of available information, the trend in some of its components are examined. The net direct fixed assets formation of Central Government (i.e. gross direct fixed capital formation minus expenditure on renewals and replacements) recorded a perceptible rise of Rs.1,196 crores or 27.7 per cent to Rs.5,508 crores during 1988-89 as against the decline of Rs. 166 crores or 3.7 per cent during the previous year. The accumulation of inventories declined by Rs. 54 crores or 19.4 per cent to Rs. 224 crores during 1988-89 in contrast to the increase of Rs. 190 crores during 1987-88 (Table II-10).

The estimates of capital formation of the State Governments, Union Territories, local authorities and their non-departmental commercial undertakings are not available. However, the total financial assistance rendered to them by the Central Government for capital formation increased by Rs. 2,398 crores or 12.1 per cent to Rs. 22,207 crores during 1988-89 as compared with the increase of Rs. 1,394 crores or 7.6 per cent during 1987-88. The financial assistance provided to State and Union Territories showed a rise of Rs. 1,396 crores or 11.0 per cent to Rs. 14,119 crores and that provided to non-departmental commercial undertakings displayed an increase of Rs. 667 crores or 11.8 per cent to Rs. 6,334 crores during 1988-89.

The information regarding the gross capital formation in Central Government's non-departmental industrial and commercial undertakings is available only upto 1987-88 which shows that total gross fixed assets formation declined by Rs. 967 crores to Rs. 11,323 crores during 1987-88. The inventory accumulation registered a greater fall of Rs. 2,801 crores to

**Table II-10: Capital Formation through Central Government Budget (at current prices)**

(Rupees crores)

| Description | 1986-87+ | 1987-88+ | 1988-89* |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. Gross Direct Fixed Assets Formation | 5,817 | 5,683 | 7,202 |
| 2. Increase in Inventories | 88 | 278 | 224 |
| 3. Net Direct Fixed Assets Formation (i.e. gross direct fixed capital formation minus expenditure on renewals and replacements) | 4,478 | 4,312 | 5,508 |
| **4. Financial Assistance for Capital Formation** | 18,415 | 19,809 | 22,207 |
| (a) To States, Union Territories | 10,800 | 12,723 | 14,119 |
| (b) Non-Departmental Commercial Undertakings | 6,523 | 5,667 | 6,334 |
| (i) Financial Concerns | 702 | 548 | 519 |
| (ii) Others | 5,821 | 5,119 | 5,815 |
| (c) Other Parties | 1,092 | 1,419 | 1,754 |
| 5. Gross Capital Formation in Central Government's Non-Departmental Industrial and Commercial Undertakings. | 14,417 | 10,649 | N.A. |
| | *(100.0)* | *(100.0)* | |
| (1) Gross Fixed Assets | 12,290 | 11,323 | N.A. |
| | *(85.2)* | *(106.3)* | |
| (2) Variation in Inventories | 2,127 | −674 | |
| | *(14.8)* | *(−6.3)* | N.A. |

\+ Accounts

* **Revised Estimates. N.A. — Not available**

*Sources:* 1. An Economic and Functional Classification of the Central Government Budget, 1989-90.

2. Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government, 1987-88.

(-)Rs.674 crores during1987-88.Its share in total gross capital formation declined from 14.8 per cent during 1986-87 to (-) 6.3 per cent during 1987-88.

The asset-wise composition of capital formation of the Central Government indicates that the share of 'buildings and other construction' in the total gross fixed capital formation declined from 71.2 per cent in 1987-88 to 64.9 per cent in 1988-89. The share of 'machinery and equipment' showed an increase from 28.8 per cent to 35.1 per cent during the same period (Table II-11). Though the gross capital formation showed a substantial increase of Rs. 1,465 crores or 24.6 per cent to Rs. 7,426 crores during 1988-89, as a proportion to GDP at current market prices it was only a shade higher at 1.9 per cent during 1988-89 as compared to 1.8 per cent during 1987-88. This is mainly due to the substantial rate of growth of GDP at current market prices during 1988-89.

**Table II-11: Capital Formation in Central Government Administration and Departmental Commercial Undertakings—Asset-wise**
**(at current prices)**

(Rupees crores)

| Description | 1986-87+ | 1987-88+ | 1988-89* |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| I. Gross Fixed Capital Formation | 5,817 | 5,683 | 7,202 |
| | *(98.5)* | *(95.3)* | *(97.0)* |
| 1. Buildings and other construction | 3,544 | 4,048 | 4,672 |
| Proportion to I above | 60.9 | 71.2 | 64.9 |
| (a) New outlay | 2,791 | 3,043 | 3,644 |
| (b) Renewals and replacements | 753 | 1,005 | 1,028 |
| 2. Machinery and Equipment | 2,273 | 1,635 | 2,530 |
| Proportion to I above | 39.1 | 28.8 | 35.1 |
| (a) New outlay | 1,687 | 1,269 | 1,864 |
| (b) Renewals and replacements | 586 | 366 | 666 |
| II. Increase in Inventories | 88 | 278 | 224 |
| | *(1.5)* | *(4.7)* | *(3.0)* |
| III. Gross Capital Formation (I+II) | 5,905 | 5,961 | 7,426 |
| IV. Gross Capital Formation as proportion to GDP at Market Prices | 2.0 | 1.8 | 1.9 |

\+ Accounts.

* Revised Estimates.

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

*Source:* An Economic and Functional Classification of the Central Government Budget, 1989-90.

## Chapter III

# Agricultural Output

During 1988-89, there was a significant recovery in agricultural production from the set back of earlier two years occasioned by unfavourable monsoons. The country had excellent rains in 1988, as a result of which overall agricultural production increased substantially from the low level of the previous year, recording an impressive growth rate of about 20 per cent during the year. This was in sharp contrast to the declines of 1.2 per cent witnessed in 1987-88 and 3.7 per cent in 1986-87. Taking into account an increase of 2.4 per cent recorded in 1985-86, the average growth rate of 4.4 per cent per annum in agricultural production during the first four years of the Seventh Plan has exceeded the Plan target of 4 per cent. However, this growth was characterised by considerable instability.

The 1988 South-West monsoon was one of the best monsoons in the recent years. Of the 35 meteorological sub-divisions, as many as 32 sub-divisions received excess/normal rains while the remaining 3 sub-divisions, viz., West Rajasthan, East Rajasthan and Hills of West Uttar Pradesh, recorded marginally deficient rains. In terms of coverage, as many as 88 per cent of the districts experienced excess/normal rains and the remaining 12 per cent received deficient/scanty rains. This situation was in contrast to the drought of severe magnitude the country faced in the preceding year when as many as 21 sub-divisions had received scanty/deficient rains while in 14 sub-divisions the rainfall was excess/normal. In that year, as many as 57 per cent of the districts received deficient rains whereas only 43 per cent of the districts had received excess/normal rains.

Foodgrains production during 1988-89, according to the latest estimate, is placed at 171.6 million tonnes as against the actual production of 138.4 million tonnes in the preceding year and the target of 166.6 million tonnes set for the year under review. The earlier peak production of 152.4 million tonnes was achieved in 1983-84.

Season-wise, during 1988-89, both *Kharif* and *Rabi* production attained new peak levels. *Kharif* 1988 production at 96.5 million tonnes was higher than the 1987-88 *Kharif* production of 73.9 million tonnes by 22.6 million tonnes or 30.6 per cent. Compared with the previous peak level production of 89.2 million tonnes recorded in *Kharif* 1983, the 1988 *Kharif* production was higher by 7.3 million tonnes or 8.2 per cent. *Rabi* 1988-89 output at 75.1 million tonnes was higher than the 1987-88 *Rabi* production of 64.5 million tonnes by 10.6 million tonnes or 16.4 per cent and that of the previous *Rabi* peak level of 65.2 million tonnes of 1985-86 by 9.9 million tonnes or 15.2 per cent.

Crop-wise, the production of wheat, rice and pulses achieved new peak levels in 1988-89 and exceeded the set targets, while the production of coarsegrains at 32.2 million tonnes, though considerably higher than the production of 26-27 million tonnes in the earlier three years, was slightly lower than the target for the year and also the peak level of 33.9 million tonnes achieved in 1983-84. The data on foodgrains production are given in Table III-1 & 2.

### Production and distribution of foodgrains

The foodgrains production during 1988-89, according to the latest estimate, improved substantially over the previous year's level of 138.4 million tonnes to record a new peak level of 171.6 million tonnes as compared to the previous peak of 152.4 million tonnes achieved in 1983-84. Except coarsegrains, all other foodgrains such as rice, wheat and pulses reached new peaks. In the previous year 1987-88, due to drought, foodgrains production had declined to 138.4 million tonnes from the level of 143.4 million tonnes in 1986-87.

During the year 1988-89, *Kharif* foodgrains output at 96.5 million tonnes showed a remarkable recovery from the 1987 *Kharif* output of 73.9 million tonnes and recorded an increase of 22.6 million tonnes or 30.6 per cent.

**Table III-1 : Agricultural Production**

| Commodities | Unit | 1970-71 | 1980-81 | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 | | 1989-90 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Target | Latest estimate | Target |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| Rice | Million tonnes | 42.2 | 53.6 | 60.1 | 58.3 | 63.8 | 60.6 | 56.4 | 68.0 | 70.6 | 72.5 |
| Wheat | ,, | 23.8 | 36.3 | 45.5 | 44.1 | 47.0 | 44.3 | 45.1 | 52.3 | 54.6 | 54.0 |
| Coarse grains | ,, | 30.6 | 29.1 | 33.9 | 31.2 | 26.2 | 26.8 | 25.9 | 33.0 | 32.2 | 33.8 |
| Pulses | ,, | 11.8 | 10.6 | 12.9 | 11.9 | 13.4 | 11.7 | 11.0 | 13.3 | 14.2 | 14.7 |
| **Total foodgrains** | ,, | **108.4** | **129.6** | **152.4** | **145.5** | **150.4** | **143.4** | **138.4** | **166.6** | **171.6** | **175.0** |
| **Kharif foodgrains** | ,, | **68.9** | **77.7** | **89.2** | **84.5** | **85.2** | **80.2** | **73.9** | **92.5** | **96.5** | **98.0** |
| **Rabi foodgrains** | ,, | **39.5** | **51.9** | **63.2** | **61.0** | **65.2** | **63.2** | **64.5** | **74.1** | **75.1** | **77.0** |
| Sugarcane (in terms of cane) | ,, | 126.4 | 154.2 | 174.1 | 170.3 | 170.6 | 186.1 | 196.7 | 195.0 | 204.6 | 212.0 |
| Cotton | Million bales of 170 kgs each | 4.8 | 7.0 | 6.4 | 8.5 | 8.7 | 6.9 | 6.4 | 9.8 | 8.7 | 10.0 |
| Jute & Mesta | Million bales of 180 kgs each | 6.2 | 8.2 | 7.7 | 7.8 | 12.6 | 8.6 | 6.8 | 9.2 | 7.7 | 9.5 |
| Oilseeds | Million tonnes | 9.6 | 9.4 | 12.7 | 12.9 | 10.8 | 11.3 | 12.4 | 15.7 | 18.2 | 16.5 |
| Tea | Million kgs | 419.0 | 569.6 | 581.5 | 639.9 | 656.2 | 624.6 | 674.3 | 734.0 | 700.3 | 760.0 |
| Coffee | ,, | 109.8 | 118.6 | 105.0 | 195.1 | 122.3 | 192.3 | 123.0 | 171.0 | 215.0 | 180.0 |

*Sources :* Ministry of Agriculture, Government of India, Tea Board and Coffee Board.

**Table III-2 : Targets and Actual Production of Foodgrains**

(Million tonnes)

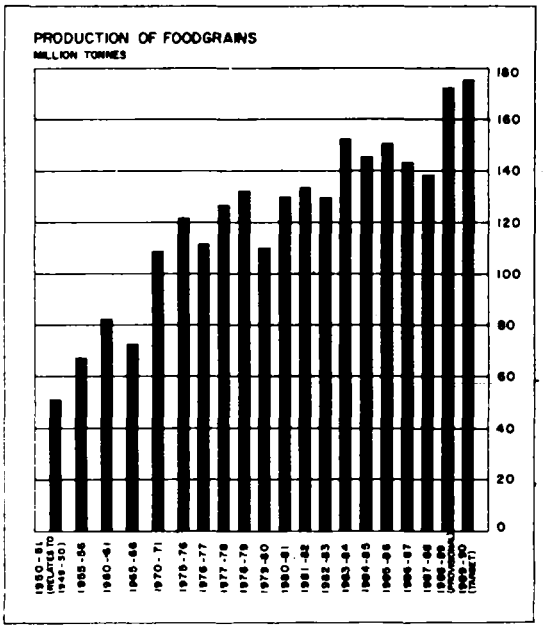
| | Rice | Wheat | Coarse-grains | Pulses | Total Foodgrains |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| **1983-84** | | | | | |
| Target | 57.0 | 41.0 | 31.0 | 13.0 | 142.0 |
| Actual | 60.1 | 45.5 | 33.9 | 12.9 | 152.4 |
| **1984-85** | | | | | |
| Target | 61.5 | 45.6 | 33.5 | 13.0 | 153.6 |
| 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 |
| Actual | 60.6 | 44.3 | 26.8 | 11.7 | 143.4 |
| **1987-88** | | | | | |
| Target | 64.0 | 50.0 | 32.0 | 14.0 | 160.0 |
| Actual | 56.4 | 45.1 | 25.9 | 11.0 | 138.4 |
| **1988-89** | | | | | |
| Target | 68.0 | 52.3 | 33.0 | 13.3 | 166.6 |
| Anticipated Achievement | 70.6 | 54.6 | 32.2 | 14.2 | 171.6 |
| **1989-90** | | | | | |
| Target | 72.5 | 54.0 | 33.8 | 14.7 | 175.0 |

*Source :* Ministry of Agriculture, Government of India.

The main *Kharif* crops — rice, coarsegrains and pulses, showed substantial increases in production during 1988-89 compared to those in the year 1987-88. The production of rice, the main *Kharif* crop, at 63.8 million tonnes during 1988 *Kharif* was about 15.1 million tonnes or 31.0 per cent higher than the 1987 *Kharif* output of 48.7 million tonnes. Coarsegrains production at 27.1 million tonnes during *Kharif* 1988 was higher by 6.2 million tonnes or 29.7 per cent than the output of 20.9 million tonnes in *Kharif* 1987. Pulses production at 5.6 million tonnes, during *Kharif* 1988, showed a rise of 1.3 million tonnes or 30.2 per cent from the production of 4.3 million tonnes in *Kharif* 1987.

*Rabi* 1988-89 output at 75.1 million tonnes showed an increase of 10.6 million tonnes or 16.4 per cent over the *Rabi* 1987-88 season output of 64.5 million tonnes and was higher than the earlier peak *Rabi* production of 65.2 million tonnes in 1985-86. The production of wheat, the main *Rabi* crop, at 54.6 million tonnes in 1988-89 was a new record being higher than the previous year's output of 45.1 million tonnes in 1987-88 by 9.5 million tonnes or 21.1 per cent. Besides wheat, the production of *Rabi* pulses at 8.6 million tonnes was also a new record and was higher than the 1987-88 *Rabi* output of 6.7 million tonnes by 1.9 million tonnes or 28.4 per cent. *Rabi* summer rice output at 6.8 million tonnes was less than that of 7.7 million tonnes in the 1987-88 season.

During 1988-89, the output of the major commercial crops, viz., oilseeds, sugarcane, cotton, raw jute and mesta, tea and coffee also recorded increases over their previous year's levels. The production of oilseeds especially groundnut, rapeseed/mustard and soyabean, sugarcane, tea and coffee recorded new peaks. Sugarcane production estimated at 204.6 million tonnes was higher by 7.9 million tonnes than the previous peak production of 196.7 million tonnes during 1987-88. Oilseeds production at 18.2 million tonnes during 1988-89 was higher than the previous year's output of 12.4 million tonnes by 5.8 million tonnes or 46.8 per cent. The previous peak level of oilseeds production at 12.9 million tonnes was attained in 1984-85. Tea output at 700.3 million kgs was a new record and was higher by 26.0 million kgs. or 3.9 per cent than the earlier peak of 674.3 million kgs, recorded in 1987-88. Coffee output also set a new peak at 215 million kgs,




which was higher by 19.9 million kgs, than the previous record production of 195.1 million kgs achieved in 1984-85. In 1987-88, coffee production had declined to 123 million kgs, from 192.3 million kgs, in 1986-87. The production of raw cotton at 8.69 million bales during 1988-89 was larger than that in the previous two years. Though higher than the 1987-88 output of 6.38 million bales by 2.31 million bales or 36.2 per cent, production of raw cotton during 1988-89 was marginally lower than the peak level of 8.73 million bales achieved in 1985-86. Raw jute and mesta production in 1988-89 at 7.70 million bales was higher by 0.92 million bales or 13.6 per cent than the 1987-88 output of 6.78 million bales but considerably lower than the peak level of 12.65 million bales achieved in 1985-86.

*Availability of foodgrains*

As a result of severe drought in 1987-88, there was a fall in the foodgrains production during the year, with the result the net availability of foodgrains in the calendar year 1988 declined by 4.6 per cent to 128.4 million tonnes from 134.6 million tonnes in 1987. This fall was mainly due to a decline of 5.0 million tonnes in foodgrains production during 1987-88. According to the population estimates of the Expert Committee on Population Projections appointed by the Planning Commission, the population in 1988 was 796.6 million as against 781.4 million in 1987. According to these projections, the per capita net availability of foodgrains during 1988

was lower at 441.4 grams per day compared with 472.1 grams per day in the year 1987. Per capita net availability per day of both cereals and pulses declined to 408.2 grams and 33.2 grams in 1988 from 436.2 grams and 35.9 grams, respectively, in 1987. With the bumper foodgrains production in the year 1988-89, the per capita availability of both cereals and pulses during 1989 is expected to improve substantially (Table III-3).

*Public Distribution System (PDS)*

The Public Distribution System (PDS), functioning through a wide network of fair price/ration shops, aims primarily at supplying foodgrains to the consumers, particularly the vulnerable sections of the population, at reasonable prices. In view of this, strengthening and expansion of the PDS has been made as an important point of action in the revised 20-Point Programme, 1986. Further, the PDS has also been added as a new item in the Minimum Needs Programme in the Seventh Five-Year Plan from 1987-88 onwards. The programme is meant to assist in raising living standards and in reducing regional disparities in development.

During the year 1988-89, special emphasis was given to expand further the network of fair price shops and issuance of ration cards to all, especially in the unserved and under-served areas. During 1988-89, against the target of 4,387 shops, 4,307 fair price shops were opened upto December 31, 1988. The total number of fair price shops operating in the country had increased to 3.50 lakhs in September 1988 from 3.43 lakhs at the end of December 1987. Of the total number of fair price shops, about 28 per cent of the fair price shops are run by co-operatives and nearly 79 per cent of them are functioning in rural areas.

Under the PDS, the responsibility for procurement and supply of seven key essential commodities, viz., wheat, rice, levy sugar, imported edible oils, controlled cloth, kerosene and soft coke has been assigned to Government agencies such as the Food Corporation of India (FCI), State Trading Corporation (STC), National Co-operative Consumers' Federation (NCCF), Coal India Ltd and various public sector oil companies and these are entrusted with the task of supplying these commodities at Central Issue Prices which are determined by the Central Government. It is the responsibility of the Central Government to procure and store these commodities at the Central Government's godowns and to transport them for distribution under the PDS. The responsibility of the State Governments and Union Territory Administrations is to lift these commodities from Central godowns mills and distribute them to consumers through the network of fair price shops. Proper monitoring, inspection and enforcement are the responsibilities of the State Governments and Union Territories.

*Distribution of Foodgrains*

In the calendar year 1988, 18.31 million tonnes of foodgrains comprising 9.53 million tonnes of rice, 8.57 million tonnes of wheat and 0.21 million tonnes of coarsegrains were distributed through PDS (inclusive of foodgrains issued under Poverty Alleviation Programmes like NREP, RLEGP, EGS, etc.) as against 18.57 million tonnes comprising 9.70 million tonnes of rice, 8.75 million tonnes of wheat and 0.12 million tonnes of coarse cereals in the calendar year 1987. In addition, the FCI continued to sell limited quantities of wheat in the open market. Under this Scheme, the FCI sold 1.67 million tonnes during 1988 as against 3.90 million tonnes during 1987. During the first half of 1989, i.e., January-June 1989, foodgrains distribution aggregated 8.43 million tonnes consisting of 4.23 million tonnes of rice, 4.12 million tonnes of wheat and 0.08 million tonnes of coarsegrains. During the corresponding period of 1988, total foodgrains distribution was of the order of 11.15 million tonnes, consisting of 4.97 million tonnes of rice, 6.11 million tonnes of wheat and 0.07 million tonnes of coarsegrains (Table III-4).

*Procurement and buffer stocks*

Procurement is one of the main planks of food policy. It serves the dual purpose of ensuring remunerative prices to farmers for their produce and distribution of foodgrains at controlled prices to the weaker sections of the population. The stocks of foodgrains procured are also utilised for building up buffer stocks. The price support operations were undertaken as usual by the Food Corporation of India and State agencies. In keeping with the policy of providing price support for major foodgrains, the Government continued to purchase foodgrains of prescribed specification offered by producers at the support prices with a view to avoid distress sales and ensure stability in farm prices. The foodgrains procured by the Government agencies are utilised for (i) distribution under the PDS, (ii) sales to roller flour

**Table III-3 : Availability of Foodgrains**

(Million tonnes)

| Year (January to December) | Gross output | Net output | Net imports | Change in Government stocks | Net availability | Per capita net availability per day (in gms) | | | Procurement | Public Distribution* |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Cereals | Pulses | All Foodgrains | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 1981 | 129.6 | 113.4 | 0.5 | -0.2 | 114.1 | 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 | -0.4 | +2.7 | 124.2 | 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 | 19.6 | 20.0 |
| 1987 | 143.4 | 125.5 | -0.4 | -9.5 | 134.6 | 436.2 | 35.9 | 472.1 | 15.7 | 22.5 |
| 1988 | 138.4 | 121.1 | 1.9 | -5.4 | 128.4 | 408.2 | 33.2 | 441.4 | 14.2 | 20.0 |
| 1989£ | 171.6 | 150.2 | — | +1.2$ | 149.0 | 460.9 | 41.9 | 502.8 | 12.3@ | 8.4@ |

*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 estimate 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.

£ : Preliminary Estimates

@ : January-June 1989

$ : Change in stocks : end–June 1989 over end–June 1988

*Source :* Economic Survey, 1988-89

**Table III-4 : Total Distribution of Foodgrains (Centre + States + NREP + EGS, etc.)**

(Million tonnes)

| Year | Rice | | | Wheat | | | | | Coarse grains PDS | Total Food-grains distri-bution (4+9+10) |
|---|---|---|---|---|---|---|---|---|---|---|
| | PDS | NREP/ RLEGP/ EGS, etc. | Total (2+3) | PDS | NREP/ RLEGP/ EGS, etc. | Roller Flour Mills | Open market sales by FCI* | Total (5+6+7+8) | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 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 | 0.16 | 3.00 | — | 8.12 | 0.23 | 16.20 |
| 1984 | 6.63 | 0.10 | 6.73 | 3.26 | 0.10 | 3.14 | — | 6.50 | 0.09 | 13.32 |
| 1985 | 7.12 | 0.11 | 7.23 | 3.24 | 0.24 | 5.00 | 0.64 | 9.12 | 0.09 | 16.44 |
| 1986 | 8.32 | 0.23 | 8.55 | 4.54 | 1.62 | 2.50 | 2.49 | 11.15 | 0.29 | 19.99 |
| 1987 | 9.15 | 0.55 | 9.70 | 5.81 | 2.94 | - | 3.90 | 12.65 | 0.12 | 22.47 |
| 1988@ | 9.25 | 0.28 | 9.53 | 7.53 | 1.04 | — | 1.67 | 10.24 | 0.21 | 19.98 |
| **January-June** | | | | | | | | | | |
| 1988 | 4.77 | 0.20 | 4.97 | 3.92 | 0.77 | — | 1.42 | 6.11 | 0.07 | 11.15 |
| 1989@ | 4.15 | 0.08 | 4.23 | 3.39 | 0.19 | — | 0.54 | 4.12 | 0.08 | 8.43 |

@ : Provisional
* : Food Corporation of India started open sales of wheat from November 15, 1985. These sales were, however, suspended during the period April 1 to July 3, 1989.
PDS : Public Distribution System
NREP : National Rural Employment Programme
RLEGP : Rural Landless Employment Guarantee Programme
EGS : Employment Guarantee Scheme

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

mills for conversion into wheat products and (iii) building up of buffer stocks. Since 1985-86 marketing season, the National Agricultural Cooperative Marketing Federation (NAFED), has been designated as the nodal agency for procurement of coarse cereals.

The policy of free movement of foodgrains throughout the country continued during 1988-89 also. There was no restriction on the movement of levy-free rice and wheat throughout the country. Inter-State movement of paddy was, however, banned by certain State Governments to maximise procurement of rice and its availability within the State.

On account of wide-spread drought in the country during 1987-88 and the consequent increase in pressure on the public distribution system, the public stocks of rice came down significantly. Keeping in view the low stocks of rice with the public agencies, all efforts were made to maximise procurement during 1988-89 *Kharif* marketing season. With this end in view, the State Governments were advised to take all measures for maximising procurement of paddy/rice by strictly enforcing regulatory measures. Considering the favourable climatic conditions and early harvesting of paddy during 1988-89, the procurement season was advanced by 15 days in some States. Also, with a view to checking evasion of levy by rice millers and traders, levy on basmati rice was re-introduced from 1988-89 *Kharif* marketing season. However, in order to ensure that there was no decline in basmati export and no hardship or harassment to the exporters of basmati rice, it was decided to exempt from levy basmati rice meant for exports as well as the brokens upto 15 per cent left over. With a view to raising procurement, some of the State Governments banned movement of paddy outside their States, and some State Governments also raised the levy percentages, e.g., West Bengal from 40 to 50. Bihar Government decided to impose a levy.

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

(Million tonnes)

| Date | Buffer Stock Total | Size of Operational Stocks | | | Total |
|---|---|---|---|---|---|
| | | Wheat | Rice | Total | |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 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 |

Aggregate foodgrains stocks at end-June 1989 stood at 13.05 million tonnes (comprising 3.60 million tonnes of rice, 9.43 million tonnes of wheat and 0.02 million tonnes of coarsegrains) as compared with 11.90 million tonnes at end-June 1988 (comprising 4.16 million tonnes of rice, 7.55 million tonnes of wheat and 0.19 million tonnes of coarsegrains).

*Commodity-wise review*

**Rice**

Rice is a staple food of the vast majority of the Indian population and is normally cultivat-

ed in an area of about 41 million hectares, most of which is cultivated in the *Kharif* season. *Rabi* summer rice is grown in the country in about 2 million hectares and the major States growing this crop are Andhra Pradesh, West Bengal, Orissa, Karnataka and Tamil Nadu. Rice production during 1988-89 at 70.6 million tonnes which is a new record showed a rise of 14.2 million tonnes or 25.2 per cent from the level of 56.4 million tonnes in 1987-88 and also exceeded the target of 68.0 million tonnes. Rice production had declined during 1987-88 due to drought from the level of 60.6 million tonnes in 1986-87 and the previous peak level of 63.8 million tonnes achieved in 1985-86.

With a view to augmenting rice production in the country, a Centrally sponsored Special Rice Production Programme has been started since *Kharif* 1986 for increasing production and productivity in the Eastern States. The scheme during 1988-89 was under implementation in 439 selected blocks in seven States : Assam (37), Bihar (118), Eastern Madhya Pradesh (40), Orissa (63), Eastern Uttar Pradesh (102), West Bengal (70) and Tripura (9). In Tripura, the scheme has been introduced only from 1988-89.

Under the Programme, emphasis is laid on the spread of improved rice production technology through training of farmers and farm labourers including women and organisation of field demonstrations, etc. Besides, inputs like seeds, fertilisers, improved farm implements, plant protection equipment and pesticides are made available to poor farmers at subsidised cost. The intensive efforts made under the programme continued to receive attention during 1988-89. The Seventh Five-Year Plan outlay for the project is Rs. 105 crores. A matching contribution is made by the concerned State Governments. For 1988-89, an outlay of Rs. 19.5 crores had been provided as the Central share.

Earlier till 1988-89, the expenditure under the scheme was shared equally (50:50) by the Government of India and the concerned States. However, during 1989-90, it has been proposed that the expenditure under the scheme be shared on a 75:25 basis by the Government of India and the concerned States mainly to reduce the financial burden on the latter which have to provide finances for the implementation of Special Foodgrains Production Programme also.

On the recommendation of Commission for Agricultural Costs and Prices (CACP), the procurement prices of paddy for the 1988-89 *Kharif* marketing season were raised to Rs. 160, Rs. 170 and Rs. 180 per quintal for common, fine and superfine varieties, respectively, from Rs. 150, Rs. 154 and Rs. 158 per quintal, respectively, for the corresponding varieties during the 1987-88 season. For the 1989-90 season, the procurement prices have been further enhanced by Rs. 15 per quintal to Rs. 175, Rs. 185 and Rs. 195 per quintal for the common, fine and superfine varieties, respectively (Table III-6). The issue prices of common, fine and superfine varieties of rice supplied through the PDS were raised to Rs. 244, Rs. 304 and Rs. 325 per quintal, respectively, from Rs. 239, Rs. 264 and Rs. 279 per quintal, respectively (Table III-7).

Procurement of rice during the financial year 1988-89 aggregated 7.7 million tonnes compared with 7.0 million tonnes procured during 1987-88. Rice procurement during the 1988-89 *Kharif* marketing season (i.e., from October 1, 1988 to June 30, 1989) at 7.6 million tonnes was higher by 0.8 million tonnes or 11.8 per cent over the corresponding period of 1987-88 (6.8 million tonnes) (Table III-8). However, compared with the procurement of rice at 9.1 million tonnes during the corresponding period of 1986-87, the procurement during the current *Kharif* season (October 1, 1988 to June 30, 1989) was lower by 1.5 million tonnes or 16.5 per cent.

Rice stocks with the Government as at end-June 1989 stood at 3.6 million tonnes compared with 4.2 million tonnes as at end-June 1988 showing a decline of 14.3 per cent over the year.

Distribution of rice through PDS including issue for National Rural Employment Programme (NREP), Rural Landless Employment Guarantee Programme (RLEGP) and Employment Guarantee Scheme (EGS) during the calendar year 1988 aggregated 9.5 million tonnes as against 9.7 million tonnes in the preceding year. During the first six months of 1989 (Janaury to June) 4.2 million tonnes of rice was distributed through PDS including issues for NREP, etc., as against 5.0 million tonnes during the corresponding period of 1988.

**Table III-5 : Basic Data Relating to Major Foodgrains**

(Million tonnes)

| Year | Production | | | Procurement | | | Imports | | | Public Distribution$ | | | Year-end stocks | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Rice | Wheat | Coa-rse-grains | Rice | Wheat | Coa-rse-grains | Rice | Wheat | Coa-rse-grains | Rice | Wheat | Coa-rse-grains | Rice | Wheat | Coa-rse-grains |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 1981-82 | 53.2 | 37.5 | 31.1 | 7.3 | 7.7 | 0.2 | — | 2.2 | — | 7.5 | 7.2 | 0.1 | 5.3 | 7.2 | 0.2 |
| 1982-83 | 47.1 | 42.8 | 27.8 | 7.0 | 8.3 | 0.2 | — | 4.0 | — | 7.9 | 8.1 | 0.2 | 4.7 | 10.8 | 0.1 |
| 1983-84 | 60.1 | 45.5 | 33.9 | 7.7 | 9.3 | 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 | 60.6 | 44.3 | 26.8 | 9.2 | 7.9 | Neg. | — | — | — | 9.7 | 12.7 | 0.1 | 6.5 | 7.6 | 0.1 |
| 1987-88 | 56.4 | 45.1 | 25.9 | 6.9 | 6.5 | 0.2 | — | — | — | 9.5 | 10.3 | 0.2 | 4.6 | 4.7 | 0.1 |
| 1988-89£ | 70.6 | 54.6 | 32.2 | 7.6 | 8.8 | Neg. | 0.7 | 2.0 | — | 4.2 (5.0) | 4.1 (6.1) | 0.1 (0.1) | 3.6 (4.2) | 9.4 (7.6) | Neg. (0.2) |

*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 coarsegrains.

3. Public distribution and year-end stocks relate to calendar year. 1988 calendar year figures are shown against 1987-88 and so on.

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 :* Ministry of Agriculture, Ministry of Food and Civil Supplies, Government of India

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

(Rupees per quintal)

| Commodities | 1983-84 | | 1984-85 | | 1985-86 | | 1986-87 | | 1987-88 | | 1988-89 | | 1989-90 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Minimum Support Price | Procure-ment Price | Minimum Support Price | Procure-ment Price | Minimum Support Price | Procure-ment Price | Minimum Support Price | Procure-ment Price | Minimum Support Price | Procure-ment Price | Minimum Support Price | Procure-ment Price | Minimum Support Price | Procure-ment Price |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| Paddy-Common | | 132 | | 137 | | 142 | | 146 | | 150 | | 160 | | 175 |
| Fine | | 136 | | 141 | | 146 | | 150 | | 154 | | 170 | | 185 |
| Superfine | | 140 | | 145 | | 150 | | 154 | | 158 | | 180 | | 195 |
| Wheat | | 151 | | 152 | | 157 | | 162 | | 166 | | 173 | | 183 |
| Jowar | | 124 | | 130 | | 130 | | 132 | | 135 | | 145 | | 155 |
| Bajra | | 124 | | 130 | | 130 | | 132 | | 135 | | 145 | | 155 |
| Maize | | 124 | | 130 | | 130 | | 132 | | 135 | | 145 | | 155 |
| Ragi | | 124 | | 130 | | 130 | | 132 | | 135 | | 145 | | 155 |
| Barley | 122 | | 124 | | 130 | | 132 | | 135 | | 135 | | 145 | |
| Gram | 235 | | 240 | | N.A. | | 260 | | 280 | | 290 | | 325 | |
| Moong | 250 | | 275 | | 300 | | 320 | | 325 | | 360 | | 400 | |
| Urad | 245 | | 275 | | 300 | | 320 | | 325 | | 360 | | 400 | |
| Tur | 245 | | 275 | | 300 | | 320 | | 325 | | 360 | | 400 | |

* Marketing season relates to October- September for rice and coarsegrains 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 | 25.1.89 | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| **Rice** | | | | | | | | | |
| Common | 175 | 188 | 208 | 217 | 231 | 239 | 239 | 244 | |
| Fine | 177 | 200 | 220 | 229 | 243 | 251 | 264 | 304 | |
| Superfine | 202 | 215 | 235 | 244 | 258 | 266 | 279 | 325 | |
| **Wheat** | w.e.f. 1.4.81 | w.e.f. 1.8.82 | w.e.f. 15.4.83 | w.e.f. 10.8.84 | w.e.f. 1.2.86 | w.e.f. 1.4.86 | w.e.f. 17.7.86 | w.e.f. 1.5.87 | w.e.f. 22.3.88 |
| 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. 16.7.86 | | w.e.f. 1.5.87 | | |
| | | | | | 205 | 205 | 210 | 210 | 240 |
| **Coarsegrains (Jowar, bajra, maize, ragi)** | w.e.f. 1.1.81 | w.e.f. 1.10.81 | w.e.f. 29.12.83 (bajra only) | | | | | | |
| | 106 | 117 | 157 | | | | | | |

w.e.f. : With effect from

*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 | 1988-89 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Upto end-June 1989 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Andhra Pradesh | 1100 | 1629 | 1484 | 1789 | 1573 | 1468 | 1516 | 1449 |
| Haryana | 883 | 706 | 624 | 978 | 1042 | 680 | 319 | 681 |
| Karnataka | 163 | 110 | 145 | 101 | 82 | 121 | 66 | 104 |
| Madhya Pradesh | 368 | 182 | 312 | 361 | 571 | 459 | 279 | 284 |
| Orissa | 130 | 63 | 117 | 112 | 136 | 123 | 67 | 124 |
| Punjab | 3110 | 3252 | 3273 | 4293 | 4177 | 4333 | 3361 | 2852 |
| Tamil Nadu | 575 | 427 | 731 | 807 | 950 | 886 | 571 | 746 |
| Uttar Pradesh | 726 | 559 | 808 | 1121 | 1067 | 1015 | 606 | 1203 |
| West Bengal | 45 | 14 | 80 | 97 | 69 | 49 | 63 | 87 |
| Others | 234 | 105 | 157 | 204 | 168 | 77 | 49 | 70 |
| **Total** | **7334** | **7047** | **7731** | **9863** | **9835** | **9211** | **6897** | **7600** |

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

*Imports and Exports of rice*

During the financial year 1988-89, 6.84 lakh tonnes of rice was imported from Thailand to augment rice stocks which were depleted due to severe drought during the previous year. Under the existing policy, export of basmati rice is allowed under Open General Licence (O.G.L.) subject to the prescribed Minimum Export Price of Rs. 8,000 per tonne (f.o.b.). Export of non-basmati rice was permitted with effect from February 18, 1986 within a limited ceiling.

**Wheat**

Wheat is the most important *Rabi* crop in the country. It occupies about 50 per cent of the area under *Rabi* food crops and contributes about 70 per cent of the total *Rabi* production. The average area under wheat in the country during the last five years has been about 23.4 million hectares. During 1988-89, wheat production reached a new record at 54.6 million tonnes, surpassing the previous peak level of 47.0 million tonnes achieved in 1985-86 and showing a rise of 9.5 million tonnes or 21.1 per cent over the production of 45.1 million tonnes in 1987-88. The target fixed for wheat production in 1988-89 was 52.3 million tonnes. Thus, the actual production was 2.3 million tonnes or 4.4 per cent higher than the targetted production.

The procurement price of wheat was raised by Rs. 7 per quintal from Rs. 166 per quintal for the 1987-88 marketing season to Rs. 173 per quintal for the 1988-89 marketing season. It was further raised by Rs. 10 per quintal to Rs. 183 per quintal for 1989-90 *Rabi* marketing season (Table III-6).

The Government also raised the issue price of wheat for public distribution system by Rs. 9 per quintal with effect from March 23, 1988 and fixed it at Rs. 204 per quintal. The price for open sale of wheat by the FCI was also raised from Rs. 210 to Rs. 240 per quintal with effect from March 22, 1988 (Table III-7).

Wheat procurement during the 1988-89 marketing season (April 1988-March 1989) aggregated 6.53 million tonnes and was lower by 1.35 million tonnes or 17.1 per cent than the procurement of 7.88 million tonnes in 1987-88 season. A major reason for the lower procurement of wheat during the year 1988-89 was attributed to a decline in the production of wheat in 1987-88 and the availability of foodgrains was under pressure due to the spill-over effect of the drought in 1987.

Wheat procurement during the first quarter of 1989-90 (i.e., April 1, 1989 to end-June 1989) was, however, higher at 8.8 million tonnes as against 6.5 million tonnes in the same period last year showing an increase of 2.3 million tonnes or 35.4 per cent. The higher procurement of wheat during the current season was possible because of the record wheat crop as also a record foodgrains crop during 1988-89 and the resultant increase in market arrivals. Besides, Government measures to augment grain stocks also helped in increasing the procurement.

**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 | 1989-90 Upto end-June 1989 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Haryana | 1121 | 1262 | 1399 | 1774 | 1959 | 2339 | 2247 | 1260 | 1980 |
| Madhya Pradesh | 167 | 65 | 53 | 91 | 14 | 6 | Neg. | — | — |
| Punjab | 3768 | 4826 | 5177 | 5012 | 6151 | 6484 | 4419 | 4749 | 5604 |
| Uttar Pradesh | 1496 | 1380 | 1445 | 2152 | 2174 | 1598 | 1152 | 521 | 1068 |
| Others | 43 | 185 | 218 | 271 | 49 | 109 | 62 | 5 | 106 |
| **Total** | **6595** | **7718** | **8292** | **9300** | **10347** | **10536** | **7880** | **6535** | **8758** |

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

The off-take of wheat from the Central Pool during 1988-89 aggregated 8.7 million tonnes as against 12.8 million tonnes during 1987-88. The lower off-take was mainly accounted for by lower open sale of wheat than in the previous year. The off-take of wheat during the quarter April-June 1989 was 1.6 million tonnes as against 2.0 million tonnes during the same period in 1988.

During the calendar year 1988, the total off-take of wheat for the public distribution system and poverty alleviation programmes together aggregated 8.6 million tonnes as against 8.8 million tonnes in 1987 showing a fall of 2.3 per cent. Besides, open market sale of wheat by the FCI totalled 1.7 million tonnes during 1988 as against 3.9 million tonnes in 1987. Thus the total off-take of wheat in 1988 aggregated 10.3 million tonnes compared to 12.7 million tonnes during the calendar year 1987 and was less by 2.4 million tonnes or 18.9 per cent. Further, the off-take of wheat during the period January-June 1989 for PDS and poverty alleviation programmes was 3.58 million tonnes compared with 4.69 million tonnes in the corresponding period of 1988.

Open market sale of wheat upto end-June 1989 was of the order 0.54 million tonnes as against 1.42 million tonnes during the same period of 1988. Thus the total off-take of wheat upto June 1989 was 4.12 million tonnes as compared with 6.11 million tonnes in the corresponding period of 1988. At end-June 1989, the stocks of wheat with the Central and State Government agencies stood at 9.43 million tonnes.

*Imports and exports of wheat*

During the financial year 1988-89, owing to decline in foodgrains production in 1987-88, the Government of India had imported 2.0 million tonnes of wheat from the USA so as to augment the foodgrains stocks which had got depleted due to severe drought and consequent larger off-take.

Under the existing policy, the export of wheat products like maida, suji and wholemeal atta has been allowed within a limited ceiling. During 1988, a total quantity of 92 thousand tonnes of wheat from FCI stock was exported, of which 21 thousand tonnes was to Nepal and 71 thousand tonnes to Iran on a commercial basis. In addition, one thousand tonnes of wheat was gifted to African countries.

**Coarsegrains**

Coarse cereals are important staple food of the rural poor. The important among them are jowar, bajra, maize and barley. Coarse cereals are generally rain-fed crops. Jowar is mainly grown in Maharashtra. Major bajra producing States are Rajasthan, Gujarat and Haryana while, maize is primarily grown in Uttar Pradesh, Rajasthan and Bihar and barley is mainly cultivated in the States of Utter Pradesh, Rajasthan and Haryana. The total area under coarsegrains was about 36 million hectares in 1987-88. Over the years, both production and the area under coarsegrains have declined. In the first three years of the Seventh Plan. production of coarsegrains stagnated at about 26 million tonnes from 31.2 million tonnes in 1984-85 and a record production of 33.9 million tonnes in 1983-84. During 1988-89, the production of coarsegrains aggregated 32.2 million tonnes recording an increase of 6.3 million tonnes or 24.3 per cent over the actual production of 25.9 million tonnes in 1987-88. The target set for coarsegrains production (33.0 million tonnes) for 1988-89, however, could not be reached.

The procurement of coarse cereals is effected by NAFED. Procurement of coarsegrains during the 1988-89 marketing season (i.e., October 1, 1988 to June 30, 1989) totalled 0.4 lakh tonnes against 2.0 lakh tonnes during the corresponding period last season. The off-take of coarse cereals under PDS during 1988 was 2.1 lakh tonnes as compared with 1.2 lakh tonnes in 1987. Coarsegrains stocks with the Central and State Government agencies as at end-June 1989 stood at 0.2 lakh tonnes as compared to 1.9 lakh tonnes as at the end of June 1988.

**Pulses**

Pulses constitute the principal form of protein intake for the large majority of people. The production of pulses, which had reached a peak level of 13.4 million tonnes in 1985-86, declined to 11.7 million tonnes in 1986-87 and further to 11.0 million tonnes in 1987-88. During 1988-89, however, the production of pulses reached a new peak level of 14.2 million

tonnes showing a rise of 3.2 million tonnes or 29.1 per cent over the preceding year. The production also exceeded the target of 13.3 million tonnes by 0.9 million tonnes or 6.8 per cent.

This quantum jump in pulses production has been heartening in view of the stagnation in its production in the past. To augment pulses production in the country, the Government had launched the National Pulses Development Programme (NPDP) in 1986-87.

To augment the availability, the import of pulses has been permitted under OGL. However, import duty on pulses was increased from 10 per cent to 35 per cent with effect from October 3, 1988 in order to regulate imports and enable farmers to get good prices for their produce, specially for preventing the prospect of decline in prices due to the bumper crop during the year. The basic objective of the NPDP is to increase production by adopting location specific technology. This programme is a district-oriented mission and is expected to achieve increased level of productivity within a time frame. For this programme, an amount of Rs. 5 crores representing the Centre's share was sanctioned for 1987-88 and Rs. 6 crores for 1988-89.

Besides, the Government undertook a Special Foodgrains Production Programme 1988-89 - 1989-90 to achieve the targetted levels of production. Under this programme, emphasis was on increasing the production of *arhar* in *Kharif* areas and gram in *Rabi* areas. For this purpose, 20 districts of Uttar Pradesh, Maharashtra, Madhya Pradesh, Gujarat and Karnataka were selected for cultivation of *arhar* while gram cultivation was intensified in 28 districts in the States of Rajasthan, Madhya Pradesh, Bihar, Uttar Pradesh and Haryana. An outlay of Rs. 3.84 crores was earmarked to implement the scheme for increasing area and production of pulses in the identified districts. Both, the thrust programme for pulses production and favourable climatic conditions in 1988-89 season paved the way for a record crop in 1988-89.

**Cotton**

According to the Ministry of Agriculture, cotton production during the 1988-89 season (September-August)is placed at 86.9 lakh bales as compared to the production of 63.8 lakh bales during 1987-88 and the target of 97.8 lakh bales fixed for the season.

The 1988-89 season commenced with the timely sowing of irrigated *Kharif* cotton in the Northern States. The supply of canal water and power was mostly normal. The South-West monsoon also started on time and the sowings of rainfed *kharif* cotton were also normal. In the second half of August, however, there were heavy rains in South Gujarat, Saurashtra, Marathwada, Madhya Maharashtra, Vidarbha, parts of Punjab, Haryana and Uttar Pradesh. These heavy rains resulted in the washing away of 10 to 15 per cent of the area under cotton and resowing had to be done. The crop improved subsequently due to a break in the monsoon.

During the season, there was the usual incidence of pests and necessary control measures were taken. The production of cotton was adversely affected by pests in Gujarat, Karnataka, Andhra Pradesh, Tamil Nadu and Maharashtra. In some districts of Gujarat, the extent of damage was upto 20-25 per cent. In particular, the incidence of whitefly in irrigated tracts of Gujarat and Heliothis in Guntur and Prakasam districts of Andhra Pradesh severely affected the crop during the year.

The estimate by the Cotton Advisory Board (CAB), at its meeting held on June 1, 1989, placed the 1988-89 crop at 102.0 lakh bales as against 90.0 lakh bales in 1987-88. However, subsequently at a meeting held on October 23, 1989, the 1988-89 crop was revised upwards to 106.0 lakh bales. The supply-demand position of cotton during the past few years is presented in Table III-10.

According to the CAB's estimates (October 23, 1989), the 1988-89 season commenced with an opening stock of 18.68 lakh bales as against 20 lakh bales at the commencement of previous year. Inclusive of the season's output of 106.0 lakh bales and imports of cotton by mills under Advance Licensing Scheme and through the Cotton Corporation of India (CCI) for the supply of hank yarn to handloom sector at 2.25 lakh bales, the total availability during the season is placed at 126.9 lakh bales against 113.0 lakh bales last season. On the demand side, mill consumption is expected to increase

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

(Lakh bales of 170 kgs. each)

| Items | SEPTEMBER-AUGUST | | | | |
|---|---|---|---|---|---|
| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89+ |
| 1 | 2 | 3 | 4 | 5 | 6 |
| **I. Supply** | **118.50** | **135.83** | **134.50** | **113.00** | **126.93** |
| 1) Opening stock | 16.00 | 28.83 | 39.50 | 20.00 | 18.68 |
| 2) Production | 101.50 (85.07) | 107.00 (87.30) | 95.00 (69.05) | 90.00 (63.82) | 106.00 (86.86) |
| 3) Imports | 1.00 | — | — | 3.00 | 2.25 |
| **II. Demand** | **94.10** | **96.17** | **115.17** | **97.93** | **105.00** |
| 1) Mill consumption | 86.50 | 86.57 | 95.20 | 92.00 | 98.00 |
| 2) Ex-factory consumption@ | 4.65 | 5.10 | 5.50 | 5.50 | 6.00 |
| 3) Exports | 2.95 | 4.50 | 14.47 | 0.43 | 1.00 |
| **III. Closing Stock** | **24.40** | **39.66** | **19.33** | **15.07** | **21.93** |

*Notes :* 1. Figures in brackets represent estimates by the Ministry of Agriculture. The Ministry's targets for production were as follows : 1984-85 (85.0-88.0 lakh bales), 1985-86 (86.0 lakh bales), 1986-87 (88.0 lakh bales), 1987-88 (88.0 lakh bales) and 1988-89 (97.8 lakh bales).

2. 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 Charkha, Surgical Dressing Factories and Waste Spinning Units.

+ : As per CAB's meeting held on October 23, 1989.

from 92.0 lakh bales in the previous season to 98.0 lakh bales in the 1988-89 season. While consumption by non-mill sector is placed at 6.0 lakh bales as against 5.50 lakh bales estimated in the 1987-88 season, the exports are estimated at 1.0 lakh bales. Thus, the total demand during 1988-89 is placed at 105.0 lakh bales as against 97.9 lakh bales in the previous season. The closing stocks at the end of the 1988-89 season were placed at 21.9 lakh bales as against 15.07 lakh bales estimated at the end of the previous season.

The Government's price policy for the 1988-89 season continued to be guided by the twin objectives of assuring remunerative prices to farmers and of ensuring at the same time reasonable prices to the user industry. For the 1988-89 season, the minimum support prices for two basic varieties of cotton, viz., F-414/H-777 and H-4 were fixed by the Government on the lines recommended by the CACP. For other major varieties of cotton, the prices were fixed by a committee under the Chairmanship of the Textile Commissioner, taking into consideration the prices recommended by the CACP. The minimum support prices for the 1988-89 marketing season for the two basic varieties, viz., F-414/H-777 in the medium staple group and H-4 in the long staple group were raised to Rs. 500 per quintal and Rs. 600 per quintal, respectively, against Rs. 440 per quintal and Rs. 550 per quintal, respectively, during the 1987-88 season. For the 1989-90 marketing season, the minumum support prices of these two varieties were further increased to Rs. 540 per quintal and Rs. 650 per quintal on April 5, 1989, respectively. The minimum support prices of these two varieties for the 1989-90 season were again increased by the Government on October 24, 1989 to Rs. 570 per quintal and Rs. 690 per quintal, respectively.

*Role of Procurement Agencies*

During the 1988-89 season, the CCI continued its purchase operations to (1) meet the requirements of the textile mills as also the private trade (on a commercial basis), (2) meet the demand of overseas buyers against the export quota allocated by the Government and (3) render price support to cotton growers.

During the 1988-89 season, the CCI purchased 5.80 lakh bales as against 6.50 lakh bales during the same period in the previous year. The entire quantity of 5.80 lakh bales was purchased on a commercial basis.

bonus payment to growers which was given to them in the previous year.

Under the Scheme, during the 1988-89 season, MSCCGMF procured 11.77 lakh bales

**Table III-11 : Purchases of Cotton by the Cotton Corporation of India (CCI) and under the Maharashtra State Monopoly Procurement Scheme**

(Lakh bales of 170 kgs. each)

| Agency | SEPTEMBER-AUGUST | | | | |
|---|---|---|---|---|---|
| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
| CCI | 6.7 | 15.6 | 8.2 | 6.5 | 5.80 |
| Maharashtra Monopoly Procurement Scheme | 17.9 | 30.0 | 13.0 | 12.6 | 11.77 |

In Maharashtra, the State-owned agency, viz., the Maharashtra State Co-operative Cotton Growers' Marketing Federation (MSCCGMF) undertakes procurement operations under the Monopoly Procurement Scheme (MPS). The CCI does not make any purchases in Maharashtra. The MSCCGMF purchases cotton at the guaranteed prices fixed by the State Government from time to time. For the 1988-89 season,the guaranteed prices were the same as the support prices announced by the Union Government. However, with a view to preventing the outflow of cotton from the State, it became necessary for the Government to give advance additional price (bonus) so that the cultivators can tender the cotton under the Scheme instead of taking it out of the State. Initially, on November 30, 1988, the bonus announced was Rs. 120 per quintal for Superior and Fair Average Quality and Rs. 60 per quintal for Fair grades. This was further enhanced on December 21, 1988 for Superior and FAQ grades as follows : DCH-32 (Rs. 145 per quintal), H-4 (Rs. 70), MCU-5 (Rs. 65), Medium Staple and Short Staple (Rs. 45).

The MPS, which was to expire on June 30, 1989, has been extended for a period of one year upto June 30, 1990. The Central Government, while clearing the extension,, laid down that MSCCGMF will procure cotton at support prices fixed by the Central Government. Moreover, no bank finance will be available to the State Government or to the Federation for

against 12.6 lakh bales during the same period last year.

*Intensive Cotton Development Programme (ICDP)*

During 1988-89, the Centrally-sponsored Intensive Cotton Development Programme (ICDP) was continued in Andhra Pradesh, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Punjab, Karnataka and Uttar Pradesh. A special drive has been undertaken to produce an additional 2 lakh bales of medium staple and 4 lakh bales of long staple cotton by the terminal year of the Seventh Plan (1989-90). To achieve this objective, plans were drawn up to distribute 33.88 lakh quintals of certified seeds of medium and long staple varieties, establish 16 Kapas grading centres and lay out 1200 demonstration plots.

In view of the reduction in cotton output after 1985-86, efforts are being made to increase production through the spread of improved technology, in both the rainfed and established irrigated areas. Besides, efforts are also being made to bring additional area under irrigated and hybrid cotton.

*Cotton : Imports and Exports*

During the 1987-88 season,due to fall in production and rise in prices,the Government of India had permitted exporting textile mills to

import cotton against the export of yarn, cloth and made-ups under the Advance Licensing Scheme and under the Scheme of Duty Free Import of Cotton (1 lakh bales), through the CCI for supply of hank yarn to the handloom sector. According to the CAB, such imports would be about 2.25 lakh bales during 1988-89 as against 3.00 lakh bales in 1987-88.

According to the CAB, the exports of cotton declined from 14.47 lakh bales in 1986-87 to only 0.43 lakh bales during 1987-88. Exports during 1988-89 were estimated to be around 1.00 lakh bales. For the 1988-89 season, the Government of India announced an export quota of 2 lakh bales of cotton consisting of staple cotton (1 lakh bales), Bengal Deshi (1 lakh bales) and yellow pickings (10,000 bales). In the 1987-88 season, an export quota of only 5000 bales of Bengal Deshi cotton, was released in favour of the CCI for exports.

**Raw Jute and Mesta**

The Ministry of Agriculture estimated the raw jute and mesta production during 1988-89 (July-June) higher at 77.0 lakh bales (66.2 lakh bales of jute and 10.8 lakh bales of mesta) against the production of 67.8 lakh bales (58.0 lakh bales of jute and 9.8 lakh bales of mesta) in the preceding season. The production in 1988-89 was 13.6 per cent higher than that in the preceding year but was 39.1 per cent lower than the record production of 126.5 lakh bales in 1985-86. The production target of raw jute and mesta for 1988-89 was fixed by the Government at 92.0 lakh bales.

The demand and supply position of raw jute and mesta for 1988-89 is estimated by the Office of the Jute Commissioner, Calcutta. According to their estimate, production amounted to 65.0 lakh bales as against 63.0 lakh bales in the 1987-88 season. Despite lower estimated production, the supply position appeared to be comfortable due to the large carry-over stocks of 35.0 lakh bales. Thus, total availability during 1988-89 was placed around 100.0 lakh bales as against 108.0 lakh bales in the preceding season. On the demand side, mill consumption was placed at 78.0 lakh bales as compared with 69.5 lakh bales in the preceding season. With village level consumption estimated at 4.0 lakh bales as against 3.0 lakh bales in the preceding season and exports estimated at 50 thousand bales, same as in the preceding season, the total demand during the season was expected to be around 82.5 lakh bales in 1988-89 as against 73.0 lakh bales in 1987-88. The closing stock at the end of the 1988-89 season would, therefore, be around 17.5 lakh bales which is considerably lower than that at the end of the previous season. (Table III-12).

Notwithstanding the comfortable supply position, there was a considerable pressure on prices during the season due to decline in arrivals of raw jute and good mill demand. The price of raw jute (W-5 variety), which was quoted in Calcutta at Rs. 380 per quintal at the commencement of the 1988-89 season, started firming up from January 1989 and reached Rs. 520 per quintal by end-February 1989 and continued thereafter around Rs. 500-540 per quintal and reached the high level of Rs. 620 per quintal in June 1989 and closed for the season at Rs. 605 per quintal.

For the year 1989-90, the Government changed the basic variety for fixation of minimum support price for raw jute from W-5 to TD-5 grade, which is the early-sown jute in Assam and has a wider adoption in the industry. The Minimum Support Price for TD-5 grade of raw jute in Assam for the 1989-90 season was fixed at Rs. 280 per quintal higher from the previous level of Rs. 262.50 per quintal announced for 1988-89 season.

During the 1988-89 season the Jute Corporation of India (JCI) purchased 6.8 lakh bales of raw jute mostly under its commercial operation on account of National Jute Manufactures Corporation (NJMC) which runs six nationalised jute mills. During the 1987-88 season, the JCI purchased 5.4 lakh bales of raw jute; all of it under its price support operations.

The Committee on Raw Jute Buffer Stocks decided in its meeting held on January 24, 1989, to release 2.63 lakh bales of raw jute, i.e., 50 per cent of the 5.26 lakh bales of buffer stock, in a phased manner during February-April 1989.

There was no restriction on stock holding/purchase of jute by mills in the country from July 1, 1985. However, with a view to

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

(In lakh bales of 180 kgs. each)

| Item | JULY-JUNE | | | | |
|---|---|---|---|---|---|
| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 (Estimated) |
| 1 | 2 | 3 | 4 | 5 | 6 |
| **I. Supply** | | | | | |
| 1. Opening stock | 9.50 | 7.50 | 45.00* | 45.00 | 35.00 |
| 2. Imports | 3.00 | — | — | — | — |
| 3. Crops | 73.43 (77.87) | 127.00 (126.46) | 75.00 (86.30) | 63.00 (67.80) | 65.00 (77.03) |
| 4. Other sources£ | — | — | 7.00 | — | — |
| **Total Supply (1+2+3+4)** | **85.93** | **134.50** | **127.00** | **108.00** | **100.00** |
| **II. Demand** | | | | | |
| 1. Mill consumption | 74.33 | 82.68 | 77.60 | 69.50 | 78.00 |
| 2. Exports | — | 1.00 | 0.50 | 0.50 | 0.50 |
| 3. Other domestic consumption | 4.00 | 4.00 | 4.00 | 3.00 | 4.00 |
| **Total Demand (1+2+3)** | **78.33** | **87.68** | **82.10** | **73.00** | **82.50** |
| **III. Closing stock (I-II)** | **7.60 or 7.50** | **46.82 or 46.80** | **44.90 or 45.00** | **35.00** | **17.50** |

* Opening stock figures for the year 1986-87 are taken according to the latest balance sheet issued by the 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. The Ministry's targets for production were as follows : for 1984-85 : 85.0, 1985-86 : 86.0, 1986-87 : 85.0, 1987-88 : 86.0 and 1988-89 : 92.0 lakh bales.

*Source :* Jute Commissioner's Office.

**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 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Total Purchases | 8.60 | 8.39 | 10.15 | 28.24 | 22.24* | 5.40 | 6.84 |
| *of which:* | | | | | | | |
| Price Support Operations | 6.58 | — | — | 26.83 | 22.22 | 5.40 | — |
| Commercial Operations | 2.02 | 8.39 | 10.15 | 1.41 | — | — | 6.84 |

* : Revised.

*Source :* Jute Corporation of India

preventing speculation in raw jute prices and hoarding of raw jute and easing the supply position, the Jute Commissioner promulgated the Maximum Stock Control Order under the Jute (Licensing and Control) Order 1961 with immediate effect from February 22, 1989, to be valid till April 30, 1989. Under the order no jute mill was allowed to build up raw jute

stocks in mills, upcountry godowns or keep in transit a quantity in excess of 10 weeks' consumption requirements. Mills having stocks in excess of 10 weeks' requirements would have to suspend fresh purchases so as to reduce their holdings to that level. Mills with less than 10 weeks' requirement would be permitted to make fresh purchases up to the ceiling. All mills were required to furnish to the Jute Commissioner's Office by February 27, 1989, details of stocks, purchase and consumption levels of raw jute as on February 22, 1989. Thereafter, mills would have to send the above details on both, a weekly and monthly basis. However, the order was not applicable to the delivery of raw jute made by the JCI against release replenishment under the buffer stock scheme, purchase against B. Twills linked-contracts and other modes of sale and in relation to stocks of imported jute.

For 1989-90, the target for raw jute and mesta production has been fixed at 95 lakh bales comprising 74 lakh bales of jute and 21 lakh bales of mesta against the projected consumption of 85-86 lakh bales.

*Special Jute Development Programme*

A Centrally-sponsored Intensive Jute Development Programme (IJDP) was launched in the year 1972-73 to increase productivity and improve quality of jute fibre.The scheme is in operation in Andhra Pradesh, Assam,Bihar, Meghalaya, Orissa, Tripura, Uttar Pradesh and West Bengal. From the year 1987-88, a new programme, viz., Special Jute Agricultural Development Programme (SJDP) was launched with a view to increase production and improve the quality of raw jute.

During 1988-89, the programme envisaged the coverage of 274 thousand hectares under jute, 25 thousand hectares under mesta and 30 thousand hectares under sannhemp. However, due to the non-availability of certain critical inputs in West Bengal, the target had to be scaled down and only 154 thousand hectares could be brought under the programme. About 8,800 quintals of improved seeds were distributed in the programme area during the year. Besides, the programme included organisation of block demonstration for rapid dissemination of the latest and improved production technology for jute and mesta, creation of additional retting facilities for improvement of the quality of fibre, promotion of fungal culture and distribution of seed drill, wheel hoes, sprayers and decorticators.

With the implementation of SJDP, the Centrally-sponsored Intensive Jute Development Programme (IJDP) was discontinued, as all its activities are proposed to be taken care of by the SJDP. The SJDP will continue to be in operation in 1989-90 also and it is proposed to bring an area of 276 thousand hectares under jute and 26 thousand hectares under mesta under the programme during the year.

**Oilseeds**

During the year 1988-89, oilseeds production in the country rose to a new record level of 182.0 lakh tonnes showing a rise of 58.2 lakh tonnes or 47.0 per cent over the production of 123.8 lakh tonnes in the preceding year. The target for the year was fixed at 156.5 lakh tonnes. The record production was due to excellent monsoon in major oilseeds growing States and the efforts of the Technology Mission on Oilseeds in implementing various oilseeds development programmes.

*Kharif* 1988 oilseeds crop is placed at 103.3 lakh tonnes as against the target of 85.0 lakh tonnes and the production of 62.8 lakh tonnes in the preceding year. The *Rabi* oilseeds crop is placed at 78.7 lakh tonnes as against the target of 71.0 lakh tonnes and the production of 61.0 lakh tonnes during 1987-88. The output estimate shows an increase of 64.5 per cent for *Kharif* oilseeds crop and 29.0 per cent for *Rabi* output over the preceding year.

During 1988-89, the production of groundnut, rapeseed/mustard, sesamum and soyabean achieved new record levels. The production of groundnut and rapeseed/mustard was estimated at 95.5 lakh tonnes and 46.0 lakh tonnes, respectively, during 1988-89 as against 56.8 lakh tonnes and 33.7 lakh tonnes, respectively, during 1987-88. (Table III-14).

*Support prices*

In order to ensure an assured return to the farmers for their produce, the Government, on the recommendations made by CACP and in consultation with the State Governments, announced higher minimum support prices of major oilseeds for the 1989-90 marketing

**Table III-14 : Output of Oilseeds**

(lakh tonnes)

| Item | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| **Target** | **130.00** | **136.00** | **148.00** | **140.00** | **156.50** |
| **Production** | **129.46** | **108.32** | **112.70** | **123.78** | **181.99** |
| *of which :* | | | | | |
| a) Kharif | 70.48 | 59.52 | 63.79 | 62.77 | 103.27 |
| b) Rabi | 58.98 | 48.80 | 48.91 | 61.01 | 78.72 |
| Groundnut (in shell) | 64.36 | 51.21 | 58.75 | 56.73 | 95.45 |
| Rapeseed Mustard | 30.73 | 26.81 | 26.05 | 33.70 | 45.99 |
| Sesamum | 5.20 | 5.01 | 4.48 | 5.62 | 6.71 |
| Safflowerseed | 5.15 | 3.48 | 3.53 | 4.51 | 4.35 |
| Nigerseed | 1.48 | 1.92 | 1.31 | 1.75 | 1.78 |
| Sunflowerseed | 4.40 | 2.81 | 4.20 | 6.10 | 4.28 |
| Soyabean | 9.55 | 10.24 | 8.91 | 9.80 | 15.17 |
| Linseed | 3.89 | 3.76 | 3.17 | 3.72 | 4.07 |
| Castorseed | 4.70 | 3.08 | 2.30 | 1.85 | 4.19 |

*Source :* Ministry of Agriculture, Government of India.

season. The minimum support prices for 1989-90 are higher by 6-11 per cent than those for 1988-89. The NAFED was designated as the agency for support price operations. In addition to NAFED, the National Dairy Development Board (NDDB) has also been designated as the market intervention agency for ensuring that the prices of edible oils remain at reasonable levels. The support prices announced for the 1989-90 marketing season and for the previous seasons are presented in Table III-15.

*Imports of Edible Oils*

In view of the bumper oilseeds production during 1988-89, the Government decided to cut down imports substantially from the high level of the previous year. However, since the demand-supply gap of indigenous edible oils still continues, imports of edible oils will have to be made as a short-term measure, till indigenous edible oil production increases further. A major portion of imports of edible oils and their

**Table III-15 : Support Prices for Oilseeds (Marketing Year)**

(Rupees per quintal)

| Oilseeds (Fair Average Quality) | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 | 1989-90 |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Groundnut-in-shell | 315 | 340 | 350 | 370 | 390 | 430 | 470 |
| Soyabean (Black) | 230 | 240 | 250 | 255 | 260 | 275 | 305 |
| Soyabean (Yellow) | 255 | 265 | 275 | 290 | 300 | 320 | 350 |
| Sunflower seed | 275 | 325 | 335 | 350 | 390 | 450 | 500 |
| Rapeseed/Mustard* | 360 | 360 | 385 | 400 | 415 | 430 | 460 |
| Toria | N.A. | N.A. | N.A. | N.A. | 375 | 400 | 430 |
| Safflowerseed* | N.A. | N.A. | N.A. | 400 | 415 | 415 | 440 |

* : For rapeseed/mustard and safflowerseed the support prices relate to 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.

distribution is being undertaken through the STC, while a small quantity of edible oils is being imported through NDDB mostly as gift with some quantity on a commercial basis.

As there was a substantial increase in the production of indigenous oils during 1988-89, the need for edible oils imports during the year was of a lower order. Edible oil imports during the financial year 1988-89 were 11.7 lakh tonnes as compared with imports of 19.7 lakh tonnes in 1987-88. Details of edible oil imports are presented in Table III-16.

**Table III-16 : Imports of Edible Oils**

| Year | Quantity (Lakh tonnes) | Value (Rs. crores) |
|---|---|---|
| 1. | 2 | 3 |
| **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 | 18.19 | 1060.95 |
| 1988-89* | | |
| (Upto April 1989) | 2.59 | 185.04 |
| **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 | 1309.48 |
| 1985-86 | 10.79 | 768.78 |
| 1986-87 | 13.06 | 526.48 |
| 1987-88 | 19.67 | 947.77 |
| 1988-89 * | 11.66 | 768.52 |

*Provisional.

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

### *Allocation of Imported Edible Oils under PDS and to Vanaspati Industry*

To supplement the supply of indigenous edible oils and to contain rising trend in prices in the open market, imported edible oils are being allocated to States and Union Territories by the STC for distribution to consumers under PDS as also to the vanaspati industry. However, the allocation of imported edible oils is adjusted according to the busy and lean seasons. The State Governments were advised to take adequate steps to ensure the proper distribution of imported edible oils (allocated to them) to consumers under the PDS.

Other edible oils such as soyabean oil, rapeseed oil and neutralised palm oil were allocated for the manufacture of vanaspati to a limited extent of their requirements varying from time to time according to the availability of indigenous oils. In addition to this, under the PDS, RBD palm oil, RBD Palmolein, refined rapeseed oil and refined soyabean oil were allocated to the State Governments and consumers have accepted these oils to a large extent. The Government has also decided to supply the maximum quantity of imported edible oils for PDS in small packs of 5 kgs. or less in order to prevent adulteration, leakage and wastage. The Hindustan Vegetable Oils Corporation, a public sector undertaking, has been mainly entrusted with this job.

Allocation of imported edible oils to the vanaspati industry remained unchanged at the level of 80 per cent of its requirements till end-November 1988. However, the oil allocation policy for the vanaspati industry was reviewed by an Inter-Ministerial Committee during 1988. It was decided that with effect from August 22, 1988, the allocation of imported oils to vanaspati industry would be 40 per cent at a concessional rate of Rs. 15,000 per tonne and another 40 per cent at Rs. 19,000 per tonne (commercial rate). Under this scheme, sales tax and road freight charges are reimbursed to the vanaspati manufacturers. In view of the comfortable supply position of indigenous edible oils during 1988-89, the Government reviewed the existing policy about the allocation of imported oils to the vanaspati industry, with the twin objectives of enabling the farmers to get attractive prices for their produce and also reducing dependence on imported oil. Thus with effect from December 1, 1988, Government withdrew the facility of 40 per cent allocation of imported oils at a concessional rate of Rs. 15,000 per tonne and decided to allocate imported edible oils to the vanaspati industry at the open window rate of Rs. 19,000 per tonne without any reimbursement of freight, sales tax, etc. With these change in policy, the voluntary price discipline on vanaspati prices also ceased. Details of allocation of imported edible oils for PDS and to the vanaspati industry during the past few years and during the current year so far are given in Table III-17.

**Table III-17 : Allocation of Imported Edible Oils (Month-wise)**

(In tonnes)

| Month | States/Union Territories for PDS | | | Vanaspati units | | |
|---|---|---|---|---|---|---|
| | 1986-87 | 1987-88 | 1988-89 | 1986-87 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| July | 70035 (9905) | 70400 (20000) | 83080 (26945) | 67356 | 54420 | 69788 |
| August | 94580 (12000) | 136350 (21350) | 94840 (35510) | 74295 | 63463 | 77614 |
| September | 101980 (13000) | 158800 (20400) | 93940 (45310) | 68338 | 70761 | 76833 |
| October | 119930 (13000) | 185900 (20150) | 96940 (43693) | 70214 | 72995 | 69277 |
| November | 81880 (10000) | 189400 (20150) | 86230 (36750) | 49312 | 75031 | 71700 |
| December | 57580 (12900) | 188900 (27350) | 38523 (16170) | 16227 | 76370 | 18201 |
| January | 55980 (14930) | 149120 (27300) | 40673 (16080) | 12797 | 70614 | 16984 |
| February | 55880 (14910) | 100635 (30100) | 38265 (15000) | 31141 | 66512 | 30625 |
| March | 58830 (15210) | 74380 (30510) | 32865 (11630) | 34001 | 75045 | 19027 |
| April | 58830 (21700) | 62320 (30350) | 24155 (7530) | 27876 | 73546 | 24027 |
| May | 58830 (21700) | 64380 (31840) | 24405 (11930) | 41822 | 68713 | 7900 |
| June | 65000 (19900) | 77450 (29040) | 22955 (12050) | 39265 | 75075 | 4100 |
| **Total** | **879335 (179155)** | **1458035 (308540)** | **676871 (278598)** | **532644** | **842545** | **486076** |

*Note :* Figures in brackets indicate supply in small packs.

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

*Other Developments*

During the year, the major thrust of the Government policy was to increase production, improve availability, strengthen supply position and keep a check on the prices of edible oils. Accordingly, Government took a number of measures some of which are listed below:

(1) To enlarge the oil basket for the vanaspati industry, the usage of solvent extracted groundnut and sesamum oil has also been permitted in the manufacture of vanaspati. This would not only accelerate the extraction of groundnut and sesame cake but will also provide a better price for the oil cake and oilseeds resulting in increased benefits to farmers.

(2) In view of the record crop of rapeseed/mustard, use of indigenous expeller rapeseed mustard oil upto 20 per cent was permitted in the manufacture of vanaspati from June 13, 1989 to June 30, 1989 and further extended to July 31, 1989.

(3) Directions to States and Union Territories for intensive dehoarding operations.

(4) Extension of excise rebate on the usage of certain solvent extracted minor and non-traditional oils.

(5) A number of Inter-Ministerial Co-ordination Committees were constituted to discuss strategies for augmenting the production of vegetable oils both for edible and industrial purposes. In addition to this, for maintaining the quality control of the Solvent Extracted Oils produced in the country, a statutory order

called 'The Solvent Extracted Oil, De-oiled Meal and Edible Flour (Control) Order, 1967' was promulgated. On the other hand to encourage optimum off-take of edible oils and oilseeds, the Government has decided to relax the Pulses, Edible Oils and Edible Oilseeds, (Storage Control) Order, 1977.

The permissible possession of stocks of oilseeds and edible oils by wholesalers in category 'A' cities and other areas has been enhanced by 100 per cent over the existing limit. Initially, this relaxation was in force till February 19, 1989. It was subsequently extended till April 30, 1989.

*Production Strategy and Measures*

*Integrated Policy for Oilseeds*

On January 5, 1989, the Ministry of Agriculture announced an Integrated Policy for Oilseeds with a view to achieving the twin objectives of maximising benefit to farmers and providing relief to consumers. The policy seeks to harmonise the interests of farmers, consumers and trade and industry with the interests of the economy as a whole.

The operative parts of the Integrated Policy are as follows :

a) A Rs. 65 crores annual promotion programme to assist farmers in oilseeds production through demonstration of better technology and supply of subsidised inputs.

b) Procurement of oilseeds and edible oils by the NDDB through Growers, Co-operative Federations in 6 States and also directly in order to ensure that farmers get incentive prices around Rs. 100 above the support prices declared by the Government.

c) The NDDB was designated as the agency for buffer stocking scheme. The NDDB aimed at building up a buffer stock of about 5 lakh tonnes of edible oils, comprising 3 lakh tonnes of imported and 2 lakh tonnes of indigenous oils. The NDDB was also given the option to receive 1.5 lakh tonnes of imported oil from STC for sale in the off-season. With these provisions, the market intervention by the NDDB was expected to stabilise prices at reasonable levels, while ensuring oils for weaker sections at a concessional price under PDS. Under the policy, the Government announced that there will be a band of wholesale prices, and the wholesale prices of groundnut and mustard oil will not be allowed to go below Rs. 20,000 per tonne so as to safeguard the farmers' interests soon after harvest, and above Rs. 25,000 per tonne in the lean season so as to safeguard the consumers' interests. The NDDB purchased edible oils from commodity markets since end-March 1989 with a view to stabilising prices within the stipulated range. Subsequently, keeping in view the lower costs for rapeseed/mustard oil, the price band for the same was revised downwards to Rs. 17,000-Rs. 23,000 per tonne from July, 1989.

*Technology Mission on Oilseeds*

Technology Mission on Oilseeds (TMO), appointed by the Government of India, became operational in May 1986. The aim of the Mission is to harness the best of production, processing and management technologies to achieve self reliance in oilseeds by the end of the Seventh Plan.

In order to facilitate co-ordinated action, during 1988-89 the Mission authorities continued to work in close co-ordination with Indian Council of Agricultural Research (ICAR) and the State Governments. The States were assisted with Rs. 50 crores under the Rs. 65 crores oilseeds development project for assisting the farmers with technology and inputs. The Department of Agriculture and Co-operation also provided a loan of Rs. 40 crores to the Government of Gujarat for distribution of high quality groundnut seeds to farmers, which helped the State to harvest a record oilseeds crop during 1988-89. The ICAR had more than doubled the production of breeder seeds for oilseeds in order to substantially expand the production of certified seeds. This has helped in the progress towards the TMO's immediate objective of producing 16 to 18 million tonnes of oilseeds by 1989-90 and 26 million tonnes by the turn of this century.

**Oilseeds Development Programmes**

Under the Seventh Five-Year Plan, greater emphasis has been laid for achieving higher production of oilseeds and the aim is to raise the production of oilseeds from a level of 129.5 lakh tonnes in 1984-85 to 180 lakh tonnes in 1989-90.

The broad strategy and approach that underline the efforts to increase the production during the Seventh Plan are as follows:

i) Increasing the area under oilseeds, both rainfed and irrigated, by increasing their cropping intensity through sequential cropping, by increasing their cropping density,by fitting them in various companion or inter-cropping systems and through crop diversion, namely, replacement of low economy crops and crops like wheat, rice, cotton, etc., in areas where conditions are not favourable to sustain stable yields in these crops due to persistent pest and disease problem, inadequate or uncertain availability of water, etc., for oilseed crops.

ii) Increase in productivity of the crops through adoption of improved agronomic practices like use of quality seeds of improved varieties, optimum seed rate, timely sowing, presowing treatment of seed, balanced use of fertiliser including application of micronutrients in deficient soils, use of rhizobium culture in the case of groundnut and soyabean, gypsum application to groundnut and rapeseed mustard, timely plant protection measures against pests and diseases, use of improved implements for sowing of seed, placement of fertilisers, and other improved agronomic practices advocated from time to time for both rainfed and irrigated farming systems, and by transferring the improved technology to the farmer through on-field large-sized demonstrations.

To achieve these objectives, the Government implemented the National Oilseeds Development Project and Oilseeds Production Thrust Project.

The National Oilseeds Development Project (NODP) started since 1984-85, aims at strengthening input supply and other support services and is being implemented in 17 States for development of nine cultivated oilseeds in 181 selected districts during 1989-90. The emphasis under the project has been laid on production and multiplication of breeder and foundation seeds, prepositioning of certified seeds, field demonstrations, plant protection measures, supply of improved farm implements, etc. The programme is being implemented on 50:50 basis between Central and State Governments for all the development components except the production of breeder and foundation seeds for which 100 per cent Central assistance was given during the year 1987-88. Of the total cost of Rs.29.32 crores, an amount of Rs. 16.50 crores was provided by the Government of India and Rs. 12.82 crores by the participating States. For the year 1988-89, the Government of India sanctioned the same amount as in 1987-88.

In addition to the NODP, Oilseeds Production Thrust Project (OPTP) was started in 1987-88 to give further support to oilseeds programmes in thrust areas in 17 States, including Tripura. This project provides 100 per cent Central assistance. The outlay during 1987-88 was Rs. 19 crores and an amount of Rs. 35 crores was allocated to States during 1988-89. The project covers the developments of four major oilseeds, namely, groundnut, rapeseed mustard, soyabean and sunflower, which account for about 87 per cent of the target of total oilseeds production. Under the project, emphasis has been placed on seed production on a large scale, extensive plant protection measures, transfer of technology through demonstrations, supply of improved farm implements and application of gypsum pyrite as source of sulphur in augmenting seed yield and oil content in groundnut and rapeseed mustard.

Besides these, two other oilseeds programmes were taken up under National Dairy Development Board's Project, viz., 'Restructuring Edible Oil and Oilseed Production and Marketing' and the "National Oilseeds and Vegetable Oils Development Boards Project."

**National Dairy Development Board (NDDB) Oilseeds Project**

NDDB project was commissioned for "Restructuring Edible Oil and Oilseeds Production and Marketing" in the year 1979 with the approval of the Government of India along with the formation of Gujarat Co-operative Oilseeds Growers' Federation Ltd. This project was to be undertaken on similar lines as "Operation Flood" under the Dairy Development Programme. The NDDB oilseeds project now covers, besides Gujarat, selected areas in the States of Madhya Pradesh, Tamil Nadu, Andhra Pradesh, Orissa, Maharashtra and Karnataka. In its second phase, now being implemented, the project is being extended to

some new areas in the existing States and also in the States of Uttar Pradesh and Rajasthan.

The project, which is implemented through a 3-tier structure, consists of Oilseeds Growers' Co-operative Societies at the grassroots level, Regional Unions at the middle and State Federations at apex level. The project provides for development of production, enhancement of infrastructure in the project areas along with a provision of a remunerative market for the oilseeds growers at their doorsteps. One of the objectives of the project is to achieve stabilisation of supplies at reasonable prices which would be beneficial to consumers and growers. In order to ensure edible oils for consumers at reasonable prices, the NDDB has launched the sale of groundnut oil, under the brand name "Dhara", in tamper-proof consumer packs in the metro cities of Delhi and Bombay. Under the NDDB project, the funds are obtained from the sale of refined soyabean oil received as gift from USAID through the Co-operative League of USA (CLUSA) and crude rapeseed mustard oil through Co-operative Union of Canada (CUC). The funds generated from the sale proceeds upto March 31, 1989 amounted to Rs.385.3 crores.out of which an amount of Rs.228.7 crores was utilised for the purpose of co-operative project. The progress made under the project upto March 31, 1989 is presented in Table III-18.

**National Oilseeds and Vegetable Oils Development Board's Project**

The National Oilseeds and Vegetable Oils Development Board focussed its developmental efforts during the year on the promotion of cultivation of various oilseeds in potential areas outside the areas covered under NODP and OPTP. The strategy adopted by the Board is to demonstrate crop production technology for various oilseeds and the viability of oilseed crops in relation to other competing crops. The Board also pays attention to the development of oilseeds of tree origin and also scientific storage of seeds. The Board's programmes are implemented through the Directorate of Agriculture of respective State Governments on 100 per cent assistance basis. The Government had approved an outlay of Rs. 2.46 crore for the developmental activities of the Board during 1988-89.

**Coconut**

Coconut is an important commercial crop and also a good source of vegetable oil. India ranks third in the coconut map of the world with an area of 1.23 million hectares and annual production of 6404 million nuts. The Seventh Five-Year Plan target is to produce 8,000 million nuts. The Government of India have initiated several schemes through Coconut Development Board for increasing production and productivity of coconut in the country during the Seventh Plan. These schemes provide for quality hybrid planting material and extension of area under coconut in traditional as well as non-traditional areas. In addition, a coconut development project in Kerala is also being implemented with the assistance provided by the European Economic Community (EEC). The implementing agency for the project, Kerala Karshaka Federation (KERAFED), has initiated action on the project. An amount of Rs. 188 lakhs was sanctioned to the Coconut Development Board for 1988-89, which includes Rs. 138.86 lakhs for the developmental programmes. In addition to this, an amount of Rs. 30 lakhs was also sanctioned during the year 1988-89 for the special programmes for rehabilitation of coconut holdings affected by drought in major coconut-growing States. The Coconut Development Board has procured 5.5 lakh quality seed nuts for supply to various State Governments. Under the Area Extension Programme, it was proposed to cover 2800 hectares under coconut production during 1988-89. The Coconut Development Board has set up four demonstration-cum-seed production farms in different States. Under this programme, the Board also provides subsidy for setting up pumpsets for the development of infrastructure and financial assistance to co-operative societies engaged in processing of copra. The Board also launched a scheme to train unemployed youths in coconut palm climbing and plant protection measures in Kerala.

**Oil Palm**

As compared with other cultivated vegetable oil production crops, oil palm yields maximum oil per unit area. The average yield from oil palm is about 3 tonnes per hectare per year which is about 3-4 times that of coconut and nearly 7 times of the other cultivated oilseeds. In Kerala, plantation of oil palm has been taken up

**Table III-18 : Progress of National Dairy Development Project-Restructuring Edible Oilseeds/Oils Production and Marketing**

(Upto end-March 1989)

| States | No. of Oilseeds Growers' Co-operative Societies at the village level | | No. of villages covered | | No. of farmer members | | Members Oilseeds area (in hectares) | | Procurement of seeds (in tonnes) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1987-88 | 1988-89 | 1987-88 | 1988-89 | 1987-88 | 1988-89 | 1987-88 | 1988-89 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| Gujarat | 1154 | 1193 | 1714 | 2124 | 125576 | 141927 | 368127 | 421675 | 85470 | 86297 |
| Maharashtra | 206 | 223 | 2312 | 1916 | 61100 | 61527 | 118217 | 217642 | 17351 | 19698 |
| Madhya Pradesh | 924 | 983 | 7876 | 8732 | 105398 | 116254 | 415832 | 412532 | 179069 | 184030 |
| Andhra Pradesh | 238 | 241 | 989 | 1002 | 33713 | 35993 | 69222 | 74623 | 10627 | 10626 |
| Karnataka | 239 | 261 | 1482 | 1671 | 55113 | 77276 | 130558 | 163171 | 25411 | 25401 |
| Tamil Nadu | 324 | 333 | 1452 | 1472 | 46252 | 53979 | 87305 | 98937 | 18712 | 5484 |
| Orissa | 231 | 242 | 2033 | 2060 | 22984 | 25892 | 24186 | 52567 | 6523 | 721 |
| **Total** | **3316** | **3476** | **17858** | **18977** | **450136** | **512848** | **1213447** | **1441147** | **343163** | **332257** |

*Source :* National Dairy Development Board

by Oil Palm India Ltd., which is a joint venture of Government of India and Government of Kerala with equity participation in the ratio of 49:51. The total area planted by the company under oil palm in Kerala is 3,705 hectares. To assess the overall potentialities of oil palm cultivation in India and to identify suitable areas for oil palm cultivation, the Government of India had set up a Working Group in 1986-87. The Working Group submitted its report in August 1988. The recommendations of the Working Group are being examined by the Department of Agriculture, Ministry of Agriculture. The Group has identified 5.75 lakh hectares for oil palm cultivation in the States of Andhra Pradesh, Assam, Kerala, Maharashtra, Orissa, Tamil Nadu, Tripura and West Bengal. The recommendations of the Group cover research, identification of areas suitable for oil palm cultivation, supply of planting material, processing technology, organisational structure and policy for development of oil palm.

**Sugarcane**

According to the latest estimate, sugarcane output is placed higher at 204.63 million tonnes in 1988-89 as against 196.72 million tonnes in the preceding year. Owing to early flowering and maturity of cane in major sugar-producing States sugarcane production turned out to be less than the earlier expectations.

In the overall interests of growers and industry, the Government of India decided to raise the Statutory Minimum Price (SMP) of sugarcane for the 1988-89 season from Rs. 19.00 per quintal announced earlier in December 1987 to Rs. 19.50 per quintal linked to a basic recovery of 8.5 per cent with proportional premium for higher recoveries. The SMP of sugarcane announced for the 1988-89 season is higher by Re. 1.00 than the previous season SMP of Rs. 18.50 per quintal. The Government also accepted the recommendation of the CACP and fixed the SMP of sugarcane for the 1989-90 season at Rs. 20 per quintal linked to a basic recovery of 8.5 per cent. This was further raised on October 23, 1989 to Rs. 22 per quintal. The Government has also announced that the SMP for 1990-91 season would be Rs. 23 per quintal. However, usually the State Governments' advised prices are higher than the Statutory Minimum Prices fixed by the Central Government.

The Government adopted several measures to raise sugarcane and sugar production in the country. The measures to raise sugarcane output include : (i) announcement of attractive SMP in advance of the sowing season so as to reduce risks and increase the returns from cane cultivation and (ii) advice to State Governments to adopt a strategy comprising production and distribution of quality seeds, increasing irrigation facilities, judicious use of fertiliser application,better management of ratoons, larger coverage under plant protection, transfer of technology through various extension systems including demonstration with companion crops, training of sugarcane development personnel, and greater participation of sugarcane factories in cane development.

The Central Government created a Sugar Development Fund which is operated by the Ministry of Food and Civil Supplies for helping sugar factories for their rehabilitation and modernisation as also for sugarcane development programme. Funds are also provided for research and development of sugar industry.

**Tea**

Tea production during 1988 (January-December) reached a record level of 700.3 million kgs. which is 26.0 million kgs. higher than the production of 674.3 million kgs. in 1987. The production was, however, lower by 33.7 million kgs. than the target of 734.0 million kgs. set for 1988.

The North-Eastern parts of the country generally account for a major portion of tea production. However, during 1988, the increase in tea production was accounted for largely, by the Southern sector. Of the increase of 26.0 million kgs., as much as 24.1 million kgs. was contributed by South Indian tea. The production of South Indian tea increased remarkably by 16.4 per cent from 146.9 million kgs. in 1987 to 171.0 million kgs. in 1988.

During the current year 1989, however, reports available so far indicate that the production of South Indian tea has received a severe setback as a consequence of a prolonged drought. Production of tea during the first half of 1989 (up to June), in South India, totalled 70.7 million kgs. which was 24.1 per cent lower than 93.1 million kgs. produced in the corresponding period of the last year. In the

North, where tea production has a season of nine months from April to December, production upto June 1989 aggregated 155.4 million kgs. which is marginally higher than the production of 151.5 million kgs in the corresponding period of last year. As a result, total tea production in the country during first six months of 1989 at 226.1 million kgs. was 7.5 per cent lower than the production of 244.5 million kgs. in the corresponding period of 1988. .

According to preliminary estimates of the Tea Board, tea exports in 1988-89 were marginally higher at 208.8 million kgs. as compared to 207.6 million kgs. in 1987-88 and 197.4 million kgs. in 1986-87, but lower than the exports of 214.2 million kgs in 1985-86. Earnings from tea exports were also higher at Rs. 644.3 crores in 1988-89 than Rs. 621.7 crores in 1987-88. The unit value realisation of tea was marginally higher at Rs. 30.85 per kg. during 1988-89 than Rs. 29.95 per kg. in 1987-88.

The Tea Board is presently operating the following important schemes for stepping up the tea production:

(i) Tea Plantation Finance Scheme
(ii) Replanting Subsidy Scheme
(iii) Rejuvenation and Consolidation Subsidy Scheme
(iv) New Tea Unit Finance Scheme
(v) Tea Machinery and Irrigation Equipment Hire Purchase Scheme
(vi) Tea Packaging Machinery Finance Scheme
(vii) Tea Extension Planting Interest Subsidy Scheme
viii)Interest Subsidy Scheme for Irrigation & Drainage, and
(ix) Crop Diversification Scheme.

Besides, the Tea Research Association has also undertaken various R & D activities.

**Coffee**

During 1988-89 (October-September), the coffee production is estimated at 215 thousand tonnes or 74.8 per cent more than the production of 123 thousand tonnes in 1987-88. The estimated output of 215 thousand tonnes for 1988-89 represents a new peak output, comprising 97 thousand tonnes of Arabica and 118 thousand tonnes of Robusta.

The data for area under coffee crop are now available for the year 1986-87. A total of 242 thousand hectares of land was brought under coffee cultivation in the country during 1986-87 which was marginally higher than 241 thousand hectares under coffee during 1985-86, comprising of 125 thousand hectares under Arabica variety and 116 thousand hectares under Robusta variety.

On the demand side, domestic consumption during the calendar year 1988 was 55.9 thousand tonnes as against 58.6 thousand tonnes in 1987. During 1988-89, exports of coffee provisionally amounted to 98.3 thousand tonnes valued at Rs. 337.55 crores as against 92.5 thousand tonnes valued at Rs. 260.10 crores during 1987-88.

The export duty on coffee which had been progressively brought down since early 1987 was abolished with effect from August 26, 1988. Under the International Coffee Agreement, India's quota was 52,800 tonnes for 1988-89. However, with the suspension of quotas since July 4, 1989, the world coffee market is expected to become very competitive.

During 1988-89, several different on-going Development Loan and Subsidy Schemes were under operation to assist coffee production. The production target for terminal year of the Seventh Plan (1989-90) is 180 thousand tonnes which has already been exceeded during the year 1986-87 and 1988-89. Under the promotional measures, Coffee Board plans to give greater importance to exploration of export market and promotion of coffee consumption in internal market rather than aiming to increase the area under crop.

**Tobacco**

Tobacco is an important cash crop in India. Tobacco grown in India can broadly be classified into two groups, viz., Virginia and non-Virginia. Non-Virginia tobacco is used in the manufacture of bidis, cigar, cheroots, hookah and for chewing and snuff purposes. Virginia tobacco is used for manufacture of cigarettes and a good quantity is also exported.

Tobacco production in India during 1988-89 is provisionally estimated at 400 million kgs. as against 358.9 million kgs. in 1987-88 when production had declined due to drought. The

area under tobacco during 1987-88 was lower at 323.9 thousand hectares as against 389.2 thousand hectares during 1986-87. The production during 1987-88 was lower by 22.3 per cent than 461.8 million kgs. in 1986-87. During 1987-88, production declined in all the important tobacco growing States such as Andhra Pradesh, Gujarat, Karnataka and Tamil Nadu. Gujarat, the major bidi tobacco producing State in the country, registered a sharp decline of 33.4 per cent in production during 1987-88 due to reduction in area as a result of drought conditions and severe incidence of leaf curl disease. (State-wise data on tobacco production are given in Table III-19).

hectares was planted under Virginia tobacco in Karnataka while in Andhra Pradesh, the targetted area under Virginia tobacco during 1989-90 season is 75.0 thousand hectares. The crop conditions during 1989-90 are reported to be good.

Tobacco exports declined further during 1988-89. According to provisional estimates, the exports of unmanufactured tobacco from India during 1988-89 was 39.9 million kgs. valued at Rs. 100.7 crores as compared to 48.1 million kgs. valued at Rs. 97.0 crores during 1987-88 showing a decline of 13.0 per cent in quantum terms but a rise of 3.8 per cent in terms of value.

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

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

| State | 1984-85 | | 1985-86 | | 1986-87 | | 1987-88 | |
|---|---|---|---|---|---|---|---|---|
| | Area | Production | Area | Production | Area | Production | Area | Production |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Andhra Pradesh | 177.9 | 170.6 | 149.3 | 145.5 | 146.5 | 152.0 | 120.6 | 120.0 |
| Gujarat | 108.4 | 173.5 | 106.2 | 167.8 | 110.4 | 182.8 | 81.5 | 121.8 |
| Karnataka | 48.9 | 31.2 | 47.2 | 31.9 | 46.7 | 37.4 | 37.8 | 27.1 |
| Tamil Nadu | 12.3 | 25.7 | 13.2 | 18.3 | 9.2 | 11.4 | 6.8 | 9.4 |
| Uttar Pradesh | 19.4 | 28.1 | 14.4 | 21.5 | 13.6 | 20.4 | 13.6 | 20.4 |
| West Bengal | 15.7 | 16.5 | 14.5 | 14.9 | 14.1 | 15.2 | 14.1 | 15.2 |
| Others | 54.0 | 40.3 | 52.2 | 41.3 | 48.4 | 42.6 | 49.5 | 45.0 |
| **Total :** | **436.6** | **485.9** | **397.0** | **441.2** | **388.9** | **461.8** | **323.9** | **358.9** |

In Gujarat, an area of about 1.03 lakh hectares is reported to have been planted under tobacco during 1988-89 compared to 0.81 lakh hectares in 1987-88. Production in the State is also estimated higher than in the previous year on account of good rainfall inspite of a fairly wide-spread incidence of leaf curl disease. So far as Virginia tobacco is concerned, an area of 72.7 thousand hectares in Andhra Pradesh and 15.8 thousand hectares in Karnataka were planted as against 53.3 thousand hectares and 15.4 thousand hectares, respectively, in 1987-88. Due to increase in production, the marketed production during 1988-89 season was 105.8 million kgs. in Andhra Pradesh and 10.8 million kgs. in Karnataka. During the 1989-90 season, it is reported that an area of 16.4 thousand

This decline in exports was on top of a decline of 28 per cent in quantum terms recorded in 1987-88. The decline in 1988-89 was due to a decrease in off-take by major importing countries. Exports to the USSR declined from 14.0 million kgs. in 1987-88 to 13.0 million kgs. in 1988-89. Exports to the United Kingdom, the other major importer of tobacco, also declined to 6.9 million kgs. from 8.7 million kgs. during 1987-88. Similarly exports to Saudi Arabia declined from 3.1 million kgs. in 1987-88 to 1.0 million kgs. in 1988-89 and to PDRY from 6.0 million kgs. in 1987-88 to 4.5 million kgs. in 1988-89.

In order to ensure proper production and marketing of VFC tobacco, the minimum

support prices of various grades of tobacco are notified by the Government of India every year. The Ministry of Commerce on the recommendation of the CACP fixed the minimum support prices for F 2 and L 2 grades of VFC tobacco crop for 1988-89 at Rs. 11.75 per kg. and Rs. 12.80 per kg., respectively. On the basis of the minimum support prices fixed by the Government, the Tobacco Board conducted auction sale of VFC tobacco in 7 auction platforms in Karnataka and 18 auction platforms in Andhra Pradesh during the 1988-89 season. The minimum support prices announced by the Government for the 1988-89 season and the previous season are given below:

(Rs. per kg)

| | 1987-88 | 1988-89 |
|---|---|---|
| Black Soil F 2 Grade | 11.25 | 11.75 |
| Light Soil L 2 Grade | 12.20 | 12.80 |

In order to protect the economic interests of non-Virginia tobacco growers, the National Co-operative Tobacco Growers' Federation Ltd. (TOBACOFED) was established at Anand in April 1983. In addition to this, State-level tobacco growers' federations have also been established in non-Virginia tobacco-growing States such as Gujarat, Karnataka, Maharashtra and Bihar. However, it is observed that the various organisations and also the grower co-operatives, which have been established in important tobacco-growing areas, have not been able to make appreciable progress in organising marketing of tobacco on scientific lines. Therefore, the purchasing of non-Virginia tobacco rests entirely with private trade and manufacturing units. Consequently, at times of excess production, tobacco growers face serious problems in marketing their produce at remunerative prices.

For production and distribution of pure seed and seedlings of various types of tobacco, schemes are implemented by Central Government through Andhra Pradesh State Seeds Development Corporation, Gujarat Agricultural University and Haryana Agricultural University. Necessary arrangements for adequate and timely supply of various inputs, viz., pureseed and seedlings, coal, fertilisers, etc., are also made by the Directorate of Tobacco Development. Besides, special training programmes for farmers to improve the yield and quality of tobacco are organised at the Bidi Tobacco Research Station at Anand and Tobacco Research Station at Dinhata.

**Production Strategy and Related Developments**

The record agricultural production in 1988-89 was aided by excellent monsoon and the ongoing thrust programmes, viz., Special Rice Production Programme (SRPP) for increasing production and productivity in the Eastern States, the Special Foodgrains Production Prgramme (SFPP), the National Pulses Development Programme (NPDP), the National Oilseeds Development Project (NODP) and the Oilseeds Production Thrust Project (OPTP), the Intensive Cotton Development Programme (ICDP) and the Special Jute Development Programme (SJDP).

*Special Rice Production Programme (SRPP)*

The programme for increasing production and productivity in the Eastern States continued during the year. During 1988-89, the programme was implemented in 439 selected blocks — Assam (37), Bihar (118), Eastern Madhya Pradesh (40), Orissa (63), Eastern Uttar Pradesh (102), West Bengal (70) and Tripura (9). In Tripura, the scheme was introduced only from 1988-89. Under the programme, emphasis will be laid on the spread of improved rice production technology through the training of farmers and farm labourers including women and organisation of field demonstrations, etc. Besides, inputs like seeds, fertilisers, improved farm implements, plant protection equipments etc. are made available to resource-poor farmers at subsidised cost and various appropriate programmes are taken up depending on the needs of individual State/Block and local situation. For 1988-89, an outlay of Rs. 19.5 crore was provided as the Central share. The expenditure on the scheme was shared by the Centre and States on a 50:50 basis. For 1989-90, the SRPP and SFPP (Rice) are proposed to be merged. The programme envisages spread of improved rice production techniques through training and supply of inputs at subsidised costs to farmers.

*Special Foodgrains Production Programme (SFPP)*

Following the Mid-Term Appraisal of the Seventh Five-Year Plan, a Task Force headed

**Table III-20 : 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 hectare (kgs) | Production (Jan-Dec.) | Exports (April-March) | Production (Oct.-Sept.) | Exports (April-March) | Internal Consumption (Jan.-Dec.) | Production (Nov.-Oct.) | Yield per hectare (tonnes) | Production | Exports (April-March) | Internal Consumption (April-March) |
| 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 | 10.1 | 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 | NA |
| 1984-85 | 12.9 | 684 | 639.9 | 217.4 | 195.1 | 68.9 | 53.5 | 170.3 | 57.7 | 486 | 74.7 | NA |
| 1985-86 | 10.8 | 570 | 656.2 | 214.2 | 122.3 | 99.3 | 54.9 | 170.7 | 60.0 | 441 | 64.4 | NA |
| 1986-87 | 11.3 | 613 | 624.6 | 197.4 | 192.3 | 86.7 | 54.4 | 186.1 | 60.4 | 462 | 66.8 | NA |
| 1987-88 | 12.4 | 620 | 674.3 | 207.6 | 123.0* | 92.5 | 58.6 | 196.7 | 59.9 | 359 | 48.1 | NA |
| 1988-89 | 18.2 | NA | 700.3 | 208.8 | 215.0* | 98.3 | 55.9 | 204.6 | NA | 400* | 39.9 | NA |

* Latest estimates
NA : Not available

by Member (Agriculture), Planning Commission was set up under the direction of the Prime Minister to attain, under all circumstances, the foodgrains production targets for 1988-89 and 1989-90. With this end in view, the SFPP was launched from *Kharif* 1988 covering 169 identified districts spread over in 14 States. The scheme covered 169 identified districts spread over in 14 States viz., Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. The focus crops covered under the scheme included rice, wheat, maize, gram (chick-pea) and *arhar* (pigean-pea). The strategy under this programme is as under: (i) increased fertiliser use by 20 kgs. of nutrients per hectare, (ii) use of improved high-yielding variety seeds, (iii) better management of weeds and timely control of pests and diseases, (iv) harnessing ground water through tube wells, completing on-farm development works in command areas and completing and near-completion of irrigation projects and efficient use of stored water, (v) bonus/incentive for production/procurement of foodgrains and (vi) increase the flow of short-term and long-term credit.

Under this programme, during 1989-90, it is proposed to include Kerala also in focus crop of rice and also cover coarse cereals as focus crops in some of the States.

The total outlay for the SFPP during 1988-89 was Rs. 70 crores. An outlay of Rs. 72.6 crores has been earmarked for 1989-90, covering rice, wheat and millet crops.

*National Pulses Development Programme (NPDP)*

Pulses constitute the basic source of protein intake in the diet of the majority of the people in India. To help meet these dietary requirements by increasing the per capita availability of pulses, a Centrally-sponsored National Pulses Development Programme (NPDP) was launched in 1986-87. During 1988-89, a Central allocation of Rs. 6 crores was made for the programme to promote location-specific technologies for major pulses like gram, *arhar*, peas, lentil, *moong* and *urad*. During 1989-90, the Central allocation is proposed to be increased to Rs. 8 crores to facilitate the coverage of pest control and increased seed production and distribution under the programme.

**General Programmes**

**High-Yielding Varieties Programme (HYVP)**

The area under HYVP during the year increased from 54.1 million hectares in 1987-88 to 62.57 million hectares in 1988-89, a rise of 8.47 million hectares or 15.7 per cent during the year (Table III-21). Of the total increase, as much as 4.95 million hectares or 58.4 per cent was accounted for by expansion in HYV area under rice. Crop-wise details are given in Table III-22.

**Table III-21 : Some Key Indicators of Agricultural Inputs**

| Item | Unit | 1980-81 | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Target | Likely achievement |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| A. Seeds | | | | | | | | | |
| i) Production of breeder seeds | Thousand quintals | 5.27 | 30.00 | 29.03 | 23.64 | 28.60 | 22.55 | — | 32.87 |
| ii) Production of certified seeds | Lakh quintals | 21.86 | 41.26 | 49.97 | 44.84 | 56.51 | 53.42 | — | 65.06 |
| iii) Distribution of certified quality seeds | .. | 25.01 | 44.97 | 48.46 | 55.01 | 55.83 | 56.30 | 64.00 | 56.80 |
| B. Fertiliser consumption | | | | | | | | | |
| i) Total (N+P+K) | Lakh tonnes | 55.16 | 77.10 | 82.11 | 84.74 | 87.38 | 90.12 | 102.00 | 113.31 |
| ii) Per hectare | Kilograms | 31.83 | 42.75 | 46.67 | 48.16 | 49.16 | 49.66 | — | — |
| C. Area under High yielding varieties | Million hectares | 43.07 | 53.74 | 54.14 | 55.42 | 56.18 | 54.10 | 65.00 | 62.57 |
| D. Consumption of pesticides (Technical Grade Material) | Thousand tonnes | 45.00 | 55.00 | 56.00 | 52.00 | 50.00 | 49.00 | 84.67 | 84.67 |

*Source :* Ministry of Agriculture, Government of India

**Table III-22 : Crop-wise coverage of Total Area and Area under High Yielding Varieties**

(Million hectares)

| Crop | 1980-81 | | 1983-84 | | 1984-85 | | 1985-86 | | 1986-87 | | 1987-88 | | 1988-89 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total cropped Area | Area under HYV | Total cropped Area | Area under HYV | Total cropped Area | Area under HYV | Total cropped Area | Area under HYV | Total cropped Area | Area under HYV | Total cropped Area | Area under HYV | Total cropped Area | Area under HYV | |
| | | | | | | | | | | | | | | Target | Actual* |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 1. Paddy | 40.15 | 18.23 | 41.24 | 21.74 | 41.16 | 22.78 | 41.14 | 23.47 | 41.17 | 24.03 | 38.32 | 22.25 | .. | 29.00 | 27.20 |
| 2. Wheat | 22.28 | 16.10 | 24.67 | 19.39 | 23.56 | 19.09 | 23.00 | 19.08 | 23.13 | 19.19 | 22.60 | 19.69 | .. | 22.00 | 20.67 |
| 3. Jowar | 15.81 | 3.50 | 16.43 | 5.28 | 15.94 | 5.07 | 16.10 | 6.08 | 15.95 | 5.50 | 15.65 | 6.06 | .. | 6.00 | 6.67 |
| 4. Bajra | 11.66 | 3.64 | 11.83 | 5.42 | 10.62 | 5.17 | 10.65 | 4.99 | 11.27 | 5.27 | 8.69 | 3.95 | .. | 5.50 | 5.84 |
| 5. Maize | 6.01 | 1.60 | 5.86 | 1.91 | 5.80 | 2.03 | 5.80 | 1.80 | 5.92 | 2.19 | 5.54 | 2.15 | .. | 2.50 | 2.19 |
| **Total (1 to 5)** | **95.91** | **43.07** | **100.03** | **53.74** | **97.08** | **54.14** | **96.69** | **55.42** | **97.44** | **56.18** | **90.80** | **54.10** | **..** | **65.00** | **62.57** |

* Provisional Estimates.

*Source :* Ministry of Agriculture, Government of India.

*Seeds*

The expansion of area under HYVP was supported by the increased use of certified quality seeds, consumption of fertilisers and pesticides. The production of breeder seeds is estimated to have increased from 22.55 thousand quintals in 1987-88 to 32.87 thousand quintals in 1988-89. The earlier record production of breeder seeds of 30.00 thousand quintals was achieved in 1983-84. The production of certified quality seeds is anticipated to have increased from 53.42 lakh quintals in 1987-88 to 65.06 lakh quintals in 1988-89. The distribution of these seeds, however, increased marginally during the year from 56.30 lakh quintals in 1987-88 to 56.80 lakh quintals in 1988-89 (Table III-21). To assist in the development of agriculture and augment supply of seeds, a new policy on Seed Development was formulated. The policy, in operation since October 1, 1988, provides for the import of high quality seeds for coarse cereals, oilseeds, vegetables and horticulture. Also, a National Seeds Project is being implemented with World Bank assistance to support expansion and modernisation of seed industry.

*Fertilisers*

The consumption of fertilisers in the country, except for years of bad monsoon, has shown a rising trend after the introduction of HYV crops. Fertiliser consumption increased from 11.0 lakh tonnes of nutrients (N+P+K) during 1966-67 to 90.1 lakh tonnes in 1987-88. During 1988-89, fertiliser consumption is expected to have reached a record level of 113.3 lakh tonnes, showing an increase of 25.7 per cent over the preceding year (Tables III 21 & 22A).

*Pesticides*

Plant protection has been an area of concern in framing the agricultural strategy. For plant protection, an Integrated Pest Management Approach has been adopted which seeks to ensure that pesticides are used in requisite degree of efficacy. During 1988-89, the consumption of pesticides is anticipated at 84,670 tonnes, which is 72.8 per cent higher than the consumption during the preceding year (49,000 tonnes) (Table III-21). To control Heliothis and Whitefly pest in cotton crop in Guntur and Prakasam districts of Andhra Pradesh, the Government also permitted immediate import of four new pesticides, viz., Fluvalinate, Fenpropathrin, Methomyl and Triazophos during 1988-89.

*Irrigation*

Assuring adequate supply of water through irrigation is essential to reduce the dependence of Indian agriculture on monsoons. It is estimated that a gross area of about 113 million hectares (m. ha.) can be brought under irrigation in the country, comprising 58 m. ha. in the major and medium sector, and 55 m. ha. in the minor irrigation sector. The gross irrigated area in the country increased from 22.6 m. ha. in 1950-51 to 67.5 m. ha. (provisional) by

**Table III-22A : Consumption of Fertilisers**

(Lakh tonnes)

| Year (April-March) | Nitrogeneous (N) | Phosphatic (P) | Potassic (K) | Total (N+P+K) |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| 1980-81 | 36.8 | 12.1 | 6.2 | 55.1 |
| 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 | 18.8 | 8.4 | 82.1 |
| 1985-86 | 56.6 | 20.0 | 8.1 | 84.7 |
| 1986-87 | 57.7 | 21.1 | 8.6 | 87.4 |
| 1987-88 (estimated) | 58.2 | 22.7 | 9.2 | 90.1 |
| 1988-89 (Anticipated) | 73.8 | 28.1 | 11.4 | 113.3 |

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 Sixth Plan. Available data indicate that an area of 6.42 m. ha. was brought under irrigation during the first three years of the Seventh Plan. The target for creation of an additional irrigation potential for 1988-89 was placed at 3.9 m. ha. (Table III-23). The average rate of creation of irrigation potential during 34 years since the inception of the First Plan upto the end of Sixth Plan was about 1.3 m. ha. per annum, but the rate had increased to about 2.2 m. ha. per year during the Sixth Plan. During the Seventh Plan period, the rate is targetted to be enhanced further to 2.6 m. ha. per annum. At this rate of development, the ultimale irrigation potential of 113 m. ha. is expected to be achieved by about 2010 A.D.

In the Seventh Plan, a total financial outlay of Rs. 11,556 crores was fixed for major and medium irrigation projects and Rs. 6,305 crores for minor irrigation projects. Against this, during the first three years of the Seventh Plan (1985-86 to 1987-88) an expenditure of about Rs. 6,280 crores was incurred on major and medium projects and Rs. 3,508 crores on minor irrigation projects. The target outlay for 1988-89 is fixed at Rs. 2,583 crores for major and medium projects and Rs. 1,504 crores for minor irrigation projects (Table III-24).

**Table III-23 : Development of Irrigation Potential**

(In million hectares)

| Item | Ultimate | Created up to VI Plan (1984-85) | VII Plan (1985-86 to 1989-90 Target | 1985-86 (Achievement) | 1986-87 (Achievement) | 1987-88 (Anticipated Achievement) | 1988-89 (Target) |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| A. Major & Medium | 58 | 30.0 | 4.3 | 0.5 | 0.5 | 0.7 | 1.0 |
| B. Minor Irrigation | 55 | 37.5 | 8.6 | 1.5 | 1.6 | 1.6 | 2.9 |
| (a) Surface Water | 15 | 9.7 | 1.5 | 0.3 | 0.3 | 0.3 | 0.4 |
| (b) Ground Water | 40 | 27.8 | 7.1 | 1.2 | 1.3 | 1.3 | 2.5 |
| **Total : (A + B)** | **113** | **67.5** | **12.9** | **2.0** | **2.1** | **2.3** | **3.9** |

*Source :* Ministry of Water Resources, Government of India.

**Table III-24 : Financial Outlay on Major & Medium and Minor Irrigation**

(Rs. crores)

| Item | During Plan period up-to end of VI Plan (1980-81 to 1985-86) | VII Plan (1985-86 to 1989-90) (Target) | 1985-86 (Actual) | 1986-87 (Actual) | 1987-88 (Anticipated) | 1988-89 (Target) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| A. Major & Medium | 15060 | 11556 | 1880 | 2169 | 2231 | 2583 |
| B. Minor Irrigation | 8230 | 6305 | 994 | 1173 | 1341 | 1504 |
| *of which :* | | | | | | |
| (a) Government Sector | 4492 | 2805 | 493 | 588 | 638 | 731 |
| (b) Institutional Sector | 3738 | 3500 | 501 | 585 | 703 | 773 |
| **Total (A + B)** | **23290** | **17861** | **2874** | **3342** | **3572** | **4087** |

*Source :* Ministry of Water Resources, Government of India.

Since 1978-79, all irrigation schemes having a culturable command area upto 2000 ha. are classified as minor irrigation projects. In order to promote such projects, the Union Government is operating five Centrally-sponsored Schemes.

Under the scheme for strengthening of ground water and surface water (Minor Irrigation), in operation since the Sixth Plan, Central assistance is given to the State Governments Union Territories for the purchase of equipments like drilling rigs,well loggers,blasting units, boring equipment, etc. The cost of such machinery and equipment is shared between the Centre and the States in the ratio of 50:50. An allocation of Rs. 25 crores was fixed for the Scheme under the Seventh Plan. A sum of Rs. 3.75 crores was released to 12 States during 1985-86. The amounts of Rs. 4.20 crores to 17 States during 1986-87 and Rs. 5.18 crores to 13 States during 1987-88 were released as Central assistance under the Scheme. During 1988-89, Central assistance of Rs. 4.30 crores was released to 12 States upto December 1988.

Under another Centrally-sponsored programme for Minor Irrigation in operation since 1982-83,subsidy is provided to small and marginal farmers for installation of water-saving and energy-saving devices for irrigation, like sprinklers/drip system, hydrams, water turbines and man/animal operated pumps. The rates of subsidy are 25 per cent for small farmers, 33 per cent for marginal farmers and 50 per cent for Scheduled Caste and Scheduled Tribe farmers belonging to small and marginal category. Co-operative/community schemes are provided 50 per cent subsidy which is proportional to the area attributable to small and marginal farmers only. A Seventh Plan allocation of Rs. 10 crores was fixed for the scheme. A Central share of Rs. 25 lakhs was released to 3 States during 1985-86, Rs. 1.45 crores to 6 States during 1986-87 and Rs. 1.46 crores to 6 States during 1987-88.

The third Centrally-sponsored scheme on minor irrigation is a pilot scheme for rectification and demonstration of diesel pump sets to improve operational and fuel efficiency introduced during 1985-86. It was operative in 1987-88 also. Central assistance of Rs. 4 lakhs was released during 1987-88 under the scheme as against releases of Rs. 15 lakhs during 1986-87 and Rs. 46 lakhs during 1985-86.

In addition to the three above-mentioned Schemes, a Centrally-sponsored scheme for conducting a census of minor irrigation schemes and another scheme for the rationalisation of minor irrigation statistics were also in operation during 1988-89. Water, a critical input in agriculture,though replenishable, is limited in supply. In view of this, the Ministry of Water Resources adopted the strategy comprising:

i) development of catchment areas and improvement of drainage in basins and deltas,
ii) improvement in irrigation management in command areas,
iii) prevention of water-logging, salinity and wasteful use and
iv) co-ordinated use of surface and ground water. Emphasis was laid on Integrated Watershed Management combining conservation measures with productive programmes in all types of lands and channel systems within identified watersheds. For increasing the water use efficiency and returns, optimum irrigation schedules have been worked out for oilseeds and pulses.

**Command Area Development Programme**

The Centrally-sponsored Command Area Development (CAD) Programme was launched in 1974-75 with the objectives of bridging the gap between creation and utilisation of irrigation potential and optimising agricultural production from irrigated land. The programme includes on-farm development works, like construction of field channels, land levelling, field drains and introduction of warabandi for rotational supply of water on an assured and equitable basis to farm holdings. It also includes arrangement for supply of inputs and credit, agricultural extension, construction of markets and godowns and development of ground water for conjunctive use. During 1988-89, the Programme was in operation covering 131 selected major and medium irrigation projects with the total culturable command area of over 18 m. ha. in 20 States and 2 Union Territories. So far, 50 Command Area Development Authorities have been set up for implementation of the programme. A financial outlay of Rs. 1,671 crores has been proposed for the CAD

under the Seventh Plan out of which the Central Sector allocation is Rs. 500 crores. The expenditure incurred on CAD during the first three years of the Plan totals Rs. 823 crores, of which Rs. 256 crores came from the Central sector. For 1988-89, a total outlay of Rs. 346 crores including Rs. 125 crores Central sector share was proposed (Table III-25).

The Seventh Plan targets for coverage of area under field channels, land levelling/shaping and *warabandi* were 6.81 m. ha., 1.82 m. ha. and 8.04 m. ha. respectively. During 1987-88, as against the targets of 1.26 m.ha., 0.15 m.ha. and 1.58 m. ha. for field channels, land levelling/shaping and *warabandi*, the area covered were 0.60 m. ha., 0.08 m. ha. and 0.87 m. ha., respectively. The total achievements during the first three years of the Seventh Plan for the three items mentioned above came to 1.97 m. ha., 0.25 m. ha. and 2.54 m. ha., respectively. For 1988-89, the targets for the three items have been set at 0.73 m. ha., 0.11 m. ha. and 1.41 m. ha. In addition, 0.07 m. ha. was proposed to be covered under field drains during 1988-89 to alleviate problems arising from water logging and salinity (Table III-26).

**Plant Protection Measures**

During 1988-89, the major emphasis in respect of plant protection continued to be on Integrated Pest Management with the highest priority accorded to quality control of pesticides and efficacy in chemicals used. Action was also initiated to evolve a package of measures to make plant quarantine procedures more effective and quarantine clearance time-bound. Anticipating a possible threat of a locust invasion as had been forecast by the Food and Agriculture Organisation (FAO) following the serious locust situation in African countries, extensive and intensive field surveys were

**Table III-25 : Financial Outlay under Command Area Development Programme**

(Rs. crores)

| Sector | VII Plan (1985-86 to 1989-90) | 1985-86 (Actual) | 1986-87 (Actual) | 1987-88 (Anticipated) | 1988-89 (Target) |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| **Total** | **1671** | **252** | **286** | **285** | **346** |
| *of which:* | | | | | |
| Central Sector | 500 | 70 | 94 | 92 | 125* |

* Budgetary Outlay

*Source* : Ministry of Water Resources, Government of India.

**Table III-26 : Achievements under Command Area Development Programme**

(Lakh hectares)

| Item | VII Plan (1985-86 to 1989-90) Target | 1985-86 | 1986-87 | 1987-88 | | 1988-89 |
|---|---|---|---|---|---|---|
| | | Achievement | Achievement | Target | Achievement | Target |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Construction of field channels | 68.1 | 6.8 | 6.9 | 12.6 | 6.0 | 7.3 |
| Land levelling/shaping | 18.2 | 1.0 | 0.7 | 1.5 | 0.8 | 1.1 |
| *Warabandi* | 80.4 | 7.1 | 9.6 | 15.8 | 8.7 | 14.1 |
| Field Drains | .. | .. | .. | 2.4 | .. | 0.7 |

*Source* : Ministry of Water Resources, Government of India.

nously produced intermediates used for the manufacture of pesticides.

**Agricultural Implements and Machinery**

During 1988-89, efforts were continued to propagate the use of improved technology among small and marginal farmers. There has been a continuous performance evaluation of agricultural machinery to provide quality implements and machines to farmers and to impart training and skill to technicians, rural youth and farmers. The programme of selective mechanisation has been continued during the year. Indian tractor industry (presently with an installed capacity of 1,14,500 tractors) made a steady progress. The sales of tractors is expected to be 1 lakh in 1988-89 as against 93,157 during 1987-88, registering an increase of 7.3 per cent. The sales of tractors, power tillers and combined harvesters during 1988-89 (upto October) were, respectively, 49,491, 2,243 and 55. Tractors having engine capacity not exceeding 1800 CC and power tillers continued to be exempted from excise duty during the year. In addition, with a view to enhancing the adoption of agricultural implements, several other items were exempted from excise duty during the year.

The Centrally-sponsored scheme on establishment of Farmers' Agro Service Centres and Popularisation of improved agricultural implements and hand tools continued to be in operation during 1988-89. The scheme envisages an integrated approach for the availability of custom services and adoption and popularisation of improved agricultural implements and hand tools amongst small marginal and tribal farmers on 500 dryland blocks of 10 States. During the Seventh Plan period, upto 1988-89, 360 Farmers' Agro Service Centres have been established and 42,123 demonstrations have been organised and 1.82 lakh improved implements and hand tools distributed among small, marginal and tribal farmers.

The Central Farm Machinery Training and Testing Institute, Budni, (Madhya Pradesh), Northern Region Farm Machinery Training and Testing Institute, Hissar (Haryana) and Southern Region Farm Machinery Training and Testing Institute, Garladinne (Andhra Pradesh) together trained 794 persons (including 3 foreigners) in different categories of courses upto October 1988 against the target to train 1,510 in the year.

**Agro-Industries Corporations**

The Government of India have promoted Agro-Industries Corporations in 17 States during the Third and Fourth Five-Year Plan periods. Later, these Corporations were also set up in the State of Manipur in 1981-82 and in the Union Territory of Pondicherry during 1986. The Corporations have been functioning in the areas of manufacture and distribution of fertilisers, pesticides, improved agricultural implements and hand tools, hiring of agricultural machinery, installation and servicing of bio-gas plants and irrigation pumpsets, extraction of edible oils and processing of fruits and vegetables. The performance of these Corporations in Maharashtra,Madhya Pradesh and Gujarat has been particularly good.

**Agricultural Extension**

Agricultural extension services have been instrumental in spreading modern technology to farmers and in assisting agricultural growth, more particularly, during the last two decades. In the light of the experience gained, a reformed extension service under the Training and Visit (T & V) System has been in operation in 17 major States, viz., Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. Of these, 11 States viz., Assam, Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan and Tamil Nadu have completed their project period of five years. To consolidate the gains during the first phase of these projects, a National Agricultural Extension Project (NAEP) is now in operation in three separate parts.

The NAEP-I, in its first phase, covers the States of Madhya Pradesh, Orissa and Rajasthan under the State sector for further improvement of the re-organised system which had commenced operation in the Seventh Plan. Under the Central sector, the Directorate of Extension has been further strengthened. Under the Centrally-sponsored sub-projects, efforts are on to bridge the perceived gaps in the

ongoing extension system. Exchange of experienced persons between States,inter-disciplinary teams to review the State extension projects, holding national/regional level seminars on extension and training and information support to extension formed some of the core operation programmes of the Central sector sub-project under NAEP-I.

NAEP-II is entirely in the State sector and covers the States of Gujarat,Haryana, Karnataka and Jammu and Kashmir, the first three States having entered the second phase. The NAEP-III, besides covering some Central sector and Centrally-sponsored components, covers extension projects in the States of Assam, Bihar, Himachal Pradesh, Punjab and Uttar Pradesh, the first two having entered the second phase.

The NAEP projects I and III also aim at bridging the gaps identified during the implementation of main extension projects. For this purpose, 14 special sub-projects are under implementation which strengthen training, research-extension linkages and information support. Providing extension knowledge through the mass media and the agencies under the Ministry of Information and Broadcasting (I &B) and also training of communicators was taken up under the projects. During the year, national seminars were organised on various aspects of extension including training of extension personnel, mid-term review of implementation of agricultural extension projects and dissemination of information. Twenty internal consultants and Twenty four inter-disciplinary teams completed the programmes for advising the States on improvement of their extension services.

The Directorate of Extension conducted workshops-cum-seminars for field agricultural extension functionaries. Upto December 1988, 79 training courses in crop production technology, oilseeds production and plant protection etc., have been organised and 1,376 extension personnel were trained. A new Extension Education Institute has been established at Assam Agricultural University at Jorhat to cater to the needs of the North-Eastern region. A National Centre for Management of Agricultural Extension has been set up at Hyderabad for senior and middle level extension personnel. A scheme for the setting up of 15 centres of advanced training for subject matter specialists has been envisaged and 5 centres are already working in the areas of dryland farming, pulses, oilseeds and water management.

The performance of the scheme for training women in agriculture has been reviewed and efforts are on to extend it to States not covered so far. Workshops have been organised for women to increase efficiency and output in post-harvest technology. The Directorate of Extension organised several fairs/shows/exhibitions/ film shows to disseminate extension work during the year. The Directorate continued to publish various publications for spreading extension knowledge. It has also formulated a special project to support Oilseeds Technology Mission under which TV and Video projection systems are to be distributed in oilseeds-producing districts.

**Soil and Water Conservation Programmes**

Soil and Water Conservation Programmes, which were initiated in the First Five-Year Plan, have been modified over the successive Plan periods. A number of soil and water conservation programmes are being implemented through Central and State Sector Schemes. The approach and strategy continues to be the integrated watershed management for critical/ responsive watersheds through multi-disciplinary teams. There is now greater emphasis on monitoring and evaluation of programme implementation and more in-depth study of programme formulation. Besides ensuring appropriate blending of the national policy directives both for land and water, the goal continues to be one of achieving higher land productivity in terms of total bio-mass and optimum utilisation of available water resources. In addition to the efforts made under State sector soil and water conservation, Central assistance was given for treating catchments, providing soil and land use characteristics, controlling and stabilising ravines and areas under shifting cultivation and providing support to the States for policy coordination and implementation of National Land Use Policy Outline.

According to estimates, out of the total geographical area of 328.73 million hectares, the total area which is 'Non Degrading' is 155.13 million hectares and the balance 173.60 million

hectares represents estimated degrading area in the country of which, 32.07 million hectares was treated upto 1987-88 and the balance 141.53 million hectares representing area under erosion and degradation which is yet to be treated. The total expenditure incurred on treated area of 29.38 million hectares upto the end of the Sixth Plan (1984-85) amounted to Rs. 1,212.3 crores. During the first three years of the Seventh Plan (1985-86 to 1987-88), a total area of 2.69 million hectares was treated at a total cost of Rs. 511.28 crores. The target for the year 1988-89 was to cover an area of 0.82 million hectares at an expenditure of Rs. 236.80 crores.

The Centrally-sponsored Scheme of Soil Conservation in the catchment of River Valley Projects was initiated in the Third Five-Year Plan in 13 River Valley Project (RVP) catchments, later extended to 31 catchments and operating in 27 catchments in 1988-89. The total catchment area is about 69 million hectares spread over 17 States and areas under Damodar Valley Corporation. The programme is being implemented in 626 priority watersheds identified by the All India Soil and Land Use Survey Organisation. The objective is to reduce sedimentation of reservoirs, prevent catchment degradation, enhance land productivity and provide rural employment. All types of lands within the identified watersheds as well as associated channel systems are treated with appropriate measures. The main conservation measures are bunding, terracing, disposal of excess run-off, improved crop technology, raising of utility trees,shrubs, grasses, afforestation, construction of erosion control water harvesting structures, restoration of degraded lands etc. The pattern of funding is 100 per cent Central assistance comprising 50 per cent as grant and 50 per cent as loan to the States and 50 per cent grant to the Damodar Valley Corporation.

According to the estimates, the priority watershed area which needed treatment was 20.8 million hectares and the total area treated upto the end of the Sixth Plan was 1.94 million hectares at a cost of Rs. 180.75 crores. During the Seventh Plan period, upto 1987-88, an additional area of 280 thousand hectares was treated at a cost of Rs. 73.06 crores and the target for the year 1988-89 was to cover 70 thousand hectares at a cost of Rs. 22.46 crores.

**Integrated Watershed Management in the Catchments of Flood-Prone Rivers in Indo-Gangetic Basin**

In the light of the recommendations of the Inter-Ministerial Working Group on Integrated Action Plan to control and mitigate flood havoc in Indo-Gangetic Basin, this scheme was launched in 1980-81 in 8 catchments. These catchments have a total area of about 16.7 million hectares out of which an estimated 7.1 million hectares require treatment on a priority basis. The objectives of this scheme are to enhance the retention capacity of watersheds to reduce peak flow and run-off volume, reduce siltation of river-beds, improve catchment productivity and raise rural employment potential. At present, works are in progress in 232 watersheds in 7 States and in the Union Territory of Delhi.

The approach and strategy is to have integrated watershed management combining conservation measures with productive programmes in all types of lands and channel systems within the identified watersheds. The package of treatment ranges from agronomic and biological measures to productive uses. Raising of utility trees, grasses and afforestation as well as construction of small sediment detention and water harvesting structures on extensive areas are adopted to increase the surface detention and promotion of rain water and infiltration into the soil profile, both for moderating floods as well as improving moisture regimes for bio-mass production. The financial pattern is 100 per cent Central assistance, 50 per cent grant and 50 per cent loan to the States and 100 per cent grant to the Union Territories.

Under this programme an area of 0.16 million hectares was covered upto 1984-85 at a cost of Rs. 30.5 crores. Further, during the period 1985-86 to 1987-88, an area of 0.12 million hectares was covered at a cost of Rs. 35.79 crores and the target for 1988-89 was to cover 0.03 million hectares at a cost of Rs. 11.50 crores.

**All India Soil and Land Use Survey**

All India Soil and Land Use Survey (AISLUS), set up in 1958, is a national organisation and operates through the headquarters in New Delhi with four regional centres located at Delhi, Calcutta, Nagpur and Banga-

lore and 3 sub-centres in Ranchi, Ahmedabad and Hyderabad. For various development programmes, the organisation has the mandate to carry out job-oriented surveys besides standard soil and land use surveys and providing necessary data on land/catchment characteristics, soil and profile description, status and process of erosion and degradation along with appropriate interpretative maps and tables. This organisation is also providing support to the Brahmaputra Board, National Water Development Agency, Coal India, Indian Bureau of Mines, etc.

The organisation has set up a remote sensing centre at the headquarters. Nearly 15 Remote Sensing-based projects were completed during 1987-88 with the objectives: (i) to improve data acquisition, storage and presentation; (ii) to enhance precision and quality; (iii) to accelerate the pace of survey intensity and presentation of data and (iv) to incorporate comparability over time and space. These projects are mostly related to mapping of soil and land use, monitoring of land degradation, dynamics of river drifts, watershed characterisation, study of land forms, monitoring the spread of ravines and alkali soils. The technology has also been utilised for mapping wastelands degraded lands in the districts of Dhule (Maharashtra) and Prakasam (Andhra Pradesh). Reports have been published.

The progress made under the Survey showed that upto the end of the Sixth Plan, 1984-85, Detailed Soil Surveys covered 4.12 million hectares, Rapid Reconnaissance Surveys covered 59.15 million hectares, Special Surveys covered 1.19 million hectares and Sample Surveys covered 5,895 blocks of 64 hectares each. Further, anticipated achievements during the first four years of the Seventh Plan are: Detailed Soil Survey-1.89 million hectares, Rapid Reconnaissance Surveys - 28.23 million hectares, Special Surveys - 3.20 million hectares and Sample Surveys - 2,188 blocks of 64 hectares.

**Dryland Farming**

It is now estimated that out of the total net sown area of 140.72 million hectares, only 41.78 million hectares or 29.7 per cent is served with irrigation facilities and the balance of 70.3 per cent of the net sown area of about 98.94 million hectares is dependent on rains. This arable land grows crops and follows cropping patterns entirely depending on rainfall which is often erratic and unpredictable. Out of the total rainfed areas, 68 per cent falls in the low to medium rainfall region (upto 1,125 mm.) and the remaining 32 per cent is in the high rainfall zone receiving more than 1,125 mm rainfall. Increasing and stabilising agricultural production in the former zone is of crucial importance. The bulk of crops like rice, jowar,bajra, other millets, pulses, oilseeds and cotton are grown under rainfed conditions.

The thrust in agricultural development has been largely concentrated in irrigated areas, which are capable of giving assured and quick results. The farmers in rainfed areas,particularly the smaller ones, are still practising subsistence farming. Wide fluctuations in production occur in these areas, year after year, and these fluctuations adversely affect the total production thereby eroding the benefits accrued on account of increasing irrigated areas. Accordingly, in the Seventh Five-Year Plan, high priority has been accorded to the development of dryland/rainfed farming with a view to raising productivity and achieving the other important objectives of reduction in underemployment/unemployment and regional disparities. The main focus of development strategy is to minimise risk to farmers through land improvement, ensure soil moisture for introduction of suitable crops and cropping system, encourage dryland horticulture, fodder and economic utility plantations and provide them with area-specific technologies, inputs and services. Emphasis is on area development approach taking 'Watershed' as the unit of development. The development measures to be undertaken in the micro-watersheds include soil and moisture conservation, land shaping, bunding, construction of water harvesting structures, increased use of improved drought-resistant seeds,chemical fertilisers and improved implements as also adoption of carefully worked out cropping patterns based on rainfall probabilities. In order to provide adequate vegetative cover and promote subsidiary occupations, horticulture, afforestation and pasture development should be important components of dryland farming programme. A number of State Central sector schemes are under operation to step up and stabilise the production of crops under rainfed conditions. A Centrally-

sponsored scheme of National Watershed Development Programme for Rainfed Agriculture has been launched from 1986-87 for the remaining period of the Seventh Five-Year Plan. The programme addresses itself to the unirrigated arable land in the country mostly falling in the rainfall range of 500 mm to 1,125 mm where crop yields can be significantly increased and stabilised by dissemination of technologies for scientific dryland farming. The programme is being implemented in 16 States covering 99 districts. The main components of the scheme are : land and moisture management practices for introduction of improved cropping system, dryland horticulture, fodder production and farm forestry, contingency seed/stocking and supply of seedlings and grass seeds/slips, training, conducting adaptive trials, supply of improved tools and equipments and preparation of scientific field manuals, etc.

The target was to cover 9.28 lakh hectares under the Scheme during the four years of the Seventh Plan (1986-87 to 1989-90) at 2.32 lakh hectares per annum. The total cost of the scheme for the four-year period was Rs. 239 crores, of which Rs. 120 crores was the Central share. A sum of Rs. 19.28 crores was released under the scheme for the two years 1986-87 and 1987-88. Further, an amount of Rs. 30 crores was provided for 1988-89. A similar amount was also provided for 1989-90.

**Drought Prone Areas Programme and Desert Development Programme**

The major objective of both the Drought Prone Areas Programme (DPAP) and Desert Development Programme (DDP) is the restoration of ecological balance through proper development of land and water resources. But the main difference between the two programmes is that while the DPAP aims at an integrated area development on a watershed basis for optimum utilisation of land, water, livestock and human resources, DDP aims at controlling desertification and improving the living conditions of the people in the area covered by the programme. The DDP is a fully Centrally-aided programme, whereas DPAP operates on an equal cost sharing basis between the Centre and the States.

DPAP was launched in 1973 and it includes various activities which promote soil and moisture conservation, more productive use of water resources, suitable dryland agriculture, afforestation, development of pasture and fodder for sustenance of livestock, horticulture, etc. DDP was started in 1977-78 and the programmes launched are intended for the stabilisation of sand dunes, shelter belt plantation, conservation of surface water, re-charge of ground water acquifers, efficient water resource management, afforestation, etc.

During 1988-89 (upto December 1988), under DPAP, 55,645 hectares of land were treated under soil and moisture conservation, 10,696 hectares of irrigation potential was created and 46,684 hectares were covered under afforestation. Under the DDP, the area covered was 5,741 hectares, 774 hectares and 11,622 hectares in terms of soil and moisture conservation, irrigation potential and afforestation, respectively. In the year 1988-89, funds allocated to DPAP and DDP were Rs. 102.23 crores and Rs. 50.00 crores, respectively, of which an amount of Rs. 43.04 crores and Rs. 22.74 crores, respectively, were spent upto November 1988.

The sectoral weightages in the planning and implementation of programmes arising due to a sharper focus on drought proofing and restoration of ecological balance under DPAP and controlling of desertification under DDP continue to be pursued vigorously. As a consequence, the approach of a well coordinated project of area development on a micro watershed basis with suitable integration of various other programmes being implemented in the area is being continuously emphasised. A great deal of stress has been laid on consultation with people within the micro watershed, association of people's organisations, local level democratic bodies and voluntary agencies at the stages of both planning and implementation. A National Committee on DPAP and DDP has been set up under the Chairmanship of a Member of the Planning Commission to carry out an appraisal of the impact of the two programmes and suggest improvements in the programme content, methodology of planning, coverage, structure of implementation, etc.

The achievements under the two programmes during 1987-88 and 1988-89 are given in Tables III-27 and 28.

**Table III-27 : Achievement of Drought Prone - Areas Programme**

| Item | Unit | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1. Area treated under soil moisture conservation | 000' hectares | 54.47 | 43.8 | 68.28 | 34.06 | 34.90 | 55.65 |
| 2. Creation of irrigation potential | " | 106.85 | 25.9 | 45.40 | 38.74 | 28.70 | 10.70 |
| 3. Forestry and pasture | " | 76.11 | 43.5 | 52.30 | 41.79 | 83.66 | 46.68 |
| 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 | .. | .. |

*Note* : .. = Not available

*Source* : Ministry of Agriculture, Government of India.

**Table III-28 : Achievement of Desert Development Programme**

| Item | Unit | Achievements | | | |
|---|---|---|---|---|---|
| | | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1. Soil and moisture conservation | 000' hectares | 5.12 | 11.48 | 59.00 | 5.74 |
| 2. Crop husbandry | " | 1.44 | .. | .. | .. |
| 3. Forestry and Pasture development | " | 18.66 | .. | 168.60 | 11.62 |
| 4. Creation of irrigation potential | " | 0.97 | 0.87 | 20.97 | 0.77 |
| 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.

### National Rural Employment Programme

The National Rural Employment Programme (NREP), launched since 1980, has the following objectives. (1) Generation of gainful employment for the unemployed and the underemployed, both men and women in the rural areas, (2) Creation of productive community assets for the benefit of the poverty groups and for strengthening the rural economy and social infrastructure which will lead to a rapid growth of rural economy and steady rise in income levels of the rural poor, (3) Improvement in the overall quality of life in rural areas.

The programme has become an integral part of the Five-Year Plans and since the Sixth Plan, continues to be implemented as a Centrally-sponsored Programme on a 50:50 sharing basis between the Centre and the States. The salient feature of the Programme is that the resources are allocated to the States/ Union Territories on the basis of prescribed criteria giving 50 per cent

weightage to agricultural labourers; marginal farmers and marginal workers and 50 per cent weightage to incidence of poverty. Further, 10 per cent of the allocation is earmarked for works directly benefiting Scheduled Castes/ Scheduled Tribes (SC/ST), and 25 per cent of allocation for social forestry works. Contractors or middlemen are not permitted to be engaged for executing the works under the programme.

During the year 1988-89, Rural Sanitary Latrine Programme, being implemented under RLEGP/NREP, has been confined to educational institutions, village fair sites, market yards, Panchayat Ghars, etc. Beneficiary-oriented SC/ST sanitary works are now being taken up under the Centrally Sponsored Rural Sanitation Programme (CSRSP). The CSRSP can also now undertake works which benefit SC/ST individually and also works which benefit freed bonded labourers, allottees of Bhoodan land, waste land and land rendered surplus as a consequence to the application of ceiling on land holdings.

During 1988-89, a new scheme of construction of irrigation wells for SC/ST,namely, the Million Wells Scheme was introduced as a sub-scheme under NREP/RLEGP. The objective of the scheme is to provide open irrigation wells free of cost to these people living below poverty line and targetted under the IRDP list. The duration of the scheme is two years starting from April 1988. The total amount allocated for this scheme during 1988-89 was Rs. 154.5 crores. For implementation of NREP, during 1988-89, cash funds to the extent of Rs. 408.2 crores was allocated as Central share with a matching share of Rs. 404.70 crores by the States. In addition, Rs. 90 crores were provided for supply of foodgrains under the Programme. An amount of Rs. 338.75 crores has been released by the Central Government so far. In respect of allocation and use of foodgrains under the Programme, 2.88 lakh metric tonnes of foodgrains have been utilised till the end of November 1988 as against the release of 3.52 lakh tonnes upto December 1988.

About 228 million man-days have been generated upto December 1988 against the target of 290 million man-days per year, of which the SC/ST, landless and women were roughly 55 per cent, 43 per cent and 23 per cent, respectively (Table III-29).

The emphasis on NREP during the Seventh Plan encompassing the three major objectives of food, work and productivity have been continued. In the Seventh Plan period, an outlay of Rs. 2,488 crores including States' share of Rs. 1,237 crores has been provided for NREP, which is envisaged to generate employment of 290 million man-days per annum.

**Table III-29 : Progress of National Rural Employment Programme**

| Item | Unit | 1982-83 | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89* |
|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **Foodgrains** | | | | | | | | |
| i) Allocation | Lakh tonnes | 3.13 | 3.22 | 3.09 | 7.30 | 9.51 | 10.00 | 5.36 |
| ii) Releases | " | 2.48 | 2.36 | 3.07 | 9.56 | 16.12 | 11.99 | 3.52 |
| iii) Utilisation | " | 1.72 | 1.47 | 1.70 | 5.81 | 13.23 | 11.05 | 3.35 |
| **Cash** | | | | | | | | |
| i) Allocation by the Centre | Rs. crores | 175.76 | 200.69 | 230.00 | 229.75 | 249.80 | 363.13 | 408.21 |
| ii) Allocation by the States | " | 173.84 | 198.59 | 227.60 | 256.05 | 264.37 | 329.52 | 404.70 |
| iii) Unutilised balance from previous year | " | 130.16 | 118.25 | 124.00 | 93.62 | 128.84 | 155.67 | 223.30 |
| iv) Utilisation | " | 393.92 | 394.00 | 502.11 | 531.95 | 683.94 | 788.31 | 538.85 |
| **Employment Generated (Achievement)** | Million mandays | 351.20 | 302.76 | 353.12 | 316.41 | 395.39 | 370.77 | 228.39 |

* Upto December 1988

*Source :* Ministry of Agriculture, Government of India.

**Rural Landless Employment Guarantee Programme**

The Rural Landless Employment Guarantee Programme (RLEGP) was launched in 1983 with the objective of generating gainful employment, creating productive assets in rural areas and improving the overall quality of rural life. The guarantee part of the programme has not been operational so far due to paucity of resources. The programme gives preference in employment to landless labourers, women, Scheduled castes and Scheduled tribes. The salient features include 100 per cent funding of the programme by the Central Government, with 50 per cent weightage in resource allocation to the States to the number of agricultural labourers, marginal farmers and marginal workers and 50 per cent weightage to incidence of poverty. Part of the wages is to be given in the form of subsidised foodgrains.

The main components of the programme are as under:

(i) Construction of housing units for SCs/STs and freed bonded labourers under Indira Awaas Yojana.
(ii) Works of Social and farm forestry.
(iii) Construction of wells under the Million Wells Scheme.
(iv) Other works, such as minor irrigation, drainage, soil and water conservation, construction of water harvesting structures, village tanks, land development and reclamation of wastelands, construction of primary schools, rural link roads, etc.

During the year 1988-89 (upto December 1988), 62,488 houses were constructed at a cost of Rs. 62.7 crores under the Indira Awaas Yojana. Under Social Forestry, an amount of Rs. 70.50 crores has been allocated upto December 1988, to take up work on Government community lands, road sides, canal embankment, etc. Actual expenditure till end-December 1988 amounted to Rs. 31.8 crores with a physical achievement of afforestation of 91,182 hectares. A target of 95,930 units of wells with an investment of Rs. 153.7 crores has been envisaged for the current year under the Million Wells Scheme. The total expenditure under the RLEGP in 1988-89 amounted to Rs. 364 crores (upto December 1988) as against a provision of Rs. 730 crores for 1988-89 and generated an employment of 168 million man-days.

**Jawahar Rozgar Yojana**

The Jawahar Rozgar Yojana (JRY) was launched during the year 1989-90 as an intensive rural employment programme for tackling the increasing unemployment problem. The scheme operates as a single rural employment programme in which both NREP and RLEGP have been merged. The scheme is Centrally-spon-

**Table III-30 : Progress of Rural Landless Employment Guarantee Scheme**

| Item | Unit | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| **Foodgrains** | | | | | | | |
| (i) Allocation | Lakh tonnes | .. | 3.22 | 5.60 | 10.00 | .. | .. |
| (ii) Releases | " | 0.06 | 3.20 | 7.69 | 10.31 | 10.41 | .. |
| (iii) Utilisation | " | 0.01 | 1.08 | 3.10 | 8.81 | 8.20 | .. |
| **Cash** | | | | | | | |
| (i) Allocation | Rs. crores | 100.00 | 500.00 | 499.00 | 495.75 | .. | .. |
| (ii) Releases | " | 100.00 | 393.99 | 495.88 | 480.41 | 648.41 | .. |
| (iii) Utilisation | " | 6.21 | 317.73 | 435.17 | 353.57 | 653.53 | .. |
| **Employment Generation** | | | | | | | |
| (i) Allocation | Million mandays | 60.00 | 300.00 | 205.73 | 236.45 | 268.41 | .. |
| (ii) Releases | " | 5.20 | 252.98 | 237.98 | 175.13 | .. | .. |
| (iii) Utilisation | Per cent | 8.66 | 84.33 | 115.67 | 74.07 | 304.11 | .. |

*Note :* .. =Not available.

*Source :* Ministry of Agriculture, Government of India.

sored on a 80:20 sharing basis between the Centre and the States. The criteria of allocation of resources to the States will be on the basis of incidence of rural poverty. The programme also envisages preference to the Scheduled Castes and Scheduled Tribes and nomadic tribes and has reserved 30 per cent of employment opportunities for women.

The main objectives of JRY are generation of additional gainful employment for the unemployed and under-employed in the rural areas and creation of economically productive and socially useful assets. Under the scheme, the Central assistance is released directly to the districts. Not less than 80 per cent of the allocation to districts by the Centre and the States is required to be given directly to the village panchayats.

The eligible works taken up under the programme include social forestry, soil and water conservation works, minor irrigation works such as construction of community irrigation wells, irrigation drains, field channels on individual holdings, flood protection, drainage and water logging works, construction/improvement of village tanks, construction of houses for SC/ST and freed bonded labourers, construction of rural latrines, rural roads, primary schools, land development works and creation of water harvesting structures, etc.

The Jawahar Rozgar Yojana envisages an expenditure of Rs. 2,625 crores during the financial year 1989-90, of which the allocation of Central assistance is around Rs. 2,100 crores or 80 per cent of total expenditure. The employment generation target under the scheme is about 737 million mandays during the year.

## Chapter IV

# Industrial Production

### Trends in Industrial Production During 1988-89

During the financial year 1988-89 (April-March), the average of monthly index of industrial production (IIP) at 181.0 recorded a growth rate of 8.8 per cent as compared with 7.3 per cent achieved during 1987-88. The monthly index on a point-to-point basis showed relatively larger variations in growth rates over that in the corresponding month of the preceding year, ranging from the lowest of 2.7 per cent in July 1988 over July 1987 to the highest of 16.3 per cent during May 1988 over May 1987. Over the year, the index of March 1989 over March 1988 recorded a higher growth rate of 5.8 per cent than that of 4.2 per cent achieved in March 1988 over March 1987. The growth of Industrial Production in 1988-89 was not only higher than that in the preceding year but also well spread over a large number of industrial groups. A number of industries under the groups-basic goods, capital goods, intermediate goods and consumer goods-contributed to higher industrial growth. Improvement in the performance of infrastructure industries was another factor for higher growth rate. The rate of growth in industrial production had moved up from 8.7 per cent in 1985-86-the first year of the Seventh Plan-to 9.1 per cent in 1986-87, receded to 7.3 per cent in 1987-88 and again picked up in 1988-89. The average growth rate in industrial production for the first four years (1985-86 to 1988-89) of the Seventh Plan was higher at 8.5 per cent as against the Seventh Plan target of 8.0 per cent.

The infrastructure industries (electricity, petroleum crude, petroleum refinery products, saleable steel, coal (excluding lignite) and cement) performed reasonably well during 1988-89 with almost all the sectors registering higher growth rates than in the previous year. The average composite index of the six industries (with a combined weight of 28.77 per cent in the general index of production) recorded a higher increase of 8.1 per cent during the financial year 1988-89 as compared with 6.1 per cent in 1987-88 and 7.5 per cent in 1986-87. While the higher growth in the infrastructure index was achieved due to accelerated growth in the index of electricity, saleable steel, cement and petroleum crude, it was partly offset by deceleration recorded in the output of petroleum refinery products. The growth rate of coal (excluding lignite) was almost the same as in the last year.

The revenue earning traffic carried by the railways during 1988-89 increased by 3.7 per cent as compared with the 4.5 per cent rise in the previous year. The movement of industrial goods increased by 7.0 per cent in 1988-89 as compared with 8.7 per cent in the previous year.

The weighted contribution of the manufacturing sector to the overall growth in industrial production declined to 75.1 per cent in 1988-89 from 80.4 per cent in 1987-88. On the other hand, the weighted contributions of the electricity and mining and quarrying sectors were higher (Table IV-1).The acceleration in the growth rate of general index was attributable to higher growth rate in all the three constituent sectors, viz., mining and quarrying, manufacturing and electricity. The higher output of electricity and manufacturing, especially in the second half of the year was facilitated by the excellent monsoon which resulted in improved availability of hydel power and agriculture-based raw materials. The manufacturing sector benefited both from increased power availability and improved

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

| Sector | Weight | April-March | | | | | |
|---|---|---|---|---|---|---|---|
| | | 1986-87 | | 1987-88 | | 1988-89 | |
| | | Index | Contribution to growth % | Index | Contribution to growth % | Index | Contribution to growth % |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Mining and Quarrying | 11.46 | 177.9 (+6.2) | 10.0 | 184.6 (+3.8) | 6.6 | 199.0 (+7.8) | 11.5 |
| Manufacturing | 77.11 | 149.7 (+9.3) | 76.0 | 161.5 (+7.9) | 80.4 | 175.8 (+8.9) | 75.1 |
| Electricity | 11.43 | 168.1 (+10.3) | 14.0 | 181.0 (+7.7) | 13.0 | 198.1 (+9.4) | 13.4 |
| **General Index (crude)** | **100.00** | **154.8 (+9.1)** | **100.0** | **166.3 (+7.3)** | **100.00** | **181.0 (+8.8)** | **100.00** |

*Note :* Figures in brackets are percentage variations over the corresponding period of the previous year.
* Provisional.
*Source:* Index Numbers of Industrial Production released by the Central Statistical Organisation (CSO ).

demand from the export sector. The improvement in the growth rate of manufacturing sector as a whole during 1988-89 was reasonably broad-based; 15 groups out of 17 accounting for 64.31 per cent of weightage in IIP registered positive growth in 1988-89 as compared with that of 11 groups with 51.54 per cent of weightage in IIP in 1987-88; the number of groups showing decline fell to two from six, respectively. Among the industries which recorded improvement in the output during 1988-89, growth rates ranged from a minimum of 3.0 per cent in respect of paper and paper products to a maximum of 46.2 per cent in the textile products. Two groups viz.,cotton textiles and leather and leather products, recorded negative growth rate of 3.3 per cent and 3.0 per cent respectively, in 1988-89. Table IV-2 indicates the contribution of each group to the increase in the manufacturing sector as a whole.

## Industrial Licensing Policy

In pursuance of the objective to impart further thrust to an accelerated and efficient industrial growth a number of liberal policy measures were undertaken during 1988-89. These include further facilities for re-endorsement of capacities and setting up of additional capacities, revision and specification of minimum economic scales for more industries, inclusion of more industries under broadbanding schemes, a more liberalised access to foreign exchange under Technology Development Fund Scheme, a whole package of delicensing for non-MRTP/FERA Companies, simplification of licensing procedures, promotion of industries in backward areas and growth centres and relaxation of locational constraints subject to certain conditions. Major policy changes introduced during the year under review are as follows :

*(1) Delicensing :*

An important measure was the enhancement of limits on the value of fixed assets for exemption from industrial licensing for non-MRTP/non-FERA companies; these exemption limits were raised from Rs. 5 crores to Rs. 50 crores for projects to be located in centrally declared backward areas and Rs. 15 crores for projects to be located in other areas provided that in both the cases, such location does not fall within the specified distance limits from the boundaries of standard urban area/municipal limits of cities/towns. Industrial licensing has also been dispensed with in respect of export production by all undertakings subject, however, to the value addition norm of not less than 20 per cent if imported materials are to be used.

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

(percentages)

| Sr. No. | Industry Group | Weight | April-March | | |
|---|---|---|---|---|---|
| | | | 1986-87 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1. | Electrical machinery, apparatus, appliances and supplies and parts | 5.78 | 27.0 (31.58) | 31.6 (51.10) | 4.6 (8.10) |
| 2. | Other manufacturing industries | 0.90 | 54.2 (7.52) | 15.6 (3.63) | 11.1 (2.46) |
| 3. | Chemicals and chemical products (except products of petroleum & coal) | 12.51 | 13.7 (26.78) | 14.5 (34.90) | 16.2 (36.98) |
| 4. | Basic metal and alloys industries | 9.80 | 8.4 (9.70) | 6.9 (9.47) | 6.9 (8.29) |
| 5. | Textile products (including wearing apparel other than footwear) | 0.82 | -22.8 (-2.13) | 5.4 (0.42) | 46.2 (3.16) |
| 6. | Transport equipment and parts | 6.39 | 6.7 (5.87) | 4.8 (4.84) | 12.9 (11.39) |
| 7. | Food and food products | 5.33 | 6.1 (4.09) | 4.4 (3.40) | 6.6 (4.46) |
| 8. | Rubber, plastic, petroleum and coal products | 4.00 | -2.2 (-1.37) | 3.7 (2.42) | 8.9 (5.02) |
| 9. | Metal products and parts, except machinery and transport equipments | 2.29 | 8.5 (2.24) | 4.2 (1.31) | 3.0 (0.81) |
| 10. | Leather and leather and fur products (except repair) | 0.49 | 5.0 (0.42) | 4.4 (0.42) | -4.4 (-0.36) |
| 11. | Cotton textiles | 12.31 | 1.9 (2.61) | -1.2 (-1.76) | -3.3 (-4.14) |
| 12. | Paper and paper products and printing, publishing and allied industries | 3.23 | 9.9 (4.79) | 1.9 (1.10) | 3.0 (1.47) |
| 13. | Wood and wood products, furniture and fixtures | 0.45 | 10.3 (1.04) | -34.3 (-4.17) | 6.2 (0.41) |
| 14. | Beverages, tobacco and tobacco products | 1.57 | -12.1 (-2.16) | -13.8 (-2.35) | 8.5 (1.03) |
| 15. | Jute, hemp and mesta textiles | 2.00 | 4.0 (0.79) | -10.0 (-2.22) | 11.4 (1.89) |
| 16. | Machinery, machine tools and parts (except electrical machinery) | 6.24 | 8.9 (7.31) | -1.8 (-1.78) | 14.9 (11.80) |
| 17. | Non-metallic mineral products | 3.00 | 1.9 (0.91) | -1.4 (-0.72) | 16.8 (7.23) |
| | Manufacturing | 77.11 | 149.7 | 161.5 | 175.8 |

* 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 total contribution of manufacturing sector due to rounding off of percentages.

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

Licensing policy has also been relaxed for 'dominant undertakings' (falling under Section 20(b) of MRTP Act) having total assets up to Rs. 1 crore and they are being treated on par with non-MRTP/non-FERA Companies in products other than those in which they are classified as dominant. The limit on import content of production as proportion of ex-factory value of annual factory production has been increased from 15 per cent to 30 per cent for the first year of

production and simultaneously, the ceiling of Rs. 75 lakhs for such imports has been deleted. Except for MRTP/FERA Companies, the wire winding industry has also been delicensed.

*(2) Scope of Licensing :*

The number of industries for which licences have to be obtained compulsorily has been reduced from 79 to 26 (Schedule 1 industries). The benefit of delicensing applies in entirety to the small-scale sector also, except in respect of industries specified in Schedule I and Schedule A of the Industrial Policy Resolution (IPR), 1956. Schedule I includes industries which are regulated either on account of socio-economic reasons or pollution hazards and/or shortage of raw materials. Schedule A, as usual, includes 17 industries completely under the control of the Government as provided under the Industrial Policy Resolution of 1956.

*(3) Growth Centres :*

For promoting industrialisation in backward areas, it is planned to invest up to Rs. 25 to Rs. 30 crores in each of the proposed growth centres for the development of main infrastructural facilities such as power, water, tele-communications and banking during the next five years. The Government has initiated steps to set up 100 growth Centres all over the country. In the first phase, 61 growth centres will be set up in different States and Union Territories. The State/Union Territory-wise allocation of these 61 centres has already been announced. The Central Government will provide Rs. 10 crores per growth Centre, the State Government and Financial Institutions (including nationalised banks) Rs. 5 crores each and the remaining Rs. 10 crores will be raised from market borrowings. Financial incentives in the form of profit deductions under Rule 80HH and 80I under Income Tax Act and the provision of investment allowance (reintroduced) will be available cumulatively to units set up in growth centres.

*(4) Expansion and Diversification :*

A composite package for optimising production and product-mix in the ferro and ferro alloys industry, subject to units undertaking modernization, has been brought out by the Government. Steel making units, units manufacturing coated strips, rolling units and those manufacturing galvanised sheets and strips have been allowed substantial expansion if they undertake modernization or installation of balancing equipment. In addition, coated strips, ferro-alloys, rolled products and steel products manufacturers have been allowed to diversify into similar products. New capacities have also been allowed to be set up for manufacturing ferro chromes/charge chromes and steel based on electric arc furnace technology. Substantial expansion has also been permitted in the leather footwear and goods industry to give thrust to production for export. Capacity expansion has also been allowed for paper units under a diversification scheme including the manufacture of newsprint. The expansion in weaving sector in the textile industry subject to locational guidelines has also been allowed. Fresh capacities will also be allowed to be created for cold rolled strips only for captive use of bicycle, precision tubes and coated sheets/strips manufacturers.

*(5) Endorsement*

In order to maximise production during the Seventh Plan, a scheme of automatic re-endorsement of capacities based on the maximum production achieved in any of the financial years between April 1, 1988 and March 31, 1990 has been announced for all undertakings including MRTP/FERA Companies. Under this scheme although investment up to the level of 10 per cent of the existing plant and machinery has been allowed for balancing equipment and debottlenecking to maximise production from the existing facilities, no fresh expansion is envisaged. Refixation of capacities in the drugs and pharmaceuticals industry on the principle of 'balanced line capacity' has been undertaken based on the highest production achieved during any of the three years ending with a specified date. All units availing of benefit of re-endorsement in excess of licensed capacity under the above scheme will have to meet export obligation in respect of additional capacity. It applies to all types of industrial undertakings without any locational restrictions.

*(6) Broadbanding :*

To impart product flexibility and fuller utilization of capacities the scheme of broad-banding (so far 41 groups of industries have already been broadbanded) has been extended in respect of items like leather footwear and goods,

electrical fans (excluding 450 m. m. exhausts), automobile tyres and tubes, 31 groups of bulk drugs, cement, 18 items of electrical equipment, glass manufactures, fruit and vegetable products, milk products (except baby food), satellite communication equipments and white goods covering refrigerators, freezers, vaccum cleaners etc. The broadbanding facility has been made available to MRTP/FERA companies for non-Appendix 1 items also subject to their already holding a valid industrial licence. To facilitate broadbanding, investment up to 10 per cent of existing value of plant and machinery has been allowed to set-up balancing equipments.

*(7) Minimum Economic Scale :*

The specification and revision of production levels to those at minimum economic scale for cost effective production has received further attention. With the addition of 11 items during the year 1988-89, the total items covered under the scheme, since its introduction in 1986-87, stand at 84. Besides, the size of minimum economic capacities have also been increased in respect of 5 industries.

*(8) Technology Development :*

During the year the imports of technology and capital goods under the Technology Development Fund Scheme were further liberalised to help modernization and upgradation. Whereas the ceiling limit for foreign exchange entitlement was increased from Rs. 2 crores to Rs. 3 crores, the scope of imports has been widened to include technical assistance, drawings and designs and consultancy services also. Provision is also made to relax the ceiling of Rs. 3 crores if an industrial unit exports more than 10 per cent of its turnover or more than 25 per cent of the production of an item covered under the scheme. In addition, there is no restriction imposed on expansion by non-MRTP/non-FERA companies consequent upon modernization. Further, liberalisation in not only imports of technology but also in licensing and capacities has been provided to the computer industry to modernize itself.

*(9) Inclusion of new items in Appendix 1:*

Fresh additions have been made in the list of industries covered in Appendix 1. These include mining chemicals, cement chemicals and food processing and packaging industries (subject to those reserved for small scale industries). Some revision has also been made in the list of items reserved for the small scale industries.

*(10) Licensing Procedures :*

The initial validity of all Letters of Intent (LOI's)/Registrations has been extended upto a period of three years to enable the entrepreneur to gain sufficient time for arranging foreign collaboration, import of capital goods, land and building etc. Foreign companies have been allowed to apply for industrial licences/collaborations with companies incorporated in India.

*(11) Environment and Location Policy :*

Locational policy has been relaxed to some extent for the leather goods industry as well as for small units with assets less than Rs. 5 crores which were established by State Governments/agencies prior to June, 1988 or those employing handicapped persons/women to the extent of 75 per cent of their total workforce. For the rest of the industries, the locational policy has been further revised in terms of distance from the urban area limits and the population. Environmental clearance of projects has been made more expeditious by allowing units to be set up on the basis of 'No Objection Certificate' from State Pollution Control Boards subject to assurance by units in continuing efforts towards pollution control.

**Employment in Organised Sector**

Employment in organised sector increased from 25.31 million at the end of December 1986 to 25.63 million at the end of December 1987, thus recording an increase of 1.3 per cent the same growth rate as registered in December 1986 over December 1985 (Statement 14 Report on Currency & Finance, 1988-89, Vol. II). While employment in the public sector rose by 1.8 per cent to 18.24 million in December 1987 from 17.91 million in December 1986, there was a drop in private sector by 0.1 per cent to 7.39 million from 7.40 million in the same period. The structure of public sector employment did not undergo any change. The share of the public sector in total organised employment was 71 per cent in December 1987 and the balance 29 per cent was accounted for by private sector. While the employment in State Governments had the maximum share of 36.0 per cent in the total public sector employment, the Central Government and Quasi-Government (Central) bodies

accounted for 19 per cent each at the end of December 1987. Similar feature was observed in the case of Quasi-Government (State) and Local Bodies as their shares were equal at around 13 per cent each in the total public sector employment. In so far as growth in employment in 1987 is concerned, the maximum increase (4.7 per cent) was registered by Quasi-Government bodies (State) followed by State Government (3 per cent), Central Government (1 per cent) and Central Quasi-Government bodies (0.6 per cent). The growth rate of employment in Local Bodies was negative (-1.7 per cent) at end December 1987. The drop in the employment in private sector was attributed to disappointing performance of large companies. There was, however, only a marginal improvement in employment in the small-scale industries.@

Statement 15 (Report on currency and Finance 1988-89 Vol. II) shows the composition of employment in Public and Private Sectors in major industries and services. The employment generation in the industries and services in the public sector was larger than that in the private sector. In private sector, employment in manufacturing industries declined to 4.38 million in December 1987 from 4.42 million in December 1986. There was also a fall in the employment in mining and quarrying, both in public and private sectors while it registered increase in community, social and personal services. The number of applicants on live register of Employment Exchanges (by occupational divisions) which had increased from 30,131 thousands in December 1986 to 30,247 thousands in December 1987 declined to 30,050 thousands in December 1988 (Statement 16- Report on Currency and Finance 1988-89 Vol. II). The number of Employment Exchanges at the end of 1988 stood at 759 as compared to 755 at the end of 1987. Registrations were lower at 5,963 thousands in 1988 than that in 1987, i.e. 6,012 thousands. vacancies notified and placements against them were also lower at 543thousands and 329 thousands, respectively, in 1988 as against 601 thousands and 334 thousands in 1987.

According to latest available data, total employment in the organised sector in March 1988 reached 25.75 million, public sector and private sector accounting for 18.33 million and 7.42 million, respectively.

@ cover only Small establishments employing 10-24 workers. Data given here therefore do not tally with the data given in the subsequent paragraphs on small scale sector.

**Small-Scale Sector**

The built-in structural characteristics of small-scale industries (SSI) sector such as relatively small size of initial capital requirement, entrepreneurship and employment generation potential, etc., render them as engine of balanced and decentralised development. During 1988-89 (April-March), the small-scale sector maintained the tempo of growth achieved in the preceding year. The number of small-scale units increased by 7.9 per cent to 17.01 lakhs from 15.76 lakhs in 1987-88. The estimated value of production of goods and services in the small-scale sector at Rs. 82,400 crores (at 1984-85 prices) in 1988-89 was higher by 13.1 per cent than that of Rs. 72,880 crores in the previous year. The level of employment therein increased by 5.6 per cent to 113 lakh persons in 1988-89 from 107 lakh persons in 1987-88. (Table IV-3).

Total estimated exports of SSI sector at Rs. 3,648 crores during 1986-87 were higher by 31.0 per cent than that of Rs. 2,785 crores in 1985-86. The share of small-scale sector in the total exports increased to about 29.0 per cent in 1986-87 from 25.6 per cent in 1985-86. Significantly, the non-traditional items contributed about 90 per cent of total exports of small-scale sector.

For stimulating the growth of this sector various policy measures and programmes have been introduced, viz., the reservation of a number of items for exclusive production in the small-scale sector and purchases from it, fiscal concessions and subsidies including preferential rates of excise duties, priority in the sanction of loans from the banks and financial institutions, concessions in rates of interest, priority allocation of infrastructure facilities and imports of raw materials and machinery. The total number of items reserved for exclusive production in the small-scale sector stood at 835 as at the end of March 1989. Under the Government Stores Purchase Programme, 409 items have been reserved for exclusive purchase from small-scale sector, while 13 items are reserved for purchase upto 75 per cent and 28 items for purchase upto 50 per cent.

In addition to the above mentioned

**Table IV-3 : Small-Scale Sector**

| Item | April-March | | | |
|---|---|---|---|---|
| | 1985-86 | 1986-87 | 1987-88 | 1988-89(P) |
| 1 | 2 | 3 | 4 | 5 |
| i) Number of Units (Lakh Nos.) | 13.56 | 14.76 (+8.8) | 15.76 (+6.8) | 17.01 (+7.9) |
| ii) Production (Rupees Crores at 1984-85 Prices) | 57100 | 64500 (+13.0) | 72880 (+13.0) | 82,400 (+13.1) |
| iii) Production (Rupees Crores at Current Prices) | 61228 | 72250 (+18.0) | 87300 (+20.8) | 1,06,875 (+22.4) |
| iv) Exports (Rupees Crores at 1984-85 Prices) | 2785 | 3648 (+31.0) | N.A. | N.A. |
| v) Employment (Lakh Persons) | 96 | 101.4 (+5.6) | 107 (+5.5) | 113 (+5.6) |

(P) : Provisional.
N.A. : Not Available.
*Note :* Figures in brackets represent percentage variations over the previous year.
*Sources :* Office of the Development Commissioner, Small Scale Industries, Ministry of Industry, Government of India.

concessions the Industrial Development Bank of India (IDBI) through the Small Industries Development Fund (SIDF) established in May 1986, provided 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. The sanction of assistance through the various schemes operated under SIDF recorded a growth of 29.6 per cent from Rs. 1150.5 crore during July 1987-March 1988 to Rs. 1490.9 crore during July 1988-March 1989.

A National Equity Fund for providing equity support to tiny and small-scale industrial units was 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 unit for manufacture, preservation or processing of goods or such project 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 scheme was being operated through the nationalised banks. With a view to meeting the special characteristics of the North-Eastern region and the hilly states of Himachal Pradesh and Jammu and Kashmir, some modifications have been made in the scheme. It has been decided that in addition to nationalised banks and State Bank of India, the State Financial Corporations and State Investment and Development Corporations in these regions/states will also be the operating agencies for the implementation of the scheme. Though assistance sanctioned under the scheme till the end of March 1989 at Rs. 1 crore covering 230 units looks modest, the scheme is expected to pick up in the coming months in the light of recently introduced measures and role assigned to banks.

To meet the long standing demand of the tiny and small industries the Lok Sabha has passed a bill 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.

Fresh guidelines were issued by the Reserve Bank of India in July 1988 for credit assistance to small-scale sector, covering important aspects like timely and adequate sanction of working capital , coordination between commercial banks and State Financial Corporations, adequate monitoring of credit assistance to small-scale sector, etc.

To assist the small units in expeditious collection of payment for the supply made by them to various purchasers from both the public and private sectors, the Reserve Bank of India constituted a Study Group under the Chairmanship of Shri C. S. Kalyanasundaram, former Managing Director, State Bank of India, to examine the feasibility and mechanics of starting a 'factoring' organisation/organisations in the country and making recommendations regarding its/their constitution, organisational set up, the scope of activities and other related matters. The recommendations of the Study Group have been accepted by the Reserve Bank and modalities for setting up factoring organisations are being worked out.

**District Industries Centres**

According to estimates of the progress reports of 422 District Industries Centres (DICs), the establishment of new industrial units rose by 3.4 per cent to about 4.55 lakh (comprising 3.37 lakh artisan-based units and 1.18 lakh small scale units) during 1988-89 providing additional employment opportunities to about 14.80 lakh persons as compared with 14.11 lakh persons in 1987-88 (Table IV-4). Credit asistance by financial institutions to DICs is estimated 52.7 per cent higher at Rs. 2,094.69 crores during 1988-89 than that of Rs. 1,371.50 crores during 1987-88.

DIC programme is a Centrally Sponsored Scheme in the Seventh Plan with the Government of India sharing its expenditure with the State Government, on a 50:50 basis. Presently, the total number of approved DICs stands at 422 covering 431 districts.

In order to make the DICs more effective their organisational pattern is being restructured

**Table IV-4 : Performance of District Industries Centres**

| Item | Total Achievements (April-March) | | | Per DIC Achievements (April-March) | | |
|---|---|---|---|---|---|---|
| | 1986-87 (Actual) | 1987-88 (Estimated) | 1988-89 (Estimated) | 1986-87 (Actual) | 1987-88 (Estimated) | 1988-89 (Estimated) |
| -1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. No. of DICs sanctioned | 419 | 422 | 422 | — | — | — |
| 2. No. of DICs reporting | 418 | 422 | 422 | — | — | — |
| 3. New Registrations done (Nos.) | 374,023 | 385,286 | 392,953 | 895 | 913 | 931 |
| 4. New Units established (Nos.) | | | | | | |
| (i) Artisans | 316,169 | 328,316 | 337,673 | 756 | 778 | 800 |
| (ii) SSI | 106,211 | 112,252 | 117,719 | 254 | 266 | 279 |
| Total | 422,380 | 440,568 | 455,392 | 1,010 | 1,044 | 1,079 |
| 5. Credit assistance provided by financial institutions through DIC (Rupees in crores) | 890.80 | 1371.50 | 2094.69 | 2.13 | 3.25 | 4.96 |
| 6. Additional employment generated (No. of persons) | 1333,024 | 1411,168 | 1479,892 | 3,189 | 3,344 | 3,507 |
| 7. Units given technical and other assistance (Nos.) | 30,810 | 64,500 | 96,800 | 74 | 153 | 229 |

*Source :* Office of the Development Commissioner, Ministry of Industry, Government of India, New Delhi.

while keeping the conceptual base intact. The evaluation of DICs is being done by the Programme Evaluation Organisation of the Planning Commission. With a view to mitigate the problems of unemployment among educated youth, DICs have also been assigned operational responsibility of a Central Scheme for providing opportunities for self employment through industry, business and service routes. The scheme will remain in operation in the remaining period of the Seventh Plan.

**Industrial Sickness**

Incidence of industrial sickness in the country has been a matter of grave concern for banks and financial instituions, 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 there were 1,119 non-SSI sick industrial units with an outstanding bank credit of Rs. 2,801.79 crores as at the end of Deceber 1987 (Refer to footnote to Table IV-5). State-wise, sickness was high in Maharashtra, followed by West Bengal, Gujarat, Tamil Nadu, Andhra Pradesh, Uttar Pradesh, Karnataka etc. These seven states accounted for 75.2 per cent of the total number of non-SSI sick units and 79.4 per cent of the total outstanding bank credit as at end-December 1987.

Among the non-SSI units, industry-wise classification indicates that sickness was highest in the case of engineering units (249), followed by textiles (224) and chemicals (118). These three industry groups accounted for 52.8 per cent of the total number of non-SSI sick units and 62.0 per cent of the total outstanding bank credit as at end December 1987.

There were 720 non-SSI weak industrial units as at end-December 1987 with an outstanding bank credit of Rs 1657.30 crores (Table IV-5A). State-wise, the number of non-SSI weak units was largest in Maharashtra (144) followed by West Bengal (119), Uttar Pradesh (64), Gujarat (58), etc. Industry-wise, the sickness was more rampant in the case of textiles (160) and engineering (141).

As it has been observed that the existing criteria relating to current ratio and cash loss in the definition of 'weak' units were proving to be restrictive rather than helpful in the identification of weak units for initiating timely steps for their rehabilitation, the definition of 'weak' unit has been modified. Consequently, from the half-year ending September 1989 onwards, a unit will be termed as 'weak' if it has, at the end of any accounting year, accumulated losses equal to or exceeding fifty per cent of its peak net worth in the immediately preceding five years. This classification of weak units covers all categories of industrial units including those which do not fall within the purview of Sick Industrial Companies (Special Provisions) Act, 1985. Further from the half-year ending September 1989, the definition of sick SSI unit has been modified as follows. "A small-scale industrial unit should be considered as sick if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediately preceding five accounting years." In the case of the tiny/decentralised sector also a unit may be considered as sick if it satisfies the above definition. However, in the case of such units, if it is difficult to get financial particulars, a unit may be considered as sick if it defaults continuously for a period of one year, in the payment of interest or instalments of principal and there are persistent irregularities in the operation of its credit limit with the bank.

In the small-scale sector, incidence of sickness* continued to be high. The number of units identified as sick increased by 29.1 per cent to 2,04,259 as at end December 1987 from 1,58,226 units as at end June 1987 (Table IV-5B). Bank credit outstanding against these units rose by 16.5 per cent to Rs. 1,797.31 crores from Rs. 1,542.25 crores during that period.

Reserve Bank has issued instructions that no one single agency should unilaterally withdraw concessions/reliefs extended to a unit unless this has been agreed upon by all concerned. In the light of the experience gained following the establishment of BIFR under SICA, 1985, the position was reviewed and instructions were issued *inter-alia* on i) the need for banks' obtaining the Reserve Bank's requisite clearance before committing to the BIFR; ii) operating agencies providing all concerned with background notes sufficiently in advance of the joint meeting; iii) banks sending detailed status reports on sick units to the BIFR prior to the

* For definition of sickness referred here please refer to footnote to table IV-5B.

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

| State/Union Territories | Engineering | | Electrical | | Textiles | | Jute | | 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 |
| Assam | 1 | 0.29 | — | — | — | — | — | — | 3 | 7.01 |
| Meghalaya | — | — | — | — | — | — | — | — | — | — |
| Mizoram | — | — | — | — | — | — | — | — | — | — |
| Bihar | 3 | 8.03 | — | — | 3 | 2.59 | — | — | 3 | 3.77 |
| West Bengal | 40 | 146.59 | 2 | 2.03 | 13 | 23.87 | 32 | 112.99 | 9 | 26.06 |
| Orissa | 1 | 0.11 | — | — | 1 | 4.57 | — | — | 1 | 9.45 |
| Tripura | — | — | — | — | — | — | — | — | — | — |
| Uttar Pradesh | 9 | 23.96 | 2 | 0.89 | 9 | 45.77 | — | — | 8 | 7.54 |
| Delhi | 5 | 10.82 | — | — | 3 | 7.09 | — | — | 5 | 7.20 |
| Punjab | 5 | 1.55 | — | — | 7 | 2.25 | — | — | 2 | 4.01 |
| Haryana | 13 | 27.86 | — | — | 7 | 10.03 | — | — | 2 | 1.60 |
| Chandigarh | 4 | 7.94 | 1 | 5.14 | 3 | 8.51 | — | — | 5 | 10.29 |
| Jammu & Kashmir | — | — | — | — | — | — | — | — | — | — |
| Himachal Pradesh | 1 | 0.28 | — | — | — | — | — | — | 2 | 0.62 |
| Rajasthan | 5 | 3.74 | 1 | 9.41 | 14 | 25.50 | — | — | 6 | 5.36 |
| Gujarat | 27 | 44.86 | 1 | 0.37 | 52 | 237.30 | — | — | 7 | 24.72 |
| Maharashtra | 69 | 206.92 | 3 | 7.10 | 60 | 363.00 | — | — | 9 | 9.80 |
| Goa | 2 | 2.22 | — | — | 1 | 0.50 | — | — | — | — |
| Dadra & Nagar Haveli | — | — | — | — | — | — | — | — | — | — |
| Madhya Pradesh | 6 | 4.49 | 1 | 1.79 | 8 | 59.00 | — | — | 3 | 1.43 |
| Andhra Pradesh | 14 | 17.09 | 2 | 3.59 | 4 | 20.42 | 1 | 0.89 | 7 | 8.19 |
| Karnataka | 15 | 32.16 | — | — | 11 | 33.02 | — | — | 7 | 9.02 |
| Tamil Nadu | 25 | 55.04 | 1 | 1.42 | 24 | 84.93 | 1 | 0.03 | 7 | 7.51 |
| Kerala | 2 | 41.33 | 1 | 2.43 | 4 | 19.88 | — | — | — | — |
| Pondicherry | 2 | 0.93 | — | — | — | — | — | — | 1 | 1.66 |
| **Total** | **249** | **636.21** | **15** | **34.17** | **224** | **948.23** | **34** | **113.91** | **87** | **145.24** |

cases being taken up for hearing by the Board. Besides the existing agencies, five more banks, viz., Central Bank of India, Bank of India, Bank of Baroda, Punjab National Bank and Canara Bank have also been notified by BIFR as 'Operating Agencies'.

**Non—SSI Sick Industrial Units and outstanding bank credit as at the end of December 1987**

(Rupees crores)

| Rubber | | Cement | | Iron & Steel | | Sugar | | Chemicals | | Miscellaneous | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | No. of units | Amount out-stand-ing | No. of units | Amount out-stand-ing |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| — | — | — | — | — | — | — | — | — | — | — | — | 4 | 7.30 |
| — | — | — | — | — | — | — | — | 1 | 0.79 | — | — | 1 | 0.79 |
| — | — | — | — | — | — | — | — | 1 | 0.11 | — | — | 1 | 0.11 |
| — | — | 1 | 2.72 | 3 | 3.69 | 2 | 2.60 | 2 | 9.29 | 12 | 23.97 | 29 | 56.66 |
| 1 | 7.23 | — | — | 12 | 18.47 | 1 | 1.77 | 8 | 14.77 | 33 | 68.60 | 151 | 422.38 |
| — | — | — | — | 1 | 14.66 | — | — | 3 | 2.74 | 2 | 1.62 | 9 | 33.15 |
| — | — | — | — | — | — | — | — | — | — | 1 | 0.74 | 1 | 0.74 |
| — | — | — | — | 3 | 4.56 | 10 | 16.90 | 8 | 6.63 | 19 | 30.12 | 68 | 136.37 |
| — | — | — | — | 3 | 4.09 | — | — | — | — | 7 | 22.23 | 23 | 51.43 |
| — | — | — | — | — | — | — | — | 2 | 1.01 | 5 | 3.91 | 21 | 12.73 |
| — | — | — | — | 4 | 6.18 | — | — | 2 | 0.70 | 5 | 4.29 | 33 | 50.66 |
| — | — | — | — | — | — | 1 | 0.60 | 1 | 0.97 | 8 | 6.55 | 23 | 40.00 |
| — | — | — | — | — | — | — | — | — | — | 1 | 1.40 | 1 | 1.40 |
| — | — | — | — | — | — | — | — | 2 | 0.41 | — | — | 5 | 1.31 |
| — | — | 2 | 24.04 | 1 | 1.98 | 1 | 0.24 | 4 | 3.18 | 10 | 6.95 | 44 | 80.40 |
| — | — | 3 | 1.78 | 5 | 14.10 | — | — | 14 | 8.20 | 22 | 25.24 | 131 | 356.57 |
| 7 | 17.49 | 1 | 2.12 | 16 | 41.07 | 5 | 29.63 | 27 | 52.01 | 55 | 103.47 | 252 | 832.61 |
| — | — | — | — | 1 | 0.22 | — | — | 1 | 0.65 | 10 | 21.93 | 15 | 25.52 |
| — | — | — | — | — | — | — | — | — | — | 1 | 0.57 | 1 | 0.57 |
| 1 | 0.33 | — | — | 4 | 5.53 | 1 | 2.79 | 4 | 2.14 | 8 | 10.09 | 36 | 87.59 |
| 1 | 0.98 | — | — | 3 | 3.94 | 2 | 6.65 | 13 | 22.42 | 23 | 34.92 | 70 | 119.09 |
| 2 | 2.09 | 1 | 5.10 | 4 | 13.81 | 3 | 20.17 | 6 | 3.40 | 13 | 8.66 | 62 | 127.43 |
| 2 | 0.97 | — | — | 2 | 1.83 | 2 | 9.02 | 14 | 13.13 | 29 | 55.02 | 107 | 228.90 |
| 2 | 41.46 | — | — | 1 | 1.07 | — | — | 5 | 9.67 | 12 | 8.91 | 27 | 124.75 |
| — | — | — | — | — | — | — | — | — | — | 1 | 0.74 | 4 | 3.33 |
| **16** | **70.55** | **8** | **35.76** | **63** | **135.20** | **28** | **90.37** | **118** | **152.22** | **277** | **439.93** | **1119** | **2801.79** |

*Note:* According to the Sick Industrial Companies (Special Provisions) Act, 1985, '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/ancillary units.

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

| State/Union Territories | Engineering | | Electricals | | Textiles | | Jute | | 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 |
| Assam | — | — | — | — | — | — | — | — | — | — |
| Bihar | 3 | 2.98 | — | — | 1 | 0.56 | 2 | 1.58 | — | — |
| West Bengal | 22 | 100.33 | 1 | 1.10 | 10 | 23.65 | 7 | 16.18 | 2 | 8.19 |
| Orissa | 8 | 5.79 | — | — | 6 | 21.21 | 1 | 0.69 | — | — |
| Tripura | — | — | — | — | — | — | 1 | 2.76 | — | — |
| Uttar Pradesh | 6 | 18.92 | — | — | 17 | 108.75 | 1 | 1.63 | 1 | 1.57 |
| Delhi | 1 | 0.24 | — | — | 1 | 3.64 | — | — | 1 | 0.41 |
| Punjab | 2 | 0.90 | — | — | 2 | 1.69 | — | — | — | — |
| Haryana | 8 | 18.22 | — | — | 2 | 6.86 | — | — | — | — |
| Chandigarh | 3 | 3.09 | — | — | 4 | 4.77 | — | — | 1 | 1.98 |
| Himachal Pradesh | 2 | 6.36 | — | — | 3 | 2.44 | — | — | 1 | 0.47 |
| Rajasthan | 2 | 1.72 | 1 | 0.34 | 7 | 8.18 | — | — | — | — |
| Gujarat | 8 | 20.20 | 2 | 1.32 | 28 | 82.65 | — | — | 4 | 2.87 |
| Maharashtra | 35 | 71.91 | 2 | 0.94 | 43 | 151.73 | — | — | 6 | 9.50 |
| Goa | 1 | 0.07 | — | — | — | — | — | — | — | — |
| Dadra & Nagar Haveli | — | — | — | — | 1 | —* | — | — | — | — |
| Madhya Pradesh | 3 | 1.92 | 1 | 0.24 | 8 | 8.36 | — | — | — | — |
| Andhra Pradesh | 13 | 16.88 | 1 | 0.15 | 6 | 4.67 | 2 | 2.75 | 3 | 13.68 |
| Karnataka | 9 | 28.84 | 1 | 1.44 | 6 | 14.57 | — | — | 5 | 69.50 |
| Tamil Nadu | 9 | 8.55 | 1 | 2.65 | 7 | 20.05 | — | — | 1 | 0.81 |
| Kerala | 6 | 12.57 | 2 | 55.32 | 5 | 2.26 | — | — | 1 | 11.50 |
| Pondicherry | — | — | — | — | 3 | 11.26 | — | — | — | — |
| **Total** | **141** | **319.49** | **12** | **63.50** | **160** | **477.30** | **14** | **25.59** | **26** | **120.48** |

**Selected Industries : A Review**

The performance of selected industries classified in four broad groups, viz., basic goods, capital goods, intermediate goods and consumer goods during 1988-89 is briefly reviewed below.

*A. Basic Industries.*

**(a) Coal**

The output of coal (excluding lignite)reached an all time high of 194.21 million tonnes in 1988-89, registering a growth of 8.0 per cent, as against the earlier high of 179.85 million tonnes or 8.5 per cent growth rate achieved during 1987-88. The achievement of 1988-89, however, fell short of the target of 196.28 million tonnes (Table IV-6) and estimated demand of 202.0 million tonnes (excluding 6.00 million tonnes of washery middling).

Among the different coal companies, those under Coal India Ltd. (CIL) fared well during 1988-89 and all the subsidiaries of CIL achieved their target. CIL accounted for 88.0 per cent of the total coal production in the country and surpassed the production target of 170.08 million tonnes with a production of 171.55 million tonnes during 1988-89 and was higher by 7.9 per cent over the production of 159.06 million tonnes in 1987-88. Output in Singareni Collieries Co. Ltd. (SCCL) and in captive collieries of TISCO, IISCO and DVC in 1988-89

**Non-SSI Weak Industrial Units and outstanding bank credit as at the end of December 1987**

(Rupees crores)

| Rubber | | Cement | | Iron & Steel | | Sugar | | Chemicals | | Miscellaneous | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | No. of units | Amount out-stand-ing | No. of units | Amount out-stand-ing |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| — | — | — | — | — | — | 1 | 1.31 | 2 | 2.08 | 28 | 41.71 | 31 | 45.10 |
| — | — | — | — | — | — | 2 | 2.44 | — | — | 3 | 8.58 | 11 | 16.14 |
| 3 | 22.61 | — | — | 7 | 66.02 | — | — | 9 | 22.64 | 58 | 83.54 | 119 | 344.26 |
| — | — | — | — | 2 | 4.09 | — | — | 2 | 0.70 | 4 | 4.53 | 23 | 37.01 |
| — | — | — | — | — | — | — | — | — | — | 4 | 0.74 | 5 | 3.50 |
| 1 | 2.35 | 1 | 11.50 | 2 | 2.01 | 26 | 51.22 | 1 | 0.81 | 8 | 4.77 | 64 | 203.53 |
| — | — | — | — | — | — | — | — | — | — | 4 | 5.45 | 7 | 9.74 |
| — | — | — | — | — | — | — | — | — | — | 3 | 1.34 | 7 | 3.93 |
| — | — | — | — | — | — | — | — | 1 | 0.54 | 3 | 2.57 | 14 | 28.19 |
| — | — | 1 | 0.43 | 1 | 5.19 | — | — | 2 | 5.51 | 2 | 1.86 | 14 | 22.83 |
| — | — | — | — | — | — | — | — | — | — | — | — | 6 | 9.27 |
| — | — | 1 | 2.24 | — | — | — | — | 2 | 2.12 | 6 | 4.92 | 19 | 19.52 |
| — | — | 1 | 1.46 | 1 | 1.47 | — | — | 4 | 2.05 | 10 | 8.72 | 58 | 120.74 |
| 1 | 4.79 | 1 | 25.74 | 8 | 10.48 | 3 | 0.38 | 18 | 18.34 | 27 | 63.64 | 144 | 357.45 |
| — | — | — | — | — | — | — | — | — | — | 7 | 4.46 | 8 | 4.53 |
| — | — | — | — | — | — | — | — | — | — | — | — | 1 | — |
| — | — | — | — | — | — | 2 | 0.62 | — | — | 3 | 1.41 | 17 | 12.55 |
| — | — | — | — | 1 | 0.29 | 1 | 0.24 | 7 | 5.66 | 19 | 15.11 | 53 | 59.43 |
| 1 | 0.26 | 1 | 1.86 | 3 | 36.97 | 1 | 9.40 | 4 | 5.50 | 10 | 11.48 | 41 | 179.82 |
| — | — | — | — | 1 | 1.61 | 2 | 2.44 | 4 | 2.42 | 20 | 23.67 | 45 | 62.20 |
| 3 | 4.56 | 1 | 0.75 | — | — | — | — | 2 | 3.45 | 9 | 14.75 | 29 | 105.16 |
| — | — | — | — | — | — | — | — | — | — | 1 | 1.14 | 4 | 12.40 |
| **9** | **34.57** | **7** | **43.98** | **26** | **128.13** | **38** | **68.05** | **58** | **71.82** | **229** | **304.39** | **720** | **1657.30** |

* Company is enjoying non-fund based limits with the bank.

*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.

however, declined. The coal production in SCCL was affected due to power shortage.absenteeism strikes, etc.

The Output Per Manshift (OMS) in Coal India Ltd. increased from 1.08 tonnes in 1987-88 to 1.15 tonnes in 1988-89 thereby surpassing the target of 1.11 tonnes fixed for the year. The OMS of Singareni Collieries Company Ltd. too improved marginally from 0.95 tonne in 1987-88 to 0.96 tonne in 1988-89.

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

**Table IV-5B : Small-Scale Industrial Units and outstanding bank credit as at end December 1987 State-wise.**

(Rupees crores)

| No. | State/Union Territories | No. of units | Amount outstanding |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. | Andhra Pradesh | 19206 | 138.48 |
| 2. | Assam | 9722 | 19.52 |
| 3. | Bihar | 14151 | 73.81 |
| 4. | Gujarat | 5728 | 129.91 |
| 5. | Goa | 673 | 9.74 |
| 6. | Haryana | 2096 | 43.81 |
| 7. | Himachal Pradesh | 797 | 8.75 |
| 8. | Jammu & Kashmir | 2647 | 11.33 |
| 9. | Karnataka | 8463 | 107.72 |
| 10. | Kerala | 15067 | 111.18 |
| 11. | Madhya Pradesh | 12576 | 55.09 |
| 12. | Maharashtra | 15401 | 331.72 |
| 13. | Manipur | 537 | 0.66 |
| 14. | Meghalaya | 120 | 0.49 |
| 15. | Nagaland | 16 | 0.25 |
| 16. | Orissa | 8692 | 35.39 |
| 17. | Punjab | 2434 | 44.97 |
| 18. | Rajasthan | 9989 | 50.50 |
| 19. | Tamil Nadu | 30942 | 193.15 |
| 20. | Tripura | 357 | 0.56 |
| 21. | Uttar Pradesh | 19710 | 148.03 |
| 22. | West Bengal | 21409 | 182.43 |
| 23. | Andaman Nicobar | — | — |
| 24. | Arunachal Pradesh | 11 | 0.02 |
| 25. | Dadra-Nagarhaveli | 6 | 0.15 |
| 26. | Delhi | 3014 | 92.06 |
| 27. | Mizoram | — | — |
| 28. | Pondicherry | 271 | 1.93 |
| 29. | Sikkim | 4 | 0.22 |
| 30. | Chandigarh | 217 | 5.76 |
| 31. | Diu and Daman | 3 | 0.13 |
| | *Total* | **204259** | **1797.31** |

*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 instalements 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.

As against the estimated demand of 214.05 million tonnes of raw coal by 1989-90, the coal production target has been fixed at 209.50 million tonnes. The gap between demand and supply will be met by import of coking coal by steel plants and the balance is to be drawn from pit-head stocks.

Alongwith the increased output, the coal despatches also recorded a higher growth of 7.7 per cent to 183.21 million tonnes from the level of 170.04 million tonnes last year.

Coal is transported from mines to the consuming centres through the modes of railways, road transport, rail-cum-sea route carriers and captive systems like MGR, conveyor belts, etc. The railways are the major agency for coal transportation in India accounting for about 66 per cent of the total coal despatches. The daily average coal loading in CIL increased by 4.1 per cent from 11,739 wagons per day in 1987-88 to 12,225 wagons per day in 1988-89. Coal loading in SCCL increased by 6.0 per cent from 1,344 wagons per day in 1987-88 to 1,425 wagons per day in 1988-89.

As a result of larger increase in production than in despatches, the pit-head stocks of coal attained a higher level of 38.21 million tonnes at the end of 1988-89 as against that of 33.86 million tonnes last year. The mis-match between production and rail movement appears to have contributed to the increase in pit-head stocks of coal. The periodic upward revisions in prices of coal alongwith the transport cost also seems to have reduced its comparative advantage vis-a-vis other sources of energy and affected the demand for it. Complaints on quality of coal mainly related to supply of coal of lower calorific value, mixture of extraneous material, supply of oversized coal and short receipts. Various steps taken to overcome these complaints mainly relate to installation of coal handling/screening plants, installation of weighbridges, down-grading collieries and their reclassification based on joint sampling of coal.

To cope with the rising demands on the coal

**Table IV-6 : Performance of Coal Industry**

(Million tonnes)

| Item | April-March | | |
|---|---|---|---|
| | 1986-87 (Revised) | 1987-88 (Revised) | 1988-89 (P) |
| 1 | 2 | 3 | 4 |
| **1. Production** | | | |
| **(a) Coal (i+ii)** | **165.69** | **179.85** | **194.21** |
| | **(+7.4)** | **(+8.5)** | **(+8.0)** |
| i) Coking Coal | 38.34 | 40.03 | 42.05 |
| | (+9.0) | (+4.4) | (+5.0) |
| ii) Non-Coking Coal | 127.35 | 139.82 | 152.16 |
| | (+6.9) | (+9.8) | (+8.8) |
| **(b) Lignite** | **7.21** | **8.49** | **8.28** |
| | **(-10.3)** | **(+17.8)** | **(-2.5)** |
| **2. Imports (Coking Coal)** | **2.10** | **2.97** | **3.70** |
| | **(+2.9)** | **(+41.4)** | **(+24.6)** |
| **3. Despatches (i+ii)** | **158.02** | **170.04** | **183.21** |
| | **(+4.7)** | **(+7.6)** | **(+7.7)** |
| i) Coking Coal | 35.08 | 37.92 | 39.89 |
| | (+3.9) | (+8.1) | (+5.2) |
| ii) Non-Coking Coal | 122.94 | 132.12 | 143.32 |
| | (+4.9) | (+7.5) | (+8.5) |
| **4. Exports** | **0.16** | **0.16*** | **0.17**** |
| | **(-27.3)** | **(0.0)** | **(+6.2)** |
| **5. Year-end Pit-head stocks (i+ii)** | **28.87** | **33.86** | **38.21** |
| | **(-0.4)** | **(+17.3)** | **(+12.8)** |
| i) Coking Coal | 10.29 | 11.24 | 11.23 |
| | (+7.1) | (+9.2) | (-0.1) |
| ii) Non-Coking Coal | 18.58 | 22.62 | 26.98 |
| | (-4.1) | (+21.7) | (+19.3) |

P : Provisional.
* Upto February 1988.
** Upto February 1989.
*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 the figures relating to exports of coal represent actual exports and not despatches for exports.
*Source :* Department of Coal, Ministry of Energy.

mining industry and facilitate improvement in its efficiency and productivity, and also the management of mines, Government have set up several bilateral working groups with countries like USSR, Poland, France, UK, FRG, GDR, Canada and Australia. Some of the projects are also being assisted by the World Bank.

### (b) Iron Ore

Iron ore production during 1988-89 suffered a further fall of 3.9 per cent to 48.9 million tonnes in continuation of a decline of 2.7 per cent witnessed during the previous year. The share of public sector mines and private sector mines in total iron ore production of 48.9 million tonnes in 1988-89 stood at 56.0 per cent and 44.0 per cent, respectively. Iron ore production from captive mines of steel plants in both the public and private sectors amounted to 17.5 million tonnes accounting for 35.7 per cent of the total output in 1988-89. Goa continued to be the major iron ore producing state contributing nearly 25.0 per cent of the total output in 1988-89 followed by Madhya Pradesh (22.0 per cent), Karnataka (20.0 per cent), Bihar (17.0 per cent)

**Table IV-7 : Performance of Iron Ore Industry**

(Million tonnes)

| Item | April-March | | |
|---|---|---|---|
| | 1986-87 | 1987-88 (P) | 1988-89 (P) |
| 1 | 2 | 3 | 4 |
| Production | 52.3 | 50.9 | 48.9 |
| | (+16.2) | (-2.7) | (-3.9) |
| Despatches for internal consumption | 18.5 | 18.8 | 19.4 |
| | (+8.2) | (+1.6) | (+3.2) |
| Despatches for exports | 28.2 | 28.3 | 32.9 |
| | (-6.6) | (+0.4) | (+16.3) |
| Year-end stocks | 2.8 | 3.8 | 4.1 |
| | (-17.6) | (+35.7) | (+7.9) |

P : Provisional.
*Note:* Figures in brackets represent percentage variations over the previous year.
*Sources:* (i) Indian Bureau of Mines, Ministry of Steel & Mines, Government of India.
(ii) DGCI & S.

and Orissa (14.0 per cent). The balance 2.0 per cent was contributed by Maharashtra, Andhra Pradesh and Rajasthan.

The despatches for internal consumption recorded a higher growth of 3.2 per cent to 19.4 million tonnes during 1988-89 as against a rise of 1.6 per cent to 18.8 million tonnes attained during 1987-88. Provisionally, the iron ore exports of 32.9 million tonnes in 1988-89 were higher by 16.3 per cent than those in 1987-88.

The iron ore production from the mines of National Mineral Development Corporation Ltd., (NMDC) during 1988-89 increased marginally by 4.7 per cent to 9.0 million tonnes as against a production of 8.6 million tonnes in 1987-88. The total quantity of iron ore exported by NMDC during 1988-89 was 9.0 million tonnes as against an export of 7.9 million tonnes during 1987-88. In view of the fast depletion of Bailadila-14 mine, a deeper level mining project is under construction for utilising the deeper level reserves of iron ore.

The Kudremukh Iron Ore company Ltd., (KIOCL) produced 3.45 million tonnes of iron ore concentrate during April-December 1988 which was higher than 2.79 million tonnes produced during the same period last year. The production of iron ore pellets during April-December 1988 was 1.19 million tonnes as compared with 0.54 million tonnes in the same period during the previous year. As a result of persistent marketing efforts, KIOCL has been able to enter more markets for the sale of their products. During the period April-December 1988, 2.27 million tonnes of concentrate and 1.2 million tonnes of pellets have been exported. For the year 1989-90 export targets of 3.5 million tonnes of concentrate and 2 million tonnes of pellets have been planned.

**(c) Cement**

The production of cement during the year 1988-89 reached a peak level of 44.20 million tonnes from 39.55 million tonnes in 1987-88 and thereby recorded a higher growth of 11.8 per cent than that of 8.1 per cent achieved in the previous year (Table IV-8). This level of output also exceeded the target of 43.5 million tonnes by 1.2 per cent. The improvement in production during the year was mostly accounted for by the large size private sector plants and mini/white cement plants. In respect of large size public sector units, the performance was behind targets due to power cuts in Andhra Pradesh, Tamil Nadu and Karnataka, though there was an improvement over the last year's cumulative production.

The improved production during 1988-89 was achieved mainly through better capacity utilization by large size plants in the private sector and

those within the control of CCI. Installed capacity of plants rose by 4.6 per cent to 59.45 million tonnes in 1988-89 from 56.83 million tonnes in 1987-88. The overall capacity utilization improved to 76 per cent in 1988-89 from 72 per cent in the previous year. The capacity utilization ratio of private sector improved to 81 per cent in 1988-89 from 75 per cent in the last year. Public sector plants other than Cement Corporation of India (CCI) achieved a lower capacity utilization of 55 per cent in 1988-89 as against 57 per cent in 1987-88, the achievement of CCI plants was 66 per cent as against 59 per cent in the previous year.

In view of the increased production of cement, the supply of cement outweighed the demand for the first time by 2.5 per cent. There was, therefore, no import of cement during the year. As a result of excess production over demand, the year-end stocks of cement were a little more at 0.70 million tonne against 0.45 million tonne in the previous year.

Despatches of non-levy cement showed an increase from 74.0 per cent of the total despatches in 1987-88 to 83.7 per cent in 1988-89. Total despatches during the year at 41.69 million tonnes also recorded a higher growth of 12.3 per cent as against 7.1 per cent during 1987-88.

The retention price of levy cement was increased from time to time in order to compensate the industry for increases in input costs. The levy obligations on cement industry have also been reduced progressively in order to enable the industry to sell more of its production in the open market and improve profitability. The levy obligation on pre-1982 units was further reduced with effect from March 1, 1988. Units which have been achieving 100 per cent and up to 125 per cent of capacity utilisation were given a special dispensation with regard to levy obligation. The retention price of levy cement was increased by Rs. 47 per tonne with effect from September 7, 1988.

With a view to reducing the price of levy cement for the consumers, the general excise duty on cement was reduced from Rs. 225 per tonne to Rs. 205 per tonne from March 1, 1988. Further, new cement units which commenced production on or after April 1, 1986 or between January 1, 1982 and March 31, 1986 have been allowed a rebate in excise duty to the extent of Rs. 50 per tonne and Rs. 20 per tonne, respectively. In furtherance of the industrial policy of liberalisation, the Government announced decontrol of price and distribution on cement with effect from March 1, 1989. Moreover, to ensure availability of cement at reasonable price in the remote and hilly regions of the country, a suitable subsidy scheme is being worked out. Besides, a concessional rate of excise duty has been fixed for mini cement plants using vertical shaft kiln.

**Table IV-8 : Performance of Cement Industry**

(Million tonnes)

| Item | April-March | | |
|---|---|---|---|
| | 1986-87 | 1987-88 | 1988-89 (P) |
| 1 | 2 | 3 | 4 |
| Installed capacity | 48.37 | 56.83 | 59.45 |
| | (+9.0) | (+17.5) | (+4.61) |
| Production | 36.59 | 39.55 | 44.20 |
| | (+10.4) | (+8.09) | (+11.75) |
| Despatches | 34.66 | 37.13 | 41.69 |
| | (+8.6) | (+7.1) | (+12.28) |
| Average Capacity Utilisation rates (Per cent) | 78.9 | 75.10 | 76.30 |
| Imports | 0.18 | Nil | Nil |
| Year-end stocks | 0.54 | 0.45 | 0.70 |

P : Provisional.

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

ii) 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.

*Sources:* i) Office of the Development Commissioner for cement industry, Ministry of Industry, ii) Cement Manufacturers' Association, New Delhi, iii) Ministry of Programme Implementation.

The cement industry continues to take steps for modernisation and upgradation of technology. A number of cement plants have changed from wet process kilns to dry process kilns and from smaller dry process kilns to higher capacity kilns with the introduction of pre-calcination technology. Six cement plants are modernising from wet process to dry process kilns under World Bank assistance.

In order to minimise the loss of production on account of power cuts, the industry was advised to set up captive generating sets to meet their power requirements to the extent of 40 per cent. In order to encourage production of various types of cement and to allow flexibility in producion and better utilisation of capacity, the broad banding facility has been extended to cement industry subject to the condition that the cement produced conforms to ISI specifications.

**(d) Iron and Steel**

A higher rate of growth of 7.2 per cent in the production of saleable steel at 9,206 thousand tonnes was recorded in six integrated steel plants (five of Steel Authority of India Ltd.-SAIL and Tata Iron and Steel Co. Ltd. - TISCO) during 1988-89 compared with that of 4.5 per cent in the preceding 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 7,261 thousand tonnes was higher by 8.8 per cent (587 thousand tonnes) than that in the preceding year, but fell short of the target of 7,362 thousand tonnes by 1.4 per cent (Table IV-9). The production of hot metal in six integrated plants at 11,882 thousand tonnes during 1988-89 increased at a higher rate of 9.4 per cent as compared with a growth of 4.1 per cent (to a level of 10,865 thousand tonnes) witnessed during 1987-88. The SAIL plants produced 9,643 thousand tonnes of hot metal during 1988-89, which, however, was short of the target of 10,018 thousand tonnes by 3.7 per cent. The production of crude steel by six plants witnessed a higher growth of 10.5 per cent to 10,790 thousand tonnes in 1988-89 as against a rise of 7.5 per cent in 1987-88. The SAIL plants produced 8,476 thousand tonnes of crude steel, in 1988-89, which, however, fell short of the target of 8,775 thousand tonnes by 3.5 per cent. The performance of SAIL steel plants during the year was less than the target level due to restricted power supply at BSP from MPEB during the early part of the year, at RSP from OSEB and at BSL from DVC and short supplies of coking coal from domestic sources during the period June 1988 to September 1988. The capacity utilisation of SAIL steel plants during 1988-89 was 81.4 per cent, 80.5 per cent and 86.9 per cent in respect of production of crude steel, hot metal and saleable steel, respectively, as against the respective capacity utilisations of 96.4 per cent, 112.0 per cent and 92.6 per cent by TISCO.

Despatches of saleable steel by main producers during the year 1988-89 increased by 8.1 per cent to 9,221 thousand tonnes as compared with a rise of 4.7 per cent in 1987-88. As a result of somewhat higher increase in despatches of saleable steel than in production in six integrated steel plants during 1988-89, the stocks of saleable steel declined from 684 thousand tonnes at the end of March 1988 to 547 thousand tonnes at the end of March 1989. A substantial increase of 139.0 per cent in exports to 101.8 thousand tonnes of saleable steel by SAIL during 1988-89 as against 42.6 thousand tonnes in 1987-88 also contributed to the reduction of stocks of saleable steel. Furthermore, there was no import of saleable steel during the year.

The Electric Arc Furnace (EAF) units (mini steel plants) account for nearly 30 per cent of the country's total steel production. In recent years, mini steel plants produce all grades of steel including alloy, high carbon and special steels. At present 173 mini-steel plants with a total installed capacity of about 5,400 thousand tonnes per annum have been licensed, and out of these, 166 units with a licensed capacity of 5,240 thousand tonnes have already been commissioned. Letters of intent have been issued to 60 units for expansion of their installed capacity by 2,800 thousand tonnes. During 1988-89, the mini steel plants produced mild steel, medium/high carbon steel, alloy steel and stainless steel aggregating 3,189.7 thousand tonnes which was lower by 1.6 per cent than that in the last year. Production of re-rollers also suffered a setback of 1.3 per cent to 5,436.6 thousand tonnes as compared with the last year's production. In order to reduce heavy dependence of the mini steel plants on imported scrap, the Government have permitted setting up of new units based on modern technology which

**Table IV-9 : Production of Steel**

(Thousand tonnes)

| Year (April-March) | Bhilai | Durga-pur | Rour-kela | 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 Hot Metal** | | | | | | | | | | |
| 1986-87 | 2,510 | 1,125 | 1,223 | 2,813 | 1,941 | 825 | 10,437 (+4.0) | 5 | — | 5 (-84.8) |
| 1987-88 | 2,556 | 1,138 | 1,212 | 3,123 | 2,018 | 818 | 10,865 (+4.1) | — | — | — |
| 1988-89 p | 3,306 | 1,096 | 1,252 | 3,221 | 2,239 | 768 | 11,882 (+9.4) | 12 | — | 12 |
| **Production of Saleable Steel** | | | | | | | | | | |
| 1986-87 | 2,150 | 751 | 1,140 | 1,745 | 1,907 | 526 | 8,219 (+5.7) | 52 | 82 | 134 (+16.5) |
| 1987-88 | 2,173 | 835 | 1,156 | 1,968 | 1,914 | 542 | 8,588 (+4.5) | 40 | 89 | 129 (-3.7) |
| 1988-89 p | 2,542 | 832 | 1,168 | 2,277 | 1,945 | 442 | 9,206 (+7.2) | 41 | 107 | 148 (+14.7) |
| **Production of Crude Steel** | | | | | | | | | | |
| 1986-87 | 2,230 | 922 | 1,100 | 2,056 | 2,250 | 528 | 9,086 (+6.1) | 56 | 140 | 196 (+14.6) |
| 1987-88 | 2,471 | 936 | 1,115 | 2,418 | 2,277 | 546 | 9,763 (+7.5) | 53 | 154 | 207 (+5.6) |
| 1988-89 p | 3,094 | 956 | 1,190 | 2,771 | 2,314 | 465 | 10,790 (+10.5) | 58 | 179 | 237 (+14.5) |

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.

includes setting up of ultra high power furnace, ladle refining, water cooled panels etc., which are capable of utilising sponge iron to the extent of a minimum of 30 per cent in the feed material. The existing units are also being encouraged to modernise through adoption of energy saving equipment and replacement of smaller furnaces by bigger ones. Incentives by way of liberal grant of additional capacities have also been announced. Any of the existing mini steel plants which would be able to produce liquid metal sufficient for producing a minimum quantity of one lakh tonnes per annum of hot rolled strips/coils would be permitted to set up facilities for the manufacture of such strips/coils in the wider width of 600 mm and above.

With a view to meeting the growing demand for steel and also to improve its quality, various modernisation and expansion programmes are being carried out in all the SAIL steel plants. All major projects, except the cold rolling mill and power plant at Bokaro, have been completed. Galvanising line and tandem mill at Bokaro is likely to go into production soon. Out of sixteen turnkey packages for modernisation of Durgapur Steel Plant, work on seven indigenous and five global packages have already been assigned to the successful bidders.

**(e) Electricity**

The generation of electricity at 221.1 billion units (Kwh) during 1988-89 registered a higher growth rate of 9.5 per cent as against 7.6 per cent in the previous year. However, the generation was 2.4 per cent short of the target of 226.5 billion units set for the year (Table IV-10). This shortfall in relation to the target was largely

attributable to a lower growth witnessed in the thermal sector than that in the last year.

Source-wise, the thermal units (accounting for 71.2 per cent of the total power generation) registered a substantially lower growth of 5.4 per cent as compared with that of 16.0 per cent witnessed last year. The thermal power output of 157.5 billion units kwh was less than the target of 163 billion units kwh set for the year 1988-89. This deceleration was mainly due to low system demand following good monsoon, backing down of some units in view of improved availability of hydel power, continued high rate of forced outages of units in the Eastern and North Eastern regions and slippages in the schedule of commissioning of certain units. In contrast, hydel power generation which accounts for 26 per cent of the total power generation witnessed a remarkably higher growth of 21.9 per cent in 1988-89 as against a decline of 11.8 per cent witnessed during the previous year. The output of hydel power at 58 billion units (Kwh) was equal to its target for the year 1988-89. The nuclear power generation spurted by 15.7 per cent to 5.8 billion units in 1988-89 as against the marginal increase of 0.2 per cent recorded in 1987-88. It also surpassed the target of 5.5 billion units set for 1988-89. This acceleration was possible due mainly to a better performance by Rajasthan and Tarapur atomic power stations.

As a result of the remarkable growth in the hydel and nuclear power generation, the overall gap between availability and requirement of power narrowed down to 7.7 per cent in 1988-89 as against a shortage of 10.9 per cent witnessed in 1987-88. Region-wise, the Southern and Eastern Regions suffered maximum shortages of 13.8 per cent and 11.6 per cent, respectively.

During the year 1988-89, the Plant Load Factor (PLF) at thermal stations declined to 55.0 per cent as against 56.5 per cent last year. This was mainly due to reduction in load demand particularly in agricultural sector due to good monsoon. However, the PLF in the case of nuclear power improved appreciably to 54.0 per cent in 1988-89 as against 46.6 per cent during the previous year. Under a centrally sponsored scheme for renovation and modernisation of thermal power stations, an amount of Rs. 243.91 crores was utilised during 1984-88. Detailed guidelines in regard to the modalities for implementation of the programme were issued to the State Electricity Boards (SEBs). They were advised to constitute a special machinery designed to ensure expeditious execution of the scheme.

In the context of the need to transmit power

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

(Million Kilo Watt Hours)

| Source | April-March | | | | | |
|---|---|---|---|---|---|---|
| | 1986-87 | | 1987-88 | | 1988-89 (P) | |
| | Power Generation | Percentage Share | Power Generation | Percentage Share | Power Generation | Percentage Share |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Thermal | 128,818 (+12.9) | 68.7 | 149,464 (+16.0) | 74.0 | 157,510 (+5.4) | 71.2 |
| 2. Hydel | 53,764 (+5.6) | 28.6 | 47,396 (-11.8) | 23.5 | 57,793 (+21.9) | 26.2 |
| 3. Nuclear | 5,023 (+0.8) | 2.7 | 5,034 (+0.2) | 2.5 | 5,822 (+15.7) | 2.6 |
| **4. Total** | **187,605 (+10.3)** | **100.00** | **201,894 (+7.6)** | **100.00** | **221,125 (+9.5)** | **100.00** |

P : Provisional.

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

*Source:* Central Electricity Authority.

**Table IV-11 : Installed Plant Capacity**

(Mega Watt)

| As at the end of March | Thermal | Hydel | Nuclear | Total |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| 1987 | 31,740 | 16,196 | 1,330 | 49,266 |
| | (+5.9) | (+4.7) | (-) | (+5.3) |
| 1988 | 35,652 | 17,265 | 1,330 | 54,247 |
| | (+12.3) | (+6.6) | (-) | (+10.1) |
| 1989 (P) | 39,770 | 17,798 | 1,565 | 59,133 |
| | (+11.6) | (+3.1) | (+17.7) | (+9.0) |

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

from the Central generating stations to the beneficiary States, the construction of transmission line projects continued to be accorded a high priority.

Region-wise break-up indicates that the thermal power generation recorded highest growth (9.3 per cent) in Northern Region followed by Southern Region (8.8 per cent). As regards hydel power generation, the growth was maximum in Western Region (51.5 per cent), followed by North Eastern Region (41.5 per cent). The overall growth in power generation during the year was maximum in the Southern Region (14.2 per cent), while the minimum was recorded in the Eastern Region (4.9) per cent).

Electrification of rural areas continued to receive attention during the year. The targets on annual basis for village electrification and energisation of pumpsets were set at 17,064 villages and 4,54,405 pumpsets for 1988-89, respectively. During the period April-November 1988, 6,343 villages were electrified and 2,57,273 pumpsets were energised. The electrification of tribal villages and Harijan bastis continued to receive special attention. Up to November 1988 on a cumulative basis, 59,740 tribal villages were electrified and street lighting facilities were extended to 2,05,590 Harijan bastis.

As against the targeted capacity addition of 4496.5 MW for the year 1988-89, actual capacity addition was 4886 MW. Thus at end-March 1989, the total installed capacity of power generation was 59,133 MW comprising 39,770 MW of thermal, 17,798 MW of hydel and 1,565 MW of nuclear power (Table IV-11).

**(f) Crude Oil and Petroleum Refinery Products**

During 1988-89, crude oil output increased appreciably by 5.5 per cent to 32.0 million tonnes as against a decline of 0.4 per cent witnessed during 1987-88 (Table IV-12). This growth was due to increase of 0.9 million tonne or 4.7 per cent in off-shore output by Oil and Natural Gas Commission (ONGC) and 0.7 million tonne or 7.2 per cent in on-shore wells. Out of the total output of 32.0 million tonnes, 29.6 million tonnes (92.5 per cent) was from the wells of ONGC, comprising 8.5 million tonnes (26.6 per cent) from its on-shore wells and 21.1 million tonnes (65.9 per cent) from its off-shore wells. The balance output of 2.4 million tonnes (7.5 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 discovery of oil in four structures namely SD (Daman off-shore), PY-3 off-shore, R-10 Bombay off-shore and Sonari in Upper Assam
ii) discovery of gas in Chintalapalli and Mandapetta in Andhra Pradesh and Adamtilla in Cachar in Assam
iii) Commencing of production in September 1988 in India's largest gas field, south Bassein in Bombay.

The crude oil consumption (in terms of refinery throughput) rose by 2.2 per cent to 48.8

**TABLE IV-12 : Crude Oil and Petroleum Refinery Products**

(Thousand tonnes)

| Item | April-March | | |
|---|---|---|---|
| | 1986-87 | 1987-88 | 1988-89 (P) |
| 1 | 2 | 3 | 4 |
| **A. Crude Oil** | | | |
| **(a) Production (i+ii)** | **30,480** | **30,357** | **32,040** |
| | **(+1.0)** | **(-0.4)** | **(+5.5)** |
| i) On-shore | 9,862 | 10,193 | 10,928 |
| | (+5.5) | (+3.4) | (+7.2) |
| ii) Off-shore | 20,618 | 20,164 | 21,112 |
| | (-1.0) | (-2.2) | (+4.7) |
| **(b) Imports** | **15,476** | **17,732** | **17,811** |
| | **(+2.2)** | **(+14.6)** | **(+0.4)** |
| **B. Petroleum Refinery Products** | | | |
| **(a) Production** | **42,761** | **44,728** | **45,597** |
| | **(+6.3)** | **(+4.6)** | **(+1.9)** |
| *of which* | | | |
| i) Naphtha | 5,437 | 5,462 | 5,372 |
| | (+9.7) | (+0.5) | (-1.6) |
| (ii) Kerosene | 4,912 | 5,104 | 5,202 |
| | (+21.9) | (+3.9) | (+1.9) |
| iii) High Speed Diesel Oil | 15,450 | 16,296 | 16,656 |
| | (+5.6) | (+5.5) | (+2.2) |
| **(b) Imports** | **3,047** | **3,948** | **6,258** |
| | **(-21.2)** | **(+29.6)** | **(+58.5)** |
| *of which* | | | |
| i) Naphtha | 34 | -- | — |
| | (-) | (-) | (-) |
| ii) Kerosene | 1,900 | 2,181 | 2,747 |
| | (-26.0) | (+14.8) | (+26.0) |
| iii) High Speed Diesel Oil | 750 | 1,329 | 2,448 |
| | (-15.7) | (+77.2) | (+84.2) |

P : Provisional.

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

*Source:* Ministry of Petroleum and Natural Gas.

million tonnes in 1988-89 from 47.8 million tonnes in the previous year. In view of increased producion, the rise in imports was contained to 0.4 per cent to 17.8 million tonnes as against an increase of 14.6 per cent during the preceding year.

The output of petroleum refinery products rose marginally by 1.9 per cent to 45.6 million tonnes in 1988-89 from 44.7 million tonnes in 1987-88. The installed refining capacity as at end-March 1988 was 46.70 million tonnes per annum (MTPA) spread over 12 refineries. In addition, there was a swing capacity of 2.00 MTPA in HPCL's Bombay refinery.

For meeting the growing demand for petroleum products, the Government initiated a number of measures to increase the refinery capacity in the country. Consequently, it was decided to set up an additional 2 MTPA refinery in Assam. Among the major plan projects completed during 1988-89 were revamping of crude distillation unit at Mathura refinery and bottling plants at Tikrikalan, Karnal and Haldwani. Availability of Liquified Petroleum Gas (LPG) improved further by 15.0 per cent to 2.0 million tonnes during 1988-89 from 1.7 million tonnes in 1987-88.

The gross imports of petroleum refinery

products increased rapidly by 58.5 per cent to 6.3 million tonnes in 1988-89 as against imports of 3.9 million tonnes last year. Gross exports of petroleum products on the other hand declined by 32.7 per cent to 2.3 million tonnes as against a rise of 37.0 per cent last year. Consequently, the net imports increased rapidly to 4.0 million tonnes in 1988-89 as against 0.5 million tonnes in 1987-88.

Petroleum Conservation Research Association (PCRA) continued its thrust for conservation of petroleum products in industrial, transport, agricultural and domestic sector by intensifying their efforts through conduct of fuel oil utilisation studies, model depot projects, lift irrigation pumpset rectification, information dissemination programmes and R & D activities. Fuel oil utilisation studies were conducted in 111 industrial units till September 1988. During 1988-89, an annual saving of over 3.5 Lakh KLs of fuel oil worth Rs. 119 crores is expected to be realised.

In the transport sector, PCRA have completed model projects in 10 undertakings resulting in an averge diesel fuel saving of about 10 per cent. In the agricultural sector, PCRA continued rectification of lift irrigation pumpsets in States like Gujarat, Rajasthan, Uttar Pradesh, Punjab and Andhra Pradesh. Till September 1988, 234 lift irrigation pumpsets were rectified in these demonstration projects resulting in a 25 to 30 per cent saving in diesel consumption.

*B. Capital Goods Industries :*

**(a) Engineering Industry :**

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 8.2 per cent during 1988-89 as compared with a rise of 14.2 recorded in the preceding year. The performance of the engineering industry was, however, noteworthy on account of significant increase in the production of railway wagons and tractors and certain other items such as power transformers, electric motors, power driven pumps, domestic refrigerators etc.

As regards exports of engineering goods details are given in chapter X "Developments in India's Foreign Trade".

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

*(i) Heavy Machanical Engineering Industries :*

Within the automobiles group, there occurred a sharp decelaration in the growth of output of passenger cars (11.9 per cent in 1988-89 as compared with 37.7 per cent in 1987-88) and jeeps (8.0 per cent as compared with 19.5 per cent). The output of commercial vehicles showed a marginal decline (0.9 per cent over the level of previous year). The deceleration in the overall production of automobiles occurred not only because of sluggish demand but also due to shortages of inputs. The major problems facing the automobile sector is cost escalation on account of rising prices of inputs and under utilisation of capacity coupled with increase in rupee cost of imports. (This problem is marked in case of Light Commercial Vehicles (LCVs) due to depreciation of rupee), this has resulted in frequent upward revision of prices during the current year. Consequently, to meet these difficulties and in order to encourage exports of LCVs, passenger cars and jeeps, a scheme of special replenishment licences at double the specified rate was introduced in August, 1988.

The output of scooters, motorcycles and mopeds recorded a lower growth rate at 4.9 per cent than the rate of 11.3 per cent recorded during the preceding year. To stimulate demand for mopeds, the excise duty on motorised two-wheelers of engine capacity up to 25 c. c. and costing not more than Rs. 3,000 was reduced from 15 per cent ad valorem to 10 per cent ad valorem with effect from 6th July, 1988.

In respect of automobile sector, the Union Budget for 1989-90 proposed restructuring of the excise and customs duty. While the excise duty in case of two wheelers was restructured, the concessional excise duty on fuel efficient cars was discontinued. In order to encourage speedy indigenisation, concessions in customs duty were extended on machineries imported for the manufacture of specialised components for the manufacture of fuel efficient motor vehicles. A concessional customs duty of 40 per cent was

also proposed on machinery components used to manufacture fuel injection equipment by units following an approved phased manufacturing programme.

Production of diesel engines during the year 1988-89 recorded a decline of 2.1 per cent in continuation of a decline of 15.2 per cent recorded during the previous year. The output of road rollers recorded a growth of 3.6 per cent compared with a decline of 14.8 per cent during the preceding year. The production of railway wagons (in terms of four wheelers) recorded a substantial rise of 37.3 per cent compared with that of 3.9 per cent achieved during the last year. Whereas the growth in the output of lifts at 13.2 per cent compared favourably with 3.8 per cent achieved last year, that of tractors at 32.3 per cent (against 3.6 per cent last year) recorded a substantial rise on account of excise exemption announced last year and easy access to institutional financing (by Land Development Banks, Land Mortgage Banks and Commercial Banks - which in turn are refinanced by NABARD at a reduced rate of interest at 8 per cent).

*(ii) Light Mechanical Engineering Industries*

Among the selected light mechanical engineering industries (Table IV-14), production of bicycles recorded a decline of 0.1 per cent during 1988-89 compared with 9.6 per cent increase in 1987-88 due to a deterioration in the performance of certain public sector undertakings. In order to encourage production for exports, 27 more items of machinery and equipment for the bicycle industry were brought

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

| Item | Unit | April-March | | |
|---|---|---|---|---|
| | | 1986-87 | 1987-88(P) | 1988-89(P) |
| 1 | 2 | 3 | 4 | 5 |
| 1. Automobiles | | | | |
| i) Passenger Cars | '000 Nos. | 100.4 | 138.3 | 154.7 |
| | | (+14.6) | (+37.7) | (+11.9) |
| ii) Commercial Vehicles | ,, | 106.0 | 119.9 | 118.8 |
| | | (+2.9) | (+13.1) | (-0.9) |
| iii) Jeeps | ,, | 29.3 | 23.6 | 36.3 |
| | | (+2.1) | (+19.5) | (+8.0) |
| 2. Scooters, Motor cycles & Mopeds | ,, | 1,434.7 | 1,596.9 | 1,674.5 |
| | | (+16.7) | (+11.3) | (+4.9) |
| 3. Structurals | '000 Tonnes | 129.0 | 131.0 | 107.8 |
| | | (-2.3) | (+1.6) | (-17.7) |
| 4. Steel Castings** | ,, | 238.2 | 311.4 | 332.7 |
| | | (+4.8) | (+30.7) | (+6.8) |
| 5. Diesel Engines** | '000 Nos. | 2,235.7 | 1,896.6 | 1,856.2 |
| | | (+8.9) | (-15.2) | (-2.1) |
| 6. Railway Wagons | ,, | 15.2 | 15.8 | 21.7 |
| (in terms of 4 wheelers) | | (+16.0) | (+3.9) | (+37.3) |
| 7. Road Rollers | Nos. | 622 | 530 | 549 |
| | | (-17.1) | (-14.8) | (+3.6) |
| 8. Lifts | ,, | 1,880 | 1,952 | 2,210 |
| | | (+24.5) | (+3.8) | (+13.2) |
| 9. Tractors | '000 Nos. | 80.0 | 82.9 | 109.7 |
| | | (+4.8) | (+3.6) | (+32.3) |

P : Provisional.
** : Includes Production from the Small Scale Sector.
*Note:* Figures in brackets indicate percentage variations over the corresponding period of preceding year.
*Source:* Central Statistical Organisation (CSO).

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

| Item | Unit | April-March | | |
|---|---|---|---|---|
| | | 1986-87 | 1987-88(P) | 1988-89(P) |
| 1 | 2 | 3 | 4 | 5 |
| 1. Typewriters | '000 Nos. | 122.9 | 93.6 | 122.0 |
| | | (+1.2) | (-23.8) | (+30.3) |
| 2. Bicycles | ,, | 6,118.6 | 6,706.5 | 6,702.7 |
| | | (+10.2) | (+9.6) | (-0.1) |
| 3. Sewing Machines | ,, | 377.1 | 314.6 | 238.3 |
| | | (+29.4) | (-16.6) | (-24.3) |
| 4. Razor Blades | Mill. Nos. | 2,108.4 | 2,235.0 | 2,711.5 |
| | | (+3.4) | (+6.0) | (+21.3) |
| 5. Wrist Watches | Mill Nos. | 7.54 | 7.50 | 9.00 |
| | | (+41.5) | (-0.5) | (+20.0) |

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

under the Open General License (OGL) during the year. A new model bicycle has also been defined for export purposes for which Cash Compensatory Support (CCS) at an enhanced rate of 13 per cent is applicable. Further, certain bicycle components (like cups and hubs) have also been removed from the small-scale manufactures list. Production of typewriters grew by 30.3 per cent during 1988-89 as compared with a decline of 23.8 per cent in the preceding year largely on account of the increased demand for electric machines. Production of sewing machines fell further by 24.3 per cent in 1988-89 in succession to 16.6 per cent decline during the preceding year. The production of wrist watches, however, picked up by 20.0 per cent compared with a decline of 0.5 per cent (previous year) as a result of increased demand.

*(iii) Electrical Engineering Industries :*

Among the light electrical engineering goods, output of storage batteries, domestic refrigerators, radio receivers and electrical fans recorded increases while that of certain other items recorded declines during 1988-89 (Table IV-15). While the output of domestic refrigerators improved significantly by 39.0 per cent compared with a rise of 15.2 per cent, the output of radio receivers rose by 5.9 per cent compared with a decline of 21.7 per cent in the previous year. The output of electrical fans and storage batteries grew at a lower rate of 4.9 per cent and 12.0 per cent during 1988-89 as compared with 15.1 per cent and 12.8 per cent achieved in 1987-88. Production of incandescent lamp, flourescent tubes and dry cells recorded declines of 3.1 per cent, 5.1 per cent and 20.5 per cent during 1988-89 as against a decline of 9.9 per cent and increases of 3.6 per cent and 45.7 per cent, respectively, during the preceding year.

In the heavy electrical engineering items, the output of power transformers and electric motors recorded significant increases of 18.7 per cent and 25.6 per cent during the year 1988-89 in contrast to declines of 14.5 per cent and 20.4 per cent, respectively, during the preceding year. The output of power driven pumps increased significantly by 15.1 per cent as compared with 12.3 per cent achieved during the previous year. During the year the scheme of broad banding was extended to electrical equipments to provide for product flexibility and efficient use of installed capacity.

*(iv) Electronics Industry :*

The electronics industry recorded a high overall growth of 33.5 per cent during the calendar year 1988 on top of 36.4 per cent achieved during the preceding year. The overall growth was shared by all the components. The producion from the Export Processing Zones

**Table IV-15 : Output of Selected Electrical Engineering Industries**

| Item | Unit | April-March | | |
|---|---|---|---|---|
| | | 1986-87 | 1987-88(P) | 1988-89(P) |
| 1 | 2 | 3 | 4 | 5 |
| **A. Light Electrical Engineering** | | | | |
| 1. Electrical Lamps | | | | |
| i) Incandescent | Mill. Nos. | 283.7 | 255.5 | 247.5 |
| | | (+4.9) | (-9.9) | (-3.1) |
| ii) Flourescent | ,, | 47.0 | 48.7 | 46.2 |
| | | (+10.3) | (+3.6) | (-5.1) |
| 2. Electrical Fans** | ,, | 5.3 | 6.1 | 6.4 |
| | | (-17.2) | (+15.1) | (+4.9) |
| 3. Radio Receivers | '000 Nos | 1,248.8 | 977.9 | 1,035.9 |
| | | (+7.5) | (-21.7) | (+5.9) |
| 4. Storage Batteries | ,, | 2,601.0 | 2,933.0 | 3,284.7 |
| | | (+17.1) | (+12.8) | (+12.0) |
| 5. Dry Cells | Mill. Nos. | 1,167.0 | 1,700.2 | 1,352.0 |
| | | (-1.8) | (+45.7) | (-20.5) |
| 6. Domestic Refrigerators | '000 Nos. | 590.5 | 680.3 | 945.7 |
| | | (-12.9) | (+15.2) | (+39.0) |
| **B. Heavy Electrical Engineering** | | | | |
| 1. Power Transformers | Mill. KVA | 28.2 | 24.1 | 28.6 |
| | | (+3.3) | (-14.5) | (+18.7) |
| 2. Electric Motors | Mill. H.P. | 5.4 | 4.3 | 5.4 |
| | | (+3.8) | (-20.4) | (+25.6) |
| 3. Power Driven Pumps | '000 Nos. | 459.4 | 515.7 | 593.8 |
| | | (-10.3) | (+12.3) | (+15.1) |

P : Provisional.
** : Includes Production from the Small Scale Sector.
*Note:* Figures in brackets represent percentage variations over the corresponding period of previous year.
*Source:* Central Statistical Organisation (CSO).

(EPZs) achieved a turn-around with a growth of 26.1 per cent compared to a decline during the last year. As in the last year, consumer electronics had the largest share (at 38.1 per cent) in the overall production during the year 1988.

During 1988-89, major growth was noticed in TV receivers (both Black and White and Colour), electronic watches, tape recorders, personal computers, control instrumentation and industrial electronics and communication equipments. A number of policy steps were undertaken during the year 1988-89 to assist higher growth of the electronic sector, important among them were as follows :

(1) Delicensing of certain industries subject, however, to certain conditions like investment limit, location and import requirements;
(2) Facility to import computers to boost software exports and
(3) Issuance of import certificates under the Indo-U. S. A. Memorandum of Understanding (MOU) to facilitate high technology imports for modernization.

In respect of fiscal policy relating to electronic industry during the year 1988-89, custom duty was reduced on capital equipments used for manufacture of large and very large scale integrated circuits along with 112 items of other machinery required by the electronics industry. The rate of customs duty was standardised at 100 per cent for the import of the communication and broadcast equipments. Similarly, customs duty on computers and spare parts and certain raw materials was also rationalised. Excise duty at the rate of 10 per cent was, however, levied by

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

(Rupees crores)

| Sector | 1986 | 1987 | 1988 |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. Consumer Electronics | 1,275.0 | 1,820.0 | 2,400.0 |
| | (+23.8) | (+42.7) | (+31.8) |
| 2. Instrumentation and Industrial Electronics | 525.0 | 685.0 | 935.0 |
| | (+30.0) | (+30.5) | (+36.5) |
| 3. Computers | 280.0 | 375.0 | 486.0 |
| | (+80.6) | (+33.9) | (+29.6) |
| 4. Communication and Broadcasting | 504.0 | 710.0 | 900.0 |
| | (+32.6) | (+40.9) | (+26.7) |
| 5. Aerospace and Defence | 222.0 | 300.0 | 390.0 |
| | (+13.3) | (+35.1) | (+30.0) |
| 6. Components | 510.0 | 700.0 | 1,025.0 |
| | (+24.4) | (+37.3) | (+46.4) |
| 7. Export Processing Zones* | 144.0 | 130.0 | 164.0 |
| | (+69.4) | (-9.7) | (+26.1) |
| **Total** | **3,460.0** | **4,720.0** | **6,300.0** |
| | **(+30.1)** | **(+36.4)** | **(+33.5)** |

* : Domestic Tariff Areas.

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

*Source :* Department of Electronics, Government of India.

the Union Budget 1988-89, on electronic components to implement the modified value added tax (MODVAT) scheme. Excise duty structure was also rationalised/revised in respect of certain items (viz., picture tubes, television sets, radios, tape recorders, and video tapes/cassettes) in the consumer electronics group.

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

Among the non-ferrous metals, while the production of aluminium, copper and zinc recorded appreciable rise during 1988-89, that of lead declined. The production of aluminium at 357.3 thousand tonnes increased appreciably by 28.7 per cent in 1988-89 as against a growth of 7.9 per cent last year. This increase is attributable to the progressive commissioning of the National Aluminium Company (NALCO).

Production of copper increased by 27.7 per cent to 39.6 thousand tonnes in 1988-89 from 31.0 thousand tonnes in 1987-88. The indigenous production is able to meet the country's demand only partially and the balance is met by imports canalised through the Minerals and Metals Trading Corporation of India (MMTC).

Some of the steps being taken to increase indigenous production of copper include :-

(1) Schemes for the debottlenecking and modernisation of the smelters and refineries at Indian Copper Complex (ICC), Bihar and Khetri Copper Complex (KCC), Rajasthan.
(2) Comissioning of an integrated study to exploit the potential of the Singhbhum Copper Belt in Bihar.

In 1988-89 production of lead declined by 7.9 per cent to 18.6 thousand tonnes from 20.2 thousand tonnes in 1987-88, whereas production of zinc increased appreciably by 21.0 per cent to 73.3 thousand tonnes in 1988-89 as against a decline of 20.7 per cent during the previous year. The indigenous production of both these metals still continues to fall short of the country's demand and has to be met through imports. In order to meet the increased demand for lead and zinc, an integrated project has been sanctioned for the development of Rampura. - Agucha Zinc -Lead deposits in Bhilwara and setting up of

**Table IV-17 : Production of Non-Ferrous Metals**

(Thousand tonnes)

| Item | April-March | | |
|---|---|---|---|
| | 1986-87 | 1987-88 | 1988-89 (P) |
| 1 | 2 | 3 | 4 |
| **Virgin Metals** | | | |
| 1. Aluminium | 257.3 | 277.7 | 357.3 |
| | (-2.8) | (+7.9) | (+28.7) |
| 2. Copper | 34.4 | 31.0 | 39.6 |
| | (+15.8) | (-9.9) | (+27.7) |
| 3. Lead | 19.9 | 20.2 | 18.6 |
| | (+15.7) | (+1.5) | (-7.9) |
| 4. Zinc | 76.4 | 60.6 | 73.3 |
| | (+4.9) | (-20.7) | (+21.0) |
| **Semi-Manufactures** | | | |
| 1. Aluminium | | | |
| (a) Sheets and Circles Rolled Products | 78.4 | 66.9 | 82.5 |
| | (-7.0) | (-14.7) | (+23.3) |
| (b) Wire rods for Aluminium Conductor Steel Reinforced (ACSR)/(AAC) | 58.0 | 40.9 | 29.5 |
| | (-5.1) | (-29.5) | (-27.9) |
| 2. Copper Sheets and Circles Rolled Products<br>3. Brass Sheets and Circles Rolled Products | 16.8 | 29.1 | 44.9 |
| | (+15.9) | (+73.2) | (+54.3) |

P : Provisional.

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

*Source:* 1. Department of Industrial Development, Ministry of Industry.
2. Department of Mines, Ministry of Steel and Mines.
3. D.G.T.D.

zinc-lead smelter thereon at Chanderiya Smelter in Chittorgarh District, Rajasthan.

*C. Intermediate Goods Industries*

**(a) Jute Textiles :**

Production of Jute textiles increased to 13.87 lakh tonnes during 1988-89 from 11.92 lakh tonnes during 1987-88, registering a positive growth rate of 16.4 per cent as against a decline of 14.5 per cent in 1987-88. This increase was attributable to the good demand particularly for sacking from cement, sugar, fertilizer and other industries after the vacation of stay order by Supreme Court in May 1988 on Jute packaging reservation. A large number of closed mills reopened taking advantage of the improved demand. Labour rationalisation and various organisational and promotional measures taken by the Government of India also contributed to improved performance. Catagory-wise, production of both sacking and other jute goods recorded increases of 16.6 per cent and 58.5 per cent in 1988-89 respectively, in contrast to declines of 18.3 per cent and 3.4 per cent in 1987-88. However, the production of hessian and carpet backing continued to show a decline (Table IV-18).

Domestic consumption of jute goods during 1988-89 at 11.49 lakh tonnes showed an increase of 20.0 per cent as compared with the sharp decline of 12.2 per cent in the previous year. Since the production of jute goods was larger than domestic consumption their stocks rose from 65.7 thousand tonnes at the end of March 1988 to 94.2 thousand tonnes at the end of March 1989. Category-wise, the stocks of hessian, sacking and other goods increased while those of carpet backing declined.

Information on exports of Jute manufactures including twist and yarn and measures relating to

**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 | 1986-87 | 348.5 | 831.1 | 53.5 | 160.9 | 1,394.0 |
| | | (+12.1) | (+0.9) | (+75.4) | (-13.9) | (+3.1) |
| | 1987-88 (P) | 316.0 | 679.3 | 41.3 | 155.5 | 1,192.1 |
| | | (-9.3) | (-18.3) | (-22.6) | (-3.4) | (-14.5) |
| | 1988-89 (P) | 313.0 | 792.4 | 35.6 | 246.5 | 1,387.5 |
| | | (-0.9) | (+16.6) | (-13.8) | (+58.5) | (+16.4) |
| Domestic Consumption** | 1986-87 | 143.4 | 801.4 | 2.8 | 143.4 | 1,091.0 |
| | | (+9.3) | (+0.8) | (+133.3) | (-13.9) | (-0.3) |
| | 1987-88 (P) | 146.3 | 669.0 | 3.2 | 138.9 | 957.4 |
| | | (+2.0) | (-16.5) | (+14.3) | (-3.1) | (-12.2) |
| | 1988-89 (P) | 160.9 | 763.8 | 4.5 | 219.9 | 1,149.1 |
| | | (+10.0) | (+14.2) | (+40.6) | (+58.3) | (+20.0) |
| Year-end Stocks | 1986-87 | 23.1 | 28.8 | 8.7 | 12.5 | 73.1 |
| | | (+35.9) | (+8.3) | (-14.7) | (-2.3) | (+9.8) |
| | 1987-88 (P) | 22.4 | 25.4 | 8.8 | 9.1 | 65.7 |
| | | (-3.0) | (-11.8) | (+1.1) | (-27.2) | (-10.1) |
| | 1988-89 (P) | 27.5 | 43.5 | 4.9 | 18.3 | 94.2 |
| | | (+22.8) | (+71.3) | (-44.3) | (+101.1) | (+43.4) |

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

exports implemented by Government is covered in Chapter X on "Developments in India's Foreign Trade" of this Report.

The Government has introduced Internal Market Assistance (IMA) Scheme and External Market Assistance (EMA) Scheme envisaging market subsidy to Jute mills to produce and export non-traditional jute products. In addition the Government took a number of other steps for orderly functioning of Jute industry. These were the following. :

i) Out of Rs. 150 crores Jute Modernisation Fund Scheme (JMFS) for speeding up the process for modernisation of jute mills, assistance amounting to a total of Rs. 57.29 crores has been sanctioned to 14 jute mills. The amount disbursed was Rs. 8.99 crores.

ii) Custom duty on imports of specified items of jute mills machinery has been waived.

iii) The jute packaging materials (compulsory use in Packing Commodities) Act, 1987 has been implemented.

iv) Cash Compensatory Support for export of almost all items of jute goods was extended to April 1989 to make them competitive in World market.

v) Under special Jute Development Fund set up in July 1987, the allocation made aggregated to Rs. 100 crores and the amount released was Rs. 11.54 crores.

**(b) Rubber and Rubber Manufactures**

Production of natural rubber increased to 259.2 thousand tonnes in 1988-89 from 235.2 thousand tonnes in 1987-88. registering a higher growth rate of 10.2 per cent as compared with that of 7.2 per cent observed in 1987-88 (Table : IV-19). This acceleration could be attributed both to improved weather conditions, active policy support by the Rubber Board to increase productivity, and increase in acreage of rubber plantations during the past couple of years. The consumption of natural and synthetic rubber increased significantly over its level in the previous year. However, the growth in consumption of reclaimed rubber decelerated consider-

ably as compared with last year. The significant increase in overall consumption in 1988-89 can be attributed mainly to the increased demand for automobile tyres for motorcycles, tractors, cycles and other giant vehicles etc. As in the previous year, the consumption of natural rubber during the current year also exceeded the domestic production by 54.6 thousand tonnes. Imports to the extent of 59.8 thousand tonnes were therefore, resorted to, in order to bridge the gap between demand and supply. The year-end stocks of natural rubber at 69.3 thousand tonnes recorded an increase of 8.1 per cent when compared with that of 64.1 thousand tonnes a year ago.

In view of the steadily increasing gap between domestic supply and demand for natural rubber, the Rubber Board has continued its efforts in the direction of achieving doubled production by the end of this century. Under the Plantation Development Scheme introduced by the Rubber Board, an area of almost 14,200 hectares was newly planted/replanted during 1988-89 (as compared to 14,000 hectares in the previous year) by the provision of liberal financial and technical assistance to growers.

Other important measures implemented by the Rubber Board during the year 1988-89 include the distribution of higher yielding planting materials,

**Table IV-19 : Rubber**

(Thousand tonnes)

| Item | (April-March) | | |
|---|---|---|---|
| | 1986-87 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 |
| **Production** | | | |
| Natural | 219.5 | 235.2 | 259.2 |
| | (+9.5) | (+7.2) | (+10.2) |
| Synthetic | 38.8 | 44.5* | 53.8* |
| | (+11.5) | (+14.7) | (+20.9) |
| Reclaimed | 39.0 | 40.5 | 41.2 |
| | (-0.5) | (+3.8) | (+1.7) |
| **Imports** | | | |
| Natural | 45.4 | 53.7 | 59.8 |
| | (+9.7) | (+18.3) | (+11.4) |
| Synthetic | 32.6* | 30.1* | 31.7* |
| | (-16.6) | (-7.7) | (+5.3) |
| **Consumption** | | | |
| Natural | 257.3 | 287.5 | 313.8 |
| | (+8.4) | (+11.7) | (+9.1) |
| Synthetic | 71.8 | 76.4 | 84.2 |
| | (+2.6) | (+6.4) | (+10.2) |
| Reclaimed | 38.6 | 41.1 | 41.2 |
| | (+1.0) | (+6.5) | (+0.2) |
| **Year-end stocks** | | | |
| Natural | 62.7 | 64.1 | 69.3 |
| | (+13.2) | (+2.2) | (+8.1) |
| Synthetic | 15.1 | 13.2 | 14.5 |
| | (+4.1) | (-12.6) | (+9.8) |
| Reclaimed | 3.7 | 3.0 | 2.8 |
| | (+19.4) | (-18.9) | (-6.7) |

* : Provisional.

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

*Source:* Rubber Board, Government of India.

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

(Lakh number)

| Year April-March | Automobile Tyres | | Automobile Tubes | Cycle Tyres | Rubber Footwear |
|---|---|---|---|---|---|
| | Total | *of which:* Giant Tyres | | | |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1986-87 | 127.1 | 46.8 | 127.1 | 297.4 | 419.5 |
| | (+3.1) | (-2.3) | (+25.5) | (-17.6) | (+6.7) |
| 1987-88 (P) | 145.4 | 45.5 | 127.7 | 233.0 | 411.0 |
| | (+14.4) | (-2.8) | (+0.5) | (-21.7) | (-2.0) |
| 1988-89 (P) | 160.0* | 56.1 | 145.0* | 254.0 | 368.0 |
| | (+10.0) | (+23.3) | (+13.5) | (+9.0) | (-10.5) |

P : Provisional.
* : Estimated Production.
*Note:* Figures in brackets represent variation over the corresponding period of the preceding year.
*Source:* Annual Report of the Department of Industrial Development, Ministry of Industry -

supply of relevant inputs at concessional rates and encouragement for group processing and marketing centres by providing financial and technical assistance. The Rubber Board is also taking keen interest in identifying new areas for rubber cultivation. The Union Government has also drawn up a scheme to provide capital subsidy along with subsidy for each plant established in order to encourage rubber production in new areas.

Production of synthetic rubber recorded an impressive rise of 20.9 per cent to 53.8 thousand tonnes in 1988-89 as compared with that of 14.7 per cent achieved in the previous year. Its consumption also increased at a higher rate of 10.2 per cent to 84.2 thousand tonnes than that of 6.4 per cent to 76.4 thousand tonnes in preceding year. The year-end stocks of synthetic rubber at 14.5 thousand tonnes were higher by 9.8 per cent compared with their level a year ago. The consumption and stocks during the year 1988-89 were generally supported both by higher rate of production and imports, but mainly on account of relatively higher rate of domestic production.

The State Trading Corporation (STC) continued to operate the buffer stocking scheme introduced in 1986 with a view to maintaining a stable and reasonable price for natural rubber. The fair price under the scheme was revised to Rs. 1,780 per quintal for RMA-4 grade in October 1988 on the basis of the estimate of cost of production of rubber prepared by the costs accounts branch of the Finance Ministry. The price of rubber in the open market fluctuated between Rs. 1,750 and Rs. 19,35 per quintal during the year. The average price of natural rubber at Rs. 1,815 per quintal during 1988-89 was higher than the amount of Rs. 1,791 per quintal recorded during the previous year. The higher level of average market price of natural rubber during 1988-89 is partly attributed to the influence of the higher release price of imported rubber announed by the Government because of the recent trends of rising international prices and further depreciation in the value of the rupee.

Production trends in selected rubber goods industries are presented in Table IV-20. While the production of automobile tyres and tubes and cycle tyres increased over the previous year's level, that of rubber footwear declined. Among the automobile tyres, the output of giant tyres rose sharply by 23.3 per cent in 1988-89 as against a decline of 2.8 per cent in 1987-88. Similarly, the output of automobile tubes and cycle tyres also rose substantially by 13.5 per cent and 9.0 per cent, respectively during the year under review.

**(c) Chemicals and Chemical Products**

In 1988-89, production of chemicals and

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

(Thousand tonnes)

| Item | April-March | | |
|---|---|---|---|
| | 1986-87 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 |
| 1. Nitrogenous Fertilizers (N Content) | 5410 | 5466 | 6712 |
| | | (+1.0) | (+22.8) |
| 2. Phosphatic Fertilizers ($P_2O_5$) | 1660 | 1665 | 2252 |
| | | (+0.3) | (+35.3) |
| 3. Caustic Soda | 764 | 958 | 903 |
| | | (+25.4) | (-5.7) |
| 4. Soda Ash | 912 | 936 | 1175 |
| | | (+2.6) | (+25.5) |
| 5. Paints & Varnishes (Organised Sector) | 168 | 185 | 195@ |
| | | (+10.1) | (+5.4) |
| 6. Soaps (Organised Sector) | 439 | 414 | 488 |
| | | (-5.7) | (+17.9) |
| 7. Synthetic Detergents (Organised Sector) | 195 | 172 | 183 |
| | | (-11.8) | (+6.4) |
| 8. Drugs & Pharmaceuticals (Rs. crores) | | | |
| i) Bulk Drugs | 458 | 480 | 530@ |
| | | (+4.8) | (+10.4) |
| ii) Formulations | 2140 | 2350 | 2690@ |
| | | (+9.8) | (+14.5) |

@ : Estimated production.

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

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

chemical products group registered a higher growth of 16.1 per cent than that of 14.5 per cent in 1987-88. Among the important items in this group, the performance of fertiliser industry was noteworthy in 1988-89. The production of nitrogenous as well as phosphatic fertilizers showed higher growth of 22.8 per cent and 35.3 per cent to 67.12 lakh tonnes and 22.52 lakh tonnes, respectively, as against near stagnation in the output observed in the preceding year (Table IV-21). Production in 1988-89 was also ahead of the respective target of 64.00 lakh tonnes and 22.00 lakh tonnes set for the year. Production of nitrogenous and phosphatic fertilizers could be still higher but for equipment, power and labour problems and raw material shortages during the year.

The capacity utilisation in nitrogenous and phosphatic f iliser plants at 82.4 per cent and 86.3 per cent, respectively, in 1988-89 was higher than 77.7 per cent and 73.6 per cent achieved in 1987-88. To meet the fast growing demand of fertilisers, plans have been prepared for a rapid expansion in the fertiliser capacity. There are at present 47 fertiliser plants producing a wide range of nitrogenous and complex/phosphatic fertilisers. Besides, there are over 84 units producing single super phosphate and 8 units producing ammonium sulphate as by-product. Besides these, there are ten fertiliser projects (6 nitrogenous and 4 phosphatic) under implementation. After completion of all these projects the expected installed capacity would be 96.86 lakh tonnes of nitrogenous fertilizers and 31.8 lakh tonnes of phosphatic fertilisers. However, production from this capacity would still fall short of the expected demand of fertilisers at the end of the Seventh Plan. Imports are envisaged to meet the full demand and ensure adequate availability of nitrogenous and phosphatic fertilisers during the Seventh Plan Period.

The production of caustic soda declined by 5.7 per cent to 9.03 lakh tonnes in 1988-89, as against an increase of 25.4 per cent witnessed in the preceding year. There are at present 39 companies producing caustic soda in the country with an installed capacity of 11.03 lakh tonnes. Further approvals for additional aggregate annual capacity of 3.60 lakh tonnes have been granted to meet the future demand.

In 1988-89, the production of soda ash was placed at 11.7 lakh tonnes as against the estimated demand of 13.20 lakh tonnes. The Government has delicensed manufacture of soda ash (Standard Solvey process) to encourage indigenous production to meet increasing demand and to achieve self-sufficiency. The rising production trend in large number of essesntial drugs was maintained during the year under review. Production in terms of value of bulk drugs and formulations in 1988-89 is estimated at Rs. 530 crores and Rs. 2,690 crores respectively, registering a rise of 10.4 per cent and 14.5 per cent, respectively, over the previous year. The present production covers a wide range of bulk drugs including antibiotics, vitamins, hormones, sulpha drugs and host of other synthetic phyto-chemicals and biological products.

*D. Consumer Goods Industries*

**(a) Sugar**

According to the latest estimates of the Indian Sugar Mills' Association, sugar production in the 1988-89 season (October-September) is placed at 87.5 lakh tonnes which is lower by 3.6 lakh tonnes than the previous year's output of 91.1 lakh tonnes. This is also substantially lower than the earlier expectation of production of 98-100 lakh tonnes. Although sugarcane production of 204.6 million tonnes in 1988-89 was higher than the production of 196.7 million tonnes in 1987-88, sugar production during the year 1988-89 showed a decline due to a steep decline in sugarcane yield in most of the major sugarcane States on account of adverse agro-climatic conditions. There were also reports of large-scale diversion of sugarcane for the manufacture of gur and *khandsari*. The trends in sugar output this season revealed that the output was higher by 5 lakh tonnes till February 1989 as compared to that in the same period of the previous season, but thereafter, sugar production declined due to a sharp decline in the quantity of cane crushed. Sugar production in 1987-88 at 91.1 lakh tonnes was a new record and the estimated production of 87.5 lakh tonnes in 1988-89 is the next best production. Sugar production during 1988-89 season upto June 30, 1989 at 86.19 lakh tonnes was 3.79 lakh tonnes or 4.2 per cent lower than the production of 89.98 lakh tonnes during the corresponding period last season. Taking into account the carry-forward stock of 24.31 lakh tonnes from the previous season, total availability in 1988-89 (till June 30, 1989) was 110.50 lakh tonnes as against 117.22 lakh tonnes in the corresponding period of the previous season. During the current season, total off-take till June 1989 at 74.83 lakh tonnes (74.72 lakh tonnes for internal consumption) was 7.4 per cent higher than the off-take of 69.69 lakh tonnes in the corresponding period of 1987-88 (Table IV-22).

*Policy Measures*

The general policy of partial control and dual pricing of sugar remained unchanged during the 1988-89 season. The ratio of levy to free sale sugar quota was revised from 65:35 in 1984-85 to 55:45 in 1985-86 and 50:50 in 1986-87 which was continued in 1987-88. However, this ratio for the 1988-89 season was revised from 50:50 to 45:55. The steady upward revision in the free sale quota is part of the policy to offer more incentive to increase sugar production and improve the viability of sugar factories besides making available to consumers adequate 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 raised the Statutory Minimum Price (SMP) of sugarcane for the 1988-89 season by 50 paise per quintal in December 1987 and subsequently by an additional 50 paise to reach Rs. 19.50 per quintal linked to a basic recovery of 8.5 per cent with a proportionate premium for higher recoveries. Thus, SMP of sugarcane for the 1988-89 season is higher by Re. 1.00 than in the previous season. The Government has also,

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

(Lakh tonnes)

| Item | 1985-86 | 1986-87 | 1987-88 | 1987-88 | 1988-89 |
|---|---|---|---|---|---|
| | | | | Oct. 1, 1987 to June 30, 1988 | Oct.1,1988 to June 30, 1989 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1. Opening stock | 15.79 | 19.06 | 26.53 | 26.53 | 24.31 |
| | (1.84) | (1.24) | (3.21) | (3.21) | (0.30) |
| 2. Production | 70.16 | 85.01 | 91.10 | 89.98 | 86.19 |
| 3. Imports | 16.19 | 9.53 | 0.71 | 0.71 | — |
| 4. Total supply (1+2+3) | 102.14 | 113.60 | 118.34 | 117.22 | 110.50 |
| 5. Internal consumption | 82.72 | 86.87 | 93.85 | 69.51 | 74.72 |
| | (16.79) | (7.56) | (3.62) | (3.32) | (0.15) |
| 6. Exports | 0.36 | 0.20 | 0.18 | 0.18 | 0.11 |
| 7. Total offtake (5+6) | 83.08 | 87.07 | 94.03 | 69.69 | 74.83 |
| 8. Closing stock (4-7) | 19.06 | 26.53 | 24.31 | 47.53 | 35.67 |
| | (1.24) | (3.21) | (0.30) | (0.60) | (0.15) |

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

*Source:* Indian Sugar Mills Association.

accepted the recommendation of the Commission for Agricultural Costs and Prices (CACP) to fix the SMP of sugarcane for the 1989-90 season at Rs.22.00 per quintal linked to a basic recovery of 8.5 per cent with proportionate premium for every 0.1 per cent increase above that level. However, under the existing practice, the cane growers get much higher prices in view of the fact that the State advised prices are much higher than the Statutory Minimum Price. The information on State advised prices paid during 1988-89 was not available but State advised prices during 1987-88 ranged upto Rs. 32.00 per quintal.

The Government notified on December 12, 1988 the ex-factory levy prices for 1988-89 season for different pricing zones and the all-India average levy price worked out to Rs. 436 per quintal as against Rs. 423 per quintal in the previous season. These prices are 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). Following this, the Government decided to increase the retail issue price of levy sugar distributed through fair price shops from Rs. 5.10 to Rs. 5.25 per kg. with effect from January 1, 1989.

The monthly levy sugar releases were almost at the last year's level of 3.32 lakh tonnes during 1988-89 season. However, for the months of October and November 1988, additional 50,000 tonnes were released in each month in order to meet the festival demand. In 1987-88 season, additional 50,000 tonnes were released only during the month of October 1987.

Total releases of sugar during the season (October-September) were higher at 101.99 lakh tonnes (comprising 40.84 lakh tonnes of levy sugar and 61.15 lakh tonnes of free sale sugar) as against 96.49 lakh tonnes (comprising 40.34 lakh tonnes of levy and 56.15 lakh tonnes of free sale sugar) in the 1987-88 season. The releases for free sale sugar of 61.15 lakh tonnes during 1988-89 were higher by 8.9 per cent than in 1987-88. Data on sugar releases both for levy and free sale for the 1988-89 season and the preceding season are given in Table IV-23.

As sugar prices showed a rising trend, the Union Government decided to reduce the limit on stocks that could be held by sugar and *khandsari* dealers with effect from May 15, 1989. Accordingly, stock limit for sugar dealers in cities and towns having a population of less than

**Table IV-23 : Sugar Releases during the 1987-88 and 1988-89 Seasons**

(Lakh tonnes)

| Month | 1987-88 | | | 1988-89 | | |
|---|---|---|---|---|---|---|
| | Levy | Free Sale | Total | Levy | Free Sale | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| October | 3.82 | 4.75 | 8.57 | 3.82 | 5.35 | 9.17 |
| November | 3.32 | 4.50 | 7.82 | 3.82 | 5.50 | 9.32 |
| December | 3.32 | 4.50 | 7.82 | 3.32 | 5.20 | 8.52 |
| January | 3.32 | 4.90 | 8.22 | 3.32 | 5.00 | 8.32 |
| February | 3.32 | 4.50 | 7.82 | 3.32 | 4.75 | 8.07 |
| March | 3.32 | 4.50 | 7.82 | 3.32 | 4.60 | 7.92 |
| April | 3.32 | 4.50 | 7.82 | 3.32 | 4.50 | 7.82 |
| May | 3.32 | 4.50 | 7.82 | 3.32 | 5.00 | 8.32 |
| June | 3.32 | 4.40 | 7.72 | 3.32 | 5.50 | 8.82 |
| July | 3.32 | 5.00 | 8.32 | 3.32 | 5.00 | 8.32 |
| August | 3.32 | 5.00 | 8.32 | 3.32 | 5.25 | 8.57 |
| September | 3.32 | 5.10 | 8.42 | 3.32 | 5.50 | 8.82 |
| **Total** | **40.34** | **56.15** | **96.49** | **40.84** | **61.15** | **101.99** |
| Monthly Average | 3.36 | 4.68 | 8.04 | 3.40 | 5.10 | 8.50 |

one lakh has been reduced from 250 to 125 quintals and for *khandsari* dealers from 500 to 250 quintals. Earlier, limits had been raised on December 21, 1988 from 100 to 250 quintals for sugar and from 250 to 500 quintals for khandsari. In major cities and towns, having a population of one lakh and more, the stock limit for recognised dealers of sugar and khandsari which was raised on December 21, 1988 from 250 to 500 quintals was reduced again to 250 quintals. Further, the time limit for the turnover of stocks by sugar and *khandsari* dealers has also been reduced from ten days to seven days with effect from May 15, 1989. The Union Government, under the Sugar (Control) Order, 1966, issued an order directing producers of *khandsari* to declare their stocks as on May 7, 1989, on or before May 12, 1989, to the specified authority in order to ensure a regular flow of *khandsari* in the market and keep the price of sugar at reasonable levels. *Khandsari* producers were also required to ensure sale and despatch of 25 per cent of their opening stocks as declared upto May 7, 1989 during May 1989 and 30 per cent of their stocks for each of the subsequent months from June 1989 to September 1989 during the respective months.

*Fresh guidelines to Licensing Policy*

On April 5, 1989, the Union Government announced the following fresh guidelines relaxing the Sugar Licensing Policy (December 1986) for the remaining period of the Seventh Plan.

(a) Licensing of new sugar factories in the co-operative and public sectors in areas specified as industrially backward areas by Government of India and certified by the Indian Council of Agricultural Research to be agro-climatically suited for the development of sugarcane would be allowed an initial capacity of 1750 Tonnes of Cane Crushed per Day (TCD) subject to the condition that the unit would expand its capacity to 2500 TCD within five years of its going into production.

(b) The spatial distance of 40 Kms may be relaxed to 25 Kms subject to the satisfaction of the following conditions.

1. The average per hectare yield of sugarcane should be higher by at least 20 per cent over the national average cane yield.
2. At least 40 per cent of the area should be under

improved and high *sucrose* varieties of cane like CoJ. 64, CoC. 671, etc.

3. The licensing authority would ensure that adequate cane would continue to be available for existing factories (with potential for further intensive cane development) for meeting both present and future requirements. The initial capacity to be licensed in such cases will, however, continue to be a minimum of 2500 TCD.

(c) The incentives which are now available to sugar units with capacity of 2500 TCD would also be available to the new units of 1750 TCD, only for the inital five years.

India was an exporting member of the International Sugar Agreement, 1977 which expired on December 31, 1984. Subsequently, a new International Sugar Agreement, 1984 came into force from January 1, 1985 and its term was extended upto March 31, 1988. Further, a new International Sugar Agreement, 1987 came into force from April 1, 1988. India continues to remain a member of the agreement. Owing to an increase in sugar consumption coupled with decline in domestic production in 1989, India's sugar exports have been low.

*Sugar Development Fund*

Sugar Development Fund, set up under the Sugar Development Fund Act, 1982, is funded since June 1, 1982 by transfer of proceeds of sugar cess, imposed on sugar produced in the country. During 1988-89, a sum of Rs. 80 crores was credited to the Fund taking the total amount credited to the Fund to Rs. 571 crores. The fund is utilised by the Government of India for advancing loans on soft terms for

i) Rehabilitation modernisation of sugar industry.
ii) Development of sugarcane in the sugar factory area.

In addition, grants are made from the Fund for undertaking research projects aimed at the development of sugar industry. Since November 1982, following the amendment of the Act, the Fund has also been providing for defraying expenditure for the purpose of building up and maintenance of buffer stocks of sugar with a view to stabilising the prices of sugar.

Since the inception of the Fund, till December 1988, loans of Rs. 178.34 crores to 149 sugar mills for sugarcane development and Rs. 37 crores to 30 sugar mills for modernisation/rehabilitation were sanctioned.

*Levy Sugar Price Equalisation Fund*

Levy Sugar Price Equalisation Fund has been set up under the Levy Sugar Price Equalisation Fund Act, 1976 which has been in force since April 1, 1976. During 1988-89, a sum of Rs. 0.62 crore was recovered from the sugar mills and credited to the Fund, taking the total amount credited to the Fund since the inception of the Fund till December 1988 to Rs. 13.70 crores. In addition, the Food Corporation of India has so far collected a sum of Rs. 17.30 crores by way of such recovery from sugar mills.

**(b) Textiles - Cotton and Synthetics**

The composite index of cotton Textile Group (weight 12.31 per cent in IIP) registered a higher negative growth rate of 3.3 per cent than that of 1.2 per cent (revised) in the last year (Table IV-24). The negative rate was the result of a fall in production of cotton and blended fabrics in the mill sector.

The total number of textile mills in the country as at the end of March 1989 rose to 1054 (771 spinning and 283 composite) from 1035 (752 spinning and 283 composite) at the end of March 1988. Spindles installed increased only marginally to 26.41 million (provisional) in 1989 from 26.25 million in 1988 and 26.12 million in 1987 indicating a situation of almost stagnation. This stagnation can be attributed to prevalence of idle spindles which are placed at 7 million at the end of March 1989. Looms installed have declined steadily to 199 thousand in 1989 from 208 in 1988 and 210 in 1985. Capacity utilisation of spindles stagnated around 73 per cent during the years 1987-88 and 1988-89, while that of looms deteriorated marginally from 56 per cent to 54 per cent during the same period. One of the reasons for the decreased loom activity appears to be the increase in the number of closed composite mills from 52 accounting for 33,204

looms in March 1988 to 59 having 37,925 looms in March 1989. A total number of 77 thousand looms remained idle during the year under review.

Data on production, consumption and stock position of yarn for the years 1986-87 to 1988-89 are indicated in Table IV-24. The growth rate in the production of all yarn continued to decelerate; it moved down to 0.2 per cent in 1988-89 from 2.0 per cent in 1987-88 and 5.0 per cent in 1986-87. The deceleration was attributable to a decline of 1.5 per cent in cotton yarn output as its exports were lower and larger number of mills remained closed. The output of blended and 100 per cent non-cotton yarn registered increases which reflects the growing preference of consumers for blended and pure synthetic fabrics. Domestic consumption of all yarn increased in contrast to a decline in the previous year. Consumption of yarn in decentralised sector increased while there was a fall in the mill sector. The year-end stocks of yarn (unsold) declined by 15.0 per cent to 31.2 million kgs at the end of 1988-89 from 36.7 million kgs in 1987-88. Exports of cotton yarn both in quantity and value, which had risen substantially from 28 million kgs valued at Rs. 101 crores in 1986-87 to 86 million kgs valued at Rs. 343 crores in 1987-88, declined to 40 million kgs., valued at Rs. 236 crores in 1988-89. The quantity of man-made yarns filaments exported declined to 10.67 million kgs in 1988-89 from 11.79 million kgs in 1987-88. However, value realised by these exports was higher at Rs. 56 crores in 1988-89 than Rs. 42 crores in the previous year.

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

(Million kgs.)

| Item | April-March | | |
|---|---|---|---|
| | 1986-87 | 1987-88 (P) | 1988-89 (P) |
| 1 | 2 | 3 | 4 |
| **A. Production (i+ii+iii)** | **1,526** | **1,556** | **1,563** |
| | **(+5.0)** | **(+2.0)** | **(+0.4)** |
| (i) Cotton Yarn | 1,302 | 1,322 | 1,302 |
| | (+3.9) | (+1.5) | (-1.5) |
| (ii) Blended Mixed Yarn | 144 | 152 | 170 |
| | (+11.6) | (+5.6) | (+11.8) |
| (iii) 100 per cent man-made spun yarn | 80 | 82 | 91 |
| | (+11.1) | (+2.5) | (+11.0) |
| **B. Domestic Consumption (all-yarn) (i+ii)** | **1,355** | **1,328** | **1,379** |
| | **(+3.8)** | **(-2.0)** | **(+3.8)** |
| (i) Mill Sector+ | 420 | 383 | 374 |
| | (-1.6) | (-8.8) | (-2.3) |
| (ii) Decentralised Sector£ | 935 | 945 | 1,005 |
| | (+6.4) | (+1.1) | (+6.3) |
| **C. Exports (Cotton yarn)** | | | |
| (i) Quantity | 28.0 | 85.6 | 40.4 |
| | (+156.9) | (+205.7) | (-52.8) |
| (ii) Value (Rs. crores) | 101.3 | 343.1 | 236.2 |
| | (+123.1) | (+238.7) | (-31.2) |
| **D. Year-end Stocks (unsold)** | **33.8** | **36.7** | **31.2** |
| | **(+8.7)** | **(+8.6)** | **(-15.0)** |

P : Provisional.
+ : Relates to consumption for wearing 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 preceding year.
*Source:* Office of the Textile Commissioner and Indian Cotton Mills Federation.

There was a turn-around in production of cloth (cotton fabrics blended and mixed and fully (100 per cent)man-made fibre fabrics) in 1988-89 when it rose by 2.3 per cent to 13,282 million metres from 12,982 million metres in the preceding year. While production of mill-sector declined that of the decentralised sector increased. Consequently, the share of decentralised sector in total cloth output rose to 79 per cent in 1988-89 from 77 per cent in 1987-88; share of mills sector, on the other hand, declined to 21 per cent from 23 per cent in the respective years. Within the decentralised sector, production by handlooms declined to 3,466 million metres in 1988-89 from 3,508 million metres in 1987-88 while that of powerlooms moved up to 7,008 million metres from 6,457 million metres during the same period. Domestic consumption of cloth rose by 3.0 per cent to 11,517 million metres in 1988-89 from 11,185 million metres in 1987-88. The year-end stock (unsold) declined marginally to 140 million metres at the end of March 1989 from 142 million metres a year ago. Exports of cotton fabrics and cotton madeups (by mills, powerlooms; and handloom) were higher at Rs. 1,105 crores in 1988-89 against Rs. 921 crores in 1987-88. Exports of man-made fabrics and madeups were also higher at Rs. 174 crores in the year under review as compared with Rs. 106 crores in 1987-88.

*Closure of Textile Mills*

A large portion of installed capacity in the

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

(Million metres)

| Item | April-March | | |
|---|---|---|---|
| | 1986-87 | 1987-88 (P) | 1988-89 (P) |
| 1 | 2 | 3 | 4 |
| **A. Production (i+ii)** | **12,988** | **12,982** | **13,282** |
| | **(+3.9)** | **(-0.04)** | **(+2.3)** |
| (i) Mill Sector (a+b+c) | 3,317 | 3,017 | 2,808 |
| | (-1.7) | (-9.0) | (-6.9) |
| (a) Cotton Fabrics | 2,470 | 2,224 | 2,021 |
| | (-4.5) | (-10.0) | (-9.1) |
| (b) Blended Mixed Fabrics | 838 | 788 | 782 |
| | (+7.0) | (-6.0) | (-0.8) |
| (c) 100 per cent Man-made Fibre Fabrics | 9 | 5 | 5 |
| | (+50.0) | (-44.4) | (-) |
| (ii) Decentralised Sector (a+b+c) | 9,671 | 9,965 | 10,474 |
| | (+6.0) | (+3.0) | (+5.1) |
| (a) Cotton Fabrics | 7,052 | 7,166 | 7,061 |
| | (+7.0) | (+1.6) | (-1.5) |
| (b) Blended Mixed Fabrics | 552 | 551 | 615 |
| | (-0.4) | (-0.2) | (+11.6) |
| (c) 100 per cent Man-made Fabrics | 2,067 | 2,248 | 2,798 |
| | (+4.6) | (+8.8) | (+24.5) |
| **B. Domestic Consumption (all cloth) †** | **11,512** | **11,185** | **11,517** |
| | **(+1.0)** | **(-2.8)** | **(+3.0)** |
| **C. Year-end Stocks (unsold) (all cloth) ††** | **173** | **142** | **140** |
| | **(+8.1)** | **(-17.9)** | **(-1.4)** |
| **D. Exports Cotton Fabrics (Mills/ Powerlooms, made up, handloom) (Rs. crores)** | **624.90** | **921.35** | **1105.00** |
| | | **(+47.4)** | **(+19.9)** |

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.
*Source:* Office of the Textile Commissioner and Indian Cotton Mills Federation.

**Table IV-25A : Closure of Cotton/Man-made Fibre Textile Mills**

| Year | No. of mills closed | Installed capacity | | Workers on Roll (lakhs) |
|---|---|---|---|---|
| | | Spindles (Millions) | Looms (lakhs) | |
| 1 | 2 | 3 | 4 | 5 |
| March 1985 | 70 | 1.81 | 0.20 | 1.07 |
| March 1986 | 72 | 1.77 | 0.18 | 0.95 |
| March 1987 | 90 | 2.38 | 0.26 | 1.27 |
| March 1988 | 133 | 3.36 | 0.33 | 1.61 |
| March 1989 | 142 | 3.85 | 0.38 | 1.86 |

*Source:* Office of the Textile Commissioner, Ministry of Textiles, Govt. of India.

organised sector is idle due to closure of mills. The number of closed mills increased to 142 in March 1989 from 133 in March 1988. The installed capacity idle in spindles and looms rose from 3.36 million spindles and 0.33 lakh looms in March 1988 respectively, to 3.85 million spindles and 0.38 lakh looms in March 1989. The number of idle workers on roll also moved up to 1.86 lakhs in March 1989 from 1.61 in March 1988. The main factors responsible for closure of mills are, sickness, competition from decentralised sectors, financial difficulties, labour troubles, old and obsolete machinery, inefficient management, increase in cost, etc. Table IV-25 A gives the details of closed mills in the last five years. For revival of sick and closed mills under the New Textile Policy of 1985, the steps taken by the Government include creation of a Nodal Agency to evolve and manage rehabilitation packages in respect of textile mills, the creation of a textile modernisation fund to meet modernisation requirements of the textile mills and the establishment of the Board for Industrial and Financial Reconstruction under Sick Industrial Companies (Special Provisions) Act, 1985. The Textile Modernisation Fund Scheme (TMFS) has been established to meet the modernisation requirements of the textile industry. Under TMFS as at end April 1989, 301 applications seeking assistance to the extent of Rs. 1,116 crores were received. As against these, assistance sanctioned amounted to Rs. 734 crores for 187 applications and amount disbursed was Rs. 367 crores for 133 applications.

The new Textile Policy of 1985 has been in operation for almost four years. The Government has constituted a Committee under the Chairmanship of Shri Abid Hussain, Member, Planning Commission, to assess the progress of implementation of 1985 Textile Policy. The Committee has not yet submitted the Report.

### (C) Paper and Paper Boards and Newsprint

*(i) Paper and Paper Boards*

There was a deceleration in the production of paper and paper boards during the year under review. Their production rose by 4.9 percent to 20.96 lakh tonnes (Provisional) during 1988-89 as compared with 5.7 per cent increase registered in the previous year. There were 305 units with an installed capacity of 29.17 lakh tonnes as on January 1, 1989. The capacity utilisation ratio works out to around 71.7 per cent in 1988-89 which is marginally lower than the ratio of 72.6 per cent attained in 1987-88. It was observed in this context that the effective production capacity was lower since 75 units accounting for installed capacity of 6.25 lakh tonnes remained closed at the end of December 1988. The industry continues to face infrastructural bottlenecks and high costs of inputs. The acute shortage of forest raw materials available for manufacturing pulp continues to be a matter of grave concern to the industry. It is estimated that paper industry consumes only 5 million tonnes or 2.7 per cent of wood out of 188 million tonnes consumed in the country.

A significant development in the industry is the commissioning of the Cacher Paper Plant of Hindustan Paper Corporation with an annual capacity of one lakh tonnes during the year under review. Mention was made in last year's report about broad banding of paper and pulp industry. Newsprint was excluded from broad

**Table IV-26 :Paper, Paper Boards and Newsprint**

(Production and capacity in thousand tonnes)

| Year April-March) | No. of Units | Installed capacity | Production | Capacity Utilisation Ratio |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| **A. Paper and Paper Boards** | | | | |
| 1986-87 | 288 | 2,706 | 1,891 (+4.3) | 69.9 |
| 1987-88 | 299 | 2,753 | 1,997 (+5.7) | 72.6 |
| 1988-89 (P) | 305 | 2,817 | 2,096 (+4.9) | 71.7 |
| **B. Newsprint** | | | | |
| 1986-87 | 4 | 280 | 285 | 101.8 |
| 1987-88 | 4 | 300 | 287 | 95.7 |
| 1988-89 (P) | 5 | 300 | 310 | 103.3 |

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 include production of small-scale sector.

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

*Source:* Central Statistical Organisation (CSO) and Indian Paper Mills Association.

banding. New paper mills with annual capacity of 30,000 tonnes or more can freely diversify into newsprint provided they have spare capacity of at least 20,000 tonnes per annum of newsprint. This is true of paper mills having an annual capacity of less than 30,000 tonnes provided they expand their total capacity to at least 33,000 tonnes per annum. In either case the source of raw material is supposed to be established in advance.

*(ii) Newsprint*

Production of newsprint during 1988-89 at 3.10 lakh tonnes registered an increase of 8.0 per cent as compared with a marginal rise of 0.7 per cent in 1987-88. There are at present 5 units in the country, with an annual installed capacity of 3 lakh tonnes engaged in the production of newsprint.

As indigenous production of newsprint is not adequate to meet the demand, imports have been resorted to. In order to reduce the dependence on imports, an additional capacity of 4.44 lakh tonnes has been sanctioned by way of Industrial Licences/Letters of Intent, which are under implementation. Under broad banding for paper and pulp industry, paper mills have also been permitted to take up manufacture of newsprint. subject to certain conditions.

## Chapter V

# Price Trends and Price Policy

**Price Trends :** *The Main Features*

The overall rate of price increase slowed down during the fiscal year 1988-89 but the underlying situation continued to be one of latent inflation causing concern. The overall supply situation remained under strain until the arrival of crops after the *Kharif* harvest. The price rise in 1988-89 was partly attributable to increases in administered prices of certain products of industrial origin, railway freight and excise levies imposed in the 1989-90 Central Budget, and partly to increases in prices of a number of agricultural products which occurred despite the strong recovery in agricultural production. Prices of articles of mass consumption such as rice, wheat, pulses,milk and dairy products which had risen sharply in 1987-88 rose significantly in 1988-89; moreover, prices of commodities like jowar, tea and coffee which had risen or declined marginally in 1987-88 rose sharply in 1988-89. The rise, on a point-to-point basis, in the 'All Commodities' index of wholesale prices (base : 1981-82 = 100)* which had more than doubled from 5.1 per cent in 1986-87 to 10.7 per cent in 1987-88 when the country had experienced a drought of severe intensity, decelerated to 5.7 per cent in 1988-89. On an average basis, the rise of 7.5 per cent in the index was, however, only marginally lower than that (8.2 per cent) in the previous year. The rate of increase in consumer prices, on a point-to-point basis, at 8.6 per cent was lower than that of 9.8 per cent in 1987-88. On an average basis, however, the rate of increase at 9.1 per cent was the same as in 1987-88.

The analysis of phase-wise behaviour of prices in 1988-89 showed that in the first phase covering the period between end-March and end-August, the price rise, on a point-to-point basis, was less than half of that in the comparable phase of the previous year. In the second phase, between end-August and end-December, when a seasonal decline in prices is generally witnessed, there was no change in the general price level in contrast to a contra-seasonal rise in the second phase of the previous year. During the final phase covering the period end-December to end-March, the price rise was marginally higher as compared with that in the final phase of 1987-88.

There was a partial deviation from the usual seasonal pattern in the case of the 'Primary Articles' and 'Manufactured Products' groups. During the second phase, 'Primary Articles' showed a much smaller decline of 0.5 per cent as compared with a decline of 1.3 per cent recorded even in the drought year of 1987-88. The commodities in this group which experienced price rise included,*inter alia*, wheat, jowar, pulses, condiments and spices, milk, eggs, tea and coffee. During the final phase, there was a significant decline of 2.4 per cent in the prices of 'Primary Articles' as against an increase of 0.8 per cent in the corresponding phase of the previous year. In the case of the 'Manufactured Products' group, the price rises in the first and third phases were higher as compared with those in the corresponding phases of the previous three years; in the second phase there was a fractional contra-seasonal rise as in the previous two years.

* A new series of wholesale price index numbers with base 1981-82 = 100 has been introduced from July 1, 1989 by the Government of India. For further details relating to the new series, please see November 1989 issue of the Reserve Bank of India Bulletin.

*Commodity/Group-wise Trends*

A commodity group-wise analysis of price trends during 1988-89 shows that the deceleration, on a point-to-point basis, in the rate of price rise was due to a fall in the price index of the 'Primary Articles' group and deceleration in the rate of increase in the 'Fuel, Power, Light and Lubricants' group. The 'Primary Articles' group made a *negative* weighted contribution of 1.2 per cent to the overall increase in prices as against a very high *positive* weighted contribution of 48.1 per cent in 1987-88. The weighted contribution of the 'Fuel, Power, Light and Lubricants' group to the increase in general price level was higher at 9.5 per cent compared with 5.5 per cent in 1987-88. The highest contribution to the general price rise in 1988-89 was made by the 'Manufactured Products' group, accounting for 90.3 per cent of the price rise as against47.1 per cent in1987-88(Table V-1).

*Primary Articles*

A price decline of 0.2 per cent was recorded by the 'Primary Articles' group during 1988-89 in contrast to an increase of 15.7 per cent recorded in the previous year [Table V-2 (a)]. This decline reflected the favourable impact of the sharp recovery in agricultural production. Within the 'Primary Articles' group, prices of food articles rose by 3.6 per cent as against a rise of 16.4 per cent in 1987-88, while prices of non-food articles declined by 7.0 per cent in contrast to an increase of 21.0 per cent in the previous year. Prices of minerals registered an increase of 0.4 per cent in contrast to a fall of 2.2 per cent in 1987-88.

The deceleration in the rate of price rise of food articles was the result of the deceleration in the rate of price rise of cereals and pulses and declines in price of fruits and vegetables and condiments and spices. Cereal prices rose by 9.2 per cent which was significantly lower than the rise of 14.4 per cent in 1987-88. Among cereals, as a result of higher production and procurement, the rise in rice prices was much lower at 6.7 per cent compared with 13.8 per cent in 1987-88. There was also a deceleration - although not as striking as in the case of rice - in the rate of rise in wheat prices (from 13.7 per cent to 12.5 per cent); although wheat production was higher, procurement was lower than expected. Prices of pulses increased by 11.1 per cent on top of the very sharp rise of 29.4 per cent in the previous year, due to persistent supply-demand imbalances. The price rise would have been even higher but for the import of 8.3 lakh tonnes of pulses. No doubt, the increase in import duty on pulses from 10 per cent to 35 per cent in October 1988 was also a factor which contributed to the uptrend in prices. Among other food articles, prices of milk and tea registered sharp increases. Tea prices recorded a phenomenal rise of 41.4 per cent in contrast to a fractional decline of 0.1 per cent in the previous year.

Among non-food articles, there was a notable decline in prices of oilseeds. The prices of this

**Table V-1 : Extent of Price Rise based on Wholesale Price Index (1981-82 = 100)**

(Major Group-wise)

| Items | Weight | Percentage Variations | | Weighted Contribution | |
|---|---|---|---|---|---|
| | | 1987-88 | 1988-89 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| **ALL COMMODITIES** | **100.000** | **10.7** | **5.7** | **100.0** | **100.0** |
| Primary Articles | 32.295 | 15.7 | -0.2 | 48.1 | -1.2 |
| Fuel, Power, Light and Lubricants | 10.663 | 5.3 | 5.1 | 5.5 | 9.5 |
| Manufactured Products | 57.042 | 8.9 | 9.2 | 47.1 | 90.3 |

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

(Base : 1981-82 = 100)

| Major Groups/Groups/Sub-Groups and Commodities | Weight | End March 1987 | End March 1988 | End March 1989 | Percentage Variations (point-to-point basis) | | Weighted Contribution* (approximate) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | End March 1988 Over End March 1987 | End March 1989 Over End March 1988 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **ALL COMMODITIES** | **100.000** | **134.2** | **148.5** | **156.9** | **10.7** | **5.7** | **100.0** | **100.0** |
| **I PRIMARY ARTICLES** | **32.295** | **135.8** | **157.1** | **156.8** | **15.7** | **-0.2** | **48.1** | **-1.2** |
| **A. FOOD ARTICLES** | **17.386** | **144.0** | **167.6** | **173.6** | **16.4** | **3.6** | **28.7** | **12.4** |
| **(i) FOOD GRAINS** | 7.917 | 129.8 | 151.2 | 165.5 | 16.5 | 9.5 | 11.8 | 13.5 |
| a) CEREALS | 6.824 | 129.6 | 148.3 | 161.9 | 14.4 | 9.2 | 8.9 | 11.0 |
| Rice | 3.685 | 134.1 | 152.6 | 162.8 | 13.8 | 6.7 | 4.8 | 4.5 |
| Wheat | 2.248 | 129.0 | 146.7 | 165.0 | 13.7 | 12.5 | 2.8 | 4.9 |
| Jowar | 0.420 | 108.6 | 110.9 | 156.9 | 2.1 | 41.5 | 0.1 | 2.3 |
| Bajra | 0.178 | 113.9 | 153.0 | 118.6 | 34.3 | -22.5 | 0.5 | -0.7 |
| b) PULSES | 1.093 | 130.7 | 169.1 | 187.9 | 29.4 | 11.1 | 2.9 | 2.4 |
| Gram | 0.410 | 96.5 | 133.9 | 187.7 | 38.8 | 40.2 | 1.1 | 2.6 |
| **(ii) FRUITS AND VEGETABLES** | 4.089 | 153.5 | 183.9 | 161.5 | 19.8 | -12.2 | 8.7 | -10.9 |
| Vegetables | 1.291 | 132.2 | 125.3 | 139.2 | -5.2 | 11.1 | -0.6 | 2.1 |
| Fruits | 2.798 | 163.3 | 211.0 | 171.8 | 29.2 | -18.6 | 9.3 | -13.1 |
| **(iii) MILK** | 1.961 | 151.3 | 167.0 | 193.5 | 10.4 | 15.9 | 2.2 | 6.2 |
| **(iv) EGGS, FISH AND MEAT** | 1.783 | 154.6 | 163.8 | 170.7 | 6.0 | 4.2 | 1.1 | 1.5 |
| Fish | 0.507 | 170.2 | 161.4 | 162.0 | -5.2 | 0.4 | -0.3 | 0.0 |
| Mutton | 0.521 | 170.3 | 183.3 | 197.3 | 7.6 | 7.6 | 0.5 | 0.9 |
| **(v) CONDIMENTS AND SPICES** | 0.947 | 175.7 | 250.0 | 228.5 | 42.3 | -8.6 | 4.9 | -2.4 |
| **(vi) OTHER FOOD ARTICLES** | 0.689 | 159.3 | 157.5 | 214.1 | -1.1 | 35.9 | -0.1 | 4.6 |
| Tea | 0.564 | 154.1 | 153.9 | 217.6 | -0.1 | 41.4 | -0.0 | 4.3 |
| Coffee | 0.125 | 182.7 | 173.5 | 198.2 | -5.0 | 14.2 | -0.1 | 0.4 |

*(Contd.)*

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

(Base : 1981-82 = 100)

| Major Groups/ Groups/ Sub-Groups and Commodities | Weight | End March 1987 | End March 1988 | End March 1989 | Percentage Variations (point-to-point basis) | | Weighted Contribution (approximate) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | End March 1988 Over End March 1987 | End March 1989 Over End March 1988 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **B. NON-FOOD ARTICLES** | **10.081** | **138.3** | **167.4** | **155.6** | **21.0** | **-7.0** | **20.5** | **-14.2** |
| **(i) FIBRES** | 1.791 | 114.4 | 150.5 | 168.6 | 31.6 | 12.0 | 4.5 | 3.9 |
| Raw Cotton | 1.335 | 109.3 | 150.6 | 156.2 | 37.8 | 3.7 | 3.9 | 0.9 |
| Raw Jute | 0.160 | 139.4 | 157.4 | 249.8 | 12.9 | 58.7 | 0.2 | 1.8 |
| **(ii) OILSEEDS** | 3.861 | 139.1 | 171.1 | 131.3 | 23.0 | -23.3 | 8.6 | -18.3 |
| Groundnut seed | 1.296 | 131.2 | 178.0 | 133.3 | 35.7 | -25.1 | 4.2 | -6.9 |
| Rape and mustard seed | 0.661 | 124.0 | 149.9 | 117.6 | 20.9 | -21.5 | 1.2 | -2.5 |
| Copra | 0.111 | 190.4 | 236.9 | 185.0 | 24.4 | -21.9 | 0.4 | -0.7 |
| **(iii) OTHER NON-FOOD ARTICLES** | 4.429 | 147.3 | 170.9 | 171.5 | 16.0 | 0.4 | 7.3 | 0.3 |
| Sugarcane | 2.706 | 135.9 | 146.7 | 153.0 | 7.9 | 4.3 | 2.0 | 2.0 |
| Tobacco | 0.275 | 147.9 | 146.7 | 197.2 | -0.8 | 34.4 | -0.0 | 1.7 |
| Rubber | 0.114 | 120.2 | 124.7 | 122.4 | 3.7 | -1.8 | 0.0 | -0.0 |
| Logs & timber | 0.571 | 200.5 | 219.6 | 237.2 | 9.5 | 8.0 | 0.8 | 1.2 |
| **C. MINERALS** | **4.828** | **100.6** | **98.4** | **98.8** | **-2.2** | **0.4** | **-0.7** | **0.2** |
| **(i) METALLIC MINERALS** | 0.231 | 154.4 | 157.8 | 159.1 | 2.2 | 0.8 | 0.1 | 0.0 |
| Iron Ore | 0.154 | 161.5 | 163.1 | 164.3 | 1.0 | 0.7 | 0.0 | 0.0 |
| **(ii) OTHER MINERALS** | 0.323 | 143.3 | 158.3 | 188.1 | 10.5 | 18.8 | 0.3 | 1.1 |
| Lime stone | 0.070 | 191.4 | 207.3 | 231.4 | 8.3 | 11.6 | 0.1 | 0.2 |
| **(iii) PETROLEUM CRUDE AND NATURAL GAS** | 4.274 | 94.5 | 90.7 | 88.8 | -4.0 | -2.1 | -1.1 | -1.0 |

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

(Base : 1981-82 = 100)

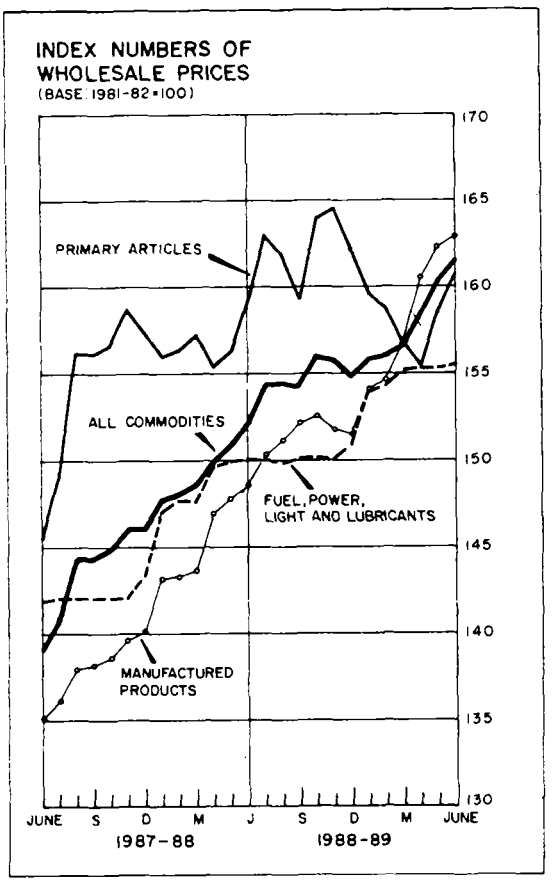
| Major Groups/Groups/Sub-Groups and Commodities | Weight | End March 1987 | End March 1988 | End March 1989 | Percentage Variations (point-to-point basis) | | Weighted Contributions (approximate) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | End March 1988 Over End March 1987 | End March 1989 Over End March 1988 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **II. FUEL, POWER, LIGHT & LUBRICANTS** | **10.663** | **140.3** | **147.7** | **155.2** | **5.3** | **5.1** | **5.5** | **9.5** |
| **A. COAL MINING** | 1.256 | 174.5 | 205.9 | 231.6 | 18.0 | 12.5 | 2.8 | 3.8 |
| Coking coal | 0.353 | 189.4 | 224.0 | 253.8 | 18.3 | 13.3 | 0.9 | 1.3 |
| Non-coking coal | 0.798 | 167.9 | 202.0 | 228.4 | 20.3 | 13.1 | 1.9 | 2.5 |
| coke | 0.064 | 162.2 | 162.2 | 162.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| **B. MINERAL OILS** | 6.666 | 125.0 | 127.9 | 129.3 | 2.3 | 1.1 | 1.4 | 1.1 |
| Liquified petroleum gas | 0.677 | 132.1 | 132.1 | 132.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Petrol | 0.806 | 126.6 | 145.2 | 145.2 | 14.7 | 0.0 | 1.0 | 0.0 |
| Kerosene | 0.868 | 129.9 | 129.9 | 129.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Aviation turbine fuel | 0.341 | 141.4 | 139.2 | 139.8 | -1.6 | 0.4 | -0.1 | 0.0 |
| High speed diesel oil | 2.154 | 119.9 | 122.3 | 119.8 | 2.0 | -2.0 | 0.4 | -0.6 |
| Light diesel oil | 0.203 | 124.5 | 124.5 | 124.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Furnace oil | 0.641 | 121.3 | 121.4 | 121.5 | 0.1 | 0.1 | 0.0 | 0.0 |
| Lubricants | 0.453 | 123.9 | 123.9 | 149.3 | 0.0 | 20.5 | 0.0 | 1.4 |
| **C. ELECTRICITY** | 2.741 | 161.9 | 169.0 | 183.0 | 4.4 | 8.3 | 1.4 | 4.6 |

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

(Base : 1981-82 = 100)

| Major Groups Groups Sub-Groups and Commodities | Weight | End March 1987 | End March 1988 | End March 1989 | Percentage variations (point-to-point basis) | | Weighted Contributions (approximate) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | End March 1988 Over End-March 1987 | End March 1989 Over End-March 1988 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **III.MANUFACTURED PRODUCTS** | **57.042** | **132.1** | **143.9** | **157.2** | **8.9** | **9.2** | **47.1** | **90.3** |
| **A. FOOD PRODUCTS** | 10.143 | 129.9 | 141.5 | 149.4 | 8.9 | 5.6 | 8.2 | 9.5 |
| **(a) DAIRY PRODUCTS** | 0.642 | 142.6 | 157.9 | 179.9 | 10.7 | 13.9 | 0.7 | 1.7 |
| **(b) GRAIN MILLS PRODUCTS** | 1.53 | 129.5 | 136.9 | 167.6 | 5.7 | 22.4 | 0.8 | 5.6 |
| **(c) SUGAR,KHANDSARI AND GUR** | 4.059 | 107.9 | 115.1 | 130.2 | 6.7 | 13.1 | 2.0 | 7.3 |
| Sugar | 2.013 | 115.8 | 121.6 | 128.7 | 5.0 | 5.8 | 0.8 | 1.7 |
| Khandsari | 0.300 | 89.9 | 98.2 | 106.6 | 9.2 | 8.6 | 0.2 | 0.3 |
| Gur | 1.746 | 101.9 | 110.5 | 136.0 | 8.4 | 23.1 | 1.1 | 5.3 |
| **(d) EDIBLE OILS** | 2.445 | 155.9 | 175.0 | 162.0 | 12.3 | -7.4 | 3.3 | -3.8 |
| Hydrogenated vanaspati | 0.517 | 166.4 | 173.7 | 176.2 | 4.4 | 1.4 | 0.3 | 0.2 |
| Solvent extracted groundnut oil | 0.021 | 159.3 | 171.2 | 139.8 | 7.5 | -18.3 | 0.0 | -0.1 |
| Rape & mustard oil | 0.276 | 136.2 | 155.8 | 123.3 | 14.4 | -20.9 | 0.4 | -1.1 |
| Groundnut oil | 0.526 | 146.9 | 167.0 | 133.1 | 13.7 | -20.3 | 0.7 | -2.1 |
| **B. BEVERAGES, TOBACCO & TOBACCO PRODUCTS** | 2.149 | 142.3 | 159.4 | 184.9 | 12.0 | 16.0 | 2.6 | 6.5 |
| **C. TEXTILES** | 11.545 | 120.3 | 134.7 | 144.2 | 12.0 | 7.1 | 11.6 | 13.1 |
| **(i) COTTON TEXTILES** | 6.093 | 119.2 | 135.0 | 146.1 | 13.3 | 8.2 | 6.7 | 8.1 |
| Cotton Yarn | 1.232 | 112.5 | 157.1 | 172.2 | 39.6 | 9.6 | 3.8 | 2.2 |
| Cotton Cloth (Mills) | 3.159 | 121.7 | 129.4 | 134.7 | 6.3 | 4.1 | 1.7 | 2.0 |
| Man-made textiles | 2.921 | 109.2 | 112.9 | 119.5 | 3.4 | 5.8 | 0.8 | 2.3 |
| **(ii) JUTE, HEMP AND MESTA TEXTILES** | 0.689 | 148.2 | 171.2 | 208.9 | 15.5 | 22.0 | 1.1 | 3.1 |
| **D. PAPER AND PAPER PRODUCTS** | 1.988 | 160.0 | 176.9 | 192.4 | 10.6 | 8.8 | 2.3 | 3.7 |
| Newsprint | 0.137 | 163.6 | 175.1 | 175.1 | 7.0 | 0.0 | 0.1 | 0.0 |
| **E. LEATHER AND LEATHER PRODUCTS** | 1.018 | 137.7 | 159.9 | 171.5 | 16.1 | 7.3 | 1.6 | 1.4 |
| Footwear | 0.353 | 162.6 | 183.5 | 202.4 | 12.9 | 10.3 | 0.5 | 0.8 |
| **F. RUBBER AND PLASTIC PRODUCTS** | 1.592 | 137.3 | 155.8 | 156.4 | 13.5 | 0.4 | 2.1 | 0.1 |
| Tyres and tubes | 0.766 | 126.8 | 134.5 | 140.9 | 6.1 | 4.8 | 0.4 | 0.6 |
| **G. CHEMICALS AND CHEMICAL PRODUCTS** | 7.355 | 127.5 | 133.3 | 136.9 | 4.5 | 2.7 | 3.0 | 3.2 |
| Fertilizers | 1.748 | 107.9 | 104.6 | 99.1 | -3.1 | -5.3 | -0.4 | -1.1 |
| Drugs and medicines | 1.065 | 127.5 | 131.2 | 138.4 | 2.9 | 5.5 | 0.3 | 0.9 |
| **H. NON-METALLIC MINERAL PRODUCTS** | 2.477 | 145.8 | 145.9 | 158.1 | 0.1 | 8.4 | 0.0 | 3.6 |
| **CEMENT, LIME AND PLASTER** | 0.916 | 139.8 | 128.7 | 145.3 | -7.9 | 12.9 | -0.7 | 1.8 |
| Cement | 0.860 | 138.8 | 127.0 | 141.2 | -8.5 | 11.2 | -0.7 | 1.5 |
| **I. BASIC METALS, ALLOYS & METAL PRODUCTS** | 7.632 | 143.7 | 160.9 | 192.1 | 12.0 | 19.4 | 9.2 | 28.3 |
| **(a) BASIC METALS AND ALLOYS** | 4.784 | 145.6 | 164.1 | 185.3 | 12.7 | 12.9 | 6.2 | 12.1 |
| **(i) IRON & STEEL** | 2.441 | 138.2 | 158.0 | 174.4 | 14.3 | 10.4 | 3.4 | 4.8 |
| Basic pig iron | 0.023 | 192.1 | 222.0 | 262.1 | 15.6 | 18.1 | 0.0 | 0.1 |
| Bars & rods | 0.955 | 133.1 | 151.2 | 161.6 | 13.6 | 6.9 | 1.2 | 1.2 |
| Heavy Light structurals | 0.215 | 202.5 | 213.5 | 245.9 | 5.4 | 15.2 | 0.2 | 0.8 |
| Sheets | 0.301 | 148.3 | 175.7 | 201.3 | 18.5 | 14.6 | 0.6 | 0.9 |
| Axles, wheels & tyres | 0.029 | 343.4 | 420.3 | 462.3 | 22.4 | 10.0 | 0.2 | 0.1 |
| Pipes & tubes | 0.569 | 163.5 | 185.5 | 200.4 | 13.5 | 8.0 | 0.9 | 1.0 |
| **(ii) FERRO ALLOYS** | 0.196 | 139.0 | 161.6 | 201.0 | 16.3 | 24.4 | 0.3 | 0.9 |
| **(iii) NON-FERROUS METALS & ALLOYS** | 1.025 | 144.7 | 170.6 | 234.3 | 17.9 | 37.3 | 1.9 | 7.8 |
| Aluminium | 0.454 | 145.1 | 152.4 | 209.1 | 5.0 | 37.2 | 0.2 | 3.1 |
| **(b) METAL PRODUCTS** | 1.823 | 138.3 | 147.2 | 186.2 | 6.4 | 26.5 | 1.1 | 8.5 |
| **J. MACHINERY & MACHINE TOOLS** | 6.268 | 128.8 | 138.5 | 158.2 | 7.5 | 14.2 | 4.3 | 14.7 |
| (a) Non-electrical machinery & parts | 3.277 | 132.5 | 140.5 | 162.8 | 6.0 | 15.9 | 1.8 | 8.7 |
| (b) Electrical machinery | 2.991 | 124.7 | 136.4 | 153.1 | 9.4 | 12.2 | 2.4 | 5.9 |
| (c) Transport equipment & parts | 2.705 | 131.7 | 140.4 | 157.5 | 6.6 | 12.2 | 1.6 | 5.5 |
| **K. OTHER MISC. MFG. INDUSTRIES** | 0.972 | 109.7 | 110.5 | 116.4 | 0.7 | 5.3 | 0.1 | 0.7 |

commodity-group which had risen by 23.0 per cent in 1987-88 registered an almost equal decline of 23.3 per cent as a result of record production. Raw cotton prices which had recorded a sharp rise of 37.8 per cent in 1987-88 rose by 3.7 per cent in 1988-89. On the other hand, jute prices spurted by 58.7 per cent as compared with an increase of 12.9 per cent in 1987-88. Tobacco prices rose by 34.4 per cent as against a decline of 0.8 per cent in the previous year. In the case of minerals, there was a rise in the price of limestone by 11.6 per cent as compared with a rise of 8.3 per cent in 1987-88.




*Fuel, Power, Light and Lubricants*

The movements in the indices of the major group 'Fuel, Power, Light and Lubricants', generally reflects the changes effected in administered prices. This group which had recorded a price rise of 5.3 per cent in 1987-88 registered a further rise of 5.1 per cent in 1988-89 mainly as a result of the hike in administered prices of coal and enhancement of electricity tariff. Coal prices rose by 12.5 per cent (18.0 per cent in 1987-88) and electricity prices by 8.3 per cent (4.4 per cent in 1987-88) [Table V-2(b)].

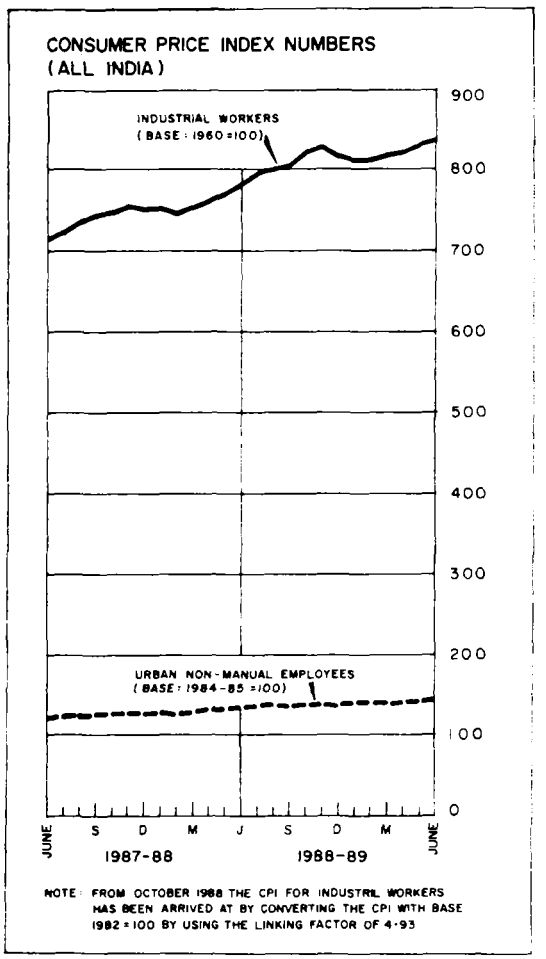
*Manufactured Products*

The index of the major group 'Manufactured Products' recorded an increase of 9.2 per cent in 1988-89 as compared with 8.9 per cent in the previous year [Table V-2(c)]. The 'Manufactured Products' group, however, made higher contribution of 90.3 per cent to the rise in the general index during the year as compared with 47.1 per cent in the previous year. Groupwise, the rate of price rise of food products, textiles, paper and paper products, leather and leather products, rubber and plastic products and chemicals and chemical products decelerated while those of beverages, tobacco and tobacco products, non-metallic mineral products, basic metals, alloys and metal products, machinery and machine tools, transport equipment and parts and other miscellaneous manufacturing industries accelerated during 1988-89. Prices of dairy and grain mill products rose sharply on account of higher milk and wheat prices. Edible oil prices which had risen by 12.3 per cent in 1987-88, declined by 7.4 per cent in 1988-89 mainly as a result of the decline in oilseeds prices. Prices of *gur* increased markedly by 23.1 per cent as compared with the rise of 8.4 per cent in the previous year. Cotton textile prices rose by 8.2 per cent as compared with 13.3 per cent in the previous year. Prices of man-made textiles rose by 5.8 per cent as against an increase of 3.4 per cent in 1987-88. Prices of jute textiles rose markedly by 22.0 per cent as against 15.5 per cent in 1987-88. Prices of paper and paper products rose by 8.8 per cent on top of a rise of 10.6 per cent in 1987-88 reflecting the acute shortage of pulpable forest raw materials. Cement prices rose by 11.2 per cent as against a decline of 8.5 per cent in the previous year. Prices of non-ferrous metals rose sharply by 37.3 per cent reflecting the hike in administered prices following the spurt in international prices and weakening of the rupee in relation to major foreign currencies. As a sequel to this and the substantial price rise in basic metals group, metal products' prices rose substantially.

*Consumer Price Indices*

A new series of the Index Numbers of Consumer Price for Industrial Workers with 1982=100 as the base has been introduced by

the Labour Bureau, Government of India, from October 1988. This new series covers 70 selected centres in which a comprehensive family living survey was conducted in 1981-82 for purposes of deciding the weighting diagram, etc. The All-India index is worked out as the weighted average of the centre indices*. The All-India index on the old base of 1960 = 100 can be estimated by multiplying the new index by the linking factor of 4.93.




An analysis of trends in consumer price indices reveals that during 1988-89, the pressure on prices at the retail level was higher than at the wholesale level. As against the increase of 7.5 per cent on an average basis in the All-India Wholesale Price Index in 1988-89, the increases on an average basis in the All-India consumer price indices were as follows : Consumer Price Index for Industrial Workers 9.1 per cent; Consumer Price Index for Urban Non-manual Employees 8.2 per cent; and Consumer Price Index for Agricultural Labourers 12.7 per cent.

On a point-to-point basis, the All-India Consumer Price Index (CPI) for Industrial Workers (base : 1982 = 100) recorded a smaller rise of 8.6 per cent over the year as compared with the rise of 9.8 per cent in 1987-88. On an average basis, however, the increase during 1988-89 at 9.1 per cent was the same as that in the previous year (Table V-3). The index rose continuously from 763 in April 1988 to 828† in November 1988 but later generally moved downward and stood at 818 in March 1989†. Centre-wise analysis shows that indices of all major centres recorded increases. The highest increase in the index was recorded in the case of Sholapur (15.0 per cent), followed by Madurai (13.5 per cent), Saharanpur (13.1 per cent), Nagpur (10.8 per cent) and Calcutta (10.4 per cent). The lowest increase was registered in the case of Bhavnagar (1.7 per cent). The All-India Consumer Price Index for Urban Non-manual Employees (base: 1984-85 = 100) recorded a smaller rise in 1988-89 both on a point-to-point and on an average basis, of 7.0 per cent and 8.2 per cent, respectively, than that (10.3 per cent and 8.9 per cent respectively) recorded in the previous year. All centre-wise indices excepting that of Bhavnagar, rose during the year, the increase being the highest in the case of Imphal (14.3 per cent) and the lowest in the case of Sholapur (1.2 per cent). The All-India Consumer Price Index for Agricultural Labourers (base : July 1960 - June 1961 = 100) recorded, on an average basis, a sharper rise of 12.7 per cent as compared with a rise of 9.9 per cent in 1987-88.

*Differences in Trends in WPI and CPI*

A striking feature of price trends during the 1980's has been the higher rate of rise in the Consumer Price Index for Industrial Workers (CPI) than that in the Wholesale Price Index (WPI) in almost every year (Table V-4). This disparity is explained by structural dissimilarities of these two series of indices with regard to their construction, such as weighting diagram, coverage of commodities and items, inclusion of capital goods in WPI and of services in CPI, geographical coverage, and base levels. For

* For further details relating to the new series, please see May 1989 issue of the Reserve Bank of India Bulletin.

† The indices are derived by multiplying the new index by the linking factor of 4.93.

**Table V-3 : Consumer Price Indices**

| Items | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. Consumer Price Index for Industrial Workers (Average) (1960 = 100) | 674.4 | 735.5 | 802.5 |
| 2. Per cent variation in (1) | +8.8 | +9.1 | +9.1 |
| 3. Consumer Price Index for Industrial Workers (in the last month of the financial year i.e. March) | 686 | 753 | 818* (166)+ |
| 4. Per cent variation in (3) | +7.5 | +9.8 | +8.6 |
| 5. Consumer Price Index for Urban Non-Manual Employees (Average) (1984-85 = 100) | 115.2 | 125.4 | 135.8 |
| 6. Per cent variation in (5) | +7.9 | +8.9 | +8.2 |
| 7. Consumer Price Index for Urban Non-Manual Employees (1984-85 = 100) (in the last of the financial year i.e. March) | 117 | 129 | 138 |
| 8. Per cent variation in (7) | +6.4 | +10.3 | +7.0 |
| 9. Consumer Price Index for Agricultural Labourers (Average) (July 1960 - June 1961 = 100) | 572.1 | 628.8 | 708.4 |
| 10. Per cent variation in (9) | +4.7 | +9.9 | +12.7 |
| 11. Consumer Price Index for Agricultural Labourers (July 1960 - June 1961 = 100) (in the last month of the financial year i.e. March) | 573 | 658 | 729 |
| 12. Per cent variation in (11) | +3.1 | +14.8 | +10.8 |

* The indices from November 1988 to March 1989 have been worked out by multiplying the indices on the new base of 1982 = 100 with the linking factor of 4.93.
+ According to the new base of 1982 = 100.

**Table V-4 : Annual Rates* of Price Increases as Reflected in Different Price Indices**
(Converted to common base of 1980-81 = 100)

(Percentage Increases)

| Year | WPI | CPI for Industrial Workers | CPI for Urban Non-manual | CPI for agricultural labourers | Indices for Food Items | |
|---|---|---|---|---|---|---|
| | | | | | Composite Food Index of WPI (Weight : 27.5%) | Food Index of CPI (Weight : 57.0%) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1981-82 | +9.8 | +12.4 | +12.1 | +12.4 | +7.1 | +13.6 |
| 1982-83 | +2.6 | +7.7 | +8.0 | +5.1 | +6.5 | +6.7 |
| 1983-84 | +9.4 | +12.7 | +10.0 | +11.4 | +12.9 | +14.4 |
| 1984-85 | +7.1 | +6.4 | +8.2 | +0.3 | +4.7 | +4.5 |
| 1985-86 | +5.8 | +6.4 | +6.7 | +4.8 | +2.1 | +5.1 |
| 1986-87 | +5.3 | +8.8 | +7.9 | +4.7 | +10.2 | +9.7 |
| 1987-88 | +7.6 | +9.1 | +8.9 | +9.9 | +8.9 | +9.6 |
| 1988-89 | +7.3 | +9.1 | +8.2 | +12.7 | +8.5 | +9.4 |

* Based on annual average indices.

CPI, the weighting diagrams are based on the average estimated expenditure pattern of the working class population and are derived from family budget surveys conducted in selected industrial centres while those for WPI are based on the value of the entire wholesale transactions in the economy which consists of (a) value of marketed/marketable surplus in the case of agricultural products and (b) value of products in the case of non-agricultural products for sale including excise duty and total value of imports including import duties. The structural differences are also present in the food group indices of these two series. The food group has a weight of 27.5 per cent in WPI as against 57.0 per cent in CPI (1982 series). Besides, transport and handling costs and trade margins also appear to have grown at a faster pace over the years. In general, during the 'eighties there has been relatively stronger pressure on prices of mass consumption goods and hence CPI which has a higher weightage for such commodities has shown relatively higher rates of increases.

*Price Trends during April-June Quarter of 1989-90*

During the first quarter (April-June) of 1989-90 the rise in the wholesale price index (base: 1981-82 = 100) on a point-to-point basis at 3.0 per cent was the same as that in the comparable quarter of the previous year. The rate of price rise was somewhat higher compared with that in the corresponding quarter of 1989-90 in the case of 'Primary Articles' (2.9 per cent as against 2.6 per cent) and it was close to that in the previous year for 'Manufactured Products' (3.6 per cent as against 3.5 per cent); in the case of 'Fuel, Power, Light and Lubricants', the rate of price rise was, however, significantly lower (0.3 per cent as against 1.6 per cent) (Table V-5).

Among 'Primary Articles', while food articles recorded a marginally lower increase of 4.6 per cent as compared with 4.8 per cent in the comparable quarter of the previous year, non-food articles recorded an increase of 0.7 per cent in contrast to a decline of 0.5 per cent in the first quarter of 1988-89. The minerals sub-group recorded no change against a decline of 0.3 per cent. Among food articles, prices of fruits and vegetables rose sharply (13.1 per cent as against 3.4 per cent). Wheat prices declined and there was deceleration in price rise of pulses, milk and other food articles.

In the 'Manufactured Products' group there was acceleration in price increase of sugar group (14.1 per cent against 12.8 per cent), edible oils (5.9 per cent in contrast to a decline of 3.3 per cent), paper and paper products (4.8 per cent in contrast to a decline of 0.1 per cent) and iron & steel (4.2 per cent as against 2.3 per cent). The acceleration in the prices of manufactured products may be traced to the hikes in the administered prices of critical inputs, viz., iron and steel and non-ferrous metals.

During the first quarter of 1989-90, the Consumer Price Index for Industrial Workers (base 1982 = 100) rose from 166 in March 1989 to 170 in June 1989 reflecting a rise of 2.4 per cent as against a rise of 3.9 per cent in the corresponding quarter of the previous year. On an average basis, however, the rise at 7.7 per cent was lower than that of 9.8 per cent in the comparable quarter of the previous year. The Consumer Price Index for Urban Non-manual Employees (base: 1984-85 = 100) moved up from 138 in March 1989 to 142 in June 1989 recording a rise of 2.9 per cent as compared with a rise of 3.1 per cent in the comparable period of 1988. The Consumer Price Index for Agricultural Labourers (July 1960 - June 1961 = 100) rose from 729 in March 1989 to 736 in June 1989, registering a rise of 1.0 per cent which was one-half of the rise in the comparable quarter of the previous year.

**Price Policies**

Despite the moderation of inflationary pressures, most of the supply and demand management measures deployed in 1987-88 were continued in 1988-89 with a view to keeping the inflation rate within a reasonable limit as the underlying situation was one of latent inflation. Fiscal management during 1988-89 was directed at restoring the momentum of growth in a post-drought year and this stance was supported by a monetary policy which sought to provide adequate credit to accommodate strong growth without, at the same time, allowing undue growth of liquidity in the system. On the supply side, adequate availability of foodgrains and other essential commodities was ensured through an expanded public distribution system (PDS), various employment programmes and relief operations. Additional imports were undertaken wherever necessary, as in the case of edible oils and pulses, to augment supplies.

**Table V-5 : Variations in Index Number of Wholesale Prices**

(Base : 1981-82 = 100)

| Items | Weight | Percentage Variations (point-to-point basis) | |
|---|---|---|---|
| | | 1988-89 End-June over End-March | 1989-90 End-June over End-March |
| 1 | 2 | 3 | 4 |
| **ALL COMMODITIES** | **100.000** | **3.0** | **3.0** |
| I. Primary Articles | 32.295 | 2.6 | 2.9 |
| Food Articles | 17.386 | 4.8 | 4.6 |
| Cereals | 6.824 | 1.6 | 0.1 |
| (i) Rice | 3.685 | 5.8 | 5.7 |
| (ii) Wheat | 2.248 | -5.2 | -9.3 |
| Pulses | 1.093 | 12.2 | 10.2 |
| Fruits and Vegetables | 4.089 | 3.4 | 13.1 |
| Milk | 1.961 | 9.1 | 3.8 |
| Other Food Articles | 0.689 | 19.4 | 9.0 |
| Tea | 0.564 | 24.1 | 11.6 |
| Non-Food Articles | 10.081 | -0.5 | 0.7 |
| Fibres | 1.791 | -1.4 | 1.2 |
| Raw cotton | 1.335 | -3.5 | -3.3 |
| Oilseeds | 3.861 | -2.6 | 6.5 |
| Minerals | 4.828 | -0.3 | 0.0 |
| II. Fuel, Power, Light and Lubricants | 10.663 | 1.6 | 0.3 |
| Coal Mining | 1.256 | 0.0 | 0.0 |
| Mineral Oils | 6.666 | 0.9 | 0.0 |
| III. Manufactured Products | 57.042 | 3.5 | 3.6 |
| Sugar, Khandsari & Gur | 4.059 | 12.8 | 14.1 |
| i) Sugar | 2.013 | 6.4 | 4.7 |
| ii) Khandsari | 0.300 | 16.0 | 29.0 |
| iii) Gur | 1.746 | 20.4 | 22.4 |
| Edible Oils | 2.445 | -3.3 | 5.9 |
| Textiles | 11.545 | 1.1 | 4.0 |
| Paper and Paper Products | 1.988 | -0.1 | 4.8 |
| Cement | 0.860 | 8.0 | 6.2 |
| Chemicals and Chemical Products | 7.355 | 1.0 | 0.3 |
| Iron & Steel | 2.441 | 2.3 | 4.2 |
| Ferro Alloys | 0.196 | 1.9 | 1.1 |

Besides, sectoral price policies continued to be pursued in regard to essential commodities of agricultural origin and basic industrial goods generally with the objective of balancing the interests of consumers and producers; in some cases restraint on consumption became an important objective. Price and distribution controls on two major products, viz., cement and aluminium were dispensed with as these industries have come of age. The price policy with regard to agricultural commodities was thus guided by the twin objectives of ensuring remunerative prices to farmers and, at the same time, making supplies available to consumers at reasonable prices which are affordable by even the lower income groups. These objectives were sought to be attained through continuation of all the three operational instruments, viz., (i) procurement of important agricultural commodities at the predetermined

procurement/minimum support prices which offer an adequate return to farmers; (ii) supply of selected commodities through PDS at reasonable prices; and (iii) open market releases of foodgrains, edible oils, sugar, pulses, etc., in order to maintain open market prices of these commodities within a reasonable range. The policy changes relating to agricultural prices are noted in Chapter III.

The administered prices of some industrial products were changed in line with changes in costs or to restrict consumption. The changes effected in the prices of the important industrial products are outlined below.

In view of the rising input and wage costs, the weighted average price of coal produced by Coal India Ltd., was raised by 13.7 per cent to Rs. 249 per tonne from Rs. 219 per tonne with effect from January 1, 1989.

During 1988-89, the iron and steel prices were revised thrice by the Joint Plant Committee (JPC). The first increase, marginal in nature, was with effect from April 1, 1988 due to increase in the Railway freight. The second increase, effective January 8, 1989, was to the extent of about 6 per cent in the case of pig iron and an average of about 8.7 per cent for steel items. This was intended to neutralize the escalations in costs of coal, power and other inputs. The third increase of an average of about 2 per cent effective March 1, 1989, was due to increase in the excise duty in the Central Budget. Again, effective June 1, 1989, the JPC hiked the prices of pig iron and steel items produced by SAIL and TISCO by 3.4 per cent and 1.5 per cent, respectively, following increases in the Railway freight in April 1989.

The dual pricing policy in respect of cement continued till the end of February 1989. The retention price of levy cement was raised by Rs. 47 per tonne (12 per cent) with effect from September 7, 1988. Price and distribution controls on cement were lifted with effect from March 1, 1989.

With a view to reducing the gap between the prices of domestic and imported edible oils and avoiding any disincentive to domestic production, the Government raised the issue price of imported edible oils for PDS from Rs. 11,000 per metric tonne (pmt) to Rs. 13,150 pmt for oil supplied in bulk and from Rs. 12,500 pmt to Rs. 14,500 pmt for oil supplied in 15 kg. tins with effect from September 1, 1989. Consequently, the maximum ceiling price recommended to States/Union Territories for retail trade was increased from Rs. 13.05 per kg. to Rs. 15.40 per kg. (bulk) and from Rs. 14.40 - Rs. 14.90 per kg. to Rs. 16.60 per kg. (15 kg. tins), respectively. Though the supply of edible oils at concessional rates to the vanaspati industry was discontinued, the industry was allowed to purchase edible oils from STC at an open window rate of Rs. 19,000 pmt without reimbursement of freight, sales tax, etc. The Government initiated certain policy measures with a view to rationalising the management of the oil economy by stabilising the prices of edible oils in consonance with the objectives laid down for the Technology Mission on Oilseeds (TMO). The National Dairy Development Board (NDDB) has been designated as a market intervention agency to stabilise open market prices of edible oils within a reasonable range through open market operations. The Government declared an integrated oilseed policy in January 1989 aimed at maintaining wholesale prices of groundnut oil and mustard oil within a price band of Rs. 20,000 - Rs. 25,000 per tonne. In June 1989, the price band for mustard oil was revised to Rs. 17,000 - Rs. 23,000 per tonne.

As a part of the long term policy of the Government to encourage sugar production to keep pace with rising domestic consumption, the proportion of free sale to levy sugar was raised to 55:45 for the 1988-89 season from 50:50 in the 1987-88 season. Consequent to an increase in statutory minimum price of sugarcane for the 1988-89 season, the Government raised the issue price of levy sugar for PDS from Rs. 5.10 per kg. to Rs. 5.25 per kg. with effect from January 1, 1989. In view of the steep rise in sugar prices, the Government reduced by 50 per cent the limit on stocks to be held by sugar and *khandsari* dealers with effect from May 15, 1989.

Effective November 18, 1988, following cost escalation, the ex-factory sale price of aluminium was raised from Rs. 25,309 per tonne to Rs. 29,749 per tonne or by 17.5 per cent. The domestic price of aluminium, however, continued to be lower than the international price of Rs. 36,000 per tonne. The price and distribution controls on aluminium were also lifted, with effect from March 1, 1989.

In order to reduce the cost of agricultural inputs like urea the Government directed the manufacturers of urea to give a discount of 7.5 per cent to farmers for which the manufacturers were reimbursed by the Government upto September 30, 1988. The manufacturers were also allowed to offer on their own a discount of 7.5 per cent on urea in the Rabi season, without claiming reimbursement from the Government.

Under the provisions of the new Drug Price Control Order 1987, the Government fixed fair prices in respect of a large number of controlled bulk drugs and various formulations with a view to ensuring that the essential formulations are available to the public at reasonable prices. The prices of certain important drugs like gentamycin sulphate, Vitamin C and Vitamin A were reduced. Prices of some decontrolled bulk drugs and formulations were brought down through Government intervention.

The selling prices of imported newsprint were raised by Rs. 750 - Rs. 815 per tonne for the quarter October-December 1988 mainly as a result of hardening of the US dollar *vis-a-vis* the rupee.

The selling prices of non-ferrous metals which are imported by the Minerals and Metals Trading Corporation were revised from time to time following variations in international prices and exchange rate of the rupee.

## Chapter VI

# Monetary Developments

### Overall Trends

Monetary developments in 1988-89 (April-March) were characterised by an acceleration in the pace of expansion in all important measures of money supply which was the combined result of a number of factors. There had been a rapid expansion in primary money during the past few years following large and persistent increases in net RBI credit to Government. Credit policy was geared during the year towards providing adequate bank credit to all sectors - agriculture, industry and exports - to support and sustain the expected economic recovery. At the same time, in view of the high rate of inflation witnessed in 1987-88 and the expectations of continuing pressure on prices, the policy stance was one of caution in containing the overall growth of liquidity.

While there was an acceleration during 1988-89 (April-March) in the pace of expansion of all the four measures of money supply, viz., $M_1$, $M_2$, $M_3$ and $M_4$, it was more pronounced in the case of $M_1$ and $M_3$, as a result of a sharper increase in demand deposits with banks. The rate of expansion in these four money stock measures ranged between 13.4 per cent and 17.6 per cent as compared with 12.9 per cent and 15.7 per cent in 1987-88 (Table VI-1). During the first four years (1985-86 to 1988-89) of the Seventh Five Year Plan, the average growth rate of $M_1$ and $M_3$ worked out to 13.7 per cent and 17.1 per cent, respectively.

In absolute terms, 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) at Rs. 8,457 crores (14.6 per cent) was larger than that of Rs. 6,625 crores (12.9 per cent) in 1987-88. The expansion in broad money or $M_3$ (comprising $M_1$ and time deposits with banks) was larger both in absolute and percentage terms - Rs. 28,571 crores or 17.6 per cent compared

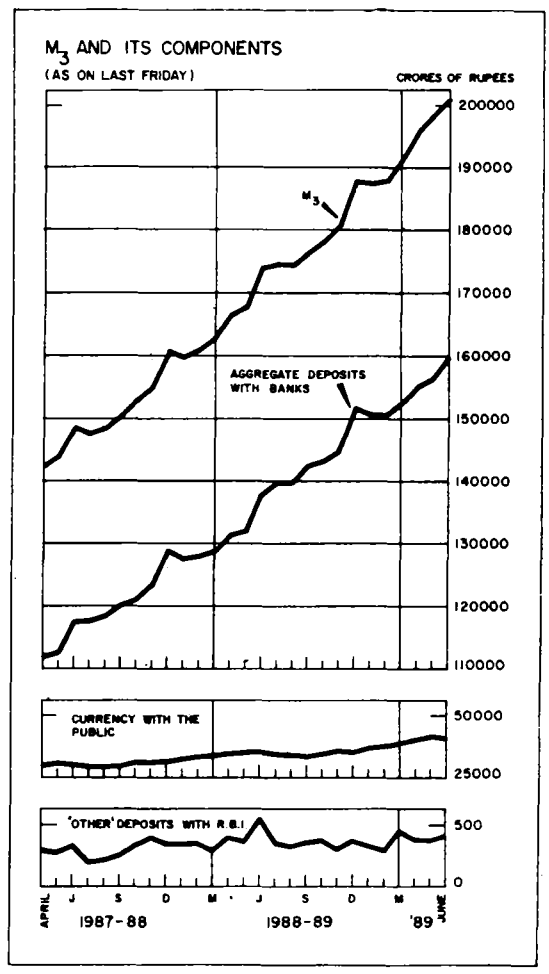


**Table VI-1 : Money Supply and its Components**

(Rupees crores)

| Items | Variations during financial year | | | | | | Outstanding as on the last reporting Friday of March 1989@* | Variations during the quarter | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1986-87 | | 1987-88 | | 1988-89@ | | | April-June 1988$ | | April-June 1989@ | |
| | 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) | 7,578 | 17.4 | 6,625 | 12.9 | 8,457 | 14.6 | 66,259 | 4,494 | 7.8 | 4,268 | 6.4 |
| (a) Currency with the public | 3,417 | 13.6 | 5,065 | 17.7 | 4,813 | 14.3 | 38,463 | 1,761 | 5.2 | 2,627 | 6.8 |
| (b) Demand deposits with banks | 4,060 | 22.3 | 1,615 | 7.3 | 3,495 | 14.7 | 27,350 | 2,127 | 8.9 | 1,685 | 6.2 |
| (c) 'Other' deposits with RBI | 101 | 40.2 | -55 | -15.6 | 149 | 50.2 | 446 | 606 | 204.0 | -44 | -9.9 |
| Post Office Savings Bank Deposits | 187 | 6.1 | 405 | 12.5 | -237 | -6.5 | 3,402 | -348 | -9.6 | — | — |
| $M_2$ ($M_1$ + Post Office Savings Bank Deposits) | 7,765 | 16.6 | 7,030 | 12.9 | 8,220 | 13.4 | 69,661 | 4,146 | 6.7 | 4,268 | 6.1 |
| Time deposits with banks | 14,717 | 19.7 | 15,402 | 17.2 | 20,114 | 19.2 | 1,24,973 | 8,037 | 7.7 | 5,684 | 4.5 |
| $M_3$ ($M_1$ + Time deposits with banks) | 22,295 | 18.8 | 22,027 | 15.7 | 28,571 | 17.6 | 1,91,232 | 12,531 | 7.7 | 9,952 | 5.2 |
| Total Post Office Deposits | -254 | -2.2 | -28 | -0.2 | -749 | -6.5 | 10,741 | -521 | -4.5 | — | — |
| $M_4$ ($M_3$ + Total Post Office Deposits) | 22,041 | 16.9 | 21,999 | 14.5 | 27,822 | 16.0 | 2,01,973 | 12,010 | 6.9 | 9,952 | 4.9 |

@ Data are provisional.
* Data relate to March 24.
$ The variation for the quarter April-June 1988 relates to the period March 25, 1988 to July 1, 1988.

**Table VI-2 : Sources of Money Stock (M3)**

(Rupees crores)

| Items | Variations during financial year | | | | | | Outstanding as on the last reporting Friday of March 1989*@ | Variations during the quarter | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1986-87 | | 1987-88 | | 1988-89* | | | April-June 1988** | | April-June 1989* | |
| | Absolute | Percentage | Absolute | Percentage | Absolute | Percentage | | Absolute | Percentage | Absolute | Percentage |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| **Sources of Money Stock (M3) (1+2+3+4-5)** | **22,295** | **18.8** | **22,027** | **15.7** | **28,571** | **17.6** | **1,91,231** | **12,531** | **7.7** | **9,952** | **5.2** |
| **1. Net Bank credit to Government (A+B)** | **12,776** | **21.8** | **12,811** | **18.0** | **12,715** | **15.1** | **96,824** | **10,419** | **12.4** | **8,427** | **8.7** |
| A. RBI's net credit to Government (i+ii) | 6,867 | 17.7 | 7,025 | 15.3 | 7,225 | 13.7 | 60,018 | 7,836 | 14.8 | 6,079 | 10.1 |
| (i) Net claims on Central Government (a-b) | 6,593 | 16.9 | 7,049 | 15.5 | 7,310 | 13.9 | 59,872 | 7,717 | 14.7 | 6,186 | 10.3 |
| (a) Claims on Central Government | 6,487 | 16.6 | 7,071 | 15.5 | 7,334 | 13.9 | 59,972 | 7,711 | 14.6 | 6,168 | 10.3 |
| (b) Deposits of Central Government | -106 | -66.3 | 22 | 40.7 | 24 | 31.6 | 100 | -6 | -7.9 | -18 | -18.0 |
| (ii) Net claims on State Governments (a-b) | 274 | # | -24 | -9.4 | -85 | -36.8 | 146 | 119 | 51.5 | -107 | -73.3 |
| (a) Claims on State Governments | 270 | # | -24 | -8.9 | -90 | -36.6 | 156 | 117 | 47.6 | -102 | -65.4 |
| (b) Deposits of State Governments | -4 | -21.1 | — | — | -5 | -33.3 | 10 | -2 | -13.3 | 5 | 50.0 |
| B. Other banks' credit to Government | 5,909 | 30.1 | 5,786 | 22.7 | 5,490 | 17.5 | 36,806 | 2,583 | 8.2 | 2,348 | 6.4 |
| **2. Bank Credit to Commercial Sector (A+B)** | **11,294** | **13.8** | **12,389** | **13.3** | **20,531** | **19.5** | **1,26,065** | **4,538** | **4.3** | **3,766** | **3.0** |
| A. RBI's credit to commercial sector$ | 363 | 11.8 | 377 | 11.0 | 1,144 | 30.1 | 4,950 | 1 | — | -528 | -10.7 |
| B. Other banks' credit to commercial sector (i+ii+iii) | 10,931 | 13.9 | 12,012 | 13.4 | 19,387 | 19.1 | 1,21,115 | 4,537 | 4.5 | 4,294 | 3.5 |
| (i) Bank credit by commercial banks | 7,246 | 12.9 | 7,234 | 11.4 | 14,165 | 20.1 | 84,726 | 3,029 | 4.3 | 3,701 | 4.4 |
| (ii) Bank credit by co-operative banks | 1,408 | 13.4 | 2,491 | 20.8 | 2,225 | 15.4 | 16,664 | 511 | 3.5 | 21 | 0.1 |
| (iii) Investments by commercial and co-operative banks in other approved securities | 2,277 | 18.7 | 2,287 | 15.8 | 2,997 | 17.9 | 19,725 | 997 | 6.0 | 572 | 2.9 |
| **3. Net Foreign Exchange Assets of the Banking Sector (A+B)** | **1,314** | **37.8** | **682** | **14.2** | **637** | **11.6** | **6,107** | **-1471** | **-26.9** | **64** | **1.0** |
| A. RBI's net foreign exchange assets (i-ii) | 1,251 | 37.4 | 673 | 14.6 | 637 | 12.1 | 5,904 | -1,471 | -27.9 | 64 | 1.1 |
| (i) Gross foreign assets | 631 | 8.7 | -480 | -6.1 | -830 | -11.2 | 6,582 | -1,756 | -23.7 | -233 | -3.5 |
| (ii) Foreign liabilities | -620 | -15.8 | -1,153 | -35.0 | -1,467 | -68.4 | 678 | -285 | -13.3 | -297 | -43.8 |
| B. Other banks' net foreign exchange assets | 63 | 48.1 | 9 | 4.6 | — | — | 203 | — | — | — | — |
| **4. Government's Currency Liabilities to the Public** | **252** | **26.8** | **188** | **15.8** | **76** | **5.5** | **1,456** | **34** | **2.5** | **—** | **—** |
| **5. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (A+B)** | **3,341** | **12.6** | **4,043** | **13.6** | **5,388** | **15.9** | **39,221** | **989** | **2.9** | **2,305** | **5.9** |
| A. Net non-monetary liabilities of RBI | 2,183 | 20.4 | 1,019 | 7.9 | 2,431 | 17.5 | 16,310 | 659 | 4.7 | 346 | 2.1 |
| B. Net non-monetary liabilities of other banks (residual) | 1,158 | 7.3 | 3,024 | 17.9 | 2,957 | 14.8 | 22,911 | 330 | 1.7 | 1,959 | 8.6 |

* Provisional.
@ Data relate to March 24.
\# Increase over near zero.
$ RBI's credit to commercial sector excludes, since the establishment of NABARD, its refinance to banks.
** Variation for the quarter April-June 1988 relates to the period March 25, 1988 to July 1, 1988

**Table VI-3 : Seasonal Variations in $M_3$ and its Sources of Change**

(Rupees crores)

| Items | Variations during | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Slack Season | | | | Busy Season | | | |
| | 1987 | | 1988* | | 1987-88 | | 1988-89* | |
| | Absolute | Percentage | Absolute | Percentage | Absolute | Percentage | Absolute | Percentage |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **I. $M_1$ (a+b(i)+c)** | **1,700** | **3.3** | **1,517** | **2.6** | **5,611** | **10.4** | **7,680** | **12.6** |
| **II. $M_3$ (a+b+c)** | **10,710** | **7.5** | **11,806** | **7.1** | **13,492** | **8.8** | **17,520** | **9.8** |
| (a) Currency with the public | 1,283 | 4.3 | -22 | -0.1 | 3,333 | 10.6 | 5,480 | 15.8 |
| (b) Aggregate deposits with banks | 9,387 | 8.4 | 11,851 | 9.0 | 10,100 | 8.3 | 12,036 | 8.4 |
| (i) Demand deposits | 377 | 1.7 | 1,562 | 6.5 | 2,219 | 10.1 | 2,196 | 8.5 |
| (ii) Time deposits | 9,010 | 10.0 | 10,289 | 9.6 | 7,881 | 7.9 | 9,840 | 8.4 |
| (c) 'Other' deposits with RBI | 40 | 13.5 | -23 | -5.8 | 59 | 17.5 | 4 | 1.1 |
| **III. Sources of change in $M_3$ (1+2+3+4-5)** | | | | | | | | |
| **1. Net Bank Credit to Government (A+B)** | **4,943** | **6.6** | **7,014** | **8.0** | **7,724** | **9.7** | **6,975** | **7.4** |
| **A. RBI's net credit to Government (i+ii)** | 1,111 | 2.3 | 3,755 | 6.8 | 5,698 | 11.5 | 4,260 | 7.2 |
| (i) Net claims on Central Government (a-b) | 1,123 | 2.3 | 3,596 | 6.5 | 5,720 | 11.5 | 4,363 | 7.4 |
| (a) Claims on Central Government | 1,111 | 2.3 | 3,592 | 6.5 | 5,725 | 11.5 | 4,366 | 7.4 |
| (b) Deposits of Central Government | -12 | -19.4 | -4 | -7.3 | 5 | 10.0 | 3 | 5.9 |
| (ii) Net claims on State Governments (a-b) | -12 | -9.7 | 159 | 176.7 | -22 | -19.6 | -103 | -41.4 |
| (a) Claims on State Governments | -11 | -8.0 | 158 | 149.1 | -21 | -16.5 | -105 | -39.8 |
| (b) Deposits of State Governments | 1 | 7.1 | -1 | -6.3 | 1 | 6.7 | -2 | -13.3 |
| B. Other banks' credit to Government | 3,832 | 14.5 | 3,259 | 10.1 | 2,026 | 6.7 | 2,715 | 7.6 |
| **2. Bank Credit to Commercial Sector (A+B)** | **5,858** | **6.3** | **8,590** | **8.1** | **7,669** | **7.8** | **13,603** | **11.9** |
| A. RBI's credit to commercial sector@ | 399 | 11.7 | 440 | 11.5 | 14 | 0.4 | 561 | 13.2 |
| B. Other banks' credit to commercial sector (i+ii+iii) | 5,459 | 6.1 | 8,150 | 8.0 | 7,655 | 8.1 | 13,042 | 11.8 |
| (i) Bank credit by commercial banks | 3,158 | 5.0 | 5,098 | 7.2 | 4,879 | 7.4 | 11,252 | 14.8 |
| (ii) Bank credit by co-operative banks | 833 | 7.0 | 1,485 | 10.1 | 1,892 | 14.8 | 521 | 3.2 |
| (iii) Investments by commercial and co-operative banks in other approved securities | 1,468 | 10.1 | 1,567 | 9.3 | 884 | 5.5 | 1,269 | 6.9 |
| **3. Net Foreign Exchange Assets of the Banking Sector (A+B)** | **-128** | **-2.8** | **-136** | **-2.6** | **839** | **18.9** | **522** | **10.2** |
| A. RBI's net foreign exchange assets (i-ii) | -43 | -1.0 | -136 | -2.7 | 745 | 17.2 | 522 | 10.6 |
| (i) Gross foreign assets | -608 | -8.0 | -864 | -12.1 | 150 | 2.1 | -222 | -3.5 |
| (ii) Foreign liabilities | -565 | -17.4 | -728 | -34.8 | -595 | -22.1 | -744 | -54.5 |
| B. Other banks' net foreign exchange assets | -85 | -43.8 | — | — | 94 | 86.2 | — | — |
| **4. Government's Currency Liabilities to the Public** | **114** | **9.4** | **45** | **3.2** | **67** | **5.1** | **19** | **1.3** |
| **5. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (A+B)** | **77** | **0.2** | **3,707** | **10.9** | **2,807** | **9.0** | **3,599** | **9.5** |
| A. Net non-monetary liabilities of RBI | -292 | -2.3 | 1,178 | 8.6 | 1,419 | 11.6 | 1,039 | 7.0 |
| B. Net non-monetary liabilities of other banks (residual) | 369 | 2.0 | 2,529 | 12.3 | 1,388 | 7.3 | 2,560 | 11.1 |

* Provisional.

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

with Rs. 22,027 crores or 15.7 per cent in 1987-88.

The growth in $M_2$ ($M_1$ and post office saving deposits) at Rs. 8,220 crores (13.4 per cent) was also larger than that of Rs. 7,030 crores (12.9 per cent) in 1987-88. Similarly, the expansion in $M_4$ ($M_3$ and total post office deposits) was larger at Rs. 27,822 crores (16.0 per cent) compared with Rs. 21,999 crores (14.5 per cent) in 1987-88. However, the money stock measures, namely, $M_2$ and $M_4$ which include Post Office deposits, have shown lower rates of expansion than those in $M_1$ and $M_3$, respectively, as the Postal deposits experienced absolute reductions during 1988-89.

Reserve money recorded an increase of Rs. 9,046 crores (17.0 per cent) on top of a rise of Rs. 8,483 crores (18.9 per cent) in 1987-88 (Table VI-4).

**Money Supply - Components**

The larger growth of monetary aggregates ($M_1$ and $M_3$) during 1988-89 was accounted for mainly by acceleration in the growth of deposits with banks. The higher growth in deposits is attributable to higher real income growth and the reversal of buy-back arrangements in Government and other approved securities resorted to by banks in 1987-88.

A notable feature of expansion of $M_1$ in 1988-89 was deceleration in expansion of currency with the public and acceleration in growth of demand deposits with banks. Currency with the public increased in 1988-89 by Rs. 4,813 crores (14.3 per cent) compared with Rs. 5,065 crores (17.7 per cent) in the previous year. Accretion to demand deposits with banks at Rs. 3,495 crores (14.7 per cent) was more than double of that in 1987-88 (Rs. 1,615 crores or 7.3 per cent). During the first four years of the Seventh Plan, the average growth rate of currency with the public was 14.2 per cent and that of demand deposits with banks 13.8 per cent.

Broad money or $M_3$ expanded by Rs. 28,571 crores in 1988-89. The share of currency in $M_3$ expansion declined from 23.0 per cent in 1987-88 to 16.8 per cent in 1988-89. On the other hand, the share of aggregate deposits with banks in incremental $M_3$ rose to 82.6 per cent in 1988-89 from 77.3 in 1987-88. On account of faster growth of demand deposits with banks, the share of demand deposits in incremental $M_3$ rose from 7.3 per cent to 12.2 per cent. Time deposits with banks registered a larger rise of Rs. 20,114 crores (19.2 per cent) than that of Rs. 15,402 crores (17.2 per cent) in 1987-88; their share in incremental $M_3$ rose to 70.4 per cent from 69.9 per cent. In the preceding two years, the respective shares of aggregate deposits, demand deposits and time deposits in incremental $M_3$ were 86.9 per cent, 11.0 per cent and 75.9 per cent in 1985-86 and 84.2 per cent, 18.2 per cent and 66.0 per cent in 1986-87. 'Other' deposits with the Reserve Bank increased by Rs. 149 crores in 1988-89 in contrast to a decline of Rs. 55 crores in 1987-88.

**Sources of Change in Money Supply**

A striking feature of broad money growth during 1988-89 was the change in relative contribution of net bank credit to Government and bank credit to commercial sector - the two major factors which influence broad money growth. Unlike in 1986-87 and 1987-88 when net bank credit to Government had made a higher contribution than bank credit to commercial sector to $M_3$ growth, it was the latter which made a noticeably larger contribution than the former to $M_3$ growth in 1988-89.

Net bank credit to Government recorded a lower increase of Rs. 12,715 crores (15.1 per cent) in 1988-89 than that of Rs. 12,811 crores (18.0 per cent) in the previous year (Table VI-2). The rise in net Reserve Bank credit to Government in absolute terms at Rs. 7,225 crores in 1988-89 was marginally higher than that of Rs. 7,025 crores in the previous year; in percentage terms, the increase at 13.7 per cent was, however, lower than that of 15.3 per cent in 1987-88. The expansion in other banks' credit to Government at Rs. 5,490 crores (17.5 per cent) was lower than that of Rs. 5,786 crores (22.7 per cent) in the previous year.

The growth of bank credit to commercial sector at Rs. 20,531 crores (19.5 per cent) was substantially higher than the increase of Rs. 12,389 crores (13.3 per cent) in 1987-88. This is attributable to increase in production and commercial activities in 1988-89. Both the Reserve Bank and other banks' credit to commercial sector rose sharply during the year. The Reserve Bank's credit to commercial sector recorded a three-fold expansion of Rs. 1,144 crores (30.1 per cent) in 1988-89 compared with

that of Rs. 377 crores (11.0 per cent) in 1987-88; other banks' credit to commercial sector rose by Rs. 19,387 crores (19.1 per cent) compared with Rs. 12,012 crores (13.4 per cent) in 1987-88. The larger expansion in other banks' credit to commercial sector was on account of a sharp rise in non-food credit which to some extent is attributable to higher demand for bank credit associated with higher production and investment activities.

Accretion to net foreign exchange assets of the banking sector at Rs. 637 crores (11.6 per cent) was a shade lower than that in 1987-88 (Rs. 682 crores or 14.2 per cent). Net non-monetary liabilities of the banking sector, an offsetting factor in money supply, increased by Rs. 5,388 crores (15.9 per cent) compared with the rise of Rs. 4,043 crores (13.6 per cent) in the previous year.

**Seasonal Trends**

During the slack season of 1988 (end-April to end-October), both $M_1$ and $M_3$ registered lower growth rates compared with the 1987 slack season. $M_1$ increased by 2.6 per cent compared with 3.3 per cent in the 1987 slack season. The increase in $M_3$ at 7.1 per cent was also less pronounced than that of 7.5 per cent in the previous slack season (Table VI-3). Among the components of $M_3$, currency with the public declined marginally in contrast to a substantial expansion in the 1987 slack season. On the other hand, aggregate deposits with banks recorded a larger expansion than in the previous slack season. Source-wise, both net bank credit to Government and bank credit to commercial sector rose by a larger magnitude than in the 1987 slack season. Net foreign exchange assets of the banking sector, however, recorded a larger decline than in the previous slack season.

During the 1988-89 busy season, both $M_1$ and $M_3$ recorded a larger increase of 12.6 per cent and 9.8 per cent, respectively, compared with 10.4 per cent and 8.8 per cent, respectively, in the previous busy season. Increase in currency with the public and time deposits was larger and that in demand deposits smaller than that in the previous busy season.

Source-wise, bank credit to commercial sector during 1988-89 busy season recorded larger expansion than in the previous busy season. Net bank credit to Government and net foreign exchange assets of the banking sector, however, recorded a lower increase.

**Reserve Money**

In 1988-89, reserve money growth decelerated to some extent but it followed a sharp acceleration in the previous year. Reserve money recorded an increase of Rs. 9,046 crores (17.0 per cent) on top of a rise of Rs. 8,483 crores (18.9 per cent) in 1987-88. The secondary expansion emanating from this large increase in reserve money was moderated by raising the cash reserve requirements which helped contain currency expansion to a level lower than that in the previous year, both in absolute as well as percentage terms. The annual average growth rate of reserve money during the first four years of the Seventh Plan was 18.7 per cent.

The growth rate of currency with the public decelerated to 14.3 per cent in 1988-89 from 17.7 per cent in 1987-88. Bankers' deposits with Reserve Bank and cash on hand with banks also recorded lower growth rates as compared with those in 1987-88 (Table VI-4).

Source-wise, the Reserve Bank's claims on Government recorded a larger increase in absolute terms but lower increase in percentage terms than in the previous year. The Reserve Bank's claims on scheduled commercial banks and financial institutions rose substantially. Accretion to net foreign exchange assets of the Reserve Bank was, however, a shade lower than in the previous year. Net non-monetary liabilities of Reserve Bank, an off-setting item, rose sharply in 1988-89.

**Some Monetary Relationships**

The ratio of currency to aggregate deposits on an end-year basis has been declining almost continuously during the 1980s. The ratio which declined from 0.288 at end-March 1985 to 0.256 at mid-March 1987, increased to 0.261 in March 1988 but again declined to 0.253 in March 1989 (Table VI-5). On an average basis also, the ratio has shown an almost continuous downward movement during the 1980s. These trends reflect the gradual spread of banking habit in the country. Similar trends are also revealed by the ratio of currency to $M_3$. The ratio of aggregate deposits to $M_3$ conversely shows a rising trend. However, because of the gradual nature of these long-term trends, the incremental ratios of

**Table VI-4 : Reserve Money: Components and Sources of Change**

(Rupees crores)

| Items | Variations during financial year | | | | Outstanding as on the last reporting Friday of March 1989@* | Variations during the quarter | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1987-88 | | 1988-89* | | | April-June 1988$ | | April-June 1989* | |
| | Absolute | Percentage | Absolute | Percentage | | Absolute | Percentage | Absolute | Percentage |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| **Reserve Money (1+2+3+4)** | **8,483** | **18.9** | **9,046** | **17.0** | **62,342** | **4,041** | **7.6** | **3,809** | **6.1** |
| 1. Currency with the public | 5,065 | 17.7 | 4,813 | 14.3 | 38,463 | 1,761 | 5.2 | 2,627 | 6.8 |
| 2. 'Other' deposits with RBI | -55 | -15.6 | 149 | 50.2 | 446 | 606 | 204.0 | -44 | -9.9 |
| 3. Cash on hand with banks | 172 | 12.6 | 180 | 11.7 | 1,721 | 276 | 17.9 | 284 | 16.5 |
| 4. Bankers' deposits with RBI | 3,301 | 22.8 | 3,904 | 21.9 | 21,712 | 1,398 | 7.9 | 942 | 4.3 |
| **Sources of change in Reserve Money (1+2+3-4)** | | | | | | | | | |
| **1. Reserve Bank's claims on (a+b+c+d)** | **8,641** | **16.7** | **10,763** | **17.8** | **71,292** | **6,136** | **10.1** | **4,091** | **5.7** |
| (a) Government (Net) | 7,025 | 15.3 | 7,225 | 13.7 | 60,018 | 7,836 | 14.8 | 6,079 | 10.1 |
| (b) Scheduled commercial banks | 720 | 50.5 | 1,769 | 82.5 | 3,914 | -1,356 | -63.2 | -1,352 | -34.5 |
| (c) State co-operative banks | -24 | -64.9 | 10 | 76.9 | 23 | 11 | 84.6 | 1 | 4.3 |
| (d) Financial institutions (i+ii+iii) | 920 | 19.8 | 1,759 | 31.5 | 7,337 | -355 | -6.4 | -637 | -8.7 |
| (i) NABARD | 543 | 44.2 | 616 | 34.8 | 2,387 | -355 | -20.0 | -109 | -4.6 |
| (ii) IDBI | 313 | 10.8 | 343 | 10.7 | 3,541 | — | — | -13 | -0.4 |
| (iii) Others | 64 | 11.8 | 800 | 131.6 | 1,409 | — | — | -515 | -36.6 |
| **2. Net Foreign Exchange Assets of RBI** | **673** | **14.6** | **637** | **12.1** | **5,904** | **-1,471** | **-27.9** | **64** | **1.1** |
| **3. Government's Currency Liabilities to the Public** | **188** | **15.8** | **76** | **5.5** | **1,456** | **34** | **2.5** | **—** | **—** |
| **4. Net Non-monetary Liabilities of RBI** | **1,019** | **7.9** | **2,431** | **17.5** | **16,310** | **659** | **4.7** | **346** | **2.1** |

* Provisional

@ Data relate to March 24.

$ Variations for the quarter April-June 1988 relate to the period March 25, 1988 to July 1, 1988.

currency to aggregate deposits, currency to $M_3$ and aggregate deposits to $M_3$ exhibit considerable year to year fluctuations reflecting the combined effects of supply and demand factors influencing the monetary variables operating in individual years.

Money multiplier ratios, i. e., the ratio of $M_1$ or $M_3$ to reserve money (unadjusted for changes in reserve requirements), are also presented in Table VI-5. Between 1984-85 and 1988-89, the ratio of $M_1$ to reserve money declined from 1.260 to 1.063 on an end-year basis and from 1.199 to 1.062 on an average basis. During the same period, the ratio of $M_3$ to reserve money declined from 3.239 to 3.067 on an end-year basis and from 3.154 to 3.069 on an average basis. The incremental ratios of $M_1$/RM and $M_3$/RM, both

year-end basis and average basis, do not show any consistent trend between 1984-85 and 1988-89. The rise in $M_3$/RM ratio in 1988-89, both on year-end and average basis, reflects the combined result of contrary effects from declines in incremental ratios of currency to aggregate deposits and bank reserves to deposits. A decline in the currency-deposit ratio, other things being equal, augments the money multiplier which has been a feature of the behaviour of monetary variables in India for some years, and it was so, even in 1988-89. An increase in the bank reserves to deposit ratio goes to depress the money multiplier which has also been a feature in recent years due to gradual increases in the cash reserve requirements. During 1988-89, the bank reserves to deposit ratio showed a fall as the effective incremental cash reserve requirements of many banks declined once these banks attained the statutory ceiling of 15 per cent for the cash reserve ratio. This contributed to the increase in the incremental money multiplier during 1988-89.

The movements in money multiplier after adjustment* of reserve money for changes in cash reserve requirements, are indicated in the table below.

The 'adjusted' average money multiplier shows a rise in 1988-89 after a noticeable decline in 1987-88. The incremental money multiplier also follows a similar pattern during 1986-87 to 1988-89 but over a longer period (since 1984-85) shows wide year-to-year fluctuations.

**Income Velocity of Money**

Income velocity of both narrow money and broad money i. e., the ratio of GDP at current market prices to average $M_1$ or $M_3$ declined during the period 1984-85 to 1987-88 but again rose fractionally in 1988-89. In the case of $M_1$, the ratio declined from 6.399 in 1984-85 to 6.121 in 1987-88 and rose to 6.310 in 1988-89 (Table VI-6). In the case of $M_3$, the ratio declined from 2.433 in 1984-85 to 2.163 in 1987-88 but rose to 2.183 in 1988-89. The shift in sectoral distribution of income away from agriculture may partly be responsible for the generally declining trend in income velocity in recent years.

**Monetary trends during April-June 1989**

During the first quarter of the current financial year 1989-90, the growth in $M_3$ at Rs. 9,952 crores (5.2 per cent) was lower than that of Rs. 12,531 crores (7.7 per cent) in the same period of the previous year. $M_1$ also recorded a lower expansion of Rs. 4,268 crores (6.4 per cent) than that of Rs. 4,494 crores (7.8 per cent) in April-June 1988. Among the components of $M_3$, currency with the public registered a larger expansion than in the corresponding period of the previous year while expansion in demand deposits and time deposits with banks was lower than that in April-June

| | As on the last Friday of | | | | |
|---|---|---|---|---|---|
| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89@ |
| 1 | 2 | 3 | 4 | 5 | 6 |
| Average Money Multiplier $M_3$/RM (adjusted) | 4.205 | 4.046 | 4.156 | 3.798 | 4.002 |
| Incremental Money Multiplier $\Delta M_3 / \Delta$ RM (adjusted) | 11.772 | 3.274 | 4.860 | 2.451 | 5.763 |

@ Provisional.

* The adjusted reserve money is derived by adjusting for changes in cash reserve ratio and incremental reserve requirements as also for net defaults of commercial banks with respect to 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' in RBI Occasional Papers (Vol. 5, No.1) June 1984.

**Table VI-5 : Monetary Ratios**

| Items | 1980-81 | 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 | 10 |
| **A. Point-to-point basis on last Friday of March£** | | | | | | | | | |
| a) Currency/Aggregate deposits | 0.324 | 0.303 | 0.297 | 0.296 | 0.288 | 0.271 | 0.256 | 0.261 | 0.253 |
| b) Currency/$M_3$ | 0.243 | 0.232 | 0.229 | 0.228 | 0.222 | 0.213 | 0.203 | 0.207 | 0.201 |
| c) Aggregate deposits/$M_3$ | 0.751 | 0.765 | 0.769 | 0.769 | 0.772 | 0.785 | 0.794 | 0.791 | 0.797 |
| d) Bank reserves/Aggregate deposits | 0.120 | 0.122 | 0.111 | 0.136 | 0.104 | 0.134 | 0.142 | 0.150 | 0.154 |
| **Incremental Ratios** | | | | | | | | | |
| a) $\Delta$ Currency/$\Delta$ Aggregate deposits | 0.259 | 0.166 | 0.263 | 0.289 | 0.246 | 0.176 | 0.182 | 0.298 | 0.204 |
| b) $\Delta$ Currency/$\Delta$ $M_3$ | 0.208 | 0.145 | 0.208 | 0.222 | 0.194 | 0.153 | 0.153 | 0.230 | 0.168 |
| c) $\Delta$ Aggregate deposits/$\Delta M_3$ | 0.803 | 0.878 | 0.789 | 0.768 | 0.789 | 0.869 | 0.842 | 0.773 | 0.826 |
| d) $\Delta$ Bank reserves/$\Delta$ Aggregate deposits | 0.093 | 0.131 | 0.054 | 0.269 | 0.059 | 0.297 | 0.183 | 0.204 | 0.173 |
| **Money Multiplier** | | | | | | | | | |
| a) $M_1$/RM* | 1.230 | 1.209 | 1.185 | 1.147 | 1.260 | 1.152 | 1.142 | 1.085 | 1.063 |
| b) $M_3$/RM* | 2.946 | 3.051 | 3.025 | 2.980 | 3.239 | 3.126 | 3.138 | 3.052 | 3.067 |
| **Incremental Money Multiplier** | | | | | | | | | |
| a) $\Delta$ $M_1$/$\Delta$ RM* | 1.362 | 0.974 | 1.045 | 0.793 | 2.480 | 0.619 | 1.090 | 0.781 | 0.935 |
| b) $\Delta$ $M_3$/$\Delta$ RM* | 3.684 | 4.220 | 2.883 | 2.281 | 6.050 | 2.567 | 3.206 | 2.597 | 3.158 |
| **B. Average of last Friday of months from April-March $** | | | | | | | | | |
| a) Currency/Aggregate deposits | 0.323 | 0.304 | 0.295 | 0.290 | 0.292 | 0.273 | 0.258 | 0.257 | 0.249 |
| b) Currency/$M_3$ | 0.243 | 0.232 | 0.227 | 0.225 | 0.225 | 0.214 | 0.205 | 0.204 | 0.199 |
| c) Aggregate deposits/$M_3$ | 0.753 | 0.765 | 0.771 | 0.773 | 0.771 | 0.783 | 0.793 | 0.794 | 0.799 |
| d) Bank reserves/Aggregate deposits | 0.120 | 0.122 | 0.116 | 0.112 | 0.115 | 0.129 | 0.139 | 0.153 | 0.156 |
| **Incremental Ratios** | | | | | | | | | |
| a) $\Delta$ Currency/ $\Delta$ Aggregate deposits | 0.235 | 0.205 | 0.238 | 0.264 | 0.301 | 0.176 | 0.179 | 0.247 | 0.203 |
| b) $\Delta$ Currency/$\Delta$ $M_3$ | 0.191 | 0.171 | 0.193 | 0.208 | 0.229 | 0.150 | 0.152 | 0.198 | 0.168 |
| c) $\Delta$ Aggregate deposits/$\Delta$ $M_3$ | 0.814 | 0.836 | 0.810 | 0.789 | 0.760 | 0.854 | 0.847 | 0.801 | 0.829 |
| d) $\Delta$ Bank reserves/$\Delta$ Aggregate deposits | 0.116 | 0.130 | 0.076 | 0.090 | 0.130 | 0.206 | 0.189 | 0.234 | 0.178 |
| **Money Multiplier** | | | | | | | | | |
| a) $M_1$/RM* | 1.213 | 1.220 | 1.220 | 1.212 | 1.199 | 1.164 | 1.138 | 1.081 | 1.062 |
| b) $M_3$/RM* | 2.962 | 3.047 | 3.138 | 3.193 | 3.154 | 3.147 | 3.155 | 3.057 | 3.069 |
| **Incremental Money Multiplier** | | | | | | | | | |
| a) $\Delta$ $M_1$/$\Delta$ RM* | 1.193 | 1.264 | 1.224 | 1.163 | 1.134 | 0.960 | 0.991 | 0.802 | 0.949 |
| b) $\Delta$ $M_3$/$\Delta$ RM* | 3.580 | 3.657 | 3.963 | 3.548 | 2.958 | 3.108 | 3.198 | 2.587 | 3.140 |

RM = Reserve Money.

* Not adjusted for changes in reserve requirements.

@ Provisional.

£ Data in respect of 1988-89 relate to last reporting Friday i.e. March 24.

$ Average of outstandings as on last Friday of months except for March 1989 for which data relate to last reporting Friday i.e. March 24.

*Notes :* 1. Bank reserves comprise of cash with banks and bankers' deposits with RBI.

2. Reserve money comprises of currency with the public, bank reserves and 'other' deposits with RBI.

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

**Table VI-6 Income Velocity of Narrow Money ($M_1$) and Broad Money ($M_3$)**

(Rupees crores)

| Financial Year | Gross Domestic Product (at current market prices) | | Currency with the public* | | Narrow Money ($M_1$)* | | Broad Money ($M_3$)* | | Average Income Velocity of | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Annual Percentage Increase | Amount | Annual Percentage Increase | Amount | Annual Percentage Increase | Amount | Annual Percentage Increase | Currency | Narrow Money ($M_1$) | Broad Money ($M_3$) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 1980-81 | .. 1,35,812 | 18.8 | 12,367 | 12.5 | 20,865 | 12.9 | 50,931 | 16.4 | 10.982 | 6.509 | 2.667 |
| 1981-82 | .. 1,59,420 | 17.4 | 13,879 | 12.2 | 23,919 | 14.6 | 59,766 | 17.3 | 11.486 | 6.665 | 2.667 |
| 1982-83 | 1,77,588 | 11.4 | 15,531 | 11.9 | 26,563 | 11.1 | 68,326 | 14.3 | 11.434 | 6.686 | 2.599 |
| 1983-84 | .. 2,06,681 | 16.4 | 18,003 | 15.9 | 30,449 | 14.6 | 80,186 | 17.4 | 11.480 | 6.788 | 2.578 |
| 1984-85 | .. 2,30,591 | 11.6 | 21,340 | 18.5 | 36,034 | 18.3 | 94,758 | 18.2 | 10.806 | 6.399 | 2.433 |
| 1985-86 | .. 2,62,501 | 13.8 | 23,774 | 11.4 | 41,043 | 13.9 | 1,10,971 | 17.1 | 11.042 | 6.396 | 2.365 |
| 1986-87 | .. 2,93,408 | 11.8 | 26,744 | 12.5 | 47,102 | 14.8 | 1,30,523 | 17.6 | 10.971 | 6.229 | 2.248 |
| 1987-88 | .. 3,30,464 | 12.6 | 31,146 | 16.5 | 53,988 | 14.6 | 1,52,751 | 17.0 | 10.610 | 6.121 | 2.163 |
| 1988-89@ | .. 3,90,590 | 18.2 | 35,546 | 14.1 | 61,897 | 14.6 | 1,78,913 | 17.1 | 10.988 | 6.310 | 2.183 |

* Average of outstandings as on last Friday of months except for March 1989 for which data relate to last reporting Friday.
@ Provisional.

1988. Source-wise, both net bank credit to Government and bank credit to commercial sector recorded lower increases. Net foreign exchange assets of the banking sector registered a modest increase in contrast to a decline during April-June 1988.

The expansion in reserve money during April-June 1989 was lower at Rs. 3,809 crores or 6.1 per cent than that of Rs. 4,041 crores or 7.6 per cent in the same period of 1988-89 mainly due to a lower expansion in bankers' deposits with the Reserve Bank and a decline in 'other' deposits with the Reserve Bank; currency with the public registered larger increase than in April-June 1988.

**Currency and coinage**

During the financial year 1988-89, the expansion in currency in circulation (comprising currency with the public and cash with banks) at Rs. 4,992 crores (14.2 per cent) was lower than that of Rs. 5,238 crores (or 17.5 per cent) in 1987-88 (Table VI-7). Notes in circulation, the major component of currency, witnessed a lower increase of Rs. 4,916 crores or 14.5 per cent as compared with Rs. 5,050 crores or 17.6 per cent in the previous year. The share of notes in total currency in circulation, however, increased marginally from 96.1 per cent as at the end of March 1988 to 96.4 per cent by end-March 1989. Circulation of rupee coins as well as small coins showed smaller increases during 1988-89 than in 1987-88. The share of both rupee coins and small coins in total currency was lower at 2.2 per cent and 1.4 per cent, respectively, as at the end of March 1989 than 2.4 per cent and 1.5 per cent a year ago.

During the first quarter (April-June) of 1989-90, the expansion in currency in circulation at Rs. 2,912 crores was higher than that of Rs. 2,037 crores in the corresponding quarter of 1988-89. The share of notes in circulation moved up from 96.2 per cent in end-June 1988 to 96.6 per cent by end-June 1989.

During 1988-89, the issue of notes of all denominations except Rs. 500/- and Rs. 2 - was of a higher order as compared with that in 1987-88 (Statement 129 in Vol. II). Notes in the denomination of Rs. 500/- declined by Rs. 47 crores during the year. Notes in the denomination

**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 |
| 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 | 541 | +58 | 35,192 | +5,238 | 1,542 | +173 |
| | (96.1) | | (2.4) | | (1.5) | | (100.0) | | | |
| 1988-89@ | 38,728 | +4,916 | 893 | +54 | 563 | +22 | 40,184 | +4,992 | 1,721 | +179 |
| | (96.4) | | (2.2) | | (1.4) | | (100.0) | | | |
| Quarter ended June 1988 | 35,815 | +2,003 | 861 | +22 | 553 | +12 | 37,229 | +2,037 | 1,818 | +276 |
| | (96.2) | | (2.3) | | (1.5) | | (100.0) | | | |
| Quarter ended June 1989@ | 41,640 | +2,912 | 893 | — | 563 | — | 43,096 | +2,912 | 2,005 | +284 |
| | (96.6) | | (2.1) | | (1.3) | | (100.0) | | | |

@ Provisional.

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

2. Data relate to last Friday except for 1988-89 for which data relate to last reporting Friday, i.e. March 24.

of Rs. 100/- increased by Rs. 4,308 crores in contrast to a decline of Rs. 4,870 crores during the previous year. The share of Rs. 100/- denomination notes in total currency also increased to 55.2 per cent at end-March 1989 from 54.1 per cent at end-March 1988 (Table VI-8). The issue of notes in the denomination of Rs. 50/- and Rs. 20/- increased by Rs. 1,625 crores and Rs. 208 crores, respectively; their share in the total currency, however, declined by 0.5 percentage point and 1.1 percentage point, respectively, to 23.6 per cent and 6.3 per cent, respectively, as at the end of March 1989. While notes in circulation in the denominations of Rs. 10/- and Rs. 5/- recorded increases of Rs. 1,227 crores and Rs. 32 crores, respectively, notes in the denomination of Rs. 2/- registered a decline of Rs. 82 crores. The percentage share of Rs. 10 - denomination notes in total currency increased from 2.4 per cent in March 1988 to 5.9 per cent in March 1989. The share of Rs. 5/- and Rs. 2/- denomination notes in total currency declined from 3.5 per cent and 1.9 per cent, respectively, in March 1988 to 2.7 per cent and 1.2 per cent, respectively, in March 1989.

**Issue of Notes and Coins**

The increase in indigenous production of coins from 1985-86 coupled with large scale imports of cupro-nickel coins from 1985-86 to 1987-88 and timely release of these coins to the public have helped to reverse the situation of coin shortage witnessed all over the country for more than two years to a situation of coin surplus. From the middle of September 1988, imported stainless steel coins have been put into circulation. With a view to augmenting the supply of coins in the country, a new mint was established in 1988 at Noida in Ghaziabad district of Uttar Pradesh. This mint commenced production of cupro-nickel coins of Re. 1/-denomination and stainless steel coins of 50 paise, 25 paise and 10 paise denomination from July 1, 1988.

During the financial year 1988-89, decimal coins of various denominations valued at Rs. 60.79 crores were minted. The Reserve Bank issued notes of Rs. 2/- denomination (Aryabhatta design) and Rs. 5/- denomination incorporating the motto 'Satyameva Jayate' in Hindi below the Ashoka Pillar emblem and the bilingual common seal of the Bank. The Government of India issued commemorative coins in the denomination of Rs. 100/-, Rs. 20/-, Rs. 5/- and Re. 1/- on the occasion of the Birth Centenary of Pandit Jawaharlal Nehru. While the coins minted in the denomination of Rs. 5/- and Re. 1/- have been issued for regular circulation through the Bank's offices and agencies, sets of proof uncirculated coins in the denomination of Rs. 100/- Rs. 20/-, Rs. 5/-and Re. 1/- are sold to the public by the India Government Mint, Bombay, directly.

**Lost, Destroyed and Mutilated Notes**

During 1988-89, the offices of the Reserve Bank received about 2.11 lakh claims in respect of mutilated notes involving 250.69 lakh pieces. The total amount involved in these claims was Rs. 24.64 crores and claims approved for payment (including amount approved during the year in respect of claims received in previous year) amounted to Rs. 24.75 crores. Payments against approved claims (including those paid during the year in respect of claims approved in

**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 (2 to 8) |
|---|---|---|---|---|---|---|---|---|
| | Rs. 2 - | Rs. 5 - | Rs. 10 - | Rs. 20 - | Rs. 50 - | Rs. 100 - | Rs. 500 - | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1987 | 2.3 | 4.3 | 8.4 | 6.4 | 17.5 | 57.2 | — | 96.1 |
| 1988@ | 1.9 | 3.5 | 2.4 | 7.4 | 24.1 | 54.1 | 0.6 | 94.0 |
| 1989@@ | 1.2 | 2.7 | 5.9 | 6.3 | 23.6 | 55.2 | 0.3 | 95.2 |

* Inclusive of issue of small coins.
@ Exclusive of figures from Calcutta office.
@@ Exclusive of figures from Calcutta, Madras, New Delhi, Patna and Trivandrum offices.

previous year) totalled Rs. 24.43 crores.

From June 1985, branches of public sector banks with currency chest have also been granted power to accept all types of mutilated notes from members of the public and pay exchange value where applicable under the Reserve Bank of India (Note Refund) Rules. During the year 1988-89, these branches received claims in respect of 103.86 lakh pieces of lost, wholly destroyed, half and mutilated notes involving an amount of Rs. 24.15 crores. While the amount approved for payment totalled Rs. 24.07 crores, the amount paid against approved claims (including those paid during the year in respect of claims approved in the previous year) was Rs. 24.15 crores (for details, reference may be made to Statement 134 of Vol. II of this Report).

**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 32,998 pieces in 1987 to 10,338 pieces in 1988. The values of the forged notes during the year also came down to Rs. 2.71 lakhs from Rs. 12.09 lakhs in the previous year (For details, reference may be made to Statement 135 of Vol. II of this Report).

**Committee on Currency Management**

A Committee was constituted in December 1988 under the chairmanship of a Deputy Governor of the Reserve Bank to go into the entire gamut of currency management, including the question of evolving methods, systems, procedures and technologies suited to Indian conditions to meet the challenges emanating from the issue functions of the Reserve Bank in the next decade. The Committee has since submitted its report.

**Trends in Bullion Prices**

*Gold*

Gold prices displayed a mixed trend in the domestic market during 1988-89 but the undertone remained firm. In international markets, gold prices eased during the greater part of the year* mainly due to a strengthening of the US dollar. The average price of standard gold in the Bombay market for the month of March 1989 recorded a decline of 1.7 per cent over the average price for March 1988, in contrast to a sharp rise of 23.1 per cent in the comparable period of 1987-88. The annual average price of standard gold in the Bombay market for 1988-89 recorded a marginal rise of 3.0 per cent as compared with a sharp rise of 32.7 per cent in the average price for 1987-88. With the easing of gold prices in international markets, the premium of average gold price in Bombay over the average price in London narrowed from 73.3 per cent in March 1988 to 62.3 per cent in March 1989 and further to 58.7 per cent in June 1989.

*Silver*

Silver prices in the domestic market displayed a distinctly firm trend reportedly due to improved demand and restricted contraband supplies as a result of greater vigilance. In international markets, silver prices generally depicted an easy trend. The average price of silver (0.999 fineness) in the Bombay market for March 1989 recorded a rise of 10.6 per cent over the average price for March 1988; in the previous one-year period, the price of silver had risen by 29.2 per cent. The premium of monthly average silver price in Bombay over the average price in New York, which was 130.7 per cent in March 1988, rose marginally to 131.5 per cent in March 1989 and further to 138.3 per cent in June 1989.

* Trends in gold prices in international markets are reviewed in Chapter XI.

**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 | 2097.27 | 1256.06 | 303.20 | +841.21 | +67.0 |
| March 1986 | 2128.43 | 1365.92 | 346.09 | +762.51 | +55.8 |
| March 1987 | 2606.42 | 1700.23 | 408.85 | +906.19 | +53.3 |
| March 1988 | 3209.09 | 1851.25 | 443.49 | +1357.84 | +73.3 |
| March 1989 | 3153.25 | 1943.13 | 390.27 | +1210.12 | +62.3 |
| **1988-89** | | | | | |
| April 1988 | 3178.71 | 1915.18 | 451.56 | +1263.53 | +66.0 |
| May ,, | 3149.48 | 1933.42 | 451.32 | +1216.06 | +62.9 |
| June ,, | 3177.12 | 2006.58 | 451.66 | +1170.54 | +58.3 |
| July ,, | 3106.40 | 1983.94 | 437.45 | +1122.46 | +56.6 |
| August ,, | 3170.48 | 1977.59 | 431.06 | +1192.89 | +60.3 |
| September ,, | 3124.32 | 1923.83 | 412.76 | +1200.49 | +62.4 |
| October ,, | 3158.80 | 1921.77 | 406.39 | +1237.03 | +64.4 |
| November ,, | 3211.87 | 2020.64 | 419.97 | +1191.23 | +59.0 |
| December ,, | 3158.33 | 2028.36 | 419.25 | +1129.97 | +55.7 |
| January 1989 | 3253.26 | 1967.77 | 404.45 | +1285.49 | +65.3 |
| February ,, | 3260.63 | 1902.31 | 387.97 | +1358.32 | +71.4 |
| March ,, | 3153.25 | 1943.13 | 390.27 | +1210.12 | +62.3 |
| **1989-90** | | | | | |
| April 1989 | 3203.10 | 1946.04 | 384.72 | +1257.06 | +64.6 |
| May ,, | 3219.08 | 1928.27 | 371.35 | +1290.81 | +66.9 |
| June ,, | 3086.04 | 1945.00 | 367.73 | +1141.04 | +58.7 |

*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.

**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 | 1522.44 | 1484.67 | 584.92 | +37.77 | +2.5 |
| 1981-82 | 1719.17 | 1209.94 | 420.95 | +509.23 | +42.1 |
| 1982-83 | 1722.54 | 1250.38 | 401.43 | +472.16 | +37.8 |
| 1983-84 | 1858.47 | 1342.06 | 404.15 | +516.41 | +38.5 |
| 1984-85 | 1983.92 | 1293.78 | 340.01 | +690.14 | +53.3 |
| 1985-86 | 2125.47 | 1289.72 | 327.75 | +835.75 | +64.8 |
| 1986-87 | 2323.49 | 1577.02 | 383.33 | +746.47 | +47.3 |
| 1987-88 | 3082.43 | 1912.54 | 458.84 | +1169.89 | +61.2 |
| 1988-89 | 3175.22 | 1960.38 | 422.01 | +1214.84 | +62.0 |

*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.

**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 |
| March 1988 | 6,175.95 | 2,676.86 | 641.28 | +3,499.09 | +130.7 |
| March 1989 | 6,833.63 | 2,951.56 | 592.98 | +3,882.07 | +131.5 |
| **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 |
| July ,, | 6,015.12 | 3,239.87 | 714.65 | +2,775.25 | +85.7 |
| August ,, | 6,213.83 | 3,078.04 | 670.80 | +3,135.79 | +101.9 |
| September ,, | 6,266.45 | 2,963.41 | 635.60 | +3,303.04 | +111.5 |
| October ,, | 6,368.36 | 2,971.69 | 628.45 | +3,396.67 | +114.3 |
| November ,, | 6,439.91 | 3,025.34 | 628.98 | +3,414.57 | +112.9 |
| December ,, | 6,472.44 | 2,954.61 | 610.83 | +3,517.83 | +119.1 |
| January 1989 | 6,585.17 | 2,911.08 | 598.61 | +3,674.09 | +126.2 |
| February ,, | 6,783.67 | 2,887.57 | 589.08 | +3,896.10 | +134.9 |
| March ,, | 6,833.63 | 2,951.56 | 592.98 | +3,882.07 | +131.5 |
| **1989-90** | | | | | |
| April 1989 | 6,692.52 | 2,929.13 | 579.08 | +3,763.39 | +128.5 |
| May ,, | 6,783.20 | 2,821.99 | 544.55 | +3,961.21 | +140.4 |
| June ,, | 6,654.00 | 2,792.70 | 528.02 | +3,861.30 | +138.3 |

*Notes:* 1. Based on closing quotations for Bombay market and afternoon fixing for New York market.
2. The conversion factor is 1 ounce = 0.0311035 kg.
3. The quotation 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.

**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 |
| 1988-89 | 6,366.76 | 2,971.52 | 639.65 | +3,395.24 | +114.3 |

*Notes:* 1. Based on closing quotations for Bombay market and afternoon fixing for New York market.
2. The conversion factor is 1 ounce = 0.0311035 kg.
3. The quotations in cents per troy ounce in New York market have been converted into rupees per kg. at the cross rates based on the daily average of spot buying and selling rates of US dollar in London and average of Reserve Bank's spot buying and selling rates of sterling.

## Chapter VII

# Banking Developments

### OVERALL REVIEW

This chapter covers developments in commercial banking and rural credit. The total number of bank offices as on June 30, 1989, was 57,698. During the year July 1988 to June 1989, 2,284 new branches were opened, comprising 1,863 rural, 67 semi-urban, 186 urban, and 168 metropolitan/port town centres. Rural branches accounted for 57.2 per cent of total branches as at the end of June 1989.

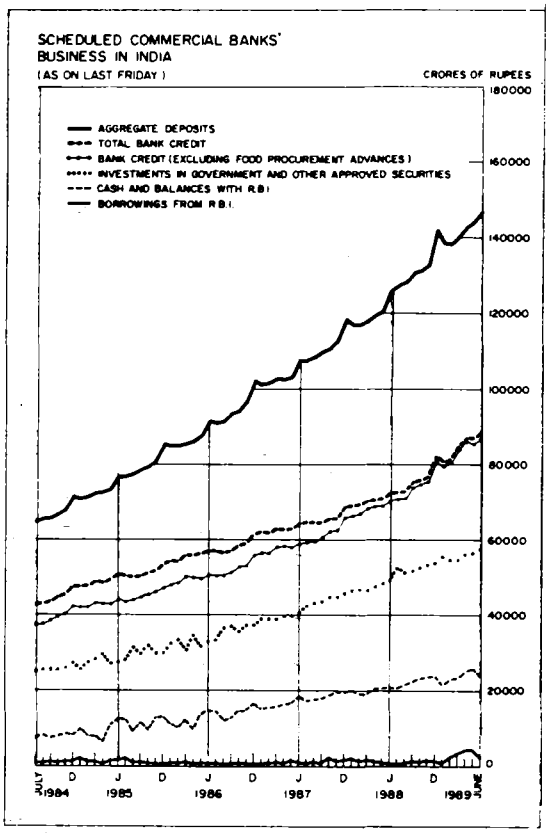
During 1988-89 (April-March), scheduled commercial banks' aggregate deposits rose on a point-to-point basis by 18.7 per cent compared with 14.9 per cent in 1987-88; during the same period, credit extended by banks increased by 20.1 per cent compared with 11.4 per cent in 1987-88. Average aggregate deposits constituted 33.8 per cent of gross national product at current market prices in 1988-89.

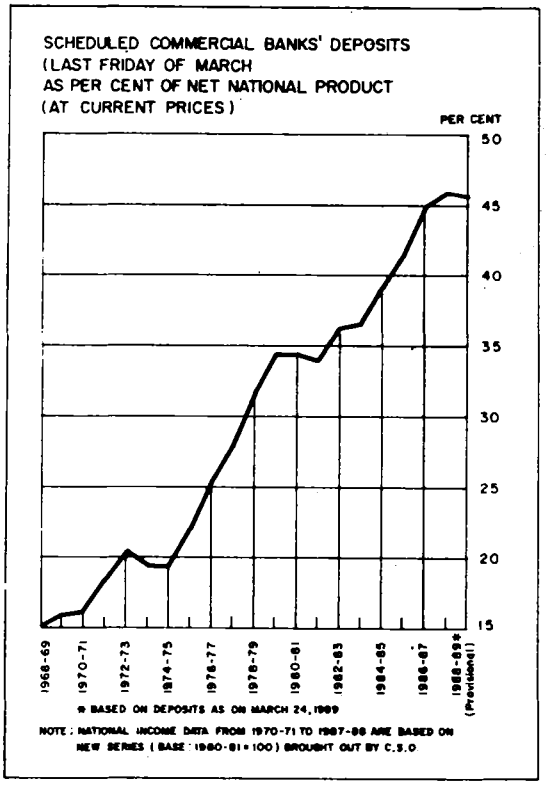
Total priority sector advances of the public sector banks increased from Rs. 25,500 crores as at the end of June 1987 to Rs. 34,874 crores as at the end of June 1989 constituting 44.6 per cent (target 40 per cent) of total advances of these banks as at the end of June 1989, as against 45.0 per cent, as at the end of June 1987. Within the priority sectors, advances to weaker sections aggregated Rs. 8,641 crores constituting 11.1 per cent of total advances of these banks as against the target of 10 per cent. Assistance to beneficiaries under the 20-Point Programme from the public sector banks amounted to Rs.11,270 crores in 229.34 lakh borrowal accounts, as at the end of June 1989. The outstanding advances of public sector banks under the Differential Rate of Interest Scheme amounted to Rs. 664.94 crores covering 47.01 lakh accounts, as at the end of June 1989, as against Rs. 597.65 crores covering 48.14 lakh accounts as at the end of December 1987. The advances of these banks under the scheme as at the end of June 1989 formed 0.7 per cent of total advances. The advances granted under the scheme to the beneficiaries belonging to Scheduled Castes Scheduled Tribes exceeded the prescribed target of 40 per cent. By the end of March 1989, public sector banks had almost attained the target of 60 per cent of credit-deposit ratio for rural branches; their attainment in respect of semi-urban branches at 51 per cent was, however, below the target.

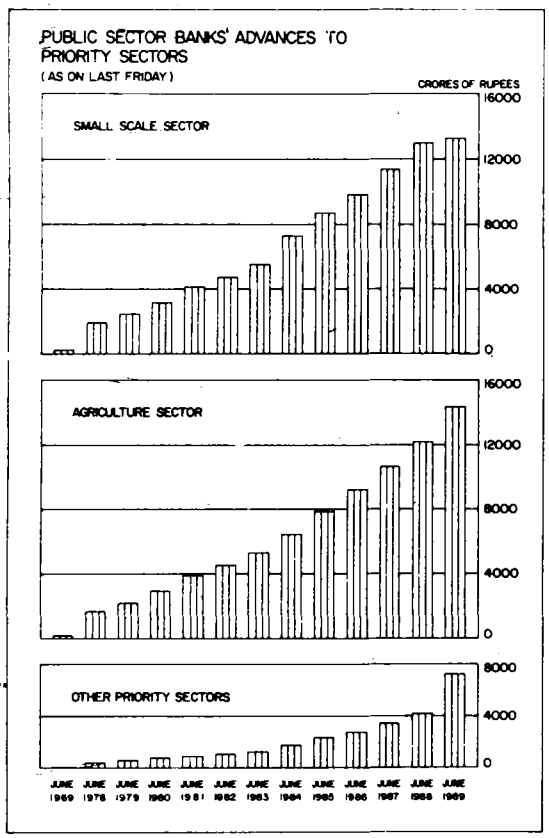
### CREDIT POLICY

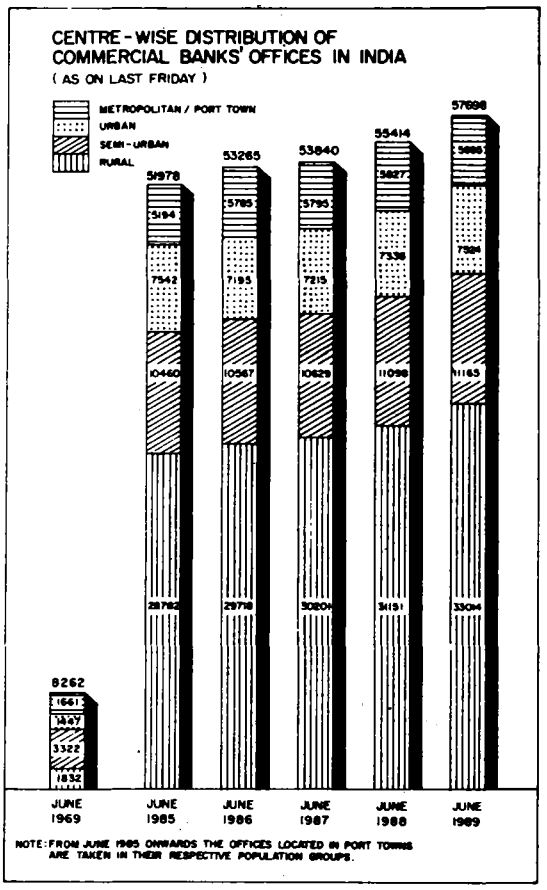
The macro-economic perceptions which guided the formulation and operation of monetary and credit policy during the period July 1988 to June 1989 were varied : in the initial months there was a continuing concern about the after-effects of the previous year's drought while in the latter part of the year the predominant factor was the impressive recovery in real income growth during 1988-89 as well as expectations of a further good out-turn during 1989-90. The underlying pressures on commodity prices even after the recovery in output and continuing high rate of monetary expansion were matters of concern. In 1987-88, concerted efforts were made to ensure supply of credit to the drought-affected agriculture, particularly in the context of special production programmes. The anxiety in 1988-89 was to ensure that the well-poised upturn in production activities in all sectors — agriculture, industry and exports — was not constrained for want of timely and adequate bank credit.

Even as this broad policy concern with supporting production activities and at the same time, containing inflationary pressures was continued, the objective of promoting efficiency in the operations of the financial system was given a visible thrust during the year. Towards that end, several changes in financial policies were initiated including the easing of operational constraints in the credit delivery system,


SCHEDULED COMMERCIAL BANKS' BUSINESS IN INDIA
(AS ON LAST FRIDAY)
CRORES OF RUPEES
AGGREGATE DEPOSITS
TOTAL BANK CREDIT
BANK CREDIT (EXCLUDING FOOD PROCUREMENT ADVANCES)
INVESTMENTS IN GOVERNMENT AND OTHER APPROVED SECURITIES
CASH AND BALANCES WITH R.B.I.
BORROWINGS FROM R.B.I.
180000
160000
140000
120000
100000
80000
60000
40000
20000
0
JULY 1984
D J D J D J D J D
1985 1986 1987 1988 1989
JUNE


SCHEDULED COMMERCIAL BANKS' DEPOSITS
(LAST FRIDAY OF MARCH
AS PER CENT OF NET NATIONAL PRODUCT
(AT CURRENT PRICES)
PER CENT
50
45
40
35
30
25
20
15
1968-69
1970-71
1972-73
1974-75
1976-77
1978-79
1980-81
1982-83
1984-85
1986-87
1988-89*
(Provisional)
* BASED ON DEPOSITS AS ON MARCH 24, 1989
NOTE: NATIONAL INCOME DATA FROM 1970-71 TO 1987-88 ARE BASED ON NEW SERIES (BASE: 1980-81=100) BROUGHT OUT BY C.S.O.


PUBLIC SECTOR BANKS' ADVANCES TO PRIORITY SECTORS
(AS ON LAST FRIDAY)
CRORES OF RUPEES
SMALL SCALE SECTOR
16000
12000
8000
4000
0
AGRICULTURE SECTOR
16000
12000
8000
4000
0
OTHER PRIORITY SECTORS
8000
4000
0
JUNE 1969
JUNE 1978
JUNE 1979
JUNE 1980
JUNE 1981
JUNE 1982
JUNE 1983
JUNE 1984
JUNE 1985
JUNE 1986
JUNE 1987
JUNE 1988
JUNE 1989


CENTRE-WISE DISTRIBUTION OF COMMERCIAL BANKS' OFFICES IN INDIA
(AS ON LAST FRIDAY)
METROPOLITAN / PORT TOWN
URBAN
SEMI-URBAN
RURAL
8262
1661
1467
3322
1832
51978
5194
7542
10460
28782
53265
5795
7195
10567
29716
53840
5795
7215
10629
30804
55414
5827
7338
11098
31131
57698
5883
7384
11163
33304
JUNE 1969
JUNE 1985
JUNE 1986
JUNE 1987
JUNE 1988
JUNE 1989
NOTE: FROM JUNE 1985 ONWARDS THE OFFICES LOCATED IN PORT TOWNS ARE TAKEN IN THEIR RESPECTIVE POPULATION GROUPS.

the introduction of new money market instruments and strengthening of the existing instruments. The underlying rationale for these measures was to reduce the rigidities by introducing flexibility, to allow for diversification and to bring about a more competitive environment in the money and financial markets.

The changes introduced during the year in the traditional instruments of monetary control such as the cash reserve ratio (CRR), deposit rates, lending rates and the money market regulations, are of special significance. The prescription of a uniform CRR of 15 per cent, while it has not meant any additional burden for most banks, has done away with multiple prescriptions and simplified the whole CRR operation. The raising of the short-term deposit rates during the year was a logical extension of the process of rationalising the whole structure of deposit rates which began in April 1985. One aspect of this reform has been to bring short-term interest rates in better alignment with other interest rates in the system. Like-wise, the prescription of a minimum lending rate on the general category of borrowers, thus replacing the long-standing ceiling rate, should make a significant qualitative difference to the system of administered interest rates. This should enable banks to better equilibrate cost of raising funds and the return on those funds. In view of the caution expected of banks in using their discretion judiciously so that the lending rates remained within reasonable limits, initial experience suggests that banks have responded to this change with maturity and judgement and achieved a notable degree of co-ordination in establishing prudent credit rating procedures.

In the money market, there were significant changes relating to instrument development and gradual easing of the controls. Interest rate ceilings were removed with effect from May 1, 1989, on all money market instruments. While the freeing of these money market rates resulted in a very sharp spurt in inter-bank call money rates from May 1, 1989, these rates settled down to more reasonable levels later.

Two kinds of inter-bank participations namely, with risk and without risk, were introduced to enable banks with temporary liquidity problems to share their borrowal accounts with other banks. A measure of considerable significance was the introduction of two new money market instruments namely, Certificates of Deposit (CDs) and Commercial Paper (CP).

In matters relating to the credit delivery system, the withdrawal of the requirement of prior authorisation under the Credit Authorisation Scheme and its replacement by post-sanction scrutiny and the freedom of borrowers to transfer accounts as between banks provide considerable flexibility both to borrowers and banks. Again, the proposed introduction of factoring services is intended to help small-scale units to receive their dues expeditiously.

**July 1988**

*Increase in Cash Reserve Ratio*

In anticipation of an upsurge in food credit, impounded cash balances of Rs. 744 crores under the incremental cash reserve ratio were released in April 1988. Simultaneously, it was announced that for partially neutralising the possible subsequent return flow of food credit, the cash reserve ratio (CRR) would be raised from 10.0 per cent to 10.5 per cent of banks' net demand and time liabilities effective from July 30, 1988. The *Rabi* 1988 food procurement turned out to be much lower than anticipated and food credit actually declined and hence the date of the proposed increase in the CRR was advanced from July 30 to July 2, 1988. With both overall liquidity ($M_3$) and reserve money expanding during the first quarter of the financial year 1988-89 at a pace faster than during the comparable period of the previous year, the already excessive liquidity in the system was enlarged and there were concerns that the inflationary pressures would be accentuated. Accordingly, the CRR was again raised from 10.5 per cent to 11.0 per cent effective from the fortnight beginning July 30, 1988. Simultaneously, the CRR on Foreign Currency Non-Resident (FCNR) deposit liabilities was raised from 9.5 per cent to 10.0 per cent.

**October 1988**

Measures to moderate the overall growth of $M_3$ had already been taken in July 1988 and it was clear by October 1988 that the economy was poised to achieve a sharp increase in output

following the exceptionally good monsoon. It was perceived that the banking system should have the necessary resources to meet the increased credit requirements, particularly of agriculture, industry and exports during the second half of 1988-89. The focus of credit policy for the second half of 1988-89 was on effectively meeting the increased credit needs of various sectors of the economy and thus support the expected recovery. Although the liquidity position of banks was more than comfortable, banks were allowed to retain excess liquidity so as to ensure that they had the resources to meet the requisite credit expansion in the second half of the year. The policy measures introduced during October 1988 related essentially to structural aspects such as relaxation of interest rates and control mechanisms and the introduction of new money market instruments.

*(a) Lending Rates*

With a view to providing some relief to borrowers with good credit record and at the same time, providing flexibility to banks in the matter of interest rates charged to their borrowers, effective October 10, 1988, all bank advances which were till then subject to an interest rate of 16.5 per cent per annum (fixed), ceased to have any ceiling stipulation, instead they were subjected to a minimum of 16.0 per cent per annum. Banks were advised to use this discretion judiciously so as to ensure that the range of interest rates charged remained within reasonable limits. It was expected that this would promote better use of credit by borrowers and also increase competition among the banks. For retail trade advances of over Rs 25,000 and up to Rs. 1 lakh which was the only category subject to a range of interest rates from 15.0 per cent to 16.5 per cent, the new range was fixed at 15.0-16.0 per cent per annum. For advances to Central and State Government agencies entrusted with the procurement and distribution of commodities for sale on a commercial basis, the rate was fixed at 16.0 per cent as against 16.5 per cent hitherto.

*(b) Inter-bank Participations*

With a view to providing an additional instrument for evening out short-term liquidity within the banking system, two types of Inter-Bank Participations (IBPs) were introduced, one on risk sharing basis and the other without risk sharing. These are strictly inter-bank instruments confined to scheduled commercial banks excluding regional rural banks. The IBP with risk sharing can be issued for 91-180 days and only in respect of advances classified under Health Code No. 1 status.@ The IBP with risk sharing provides flexibility in the credit portfolio of banks. The rate of interest is left free to be determined between the issuing bank and the participating bank subject to a minimum of 14.0 per cent per annum. The aggregate amount of such IBPs under any loan account at the time of issue is not to exceed 40 per cent of the outstandings in the account. The IBP without risk sharing is a money market instrument with a tenure not exceeding 90 days and the interest rate on such IBPs was left free to be determined by the two concerned banks subject to a ceiling of 12.5 per cent per annum*. These IBPs without risk would be treated as part of the net DTL of the borrowing bank and would be subject to cash reserve and statutory liquidity requirements.

*(c) Money Market Operations of Discount and Finance House of India (DFHI)*

With effect from July 28, 1988, the DFHI was allowed to participate in the call and notice money market both as a lender and borrower. As a step towards providing some flexibility to the money market, the operations of DFHI in the call/notice money market were exempted from the provisions of the ceiling on the rate of interest set out by the Indian Banks' Association (IBA) in October, 1988. This resulted in a limited freeing of the call money market rates and also enabled DFHI to effectively contribute to the overall stability of the money market.

*(d) Credit Authorisation Scheme (CAS)*

On a review, it was found that the large majority of CAS parties were complying with the prescribed level of current ratio and that there had been substantial improvement in

@ Under the uniform grading system introduced to measure the health of bank advances portfolio, a borrowal account considered satisfactory or assigned Health Code No. 1 is the one in which the conduct of account is satisfactory, the safety of advance is not in doubt, all terms and conditions are complied with, and all the accounts of the borrower are in order.

* This ceiling on interest rate has since been removed with effect from May 1, 1989.

compliance with inventory norms and submission of Quarterly Information System (QIS) statements. Over a period, the inventory-sales ratio for the corporate sector had declined appreciably. Also, the share of priority sectors in outstanding bank credit which had been rising progressively stood at well above the target of 40 per cent. It thus appeared that the purposes of the CAS were being broadly achieved due mainly to the enforcement of the basic financial disciplines. In the light of this review, it was decided to withdraw the system of prior authorisation by the Reserve Bank for sanction of working capital limits and term loans for amounts beyond the stipulated cut-off points. However, banks were advised to ensure that these basic disciplines were observed as they were essential and required to be enforced. Towards that end, a system of post-sanction scrutiny called Credit Monitoring Arrangement (CMA) has been instituted by the Reserve Bank. If, as a result of such scrutiny, it was found that any particular bank was not enforcing the basic disciplines the Reserve Bank might instruct such a bank to refer large cases to it for prior authorisation.

*(e) Transfer of Borrowal Accounts*

All parties, including those enjoying credit limits in excess of Rs. 5.0 crores, were allowed to transfer their accounts from one bank to another without the requirement of a 'no objection' letter by the existing bank provided the transferee bank agreed to take over the entire liabilities of the party. If any industrial group seeks to transfer only a good account, leaving an unsatisfactory account with the existing bank, the latter may refuse to allow such transfer unless arrangements are made by the party concerned to the bank's satisfaction.

*(f) Consortium Advances*

With a view to easing operational problems, the restriction on the number of banks in respect of consortium advances of credit limits up to Rs. 50 crores to five, was removed. Banks were, however, advised to limit the number of banks in formal consortia arrangements to around ten.

*(g) Housing Finance*

To encourage the flow of bank credit for housing, the maximum period of repayment of housing loans was extended to 15 years from 10 years and the margin requirements for different categories of housing advances were relaxed under a graded scale. The maximum margin was reduced to 35 per cent from 50 per cent. The lending rates on housing finance were altered. The rates effective October 10, 1988 are indicated in (Table VII-1).

**February 1989**

*Discretionary Refinance Facility*

Effective from February 17, 1989, the facility to draw discretionary refinance without prior sanction of the Reserve Bank was reduced from a limit equivalent to 1.0 per cent to 0.50 per cent of average aggregate deposits in 1986-87.

**March 1989**

*(a) Interest Rates on Export Credit*

With a view to providing further incentive to boost exports, interest rates on pre-shipment and post-shipment export credit were lowered by 2.0 percentage points and 0.85 percentage point per annum, respectively. The rate of interest on export credit under deferred payment for period beyond 180 days remained unchanged at 8.65 per cent per annum. These rates of interest effective from March 1, 1989 are presented in (Table VII-2).

**Table VII-1 : Interest Rates on Housing Loans**

| Amount | Rate of Interest (per cent per annum) |
|---|---|
| 1 | 2 |
| i) Up to Rs. 20,000 | 12.5 |
| ii) Above Rs. 20,000 and up to Rs. 50,000 | 13.5 |
| iii) Above Rs. 50,000 and up to Rs. 1 lakh | 14.0 |
| iv) Above Rs. 1 lakh | 14.5-16.0 |

**Table VII-2 : Interest Rates on Export Credit**

| Category | Rate of Interest (per cent per annum) | |
|---|---|---|
| | Prior to March 1, 1989 | Effective March 1, 1989 |
| 1 | 2 | 3 |
| 1. Pre-shipment Credit | | |
| (a) (i) Up to 180 days | 9.50 | 7.50 |
| (ii) Beyond 180 days, and in all upto 270 days (with the prior approval of the Reserve Bank) | 11.50 | 9.50 |
| (b) Against cash incentives,etc. covered by ECGC guarantee up to 90 days | 9.50 | 7.50 |
| 2. Post-shipment Credit | | |
| (i) Demand bills - for transit period (as specified by FEDAI) | | |
| (ii) Usance bills - up to 180 days comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable | | |
| (iii) Cash incentives, duty drawback, etc. receivable from Government covered by ECGC guarantee (up to 90 days) | 9.50 | 8.65 |
| (iv) Undrawn balances (up to 90 days) | | |
| (v) Against retention money (for supplies portion only) payable within one year from the date of shipment (up to 90 days) | | |
| 3. (a) Deferred credit for period beyond one year | 8.65* | — |
| (b) Deferred credit for period beyond 180 days | — | 8.65 |
| 4. Duty drawback credit Scheme 1976 Against duty drawback as provisionally certified by the Customs Authorities (up to 90 days) | Free of Interest | Free of Interest |
| 5. Export credit not otherwise specified | 14.00 to 15.50 | 14.00 to 15.50 |

* After March 1, 1989, made applicable to period beyond 180 days.

*(b) Short-term Loans to Farmers*

Effective March 1, 1989, the lending rates on short-term loans to farmers granted by scheduled commercial banks, including RRBs, for the loan range of Rs. 15,000 to Rs. 25,000 were reduced from the range of 12.50 to 14.00 per cent to 12 per cent per annum.

*(c) Advances to Priority Sector — Direct Agricultural Advances*

The scheduled commercial banks were advised to step up direct lending to agriculture (including allied activities) from 17 per cent to at least 18 per cent of their total outstanding credit by March 1990. With this stipulation the increase in credit made available to agriculture by the banking system in 1989-90 would be about Rs. 4,000 crores.

**Policy Measures for the First Half of 1989-90 — March 1989**

Against the background of an assessment of the prospective developments in the economy, the credit policy for the first half of 1989-90 was set out in March 1989. With a view to promoting more efficient operations, certain structural changes were undertaken and new instruments introduced while strengthening the existing ones. These measures were taken without departing from the basic tenet of credit policy of supporting production activities and at the same time containing inflationary pressures.

On the reckoning of a normal monsoon, the perception in March 1989 was that real national income could increase by 4 per cent to 5 per cent in 1989-90. While additional credit would be required to support the expected level of

economic activity, the overhang of excess liquidity creation during recent years, the sharp increase in non-food credit during 1988-89 and the continuing pressure on prices suggested that it was necessary to ensure that the expansion of M3 during 1989-90 was contained to a level lower than the average of the last four years (16.7 per cent).

In pursuance of the goal of moderating liquidity growth, scheduled commercial banks were advised to plan their credit budgets on the basis of a working estimate of an increase in aggregate deposits of Rs. 24,000 crores (17.3 per cent) during 1989-90; of this increase, the accrual during the first half of the year was expected at about Rs. 11,500 crores and in the first quarter Rs 6,500 crores.

Based on reports that the 1989 *Rabi* crop would be a record one, procurement of wheat was expected to be larger than in the previous season. On this basis, food credit was estimated to increase by about Rs. 900 crores during the quarter ending June 1989 but to decline by about the same amount during the next quarter. Thus, no increase in food credit was expected over the first half of the financial year 1989-90. The increase in non-food credit during the first half of 1989-90 was estimated at Rs. 3,500 crores, i.e., about the same as during the comparable period of the previous year. It was perceived that the banks would be able to meet the requirements of food credit and non-food credit and also build up their liquidity during the first half of the year. These assessments regarding monetary growth as well as sources and uses of funds by banks formed the basis of the package of credit policy measures for the first half of 1989-90 set out below. The package of measures was designed to moderate the expansion of liquidity, bring about a rationalisation of reserve requirement prescriptions and maturity structure of term deposits and to introduce new instruments with a view to providing greater flexibility in operations.

*(a) Cash Reserve Ratio*

Over the years, there have been multiplicity of cash reserve ratio prescriptions for scheduled commercial banks but all these prescriptions together have been subject to the statutory ceiling of 15 per cent of net demand and time liabilities. Most banks were already maintaining an effective cash reserve ratio (CRR) at the statutory ceiling rate of 15 per cent and hence there was need to simplify the multiple prescriptions into a single prescription. Accordingly, with effect from the fortnight beginning July 1, 1989, scheduled commercial banks were required to maintain a CRR of 15 per cent of their entire net demand and time liabilities and simultaneously, the system of multiple prescriptions was withdrawn. In the case of a few banks where the existing effective cash reserve ratio was less than 15 per cent, the Reserve Bank has set out to individual banks a phased programme of adjustment, effective from July 29, 1989, for attaining a CRR of 15 per cent.

*(b) Refinance Facilities*

*(i) Export Credit Refinance*

It has been the normal practice to bring forward, each year, the base for determining export refinance from the Reserve Bank. The export refinance limits were at a historically high level of Rs. 2,868 crores as on March 10, 1989 equivalent to 52 per cent of export credit outstanding, as against 13 per cent in March 1986 and 43 per cent in March 1988. Effective July 29, 1989, export refinance provided to banks would be equivalent to 100 per cent of the increase in export credit over the monthly average for 1987 instead of that for 1986 as hitherto. Although banks' refinance limits stand reduced, past experience suggests that banks' access to export refinance is quickly regained as they expand export credit and this would happen well before the time banks needed to utilise a substantial part of their refinance limits.

*(ii) '182-Day Treasury Bill' Refinance*

In view of the rise in the cut-off yields on 182-Day Treasury Bills in recent auctions, effective March 28, 1989, the interest rate on refinance under this facility was raised from 10.25 per cent to 10.75 per cent per annum.

*(c) Money Market Rates of Interest*

With a view to imparting flexibility and transparency to the call/notice money market, as a first step, effective October 1988, operations of the Discount and Finance House of India (DFHI) in that market were freed from

the ceiling on the rate of interest set by the IBA. As a further step towards liberalisation of the money market, the interest rate ceiling on call/notice money was withdrawn with effect from May 1, 1989. In line with this change, the interest rate ceilings of 10.5-11.5 per cent on inter-bank term money, 12.5 per cent on rediscounting of commercial bills and 12.5 per cent on inter-bank participations without risk were also withdrawn with effect from May 1, 1989. Lenders in the money market were advised to ensure that their activities were conducive to the emergence of a stable and mature money market while borrowers were advised to limit their reliance on the money market to meeting marginal requirements for equilibrating their sources and uses of funds. It is envisaged that DFHI would also play an important stabilising role. It is expected that the system would move towards a milieu in which participants would move between lending and borrowing activity and this would give the market an element of stability and depth.

*(d) Deposit Rates*

A number of measures have been taken in the recent period to bring short-term interest rates in better alignment with other interest rates in the system. In keeping with this approach, and with a view to providing a better rate of return on short-term surplus funds, effective March 28, 1989, the rate for term deposits of 46 days to 90 days was raised from 4 per cent to 6 per cent; simultaneously, the category of fixed deposits of 15 days to 45 days, which hitherto had a rate of 3 per cent, was abolished. Thus, fixed deposits will now require a minimum maturity of 46 days instead of 15 days hitherto. The existing and revised structure of deposit rates (excluding FCNR and NRE accounts) is shown in (Table VII-3).

*(e) Certificates of Deposit*

With a view to further widening the range of money market instruments and to give investors greater flexibility in the deployment of their short-term surplus funds, a new instrument, viz., Certificates of Deposit (CDs) has been introduced. CDs would be issued in multiples of Rs. 25 lakhs subject to the minimum size of an issue being Rs. 1 crore; the maturity would be between 3 months and one year; they would be issued at a discount to face value and the discount rate would be freely determined. CDs would be freely transferable 45 days after the date of issue. Total outstanding of all CDs issued by a bank at any point of time should not exceed one per cent of its fortnightly averge deposits during the financial year 1988-89. CDs are subject to reserve requirements. Banks are neither allowed to grant loans against CDs nor buy back their own CDs.

*(f) Commercial Paper*

With a view to enabling highly rated corporate borrowers to diversify their sources of short-term borrowing and also providing an additional instrument to investors, it has been decided to introduce Commercial Paper (CP). Companies with a net worth of at least Rs. 10

**Table VII-3 : Scheduled Commercial Banks' Interest Rates on Deposits (excluding FCNR/NRE)**

(per cent per annum)

| Category of Account | Effective up to March 27, 1989 | Effective from March 28, 1989 |
|---|---|---|
| 1 | 2 | 3 |
| 1. Current Accounts | Nil | Nil |
| 2. Savings Accounts | 5.0 | 5.0 |
| 3. Term Deposits | | |
| (a) 15 days to 45 days | 3.0 | * |
| (b) 46 days to 90 days | 4.0 | 6.0† |
| (c) 91 days to less than one year | 8.0 | 8.0 |
| (d) One year to less than two years | 9.0 | 9.0 |
| (e) Two years and above | 10.0 | 10.0 |

* This maturity has been discontinued and hence banks cannot accept interest-bearing term deposits for any period up to and inclusive of 45 days.

† Raised to 8.0 per cent effective October 11, 1989.

crores and a maximum permissible bank finance of at least Rs. 25 crores and enjoying a listing on the stock exchange would be permitted to enter the CP market (the stipulation regarding listing on the stock exchange would not apply to public sector companies). The issuing company would need to obtain every six months an excellent rating from a credit rating agency approved by the Reserve Bank. The maturity of the CP would be from 3 months to 6 months. The CP would be issued in multiples of Rs. 25 lakhs subject to the minimum size of an issue being Rs. 1 crore. The CP would be issued at a discount to face value and the discount rate would be freely determined. The CPs would be freely transferable. Banks would not be permitted to either underwrite or to co-accept issue of CPs. The issuing company would be required to meet dealers' fees, rating agency fees, stand-by facility charges and any other relevant charges. The maximum amount of CP that a company would be allowed to raise would be limited to 20 per cent of the maximum permissible bank finance.

*(g) Limits on Exposure to Individual/ Group of Borrowers*

In the context of the need to fix prudential norms for risk management and avoid concentration of credit risks, limits on bank exposures have been set to an individual business concern at 25 per cent and to business concerns of a group at 50 per cent of a bank's capital funds. However, in respect of non-funded credit limits only 50 per cent of such limits would be taken into account for the purpose. The exposure shall include all sanctioned funded and non-funded limits. In the case of existing credit limits, banks have been given twelve months time to rectify the excesses, if any. The ceilings will, however, not apply to credit limits directly allocated by the Reserve Bank such as for food credit. These stipulations, may, in some cases, require adjustments in consortia arrangements.

*(h) Portfolio Management*

Normally, portfolio/funds management services are offered by banks in respect of medium/long-term funds. Effective March 28, 1989, the minimum lock-in-period of one year has been stipulated for portfolio/funds management. Banks which operate merchant banking subsidiaries were advised to ensure that their subsidiaries do not do what they themselves are prohibited from doing in regard to portfolio funds management.

*(i) Introduction of Factoring Services*

The Reserve Bank had constituted in January 1988 a Study Group under the Chairmanship of Shri C.S. Kalyanasundaram to examine the feasibility and mechanics of starting factoring organisations and making recommendations regarding their constitution, organisational set up, scope of activities and other related matters. The Study Group submitted its Report in January 1989. Most of the recommendations of the Group have, in principle, been accepted by the Reserve Bank. The first priority would be to establish domestic factoring services within the framework of the existing laws. Steps are also being taken for promotion of special legislative measures for introducing factoring on a full-fledged basis.

**Deposit and Lending Rates**

The changes effected in deposit and lending rates of banks have already been noted. The changes effected in domestic deposit rates have been indicated in Table VII-3. The interest rates structure relating to advances effective from October 10, 1988 and the changes made therein subsequently have been indicated in Annex I to this chapter.

*Interest Rates on NRE Deposits*

The rates of interest on deposits under the Non-Resident (External) Account Scheme, which were revised on October 12, 1987, have remained unchanged since then (Table VII-4).

*Interest Rates on FCNR Deposits*

The Foreign Currency (Non-Resident) Account Scheme which was applicable to the pound sterling and US dollar was extended to DM and Yen and separate interest rates were prescribed for deposits in each of these currencies with effect from August 1, 1988. FCNR deposit rates were revised on a number of occasions taking the cognisance of developments in interest rates abroad. The changes effected during the period under review are indicated in (Table VII-5).

## BANKING TRENDS

Data on a point-to-point basis on operations

**Table VII-4 : Interest Rates on Non-Resident Deposits under the (External) Account (Effective from October 12, 1987)**

(per cent per annum)

| Maturity | Rates |
|---|---|
| 1 | 2 |
| 1. 15 days to 45 days | 3.0 |
| 2. 46 days to 90 days | 4.0 |
| 3. 91 days to less than 6 months | 6.5 |
| 4. 6 months to less than 1 year | 8.5 |
| 5. 1 year and above but below 2 years | 10.5 |
| 6. 2 years and above but below 3 years | 11.0 |
| 7. 3 years and above but below 5 years | 12.0 |
| 8. 5 years and above | 13.0 |

of scheduled commercial banks in 1988-89 show a significantly higher increase in aggregate deposits and bank credit than in the previous year. An analysis of the data on an average basis also indicates higher increases in these banking aggregates during the year as compared with those in the previous year. Banks operations during the year were characterised by significant increases in non-food credit and money market operations. In 1987-88, the deposit growth was dampened by buy-back arrangements in Government and other approved securities entered into by banks with non-bank clients. Such buy-back arrangements with non-bank clients were banned in April 1988 and the higher increase in deposit growth in 1988-89 reflects the unwinding of these arrangements.

The large increase in non-food credit in 1988-89 was to some extent a result of expansion in production credit following the spurt in the growth of the economy; the increase was, however, much larger than warranted by real factors in the economy and hence gave cause for concern about over-extension of credit.

**Banking Trends** (on a point-to-point basis)

*Deposit Growth*

Accretion to aggregate deposits in 1988-89 at Rs. 22,105 crores (18.7 per cent) was significantly higher than that of Rs. 15,321 crores (14.9 per cent) in 1987-88. As mentioned earlier, the higher deposit growth in 1988-89 reflects unwinding of the buy-back arrangements in Government and other approved securities entered into by banks with non-bank clients.

Quarter-wise, deposit growth in the first, second and third quarters was higher both in absolute and percentage terms than that in the corresponding quarters of the previous year (Table VII-6). In the last quarter of the year there was a decline in deposits; this decline was higher both in absolute and percentage terms than that in the corresponding quarter of the previous year.

Component-wise, demand deposits recorded an increase of Rs. 3,095 crores (15.3 per cent) in 1988-89 as against an increase of Rs. 1,019 crores (5.3 per cent) in 1987-88. Time deposits registered a rise of Rs. 19,010 crores (19.4 per cent) as compared with Rs. 14,302 crores (17.1 per cent) in the previous year.

The share of demand deposits in total deposits which was around 19 per cent in early eightees has been declining in latter half of the decade; it was 16.7 per cent as at the end of 1988-89 (Table VII-7).

The annual percentage growth of demand deposits continues to show a see-saw pattern. However, the annual percentage growth in time deposits has been relatively stable ranging between 17 and 20 per cent (Table VII-8).

A break-up of scheduled commercial banks' deposits according to type of deposit is presented from 1977 to 1989 in Table VII-9. The share of current deposits in total deposits declined gradually from 18.0 per cent in 1985 to 16.9 per cent in 1989. The share of savings deposits in total deposits declined from 27.0 per cent in 1980 to 21.3 per cent in 1987 but again rose to 26.7 per cent in 1988; it, however,

**Table VII-5 : Interest Rates on FCNRA Deposits**

(In percentage)

| Effective Date | US $ | | | | Pound Sterling | | | | DM | | | | Yen | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 6 months to 1 year | 1 year to 2 years | 2 years to 3 years | 3 years only | 6 months to 1 year | 1 year to 2 years | 2 years to 3 years | 3 years only | 6 months to 1 year | 1 year to 2 years | 2 years to 3 years | 3 years only | 6 months to 1 year | 1 year to 2 years | 2 years to 3 years | 3 years only |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| May 23, 1988 | 8.25 | 9.00 | 9.25 | 9.50 | 8.25 | 9.00 | 9.25 | 9.50 | | | | | | | | |
| July 13, 1988 | 8.50 | 9.25 | 9.50 | 9.75 | 8.50 | 9.25 | 9.50 | 9.75 | | | | Not Applicable | | | | |
| August 1, 1988 | 9.00 | 9.50 | 9.75 | 10.00 | 11.25 | 11.50 | 11.75 | 11.75 | 5.75 | 6.00 | 6.25 | 6.50 | 5.25 | 5.50 | 5.75 | 5.75 |
| August 9, 1988 | 9.00 | 9.50 | 9.75 | 10.00 | 11.25 | 11.50 | 11.75 | 11.75 | 6.00 | 6.25 | 6.50 | 6.75 | 5.25 | 5.50 | 5.75 | 5.75 |
| August 15, 1988 | 9.50 | 10.00 | 10.25 | 10.50 | 11.50 | 11.75 | 12.00 | 12.00 | 6.50 | 6.75 | 7.00 | 7.25 | 5.75 | 6.00 | 6.25 | 6.25 |
| October 31, 1988 | 9.25 | 9.75 | 10.25 | 10.50 | 11.50 | 11.75 | 12.00 | 12.00 | 5.75 | 6.00 | 6.50 | 7.00 | 5.25 | 5.50 | 5.75 | 6.00 |
| December 5, 1988 | 9.75 | 10.25 | 10.50 | 10.50 | 11.50 | 11.75 | 12.00 | 12.00 | 5.75 | 6.00 | 6.50 | 7.00 | 5.25 | 5.50 | 5.75 | 6.00 |
| January 2, 1989 | 10.00 | 10.25 | 10.50 | 10.50 | 11.50 | 11.75 | 12.00 | 12.00 | 6.00 | 6.25 | 6.75 | 7.00 | 5.25 | 5.50 | 5.75 | 6.00 |
| January 30, 1989 | 10.00 | 10.50 | 10.50 | 10.50 | 11.50 | 11.75 | 12.00 | 12.00 | 6.50 | 6.75 | 7.25 | 7.50 | 5.25 | 5.50 | 5.75 | 6.00 |
| February 22, 1989 | 10.50 | 10.75 | 11.00 | 11.00 | 11.50 | 11.75 | 12.00 | 12.00 | 7.00 | 7.25 | 7.50 | 7.75 | 5.25 | 5.50 | 5.75 | 6.00 |
| March 14, 1989 | 10.75 | 11.00 | 11.25 | 11.25 | 11.50 | 11.75 | 12.00 | 12.00 | 7.25 | 7.50 | 7.50 | 7.75 | 5.25 | 5.50 | 5.75 | 6.00 |
| May 17, 1989 | 10.25 | 10.50 | 10.75 | 10.75 | 11.50 | 11.75 | 12.00 | 12.00 | 7.50 | 7.75 | 7.75 | 8.00 | 5.50 | 5.75 | 6.00 | 6.00 |
| June 16, 1989 | 9.50 | 9.75 | 10.00 | 10.00 | 11.50 | 11.75 | 12.00 | 12.00 | 7.50 | 7.75 | 7.75 | 8.00 | 5.75 | 6.00 | 6.25 | 6.25 |

*Note* : FCNRA Scheme has been extended to DM and Yen with effect from August 1, 1988.

**Table VII-6 : Quarterly Variations in Deposits of Scheduled Commercial Banks**

(Rupees crores)

| Quarter | Demand Deposits | | Time Deposits | | Total Deposits | |
|---|---|---|---|---|---|---|
| | 1987-88 | 1988-89 | 1987-88 | 1988-89 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| April-June | +55 | +1,724 | +5,119 | +7,548 | +5,174 | +9,272 |
| | | | | | (+5.0) | (+7.9) |
| July-September | -343 | +482 | +2,744 | +3,071 | +2,401 | +3,553 |
| | | | | | (+2.2) | (+2.8) |
| October-December | +2,337 | +3,409 | +5,972 | +7,726 | +8,309 | +11,135 |
| | | | | | (+7.5) | (+8.5) |
| January-March | -1,030 | -2,520 | +467 | +665 | -563 | -1,855 |
| | | | | | (-0.5) | (-1.3) |
| **Total** | **+1,019** | **+3,095** | **+14,302** | **+19,010** | **+15,321** | **+22,105** |
| | | | | | **(+14.9)** | **(+18.7)** |
| | 1988-89 | 1989-90 | 1988-89 | 1989-90 | 1988-89 | 1989-90 |
| April-June | +1,724 | +1,766 | +7,548 | +5,938 | +9,272 | +7,704 |
| | | | | | (+7.9) | (+5.5) |

*Note* : Figures in brackets indicate percentage growth rates.
*Source* : Returns submitted by banks under Section 42(2) of the R.B.I. Act, 1934.

**Table VII-7 : 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 | 1988-89 |
|---|---|---|---|---|---|---|---|---|
| Demand Deposits | 19.2 | 19.4 | 18.7 | 19.6 | 18.3 | 18.7 | 17.2 | 16.7 |
| Time Deposits | 80.8 | 80.6 | 81.3 | 80.4 | 81.7 | 81.3 | 82.8 | 83.3 |

* Based on March 31, 1983 figures.

**Table VII-8 : Percentage Growth in Demand, Time and Total Deposits**

| | 1981-82 | 1982-83* | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|---|---|---|---|---|
| Total Deposits | +15.1 | +17.4 | +18.0 | +19.2 | +18.2 | +20.3 | +14.9 | +18.7 |
| Demand Deposits | +7.5 | +19.1 | +13.3 | +24.9 | +10.5 | +23.2 | +5.3 | +15.3 |
| Time Deposits | +17.1 | +17.0 | +19.1 | +17.9 | +20.1 | +19.6 | +17.1 | +19.4 |

* Based on data for March 31, 1983.

**Table VII-9 : Deposits of All Commercial Banks (excluding RRBs) 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) | (100.0) |
| 1978 | 4,409 | 5,717 | 12,792 | 22,918 |
| | (19.2) | (24.9) | (55.8) | (100.0) |
| 1979 | 5,175 | 7,303 | 15,239 | 27,717 |
| | (18.7) | (26.3) | (55.0) | (100.0) |
| 1980 | 5,799 | 8,834 | 18,060 | 32,693 |
| | (17.7) | (27.0) | (55.2) | (100.0) |
| 1981 | 6,900 | 9,045 | 22,941 | 38,886 |
| | (17.7) | (23.3) | (59.0) | (100.0) |
| 1982 | 7,683 | 10,427 | 26,721 | 44,831 |
| | (17.1) | (23.3) | (59.6) | (100.0) |
| 1983 | 8,886 | 11,940 | 31,458 | 52,284 |
| | (17.0) | (22.6) | (60.2) | (100.0) |
| 1984 | 10,680 | 14,056 | 37,538 | 62,274 |
| | (17.2) | (22.6) | (60.3) | (100.0) |
| 1985 | 13,310 | 16,980 | 43,805 | 74,095 |
| | (18.0) | (22.9) | (59.1) | (100.0) |
| 1986 | 14,582 | 19,113 | 53,717 | 87,412 |
| | (16.7) | (21.9) | (61.4) | (100.0) |
| 1987 | 17,471 | 22,370 | 65,194 | 1,05,035 |
| | (16.6) | (21.3) | (62.1) | (100.0) |
| 1988 | 17,551 | 31,987 | 70,170 | 1,19,708 |
| | (14.7) | (26.7) | (58.6) | (100.0) |
| 1989 | 25,142 | 36,911 | 86,640 | 1,48,693 |
| | (16.9) | (24.8) | (58.3) | (100.0) |

* Current and Term deposits include inter-bank deposits.

*Source :* Returns in Form X received under Section 27 of the Banking Regulation Act, 1949.

declined to 24.8 per cent in 1989. In the case of term deposits, their share in total deposits has remained more or less stable around 60 per cent since 1981.

*Expansion in Bank Credit*

The expansion in bank credit in 1988-89 at Rs. 14,183 crores (20.1 per cent) was about double the expansion of Rs. 7,228 crores (11.4 per cent) in 1987-88 (Table VII-10). Food credit declined in 1988-89 by Rs. 1,421 crores as food procurement was lower and stocks of foodgrains with public agencies declined; in the drought year of 1987-88 food credit had declined sizeably by Rs. 2,914 crores with the steep decline in foodgrains stocks with public agencies as a result of measures taken to support larger public distribution. Expansion in non-food credit was much higher at Rs. 15,604 crores (22.8 per cent), as compared with Rs. 10,142 crores (17.4 per cent) in 1987-88. Although this large increase as pointed out earlier, was to some extent a result of expansion in production credit following the spurt in growth of the economy, it was much larger than warranted by real factors in the economy. Data on seasonal variations in bank credit show that both during the slack season of 1988 and busy season of 1988-89, non-food credit expansion was substantially higher than that in the previous comparable seasons (Table VII-10).

The credit-deposit ratio as on March 24, 1989 at 60.4 per cent was marginally higher by 0.6 percentage point than that a year ago. The incremental non-food credit-deposit ratio in

1988-89 at 70.6 per cent was much higher than that of 66.2 per cent in 1987-88.

*Trends in Investments*

Scheduled commercial banks' investments in Government and other approved securities rose by Rs. 8,158 crores or 17.5 per cent in 1988-89 as compared with Rs. 7,922 crores or 20.5 per cent in 1987-88. The investment-deposit ratio as on March 24, 1989 at 39.0 per cent was lower than that of 39.4 per cent a year ago.

*Variations in Other Assets and Liabilities*

Scheduled commercial banks' cash in hand and balances with the Reserve Bank registered a larger increase of Rs. 3,858 crores in 1988-89 as compared with that of Rs. 3,407 crores in 1987-88. The cash-deposit ratio of 16.3 per cent as on March 24, 1989 was marginally higher by 0.2 percentage points as compared with that a year ago. Banks' bortowings from the Reserve Bank were substantially higher by Rs. 1,774 crores as compared with Rs. 460 crores in the previous year.

*Trends During the Quarter April-June 1989*

During the first quarter (March 24, 1989 to

**Table VII-10 : Variations in Scheduled Commercial Banks' Data (Seasonal, Annual and Quarterly)**

(Rupees crores)

| Items | Seasonal Variations | | | | Annual Variations | | Quarterly Variations | |
|---|---|---|---|---|---|---|---|---|
| | Slack Season 1987 | Busy Season 1987-88 | Slack Season 1988 | Busy Season 1988-89 | (April-March) 1987-88 | (April-March) 1988-89 | (April-June) 1988 | (April-June) 1989 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Aggregate Deposits | +8,506 | +8,703 | +11,536 | +11,927 | +15,321 (+14.9) | +22,105 (+18.7) | +9,272 (+7.9) | +7,704 (+5.5) |
| (a) Demand Deposits | +191 | +1,676 | +1,556 | +1,878 | +1,019 (+5.3) | +3,095 (+15.3) | +1,724 (+8.5) | +1,766 (+7.6) |
| (b) Time Deposits | +8,315 | +7,027 | +9,980 | +10,049 | +14,302 (+17.1) | +19,010 (+19.4) | +7,548 (+7.7) | +5,938 (+5.1) |
| Borrowings from the Reserve Bank | +1,855 | -592 | -370 | +2,796 | +460 (+35.6) | +1,774 (+101.2) | -1,351 (-77.1) | -1,353 (-38.4) |
| Cash in hand and balances with the Reserve Bank | +2,390 | +1,818 | +2,786 | +2,077 | +3,407 | +3,858 | +1,590 | 1,115 |
| Money at call and short notice | -635 | +1,789 | -737 | +329 | -473 | +1,324 | +78 | -1,528 |
| Investments | +5,232 | +2,823 | +4,668 | +4,107 | +7,922 (+20.5) | +8,158 (+17.5) | +3,505 (+7.5) | +2,898 (+5.3) |
| (a) Government securities | +3,764 | +1,973 | +3,150 | +2,831 | +5,670 (+22.8) | +5,298 (+17.4) | +2,546 (+8.3) | +2,345 (+6.5) |
| (b) Other approved securities | +1,468 | +850 | +1,518 | +1,276 | +2,252 (+16.4) | +2,860 (+17.9) | +959 (+6.0) | +553 (+2.9) |
| Bank Credit | +3,158 | +4,874 | +5,096 | +11,050 | +7,228 (+11.4) | +14,183 (+20.1) | +3,029 (+4.3) | +4,361 (+5.1) |
| (a) Food procurement advances | -791 | -1,595 | -898 | -126 | -2,914 (-57.1) | -1,421 (-64.9) | -52 (-2.4) | +890 (+115.7) |
| (b) Other advances | +3,949 | +6,469 | +5,994 | +11,176 | +10,142 (+17.4) | +15,604 (+22.8) | +3,081 (+4.5) | +3,471 (+4.1) |

*Notes :* 1. The seasonal variations are based on outstanding as on the last Friday of April and October; annual variations are based on the data as on the last Friday of March (except March 24, 1989 which is a reporting Friday).

2. Figures in brackets indicate percentage change over the corresponding period.

*Source :* Returns submitted by banks under Section 42(2) of the R.B.I. Act, 1934.

June 30, 1989) of 1989-90, accretion to aggregate deposits at Rs. 7,704 crores (5.5 per cent) was lower compared with that of Rs. 9,272 crores (7.9 per cent) in the corresponding period of the previous year. Bank credit expanded by Rs. 4,361 crores (5.1 per cent) as compared with an expansion of Rs. 3,029 crores (4.3 per cent) in the first quarter of 1988-89. Food credit rose by Rs. 890 crores in contrast to a decline of Rs. 52 crores. Non-food credit expanded by Rs. 3,471 crores (4.1 per cent) as compared with Rs. 3,081 crores (4.5 per cent) in the same period of last year. Banks' investment rose by Rs. 2,898 crores (5.3 per cent) as compared with Rs. 3,505 crores (7.5 per cent) (Table VII-10).

**Banking Trends** (on an average basis)

Data on banking variables on the basis of average of months for 1987-88 and 1988-89 are presented in Table VII-11. Aggregate deposits increased by Rs. 20,067 crores (18.0 per cent) during 1988-89 as compared with Rs. 16,193 crores (17.0 per cent) in the previous year. The proportion of average aggregate deposits to GNP at current market prices has been rising continuously during the 1980s reflecting the growing institutionalisation of savings (Table VII-12). This ratio rose from 25.7 per cent in 1980-81 to 33.9 per cent in 1987-88 but declined marginally to 33.8 per cent in 1988-89.

On an average basis, expansion in bank credit in 1988-89 at Rs. 10,307 crores (15.6 per cent) was larger than that of Rs. 7,248 crores (12.3 per cent) in 1987-88. Food credit declined by

**Table VII-11 : Variations in Scheduled Commercial Banks' Data**
**(Average of last Friday of months)**

(Rupees crores)

| Items | Outstanding | | | Variations | |
|---|---|---|---|---|---|
| | 1986-87 | 1987-88 | 1988-89 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| Aggregate Deposits | 95,126 | 1,11,319 | 1,31,386 | +16,193 (+17.0) | +20,067 (+18.0) |
| (a) Demand Deposits | 17,228 | 19,167 | 22,163 | +1,939 (+11.3) | +2,996 (+15.6) |
| (b) Time Deposits | 77,898 | 92,152 | 1,09,223 | +14,254 (+18.3) | +17,071 (+18.5) |
| Borrowings from the Reserve Bank | 621 | 1,365 | 1,513 | +744 (+119.8) | +148 (+10.8) |
| Cash in hand and balances with the Reserve Bank | 14,028 | 18,194 | 21,918 | +4,166 (+29.7) | +3,724 (+20.5) |
| Money at call and short notice | 1,906 | 1,927 | 2,282 | +21 (+1.1) | +355 (+18.4) |
| Investments | 35,991 | 43,615 | 52,087 | +7,624 (+21.2) | +8,472 (+19.4) |
| (a) Government securities | 23,287 | 28,590 | 34,563 | +5,303 (+22.8) | +5,973 (+20.9) |
| (b) Other approved securities | 12,704 | 15,025 | 17,524 | +2,321 (+18.3) | +2,499 (+16.6) |
| Bank Credit | 58,883 | 66,131 | 76,438 | +7,248 (+12.3) | +10,307 (+15.6) |
| (a) Food procurement advances | 5,773 | 3,711 | 1,412 | -2,062 (-35.7) | -2,299 (-62.0) |
| (b) Other advances | 53,110 | 62,420 | 75,026 | +9,310 (+17.5) | +12,606 (+20.2) |

*Notes :* 1. Data relate to the average of 12 months period that is last Friday of April to last Friday of March (except March 24, 1989 which is a reporting Friday).
2. Figures in brackets indicate percentage change over the previous year.

*Source :* Returns submitted by banks under Section 42(2) of the R.B.I. Act, 1934.

**Table VII-12 : 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 | 2,05,737 | 27.7 |
| 1984-85 | 67,062 | 2,29,167 | 29.3 |
| 1985-86 | 79,862 | 2,61,078 | 30.6 |
| 1986-87 | 95,126 | 2,91,603 | 32.6 |
| 1987-88 | 1,11,319 | 3,28,659* | 33.9 |
| 1988-89 | 1,31,386 | 3,88,785** | 33.8 |

* Quick Estimates.
** Estimated.
£ Average of 12 months period i.e. last Friday of April to last Friday of March (except March 24, 1989 which is a reporting Friday).
*Note :* The data from 1980-81 to 1987-88 are based on new series (1980-81 base) brought out by CSO.

Rs. 2,299 crores as compared with a decline of Rs. 2,062 crores while non-food credit increased by Rs. 12,606 crores (20.2 per cent) as compared to a rise of Rs. 9,310 crores (17.5 per cent).

Banks' investments in Government and other approved securities increased on an average basis, by Rs. 8,472 crores (19.4 per cent) as compared with an increase of Rs. 7,624 crores (21.2 per cent). Cash in hand with banks and banks' balances with the Reserve Bank rose by Rs. 3,724 crores (20.5 per cent) as compared with Rs. 4,166 crores (29.7 per cent). The average of banks' borrowings from the Reserve Bank were Rs. 148 crores as compared with Rs. 744 crores in 1987-88.

*Use of Non-Deposit Resources*

As pointed out earlier, on a point-to-point basis the increase in scheduled commercial banks' borrowings from the Reserve Bank in 1988-89 was substantially higher than in 1987-88 (Rs. 1,774 crores as against Rs. 460 crores). Apart from the larger borrowings from the Reserve Bank, commercial banks continued to use a sizeable amount of other non-deposit resources during 1988-89. As may be seen from Table VII-13, while scheduled commercial banks' aggregate deposits rose by Rs. 22,105 crores, their aggregate gross demand and time liabilities (net of inter-bank assets) increased by Rs. 23,152 crores, indicating the use of additional Rs. 1,047 crores of non-deposit resources during 1988-89 as against Rs. 1,855 crores used in the previous year. Scheduled commercial banks resorted to larger rediscounting of commercial bills with the approved financial institutions to the tune of Rs. 1,452 crores in 1988-89 as against Rs. 656 crores in the previous year. Thus, inclusive of bills rediscounted, the use of additional non-deposit resources during 1988-89 worked out to Rs. 2,499 crores, i.e., the same as in the previous year (Rs. 2,511 crores).

*Liquidity Problems during February/March 1989*

During the period February-March 1989, bank credit increased at a rapid pace mainly on account of the increase in non-food credit. A few banks faced difficulty in maintaining the statutory cash reserve ratio and hence sought large funds from the money market for making good their shortfalls in the CRR. Some banks had surpluses in their investment portfolio (i.e., more than necessary for purposes of maintaining the statutory liquidity ratio) but found it difficult to liquidate such investments. The problem in such cases was that there was a mismatch between the maturity profile of assets and liability portfolios as these banks did not have adequate holdings of Treasury Bills which could be readily liquidated. The annual closing of banks on March 31, 1989 which coincided with the uniform closure of accounts by all commercial enterprises also posed certain problems for banks in their funds management

**Table VII-13 : Scheduled Commercial Banks' Non-Deposit Resources**

(Rupees crores)

| Items | Outstanding as on the last Friday of March | | | | Variations | | |
|---|---|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1986-87 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1. Aggregate Deposits | 85,404 | 1,02,724 | 1,18,045 | 1,40,150 | +17,320 (+20.3) | +15,321 (+14.9) | +22,105 (+18.7) |
| 2. Gross Demand and Time Liabilities (DTL) | 97,024 | 1,15,098 | 1,31,951 | 1,56,637 | +18,074 (+18.6) | +16,853 (+14.6) | +24,686 (+18.7) |
| 3. Assets with the Banking System | 4,827 | 5,068 | 4,745 | 6,279 | +241 (+5.0) | -323 (-6.4) | +1,534 (+32.3) |
| 4. Gross DTL excluding inter-bank assets (2-3) | 92,197 | 1,10,030 | 1,27,206 | 1,50,358 | +17,833 (+19.3) | +17,176 (+15.6) | +23,152 (+18.2) |
| 5. Difference (4-1) | 6,793 | 7,306 | 9,161 | 10,208 | +513 (+7.6) | +1,855 (+25.4) | +1,047 (+11.4) |
| 6. Other Borrowings £ | 168 | 105 | 273 | 262 | -63 (-37.6) | +168 (+160.8) | -11 (-4.0) |
| 7. Bills rediscounted with financial institutions@ | 562 | 722 | 1,378 | 2,830 | +160 (+28.5) | +656 (+90.9) | +1,452 (+105.4) |
| 8. Non-Deposit Resources (5+7) | 7,355 | 8,028 | 10,539 | 13,051 | +673 (+9.2) | +2,511 (+31.3) | +2,499 (+23.7) |
| **Memorandum Item** | | | | | | | |
| Call money borrowings from UTI, LIC and DFHI@ | 214 | 250 | 281 | 799 | +36 (+16.8) | +31 (+12.4) | +518 (+184.3) |

@ Based on special returns and figures relate to end-March.

£ Other than from RBI, IDBI, NABARD and EXIM Bank (based on data received under Section 42(2) of the Reserve Bank of India Act,1934.

*Note :* Figures in brackets are percentage variations.

and this reflected in unusually tight conditions in the money market. The stringency in the market was mitigated to some extent by intervention of the Reserve Bank on its own through increased refinance and through the DFHI.

*Banking Developments in the Week Ended March 31, 1989*

During the last week of the banks' new financial year which ended on March 31, 1989, both aggregate deposits and bank credit showed sharp increases of Rs. 7,010 crores (5.0 per cent) and Rs. 4,651 crores (5.5 per cent), respectively (Table VII-14). Demand deposits showed a very sharp and unusual rise of Rs. 4,579 crores (19.6 per cent) in the last week of the banks' financial year. These increases do not reflect financial transactions supportive of an enduring economic activity but are partly the result of application of interest on deposits and advances and partly the consequence of closing of accounts by banks on March 31. For purposes of assessment of the basic underlying monetary and credit developments, the March 31 data are not meaningful and therefore the analysis in this Report is based on March 24, 1989 data.

## SELECTIVE CREDIT CONTROL

During the year, selective credit controls were under continuous review and changes were made in response to emerging commodity balances and trends in prices. Thus, in view of the decline in oilseeds prices in response to harvesting of record oilseeds crop, the level of credit ceiling on banks' advances against oilseeds and vegetable oils was raised and the minimum margins on advances were lowered. On the other hand, higher prices of sugar, gur and *khandsari*, necessitated increase in margins on advances against them. The interest rate on advances against the stocks of commodities covered by selective credit controls was changed from 16.5 per cent (fixed) to 16 per cent

**Table VII-14 : Variations in Selected Items of Scheduled Commercial Banks : Last Week of March 1989 Data**

(Rupees crores)

| Items | Outstanding as on | | Variation | |
|---|---|---|---|---|
| | March 24, 1989 | March 31, 1989 | Absolute | Percentage |
| 1 | 2 | 3 | 4 | 5 |
| 1. Aggregate Deposits (a+b) | 1,40,150 | 1,47,160 | +7,010 | +5.0 |
| (a) Demand Deposits | 23,342 | 27,921 | +4,579 | +19.6 |
| (b) Time Deposits | 1,16,808 | 1,19,239 | +2,431 | +2.1 |
| 2. Bank Credit (a+b) | 84,719 | 89,370 | +4,651 | +5.5 |
| (a) Food Credit | 769 | 777 | +8 | +1.0 |
| (b) Non-food Credit | 83,950 | 88,593 | +4,643 | +5.5 |

(minimum). For commodities where there are stipulations on the level of credit ceilings, the base period was brought forward to the three-year period ending 1986-87 (November-October). The modifications introduced are detailed below:

**Advances against Wheat to Mills/ Processing Units in Punjab**

Taking into account the difficulties faced by the mills processing units in Punjab, the minimum margin on advances against wheat to these units in the State was reduced by 15 percentage points to 30 per cent, effective September 19, 1988.

**Interest Rate on Advances under Selective Credit Control**

Effective October 10, 1988, the interest rate on advances against the stocks of commodities covered by selective credit control was changed from 16.5 per cent (fixed) to 16 per cent (minimum).

**Exemption to the National Textile Corporation**

Effective October 10, 1988, bank advances against stocks of cotton and *kapas* to the National Textile Corporation including its subsidiaries were exempt from the provisions of minimum margins, level of credit and rate of interest prescribed under selective credit control.

**Advances to Sugar Industry for 1988-89 Crushing Season**

For 1988-89 crushing season (October-September), scheduled commercial banks were advised on September 29, 1988 to sanction to sugar mills need-based credit limits up to 115 per cent of the maximum amount availed during the previous season (excluding temporary excess drawings) without obtaining Reserve Bank's prior authorisation. Effective November 7, 1988, scheduled commercial banks were advised to sanction on merit clean loans to sugar mills for meeting off-season repairs to plant and machinery for amounts not exceeding Rs. 25 lakhs per unit without the RBI's prior authorisation.

**Minimum Margins on Advances against Oilseeds and Vegetable Oils**

Effective February 10, 1989, the minimum margins on advances against oilseeds and vegetable oils were reduced across the board by 15 percentage points. The structure of minimum margins on oilseeds and vegetable oils (including vanaspati) was as under:

(Percentage)

| Commodities | Against Stocks | | Against Warehouse Receipts |
|---|---|---|---|
| | Mills/ Processing Units | 'Others' | |
| 1. Oilseeds (groundnut, rapeseed/mustard, cottonseed, castorseed, linseed and all imported oilseeds) | 30 | 45 | 30 |
| 2. Vegetable Oils (groundnut oil, rapeseed/mustard oil, cottonseed oil, castor oil, linseed oil, vanaspati and all imported oils) | 30@ | 60 | 45 |

@ Applicable to registered oil mills and vanaspati manufacturers.

**Level of Credit on Advances against Oilseeds and Vegetable Oils**

Effective February 10, 1989, the level of credit ceilings on advances against oilseeds/vegetable oils (including vanaspati) was raised from 85 per cent to 100 per cent of the peak level of credit maintained by the party in any of the three years ending 1985-86 (November-October).

**Minimum Margins on Advances against Vegetable Oils**

Effective March 28, 1989, the minimum margins on advances against stocks of vegetable oils (including vanaspati) were reduced by 15 percentage points in the case of 'others' and against warehouse receipts, setting the margins uniformly at 30 per cent for mills/precessing units and against warehouse receipts and 45 per cent for 'others'.

**Minimum Margins to Wheat Mills in Punjab**

In view of the high prices of wheat, effective March 28, 1989, the minimum margin on advances against wheat to mills in Punjab was raised by 15 percentage points setting the margin uniformly at 45 per cent to mills/processing units in all areas where selective credit controls are applicable.

**Level of Credit Ceilings**

For commodities where there are stipulations on the level of credit ceilings, the base period was brought forward to the three-year period ending 1986-87 (November-October), with effect from March 28, 1989.

**Exemption to Oilseeds Processing Units under the European Economic Community Assisted Project**

Effective April 3, 1989, the advances against stocks of oilseeds procured from grower-members and of oils thereof to oilseeds processing units of State Co-operative Marketing Federations in Madhya Pradesh, Uttar Pradesh and Rajasthan, set up under the aegis of the National Co-operative Development Corporation under the European Economic Community Assisted Project were exempted from the minimum margin and level of credit stipulations of selective credit control.

**Minimum Margins on Advances against Wheat**

On a review of price-output developments and the emerging developments regarding market arrivals of wheat, effective April 22, 1989, the minimum margins on advances against wheat were raised across the board by 15 percentage points, thereby setting the margins against stocks to mills/processing units and against warehouse receipts at 60 per cent and for 'others' at 75 per cent. However, effective July 20, 1989, the margins were lowered across the board by 15 percentage points setting them at 45 per cent for mills/processing units and against warehouse receipts and 60 per cent for 'others'.

**Level of Credit Ceilings on Advances to Roller Flour Mills**

Effective April 22, 1989, the roller flour mills which were hitherto exempt from the level of credit ceilings on advances against wheat were made subject to the level of credit ceilings stipulation of 85 per cent of the peak level of credit maintained by the party in any of the three years ending 1986-87 (November-October) as in the case of other mills/processing units.

**Minimum Margins on Advances against Sugar, Gur and Khandsari**

On a review of the price-output developments, the minimum margins on advances against stocks of sugar for processing units/mills were raised by 7.5 percentage points in the case of unreleased stocks while the minimum margins on released stocks were raised across the board by 15 percentage points. The minimum margins on advances against stocks of gur and *khandsari* were also raised across the board by 15 percentage points. The new structure of minimum margins on advances against commodities covered under selective credit controls, effective July 20, 1989 and level of credit ceilings effective March 28, 1989 was as under:

**Level of Credit Ceilings effective March 28, 1989**

| Commodity | Percentage (Reference period : 1984-85, 1985-86 and 1986-87) |
|---|---|
| Paddy/Rice | 85 |
| Wheat | 85 |
| Pulses | 85 |
| Other foodgrains | 85 |
| Cotton and Kapas | 85 |
| Oilseeds | 100 |
| Vegetable oils (including vanaspati) | 100 |

The provisions of the directives on selective credit controls in force as on July 20, 1989 are given in the Annexure II.

**Table VII-15 : Minimum Margins on Bank Advances against Stocks of Commodities Covered by Selective Credit Control (Effective July 20, 1989)**

(Percentages)

| Commodities | Against Stocks | | Against Warehouse Receipts |
|---|---|---|---|
| | Mills/ Processing Units | 'Other's | |
| | 1 | 2 | 3 |
| 1. Paddy/Rice | 45 | 60 | 45 |
| 2. Wheat | 45 | 60 | 45 |
| 3. 'Other foodgrains' | 45 | 60 | 45 |
| 4. Pulses | 45 | 60 | 45 |
| 5. Oilseeds (groundnut, rapeseed/mustard, cottonseed, linseed, castorseed and all imported oilseeds) | 30 | 45 | 30 |
| 6. Vegetable oils (groundnut oil, rapeseed/mustard oil, linseed oil, castor oil, cottonseed oil, vanaspati and all imported vegetable oils) | 30@ | 45 | 30 |
| 7. Cotton and Kapas | x | 45 | 30 |
| 8. Sugar | | | |
| (a) Buffer | 0 | — | — |
| (b) Unreleased stocks | 25 | — | — |
| (c) Released stocks | 75 | 75 | 60 |
| 9. Gur and *Khandsari* | 45 | 75 | 60 |

@ Applicable to registered oil mills and vanaspati manufacturers.
x Exempt from the stipulation of selective credit control.
— Not applicable.

**Table VII-16 : Scheduled Commercial Banks' Outstanding Advances against Selected Commodities**

(Rs.crores)

| Commodities | AS ON THE LAST FRIDAY OF | | | | | |
|---|---|---|---|---|---|---|
| | March 1987 | | March 1988 | | March 1989* | |
| | Amount | Percentage to total | Amount | Percentage to total | Amount | Percentage to total |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| **1. Foodgrains (excluding food procurement advances)** | **295.6** | **22.3** | **397.5** | **24.3** | **589.0** | **29.5** |
| (a) Paddy/Rice | 189.9 | 14.3 | 275.0 | 16.8 | 431.8 | 21.6 |
| (b) Wheat | 41.1 | 3.1 | 49.6 | 3.0 | 65.5 | 3.3 |
| (c) Pulses | .. | .. | 31.8 | 2.0 | 38.5 | 1.9 |
| (d) 'Other foodgrains' | 64.6 | 4.9 | 41.1 | 2.5 | 53.2 | 2.7 |
| **2. Sugar (including *Khandsari* and Gur)** | **465.0** | **35.1** | **572.4** | **35.0** | **600.3** | **30.1** |
| (a) Sugar | 462.9 | 34.9 | 553.0 | 33.8 | 572.5 | 28.7 |
| (b) *Khandsari* | .. | .. | 17.2 | 1.1 | 24.8 | 1.2 |
| (c) Gur | 2.1 | 0.2 | 2.2 | 0.1 | 3.0 | 0.2 |
| **3. Major Oilseeds** | **18.2** | **1.4** | **25.9** | **1.6** | **53.7** | **2.7** |
| (a) Groundnut | 7.6 | 0.6 | 13.0 | 0.8 | 33.4 | 1.7 |
| (b) Rapeseed/Mustard | 9.0 | 0.7 | 10.1 | 0.6 | 16.0 | 0.8 |
| (c) Linseed | 1.0 | 0.1 | 0.6 | — | 1.9 | 0.1 |
| (d) Castorseed | 0.6 | — | 2.2 | 0.1 | 2.4 | 0.1 |
| **4. Major Vegetable Oils and Vanaspati** | **82.6** | **6.3** | **107.0** | **6.5** | **128.5** | **6.4** |
| (a) Groundnut Oil | 12.7 | 1.0 | 16.4 | 1.0 | 23.6 | 1.2 |
| (b) Rapeseed/Mustard Oil | 12.8 | 1.0 | 19.3 | 1.2 | 22.6 | 1.1 |
| (c) Castor Oil | 5.9 | 0.4 | 9.2 | 0.6 | 14.6 | 0.7 |
| (d) Linseed Oil | 1.3 | 0.1 | 0.9 | — | 1.6 | 0.1 |
| (e) Vanaspati | 49.9 | 3.8 | 61.2 | 3.7 | 66.1 | 3.3 |
| **5. Cotton and *Kapas*** | **397.5** | **30.0** | **465.4** | **28.5** | **512.9** | **25.7** |
| **6. Raw Jute** | **65.8** | **5.0** | **65.7** | **4.0** | **110.4** | **5.5** |
| **7. Total** | **1324.7** | **100.0** | **1633.9** | **100.0** | **1994.8** | **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 are 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.

*Sources :* Estimates are based on returns received from head offices of banks.

**Table VII-17 : Security-wise advances to mills/factories and industrial users (As percentage to total credit against sensitive commodities)**

| Commodities | LAST FRIDAY OF | | |
|---|---|---|---|
| | March 1989 | March 1988 | March 1987 |
| | 1 | 2 | 3 |
| 1. Linseed Oil | 100.0 | 100.0 | 92.3 |
| 2. Castor Oil | 100.0 | 100.0 | 98.3 |
| 3. Vanaspati | 97.1 | 97.4 | 95.2 |
| 4. Raw Jute | 92.9 | 93.9 | 94.8 |
| 5. Castorseed | 91.7 | 86.4 | 50.0 |
| 6. Groundnut Oil | 91.5 | 89.6 | 79.5 |
| 7. Sugar | 90.8 | 98.2 | 98.7 |
| 8. Groundnut | 90.4 | 67.7 | 73.7 |
| 9. Khandsari | 89.5 | 87.8 | — |
| 10. Linseed | 89.5 | 83.3 | 80.0 |
| 11. Wheat | 88.4 | 88.3 | 89.1 |
| 12. Rapeseed Mustard Oil | 87.2 | 91.7 | 93.0 |
| 13. Paddy Rice | 83.1 | 85.1 | 87.7 |
| 14. Cotton & Kapas | 77.6 | 78.8 | 73.4 |
| 15. Rapeseed/Mustard | 77.5 | 84.2 | 62.2 |
| 16. Pulses | 61.0 | 80.2 | — |
| 17. 'Other foodgrains' | 60.9 | 66.2 | 74.0 |
| 18. Gur | 16.7 | 45.5 | 52.4 |
| **All Selected Commodities** | **84.4** | **88.1** | **87.0** |

— Not available.

*Note* : Prior to April 1987, the data for other foodgrains' are inclusive of pulses and those of sugar are inclusive of *khandsari*

*Source* : Basic Statistical Returns.

## QUALITATIVE CHANGES IN BANK CREDIT DISTRIBUTION

### Sectoral Deployment of Credit

Data relating to sectoral deployment of credit of scheduled commercial banks presented in Table VII-18 show that the share of priority sectors in outstanding gross bank credit (i.e. bank credit inclusive of bills rediscounted with RBI, IDBI, Exim Bank and other financial institutions) continued to be the largest (around 40 per cent), followed by that of industry (medium and large) (around 36 to 37 per cent). The sectors which accounted for a higher proportion of incremental non-food gross bank credit in 1988-89 were medium and large industries, wholesale trade (other than food) and exports. The share of priority sectors in incremental non-food gross bank credit was 30.5 per cent in 1988-89 as against 37.9 per cent in 1987-88. Priority sector advances constituted 43.1 per cent of net bank credit as at the end of March 1989 as against the national target of 40 per cent. Within the priority sectors, advances to agriculture, small scale industries and other priority sectors constituted 16.3 per cent, 15.3 per cent and 8.3 per cent respectively, of gross bank credit during 1988-89.

Data available up to December 1986 from the Basic Statistical Returns on sectoral classification of scheduled commercial banks' advances (Table VII-19) show that between March 1968 (i.e., prior to nationalisation of major banks in June 1969) and December 1986, the share of agriculture and allied activities in total bank credit rose from 2.2 per cent to 16.8 per cent and that of small-scale industries from 6.9 per cent to 11.7 per cent, while the share of large and medium industries declined from 60.6 per cent to 32.3 per cent.

### Industry-wise Deployment of Credit

Industry-wise (including small-scale industry) deployment of gross bank credit is presented in Table VII-20. Industries which accounted for a significant proportion of incremental credit in 1988-89 included engineering (Rs. 1,908 crores), chemicals, dyes, paints, drugs, pharmaceuticals etc., (Rs. 1,714 crores), other textiles (Rs. 590 crores), cotton textiles (Rs. 457 crores) and other metals and metal products (Rs. 423 crores).

Data on the percentage share of major industries in total advances of scheduled commercial banks as on the last Friday of December 1983 to December 1986 with the comparable data as at the end of March 1968 are presented in Table VII-21. The data show a shift away from concentration of credit in a few groups of industries in 1968 and a dispersal of credit over a large number of major industries in recent years consistent with diversification in the industrial structure of the country. Data on ratios of inventories to sales and bank borrowings to inventories in respect of public limited companies in the private corporate sector are presented in Table VII-22. While the inventory-sales ratio of large companies (each with a paid-up capital of Rs. 1 crore and above), declined from 25.2 per cent in 1986-87 to 24.5

**Table VII-18 : Sectoral Deployment of Gross Bank Credit@**
**(As on the last reporting Friday)**

(Rupees crores)

| Sector | Outstanding | | | Variations over the year | |
|---|---|---|---|---|---|
| | March 1987 | March 1988 | March 1989 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| **I. Public Food Procurement Credit** | **5,104** | **2,190** | **769** | **-2,914** | **-1,421** |
| | **(8.2)** | **(3.1)** | **(0.9)** | | |
| **II. A. Priority Sectors** | **25,050** | **29,070** | **34,207** | **+4,020** | **+5,137** |
| | **(40.0)** | **(41.4)** | **(39.9)** | | |
| (i) Agriculture | 10,570 | 12,009 | 13,948 | +1,439 | +1,939 |
| | (16.9) | (17.1) | (16.3) | | |
| (ii) Small-scale industries | 9,108 | 10,820 | 13,127 | +1,712 | +2,307 |
| | (14.5) | (15.4) | (15.3) | | |
| (iii) Other priority sectors | 5,372 | 6,241 | 7,132 | +869 | +891 |
| | (8.6) | (8.9) | (8.3) | | |
| **B. Industry (medium and large)** | **21,356** | **25,153** | **32,158** | **+3,797** | **+7,005** |
| | **(34.1)** | **(35.8)** | **(37.5)** | | |
| **C. Wholesale Trade (other than food procurement)** | **3,080** | **3,598** | **4,764** | **+518** | **+1,166** |
| | **(4.9)** | **(5.1)** | **(5.6)** | | |
| **D. Other Sectors** | **7,979** | **10,249** | **13,780** | **+2,270** | **+3,531** |
| | **(12.8)** | **(14.6)** | **(16.1)** | | |
| **III. Non-food Gross Bank Credit (A+B+C+D)** | **57,465** | **68,070** | **84,909** | **+10,605** | **+16,839** |
| | **(91.8)** | **(96.9)** | **(99.1)** | | |
| Export credit (included under item III) | 3,146 | 3,917 | 6,142 | +771 | +2,225 |
| | (5.0) | (5.6) | (7.2) | | |
| **IV. Gross Bank Credit (I+III)** | **62,569** | **70,260** | **85,678** | **+7,691** | **+15,418** |
| | **(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 of all scheduled commercial banks. Further, these data include bills rediscounted with RBI, IDBI, EXIM Bank and other approved financial institutions and inter-bank participations.

2. Figures in brackets are percentages to total gross bank credit.

*Source :* Credit Planning Cell, R.B.I.

per cent in 1987-88, the proportion of short-term bank borrowings to total inventories declined from 42.9 per cent to 42.0 per cent during the same period. The ratio of total bank borrowings to total inventories also fell from 54.1 per cent to 52.9 per cent. These data seem to reflect decline in inventories following the deceleration of industrial output in the drought year of 1987-88 and better compliance with credit discipline.

### Advances to Priority Sector

#### Public Sector Banks

The progress made by the public sector banks in financing the priority sectors since nationalisation is shown in Table VII-23. The number of priority sector borrowal accounts of public sector banks increased from 281 lakhs as at the end of June 1987 to 310 lakhs by end-June 1988 and further to 331 lakhs by end-June 1989. During 1988-89, priority sector advances of these banks increased by Rs. 5,644 crores or 19.3 per cent as against a rise of Rs. 3,730 crores or 14.6 per cent in the previous year. The share of priority sector advances in net bank credit increased from 45.0 per cent in June 1987 to 45.7 per cent in June 1988 but declined to 44.6 per cent in June 1989. The achievement of public sector banks in lending to priority sectors

**Table VII-19 : Sectoral Classification of Scheduled Commercial Banks' Advances**

(Rupees crores)

| Sector | Outstanding as on the last Friday of | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | March 31, 1968 | | December 1983 | | December 1984 | | December 1985 | | December 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 | 11 |
| **I. Industry** | **2,068** | **67.5** | **17,507** | **45.0** | **19,103** | **41.5** | **21,911** | **42.0** | **26,465** | **44.0** |
| (a) Large and medium industries | 1,857 | 60.6 | 22,733 | 32.7 | 12,877 | 28.0 | 15,749 | 30.2 | 19,400 | 32.3 |
| (b) Small-scale industries | 211 | 6.9 | 4,774 | 12.3 | 6,226 | 13.5 | 6,162 | 11.8 | 7,065 | 11.7 |
| **II. Agricultural and allied activities** | **67** | **2.2** | **6,142** | **15.8** | **8,073** | **17.5** | **8,850** | **16.9** | **10,105** | **16.8** |
| *Of which :* | | | | | | | | | | |
| (a) Direct finance | — | — | 5,124 | 13.2 | 6,502 | 14.1 | 7,540 | 14.4 | 8,587 | 14.3 |
| (b) Plantations | 58 | 1.9 | 431 | 1.1 | 473 | 1.0 | 512 | 1.0 | 649 | 1.1 |
| **III. Internal Trade** | **588** | **19.2** | **8,239** | **21.2** | **10,865** | **23.6** | **12,003** | **23.0** | **12,216** | **20.3** |
| (a) Wholesale trade | 541 | 17.7 | 6,755 | 17.4 | 8,940 | 19.4 | 9,617 | 18.4 | 9,293 | 15.4 |
| *Of which :* | | | | | | | | | | |
| Food procurement | 109 | 3.5 | 4,169 | 10.7 | 5,642 | 12.2 | 6,085 | 11.6 | 5,589 | 9.3 |
| (b) Retail trade | 47 | 1.5 | 1,484 | 3.8 | 1,925 | 4.2 | 2,387 | 4.6 | 2,923 | 4.9 |
| **IV. Services** | **—** | **—** | **1,086** | **2.8** | **1,359** | **2.9** | **1,674** | **3.2** | **2,080** | **3.5** |
| **V. Personal loans** | **—** | **—** | **1,371** | **3.5** | **1,581** | **3.4** | **1,751** | **3.4** | **2,283** | **3.8** |
| **VI. All others*** | **341@** | **11.1** | **4,577** | **11.7** | **5,094** | **11.1** | **6,039** | **11.5** | **7,067** | **11.6** |
| **VII. Total** | **3,064** | **100.0** | **38,922** | **100.0** | **46,075** | **100.0** | **52,228** | **100.0** | **60,216** | **100.0** |

— Not available.
@ Includes services and personal loans.
* Includes advances to transport operators also.

*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, RBI.

in the post-nationalisation period is noteworthy as such advances constituted only 14.6 per cent of total bank credit in June 1969.

During 1988-89, agricultural advances of public sector banks increased by Rs. 2,258 crores and accounted for 40.0 per cent of incremental priority sector advances. Scheduled commercial banks have been advised to step up direct finance to agriculture (including allied activities) from 17 per cent to at least 18 per cent of their total outstanding credit by March 1990. Direct agricultural advances of public sector banks formed 16.5 per cent of total bank credit at the end of June 1989. Advances to small-scale industries constituted 16.9 per cent of net bank credit.

Advances to weaker sections within the priority sector at Rs. 8,641 crores at end-June 1989 formed 11.1 per cent of total outstanding advances as against the prescribed target of 10 per cent. Outstanding advances of public sector banks to scheduled castes/scheduled tribes increased from Rs. 2,095 crores in 74 lakh borrowal accounts in June 1988 to Rs. 2,658 crores in 85 lakh borrowal accounts in June 1989; such advances formed 3.4 per cent of net bank credit as at the end of June 1989.

Within the priority sectors, advances for agriculture and allied activities constituted the largest portion (41.2 per cent) of total priority sector advances as at the end of June 1989 followed by advances to small-scale industries (37.9 per cent).

### Private Sector Banks and Foreign Banks

Private sector commercial banks are also required to achieve various targets and sub-targets for priority sector advances and lending under the Differential Rate of Interest (DRI) Scheme. According to the provisional data as at the end of March 1989, private sector banks' advances to priority sectors amounted to Rs. 1,422 crores forming 36.7 per cent of their total advances. Direct advances for agriculture formed 8.6 per cent and advances to weaker sections formed 5.1 per cent of their total

**Table VII-20 : Industry-wise Deployment of Gross Bank Credit@**

(Rupees crores)

| Industry | Outstanding as on | | | Variations over the year | |
|---|---|---|---|---|---|
| | March 27, 1987 | March 25, 1988 | March 24, 1989 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| Coal | 160 | 248 | 210 | +88 | -38 |
| | (0.2) | (0.3) | (0.2) | | |
| Iron and steel | 1,601 | 1,824 | 2,242 | +223 | +418 |
| | (2.5) | (2.6) | (2.6) | | |
| Other metals and metal products | 1,021 | 1,203 | 1,626 | +182 | +423 |
| | (1.6) | (1.7) | (1.9) | | |
| All engineering | 7,675 | 8,697 | 10,605 | +1,022 | +1,908 |
| | (12.3) | (12.4) | (12.4) | | |
| Electricity | 513 | 785 | 1,042 | +272 | +257 |
| | (0.8) | (1.1) | (1.2) | | |
| Cotton textiles | 2,419 | 2,752 | 3,209 | +333 | +457 |
| | (3.9) | (3.9) | (3.7) | | |
| Jute textiles | 292 | 305 | 281 | +13 | -24 |
| | (0.5) | (0.4) | (0.3) | | |
| Other textiles | 1,773 | 2,152 | 2,742 | +379 | +590 |
| | (2.8) | (3.1) | (3.2) | | |
| Sugar | 541 | 640 | 667 | +99 | +27 |
| | (0.9) | (0.9) | (0.8) | | |
| Tea | 381 | 411 | 524 | +30 | +113 |
| | (0.6) | (0.6) | (0.6) | | |
| Vegetable oils (including vanaspati) | 378 | 440 | 599 | +62 | +159 |
| | (0.6) | (0.6) | (0.7) | | |
| Tobacco and tobacco products | 224 | 235 | 297 | +11 | +62 |
| | (0.3) | (0.3) | (0.3) | | |
| Paper and paper products | 768 | 854 | 1,139 | +86 | +285 |
| | (1.2) | (1.2) | (1.3) | | |
| Rubber and rubber products | 501 | 557 | 748 | +56 | +191 |
| | (0.8) | (0.8) | (0.9) | | |
| Chemicals, dyes, paints, drugs and pharmaceuticals etc. | 3599 | 4,210 | 5,924 | +611 | +1,714 |
| | (5.7) | (6.0) | (6.9) | | |
| *Of which :* Fertiliser | 844 | 913 | 1,013 | +69 | +100 |
| | (1.3) | (1.3) | (1.2) | | |
| Cement | 461 | 503 | 688 | +42 | +185 |
| | (0.7) | (0.7) | (0.8) | | |
| Leather and leather products | 413 | 565 | 695 | +152 | +130 |
| | (0.7) | (0.8) | (0.8) | | |
| Construction | 369 | 448 | 759 | +79 | +311 |
| | (0.6) | (0.6) | (0.9) | | |
| Petroleum | 119 | 163 | 30 | +44 | -133 |
| | (0.2) | (0.2) | (—) | | |
| SAFAUNS* | 282 | 231 | 191 | -51 | -40 |
| | (0.4) | (0.3) | (0.2) | | |
| Residual | 6,974 | 8,750 | 11,067 | +1,776 | +2,317 |
| | (11.1) | (12.4) | (12.9) | | |
| **Total Credit to Industry** | **30,464** | **35,973** | **45,285** | **+5,509** | **+9,312** |
| | **(48.7)** | **(51.2)** | **(52.9)** | | |
| **Total Gross Bank Credit** | **62,569** | **70,260** | **85,678** | **+7,691** | **+15,418** |
| | **(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.

**Table VII-21 : Advances of Scheduled Commercial Banks to Major Industries**

(Percentage to total bank credit)

| Industry | March 31, 1968 | As on the last Friday of December | | | |
|---|---|---|---|---|---|
| | | 1983 | 1984 | 1985 | 1986 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| Basic metals and metal products | .. | 5.7 | 5.2 | 4.9 | 4.6 |
| *Of which :* Iron and steel | 3.7 | 3.4 | 3.1 | 2.4 | 2.6 |
| Beverage and tobacco | .. | 0.7 | 0.6 | 0.6 | 0.7 |
| Cement | 1.3 | 0.6 | 0.6 | 0.7 | 0.8 |
| Chemicals and chemical products | 6.0 | 5.0 | 4.6 | 4.9 | 5.6 |
| *Of which :* | | | | | |
| Heavy industrial chemicals | .. | 0.8 | 0.7 | 0.8 | 0.9 |
| Drugs and pharmaceuticals | .. | 1.0 | 0.9 | 1.0 | 1.2 |
| Fertilizers | .. | 1.0 | 0.8 | 0.9 | 1.2 |
| Coal | 0.8 | 0.2 | 0.2 | 0.1 | 0.2 |
| Edible oils and vanaspati | 1.4 | 0.6 | 0.6 | 0.5 | 0.6 |
| Engineering | 15.7 | 8.7 | 7.7 | 8.1 | 8.3 |
| Heavy engineering | 8.9 | 3.8 | 3.2 | 3.5 | 3.5 |
| Light engineering | 6.8 | 2.2 | 2.1 | 2.0 | 2.0 |
| Others | .. | 2.6 | 2.4 | 2.7 | 2.8 |
| Leather and leather products | .. | 0.6 | 0.6 | 0.6 | 0.7 |
| Manufacturing of basic minerals | .. | 0.6 | 0.5 | 0.5 | 0.3 |
| Paper, paper products and printing | 1.6 | 1.7 | 1.7 | 1.6 | 1.7 |
| Rice, flour and dal mills | | 0.9 | 0.9 | 1.0 | 1.0 |
| Rubber and rubber products | 0.7 | 0.9 | 0.8 | 0.8 | 0.8 |
| Sugar | 5.3 | 1.1 | 0.6 | 0.5 | 0.5 |
| Textiles | 15.5 | 7.5 | 6.9 | 6.7 | 7.0 |
| *Of which :* | | | | | |
| Cotton textiles | 10.3 | 3.5 | 3.2 | 3.2 | 3.2 |
| Jute textiles | 3.1 | 0.5 | 0.4 | 0.4 | 0.5 |
| Vehicles, vehicle parts and transport equipments | .. | 2.2 | 2.1 | 1.9 | 2.1 |
| Other industries | .. | 8.0 | 7.9 | 8.6 | 9.1 |
| **Total Credit to Industry** | **67.5** | **45.0** | **41.5** | **42.0** | **44.0** |
| **Total Bank Credit** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

.. Not available.

*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 Department of Statistical Analysis and Computer Services, R.B.I.

advances. DRI advances constituted 0.3 per cent of their total advances and private sector banks have yet to reach the target norm of 1 per cent prescribed in this regard.

The foreign banks operating in India were advised in August 1988 that they should achieve a priority sector lending level of 10 per cent of their total advances by the end of March 1989. They are required to progressively raise this level to 12 per cent by March 1990 and to 15 per cent by March 1992.

**20-Point Programme**

The Government of India revised the earlier 20-Point Programme in August 1986. Fifteen out of the twenty points have relevance to the banking system. Provisional data indicate that the 28 public sector banks had extended financial assistance under the revised 20-Point Programme to the extent of Rs. 11,270 crores

**Table VII-22 : 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 |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| *1942 Public Limited Companies†* | | | | |
| 1984-85 | 24.9 | 28.1 | 44.8 | 58.0 |
| 1985-86 | 25.4 | 28.3 | 45.0 | 58.0 |
| 1986-87 | 25.6 | 27.1 | 48.2 | 61.4 |
| *621 Large Public Limited Companies£* | | | | |
| 1985-86 | 25.8 | 29.2 | 40.0 | 51.7 |
| 1986-87 | 25.2 | 28.3 | 42.9 | 54.1 |
| 1987-88 | 24.5 | 28.9 | 42.0 | 52.9 |

@ 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.

for 229 lakh borrowal accounts at the end of June 1989, which formed 32.3 per cent of their total priority sector advances.

**Regional and Rural/Urban Pattern of Credit Deployment in terms of Credit-Deposit Ratios**

Public sector banks were directed to attain by March 1979 a credit-deposit ratio of 60 per cent in rural and semi-urban areas separately, so as to achieve the twin objectives of reducing intra-State imbalances in utilisation of deposit resources and to restrain migration of credit from rural areas to urban areas. This stipulation was later extended to private sector banks. Though scheduled commercial banks as a whole have succeeded in attaining the target in respect of rural branches, they have fallen short of the target in the case of semi-urban branches. The credit-deposit ratio of rural branches of scheduled commercial banks (including Regional Rural Banks) rose from 56.7 per cent as on the last Friday of March 1980 to 66.9 per cent as on the last Friday of March 1985. Although the ratio declined thereafter and stood at 64.5 per cent as on the last Friday of March 1989, it was higher than the target of 60 per cent (Table VII-24). However, the performance of banks in attaining the target for semi-urban branches remained below the target; the credit-deposit ratio of semi-urban branches rose from 49.1 per cent as on the last Friday of March 1980 to 53.9 per cent by March 1985 but again declined to 51.7 per cent by March 1989.

Region-wise and State-wise credit-deposit ratios in respect of scheduled commercial banks (including RRBs) classified according to public and private sector banks and population groups as on the last Friday of June 1989 are presented in Table VII-25. In the case of public sector banks (excluding RRBs), the credit-deposit ratio was 59.7 per cent and 51.0 per cent for rural and semi-urban areas respectively, while in the case of private sector banks the corresponding ratios were 50.5 per cent and 49.6 per cent.

Region-wise, bank branches only in the Southern region have surpassed the target of 60 per cent both in rural (101.1 per cent) and semi-urban (66.3 per cent) areas. Bank branches in the Western and North-Eastern region attained the target for rural areas but were far short of the target for semi-urban areas. The Northern, Eastern and Central regions lagged behind the target both in rural areas and semi-urban areas.

State-wise, the performance of banks both in rural and semi-urban areas has been very uneven. In the case of rural areas, the 60 per cent target was exceeded in Haryana, Rajas-

**Table VII-23 : Public Sector Banks' Advances to Priority Sectors**
**(As on the last Friday)**

| Sector | No. of Accounts (in '000) | | | | Amount outstanding (Rupees crores) | | | |
|---|---|---|---|---|---|---|---|---|
| | June 1969 | June 1987 | June 1988 | June 1989 | June 1969 | June 1987 | June 1988 | June 1989@ |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| I. Agriculture | 165 | 17,644 | 19,128 | 19,748 | 162 | 10,665 | 12,111 | 14,369 |
| (i) Direct finance | 160 | 16,903 | 18,272 | 19,026 | 40 | 9,300 | 10,700 | 12,920 |
| (ii) Indirect finance | 5 | 741 | 856 | 722 | 122 | 1,365 | 1,411 | 1,449 |
| II. Small-scale sector* | 53 | 2,686 | N.A. | N.A. | 257 | 11,350 | N.A. | N.A. |
| (i) Road and water transport operators | 2 | 642 | N.A. | N.A. | 6 | 1,966 | N.A. | N.A. |
| (ii) Small-scale industries | 51 | 2,041 | 2,357 | 2,707 | 251 | 9,309 | 10,874 | 13,248 |
| (iii) Setting up of industrial estates | — | 3 | N.A. | N.A. | — | 75 | N.A. | N.A. |
| III. Other priority sectors | 42 | 8,388 | 9,540 | 10,646 | 22 | 5,450 | 6,245 | 7,257 |
| (i) Retail trade and small business | 33 | 5,352 | N.A. | N.A. | 19 | 2,357 | N.A. | N.A. |
| (ii) Professional and self-employed persons | 8 | 1,951 | N.A. | N.A. | 2 | 898 | N.A. | N.A. |
| (iii) Education | 1 | 68 | N.A. | N.A. | 1 | 38 | N.A. | N.A. |
| (iv) Indirect finance to other priority sectors (Lending to SC/ST/Corporations/ Organisations) | — | 11 | N.A. | N.A. | — | 19 | N.A. | N.A. |
| IV. Housing loans to SC/ST and weaker sections† | — | 166 | N.A. | N.A. | — | 53 | N.A. | N.A. |
| V. Consumption loans† | — | 143 | N.A. | N.A. | — | 21 | N.A. | N.A. |
| **Total priority sectors advances** | **260** | **28,076** | **31,025** | **33,101** | **441** | **25,500** | **29,230** | **34,874** |
| VI. Exports | — | — | — | — | 204 | — | — | — |
| **Net bank credit** | **—** | **—** | **—** | **—** | **3,016** | **56,668** | **63,950** | **78,178** |
| Percentage of priority sector advances to net bank credit | — | — | — | — | 14.6 | 45.0 | 45.7 | 44.6 |

* Relate to number of units.
@ June 1988 and June 1989 data are provisional.
† Data available from December 1981 only.
— Nil or negligible.
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, R.B.I.

than, Manipur, Tripura, Orissa, Madhya Pradesh, Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Gujarat, Maharashtra, Assam and Pondicherry. In contrast, in Himachal Pradesh, Jammu & Kashmir, Punjab, Delhi, Arunachal Pradesh, Mizoram, Sikkim, Goa and Lakshadweep, credit-deposit ratios were less than 40 per cent. In the case of semi-urban offices, only in seven States/Union Territories the target was exceeded while in 14 States/Union Territories credit-deposit ratios were below 40 per cent.

### Credit-Deposit Ratios According to Sanction and Utilisation

Credit-deposit ratios of scheduled commercial banks (including RRBs) based separately on sanction and utilisation of credit as on the last Friday of December 1985 and 1986 are presented in Table VII-26 on a region-wise and State-wise basis. Both in terms of sanction and utilisation, the credit-deposit ratios of the Northern, North-Eastern, Central and Eastern regions

**Table VII-24 : 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 | 1,03,112 | 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 | 1,18,678 | 74,903 | 63.1 |
| 1989 | 21,669 | 13,972 | 64.5 | 30,952 | 16,017 | 51.7 | 36,845 | 21,329 | 57.9 | 57,424 | 44,690 | 77.8 | 1,46,890 | 96,008 | 65.4 |

*Source :* Quarterly Return on Aggregate Deposits and Gross Bank Credit, Banking Statistics Division, DESACS, R.B.I.

**Table VII-25 : 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 June 1989)**

(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 | 13 |
| **Northern Region** | **42.1** | **34.4** | **44.3** | **43.3** | **42.1** | **43.3** | **55.0** | **84.6** | **57.4** | **51.1** | **75.5** | **53.1** |
| Haryana | 63.8 | 37.5 | 65.6 | 49.2 | 67.2 | 49.3 | 62.9 | 67.0 | 62.9 | 58.3 | 65.7 | 58.9 |
| Himachal Pradesh | 35.4 | - | 35.6 | 35.0 | 11.8 | 34.3 | — | — | — | 35.3 | 11.8 | 35.2 |
| Jammu and Kashmir | 22.1 | 28.1 | 27.1 | 27.4 | 42.8 | 33.7 | 38.4 | 41.9 | 39.9 | 32.9 | 37.3 | 35.2 |
| Punjab | 33.2 | 21.8 | 33.8 | 39.3 | 10.3 | 39.3 | 49.0 | 39.5 | 48.8 | 41.3 | 37.1 | 41.4 |
| Rajasthan | 73.6 | 57.8 | 78.0 | 53.5 | 45.8 | 52.7 | 61.9 | 50.0 | 60.4 | 61.4 | 50.0 | 61.7 |
| Chandigarh | 41.9 | — | 41.9 | 15.8 | — | 15.8 | 93.8 | 34.3 | 93.2 | 91.4 | 34.3 | 90.8 |
| Delhi | 22.3 | — | 22.3 | 14.4 | — | 14.4 | 52.0 | 103.9 | 56.6 | 51.3 | 103.9 | 55.8 |
| **North-Eastern Region** | **57.9** | **39.1** | **67.7** | **42.2** | **28.5** | **42.3** | **53.1** | **43.5** | **52.5** | **50.1** | **37.2** | **52.6** |
| Assam | 68.4 | 47.2 | 75.0 | 43.8 | 33.5 | 43.2 | 65.1 | 48.8 | 64.0 | 57.5 | 42.9 | 58.6 |
| Manipur | 140.7 | — | 142.8 | 95.5 | — | 96.1 | 42.1 | — | 42.7 | 60.3 | — | 61.7 |
| Meghalaya | 46.1 | — | 50.1 | 17.9 | 48.8 | 18.4 | 19.5 | 11.4 | 18.9 | 23.3 | 15.0 | 24.1 |
| Nagaland | 50.9 | — | 51.5 | 42.8 | 8.9 | 40.7 | — | — | — | 44.3 | 8.9 | 42.6 |
| Tripura | 66.7 | — | 114.4 | 63.6 | — | 71.8 | 39.3 | 49.5 | 40.3 | 49.4 | 49.5 | 66.9 |
| Arunachal Pradesh | 19.8 | 16.5 | 20.0 | 9.0 | — | 9.0 | — | — | — | 19.6 | 16.5 | 19.8 |
| Mizoram | 31.1 | — | 39.4 | 20.5 | — | 22.6 | — | — | — | 22.5 | — | 26.6 |
| **Eastern Region** | **51.4** | **27.8** | **58.9** | **34.4** | **32.8** | **34.9** | **53.9** | **96.9** | **58.1** | **49.1** | **92.9** | **53.4** |
| Sikkim | 33.8 | — | 33.8 | 26.6 | — | 26.6 | — | — | — | 28.2 | — | 28.2 |
| Bihar | 49.0 | — | 56.4 | 34.4 | 21.6 | 34.8 | 35.0 | 26.8 | 34.8 | 38.1 | 26.0 | 40.6 |
| Orissa | 94.3 | — | 113.2 | 64.3 | — | 64.8 | 89.2 | 78.3 | 88.8 | 82.6 | 78.3 | 88.0 |
| West Bengal | 41.4 | 27.8 | 44.9 | 26.5 | 33.9 | 27.1 | 56.9 | 98.3 | 62.3 | 50.3 | 94.4 | 55.2 |
| Andaman and Nicobar Islands | 33.2 | — | 33.2 | 34.3 | — | 34.3 | — | — | — | 34.1 | — | 34.1 |
| **Central Region** | **50.8** | **28.3** | **55.6** | **47.8** | **43.5** | **47.4** | **54.2** | **45.9** | **53.9** | **51.8** | **43.4** | **52.6** |
| Madhya Pradesh | 70.7 | — | 78.7 | 54.7 | 37.1 | 53.7 | 76.9 | 54.8 | 76.3 | 69.2 | 49.5 | 70.1 |
| Uttar Pradesh | 44.7 | 28.3 | 48.8 | 44.8 | 43.9 | 44.7 | 45.6 | 44.9 | 45.6 | 45.2 | 42.9 | 46.2 |
| **Western Region** | **64.1** | **73.0** | **66.8** | **51.9** | **68.2** | **52.3** | **79.0** | **74.1** | **78.2** | **73.4** | **73.9** | **73.6** |
| Goa | 22.8 | 27.0 | 22.8 | 36.8 | 69.5 | 37.7 | — | — | — | 32.5 | 67.6 | 33.1 |
| Gujarat | 59.7 | — | 60.7 | 51.4 | 29.5 | 51.2 | 63.7 | 47.2 | 63.5 | 59.5 | 47.0 | 59.5 |
| Maharashtra | 83.3 | 73.6 | 86.9 | 60.7 | 68.2 | 61.1 | 83.0 | 74.5 | 81.2 | 81.3 | 74.3 | 80.1 |
| Dadra and Nagar Haveli | 62.7 | — | 62.7 | — | — | — | — | — | — | 62.7 | — | 62.7 |
| Daman and Diu | 28.5 | — | 28.5 | 23.7 | — | 23.7 | — | — | — | 23.9 | — | 23.9 |
| **Southern Region** | **97.8** | **60.4** | **101.1** | **68.1** | **50.5** | **66.3** | **98.4** | **87.2** | **96.9** | **89.0** | **70.6** | **88.0** |
| Andhra Pradesh | 95.5 | 53.6 | 102.6 | 72.0 | 40.9 | 71.0 | 93.1 | 50.8 | 90.0 | 87.4 | 49.1 | 86.9 |
| Karnataka | 101.4 | 53.7 | 109.0 | 80.5 | 50.9 | 77.5 | 95.3 | 69.6 | 92.7 | 93.1 | 62.7 | 92.2 |
| Kerala | 68.9 | 54.2 | 74.3 | 49.0 | 49.8 | 50.9 | 97.5 | 75.4 | 93.5 | 65.4 | 56.5 | 65.4 |
| Tamil Nadu | 107.7 | 73.4 | 104.3 | 83.6 | 54.6 | 79.2 | 106.1 | 111.3 | 106.9 | 101.2 | 93.7 | 100.3 |
| Lakshadweep | 18.2 | — | 18.2 | — | — | — | — | — | — | 18.2 | — | 18.2 |
| Pondicherry | 66.8 | 36.0 | 65.7 | 44.6 | 21.8 | 43.9 | 55.9 | 38.9 | 54.1 | 56.1 | 37.8 | 54.5 |
| **All India** | **59.7** | **50.5** | **64.3** | **51.0** | **49.6** | **51.1** | **69.3** | **80.6** | **70.5** | **63.9** | **74.1** | **65.5** |

@ Including Regional Rural Banks.

*Notes* : 1. Public sector banks comprise State Bank of India, its 7 Associate Banks, and 20 nationalised banks.
2. Data are provisional.

*Source* : Quarterly Return on Aggregate Deposits and Gross Bank Credit, Banking Statistics Division, DESACS, RBI.

**Table VII-26 : 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 | | | |
|---|---|---|---|---|---|---|---|---|
| | December 1985 | | December 1986 | | December 1985 | | December 1986 | |
| | Sanction | Utilisation | Sanction | Utilisation | Sanction | Utilisation | Sanction | Utilisation |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **Northern Region** | **54.3** | **54.2** | **49.4** | **48.9** | **62.4** | **62.3** | **56.3** | **55.8** |
| Haryana | 65.0 | 86.8 | 61.0 | 84.7 | 83.4 | 105.2 | 76.4 | 100.1 |
| Himachal Pradesh | 38.1 | 39.4 | 36.9 | 39.5 | 54.8 | 56.1 | 51.6 | 54.2 |
| Jammu and Kashmir | 35.8 | 36.3 | 36.0 | 37.1 | 52.8 | 53.3 | 51.0 | 52.1 |
| Punjab | 45.3 | 56.2 | 43.0 | 47.8 | 51.7 | 62.6 | 48.4 | 53.2 |
| Rajasthan | 66.6 | 68.8 | 61.5 | 64.9 | 96.0 | 98.2 | 87.2 | 90.6 |
| Chandigarh | 136.5 | 51.7 | 105.6 | 54.0 | 136.8 | 52.0 | 105.8 | 54.2 |
| Delhi | 50.7 | 46.2 | 45.5 | 40.3 | 51.4 | 46.9 | 46.1 | 40.9 |
| **North-Eastern Region** | **45.9** | **61.9** | **42.6** | **54.8** | **74.3** | **90.3** | **66.5** | **78.7** |
| Assam | 50.1 | 71.3 | 43.5 | 58.6 | 77.7 | 98.9 | 67.7 | 82.8 |
| Manipur | 72.4 | 74.6 | 82.1 | 82.3 | 159.8 | 162.0 | 149.9 | 150.1 |
| Meghalaya | 24.9 | 23.5 | 35.4 | 41.8 | 59.5 | 58.1 | 68.4 | 74.8 |
| Nagaland | 35.6 | 41.5 | 41.7 | 51.6 | 82.6 | 88.5 | 82.0 | 91.9 |
| Sikkim | 15.7 | 40.0 | 14.7 | 23.6 | 15.7 | 40.0 | 14.7 | 23.6 |
| Tripura | 65.4 | 67.1 | 70.8 | 72.1 | 95.5 | 97.2 | 95.6 | 96.9 |
| Arunachal Pradesh | 16.0 | 28.6 | 41.3 | 49.0 | 31.7 | 44.3 | 41.3 | 49.0 |
| Mizoram | 24.7 | 27.6 | 13.2 | 25.3 | 24.7 | 27.6 | 13.2 | 25.3 |
| **Eastern Region** | **48.9** | **47.7** | **48.1** | **46.6** | **64.9** | **63.7** | **62.5** | **61.0** |
| Bihar | 36.3 | 39.0 | 33.8 | 34.9 | 56.7 | 59.4 | 52.3 | 53.4 |
| Orissa | 81.7 | 84.3 | 76.9 | 82.2 | 125.1 | 127.7 | 112.7 | 118.0 |
| West Bengal | 50.6 | 47.3 | 51.0 | 47.5 | 61.6 | 58.3 | 61.0 | 57.5 |
| Andaman and Nicobar Islands | 33.8 | 41.8 | 37.1 | 38.3 | 33.8 | 41.8 | 37.1 | 38.3 |
| **Central Region** | **49.2** | **50.3** | **44.0** | **46.0** | **67.5** | **68.6** | **59.3** | **61.3** |
| Madhya Pradesh | 59.3 | 61.3 | 58.7 | 60.1 | 82.3 | 84.3 | 77.7 | 79.1 |
| Uttar Pradesh | 45.6 | 46.4 | 38.9 | 41.1 | 62.2 | 63.0 | 52.9 | 55.1 |
| **Western Region** | **76.2** | **75.0** | **69.9** | **68.5** | **84.7** | **83.5** | **77.6** | **76.2** |
| Gujarat | 50.9 | 55.0 | 55.6 | 59.4 | 65.7 | 69.8 | 68.5 | 72.3 |
| Maharashtra | 86.5 | 83.5 | 76.4 | 73.2 | 93.4 | 90.4 | 82.8 | 79.6 |
| Dadra and Nagar Haveli | 69.8 | 111.5 | 80.7 | 117.9 | 69.8 | 111.5 | 80.7 | 117.9 |
| Goa, Daman and Diu | 31.3 | 31.8 | 30.3 | 31.3 | 32.0 | 32.5 | 30.8 | 31.8 |
| **Southern Region** | **76.7** | **77.2** | **78.2** | **79.1** | **91.3** | **91.8** | **91.2** | **92.1** |
| Andhra Pradesh | 74.0 | 74.7 | 77.7 | 78.8 | 89.7 | 90.4 | 91.5 | 92.6 |
| Karnataka | 84.1 | 85.6 | 84.2 | 86.5 | 98.3 | 99.8 | 97.8 | 100.1 |
| Kerala | 60.8 | 61.9 | 60.2 | 61.1 | 76.3 | 77.4 | 73.2 | 74.1 |
| Tamil Nadu | 84.1 | 83.4 | 86.3 | 85.8 | 97.7 | 97.0 | 98.3 | 97.8 |
| Lakshadweep | 22.7 | 20.4 | 28.8 | 31.2 | 22.7 | 20.4 | 28.8 | 31.2 |
| Pondicherry | 42.3 | 46.7 | 46.4 | 48.2 | 42.4 | 46.8 | 46.5 | 48.3 |
| **All India** | **63.0** | **63.0** | **59.6** | **59.6** | **75.6** | **75.6** | **70.7** | **70.7** |

*Note :* Deposits and Credit (Sanction and Utilisation) data are based on BSR-1 & 2 Surveys. The investment figures are estimated on the basis of BSR-5 Survey for March 1986 and 1987 respectively.

*Source :* Banking Statistics Division, DESACS, R.B.I.

were much below the ratios of the Western and Southern regions. State-wise, the ratios were low in the case of Himachal Pradesh, Jammu and Kashmir, Meghalaya, Sikkim, Mizoram, Bihar, Andaman and Nicobar Islands, Goa, Daman and Diu and Lakshadweep.

**Investment + Credit - Deposit Ratio**

The deployment of funds by the banking system in any State/region cannot be assessed merely in terms of credit-deposit ratio because apart from extending credit, banks also invest in securities and bonds of State Governments and State-level institutions like electricity boards, local boards etc. When both bank credit and banks' investments are taken into account (Table VII-26), a much higher deployment of funds by banks than indicated by credit-deposit ratios is revealed, particularly in the case of relatively underdeveloped States like Himachal Pradesh, Jammu and Kashmir, Meghalaya, Bihar and Uttar Pradesh.

**Frequency Distribution of Credit-Deposit Ratio**

The frequency distribution of the number of districts according to credit-deposit ratio of rural and semi-urban offices of scheduled commercial banks as on the last Friday of December for the last three years is furnished in Table VII-27. The number of districts with credit-deposit ratio of 60 per cent and above in respect of rural offices rose from 245 in 1987 to 261 in 1988. The percentage of districts with credit-deposit ratio of 60 per cent and above increased from 56 per cent in 1987 to 59 per cent in 1988. In the case of semi-urban offices, the number of districts with credit-deposit ratio of 60 per cent and above increased marginally from 131 in 1987 to 133 in 1988.

**Deposit and Credit of Scheduled Commercial Banks : Area-wise and State-wise**

There has been a phenomenal increase in banking facilities, especially in unbanked/under-banked centres, since the nationalisation of major banks in July 1969. This is reflected in banks' performance in the sphere of deposit mobilisation and credit deployment. The share of rural offices in total deposits and advances of scheduled commercial banks as on the last Friday of December 1988 stood at 14.7 per cent and 15.3 per cent, respectively, as against 3.1 per cent and 1.5 per cent, respectively in June 1969 (Table VII-28). While the share of semi-urban offices in total deposits declined marginally from 22.0 per cent to 21.2 per cent; their share in total credit increased from 11.3 per cent to 17.2 per cent during the same period. On the other hand, the share of urban and metropolitan offices together in deposit mobilisation and credit deployment declined from 74.9 per cent and 87.2 per cent, respectively, to 64.1 per cent and 67.5 per cent, respectively, during this period.

During the post-nationalisation period up to December 1988, the share of rural offices in incremental deposits and incremental credit was 15.2 per cent and 15.9 per cent, respectively. The corresponding proportions for (i) semi-urban, and (ii) urban and metropolitan offices, respectively, were : 21.2 and 17.5; 25.3 and 22.5 and 38.3 and 44.1 per cent.

State-wise, Uttar Pradesh accounted for the maximum share of incremental deposits in respect of rural areas (Rs. 3,370 crores) followed by Bihar (Rs. 1,742 crores) and Punjab (Rs. 1,652 crores). Uttar Pradesh also claimed the maximum share of incremental deposits in respect of semi-urban areas (Rs. 1,938 crores), followed by Kerala (Rs. 1,882 crores), Punjab (Rs. 1,266 crores) and Bihar (Rs. 1,230 crores). Maharashtra accounted for the highest share (Rs. 9,346 crores) in incremental deposits of urban and metropolitan offices.

Uttar Pradesh accounted for the highest share (Rs. 1,672 crores) of incremental credit of rural offices followed by Andhra Pradesh (Rs. 1,425 crores). In the case of semi-urban offices, the highest share of incremental credit was accounted for by Kerala (Rs. 1,053 crores) followed by Uttar Pradesh (Rs. 906 crores) and Andhra Pradesh (Rs. 902 crores). As in the case of deposits, Maharashtra accounted for the highest share (Rs. 7,581 crores) of incremental credit of urban and metropolitan offices.

**Distribution of Deposits by Population Groups/Type of Deposits**

A classification of deposits of scheduled commercial banks according to population groups and type of deposits as on the last Friday of December 1986 is furnished in Table VII-29. While the proportion of current deposit accounts to total deposit accounts was small in

**Table VII-27 : Frequency Distribution of Districts Based on Credit-Deposit Ratios of Scheduled Commercial Banks**
**(As on the last Friday of)**

(Rupees crores)

| Credit-Deposit Ratio | December 1986 | | | December 1987 | | | December 1988 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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% | 20 | 671 | 103 | 20 | 1,139 | 182 | 24 | 2,054 | 342 |
| | | (34) | | | (57) | | | (86) | |
| 20% to 30% | 29 | 1,822 | 431 | 33 | 2,069 | 501 | 25 | 1,423 | 342 |
| | | (63) | | | (63) | | | (57) | |
| 30% to 40% | 40 | 2,382 | 850 | 40 | 2,488 | 904 | 49 | 3,327 | 1,191 |
| | | (60) | | | (62) | | | (68) | |
| 40% to 50% | 44 | 1,569 | 698 | 53 | 2,667 | 1,199 | 45 | 3,243 | 1,479 |
| | | (36) | | | (50) | | | (72) | |
| 50% to 60% | 59 | 2,088 | 1,147 | 48 | 1,718 | 934 | 37 | 1,662 | 915 |
| | | (35) | | | (36) | | | (45) | |
| 60% and above | 245 | 5,843 | 6,158 | 245 | 7,446 | 7,407 | 261 | 9,198 | 9,183 |
| | (56)* | (24) | | (56)* | (30) | | (59)* | (35) | |
| **Total** | **437** | **14,375** | **9,387** | **439** | **17,527** | **11,127** | **441** | **20,907** | **13,452** |
| **Semi-urban Offices** | | | | | | | | | |
| Upto 20% | 23 | 2,203 | 362 | 22 | 1,976 | 312 | 22 | 1,783 | 285 |
| | | (96) | | | (90) | | | (81) | |
| 20% to 30% | 49 | 2,181 | 538 | 54 | 3,347 | 812 | 50 | 4,955 | 1,174 |
| | | (45) | | | (62) | | | (99) | |
| 30% to 40% | 65 | 3,510 | 1,263 | 77 | 4,850 | 1,753 | 79 | 5,070 | 1,783 |
| | | (54) | | | (63) | | | (64) | |
| 40% to 50% | 73 | 3,693 | 1,650 | 67 | 3,748 | 1,681 | 67 | 5,173 | 2,322 |
| | | (51) | | | (56) | | | (77) | |
| 50% to 60% | 50 | 2,909 | 1,571 | 52 | 3,803 | 2,081 | 55 | 4,335 | 2,420 |
| | | (58) | | | (73) | | | (79) | |
| 60% and above | 141 | 6,907 | 5,601 | 131 | 7,573 | 6,025 | 133 | 8,797 | 7,126 |
| | (35)* | (49) | | (33)* | (58) | | (33)* | (66) | |
| **Total** | **401** | **21,403** | **10,985** | **403** | **25,297** | **12,664** | **406** | **30,113** | **15,110** |

* As percentage to total number of districts.

@ Figures in brackets indicate amount of deposits per district under each size of class.

*Source :* Quarterly Return on Aggregate Deposits and Gross Bank Credit, Banking Statistics Division, DESACS, R.B.I.

the case of all population groups, it was particularly small (1.8 per cent) in the case of rural offices. The proportion of savings accounts to total deposit accounts was highest in all the population groups — 75.6 per cent for rural offices, 69.8 per cent for semi-urban offices and 64.4 per cent and 64.3 per cent for urban and metropolitan offices respectively. In the case of term deposit accounts, their ratio to total deposit accounts ranged from 22 per cent to 30 per cent in the four population groups. As regards amount of deposits, the proportion of current account deposits to total deposits was higher in the case of urban and metropolitan offices at 15.0 per cent and 21.5 per cent, respectively, than in the case of rural and semi-urban offices (6.7 per cent and 10.1 per cent, respectively). The proportion of savings deposits to total deposits was the highest in the case of rural offices at 38.3 per cent, followed by semi-urban offices (33.2 per cent), urban offices (27.2 per cent) and metropolitan offices (22.4 per cent). In the case of term deposits, their proportion to total

**Table VII-28 : Distribution of Deposits and Advances of Scheduled Commercial Banks according to Population Groups**
**(As on the last Friday)**

(Rupees crores)

| Population Group | June 1969 | | December 1987 | | December 1988 | | Increase (June 1969 - December 1988) | |
|---|---|---|---|---|---|---|---|---|
| | Deposits | Advances | Deposits | Advances | Deposits | Advances | Deposits | Advances |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **Rural** | **145** | **54** | **17,527** | **11,127** | **20,907** | **13,452** | **20,762** | **13,398** |
| Percentage to total | 3.1 | 1.5 | 14.7 | 15.3 | 14.7 | 15.3 | 15.2 | 15.9 |
| Average amount per office | 0.10 | 0.04 | 0.57 | 0.36 | 0.66 | 0.43 | — | — |
| **Semi-urban** | **1,024** | **407** | **25,297** | **12,663** | **30,113** | **15,110** | **29,089** | **14,703** |
| Percentage to total | 22.0 | 11.3 | 21.2 | 17.5 | 21.2 | 17.2 | 21.2 | 17.5 |
| Average amount per office | 0.31 | 0.12 | 2.36 | 1.18 | 2.69 | 1.35 | — | — |
| **Urban** | **1,209** | **722** | **30,785** | **16,393** | **35,953** | **19,649** | **34,744** | **18,927** |
| Percentage to total | 25.9 | 20.0 | 25.9 | 22.6 | 25.4 | 22.4 | 25.3 | 22.5 |
| Average amount per office | 0.63 | 0.38 | 3.99 | 2.12 | 4.53 | 2.48 | — | — |
| **Metropolitan** | **2,287** | **2,426** | **45,414** | **32,366** | **54,850** | **39,535** | **52,563** | **37,109** |
| Percentage to total | 49.0 | 67.2 | 38.2 | 44.6 | 38.7 | 45.1 | 38.3 | 44.1 |
| Average amount per office | 1.53 | 1.62 | 8.42 | 6.00 | 9.91 | 7.15 | — | — |
| **Total** | **4,665** | **3,609** | **1,19,023** | **72,549** | **1,41,823** | **87,746** | **1,37,158** | **84,137** |
| | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** |
| Average amount per office | 0.57 | 0.44 | 2.19 | 1.33 | 2.52 | 1.56 | — | — |

*Source :* Banking Statistics - Volume 2 for June 1969 and Quarterly Return on Aggregate Deposits and Gross Bank Credit for December 1987 and December 1988, Banking Statistics Division, DESACS, R.B.I.

deposits was about the same — 55 to 58 per cent — in all the four population groups.

### Region-wise Distribution of Deposits and Advances

With the spread of banking facilities after nationalisation of major banks in 1969, the share of the Western region in aggregate deposits fell significantly from 1969 to 1988, while that of the Northern, Central and Southern regions increased during the same period. The shares of the Western and Eastern regions in bank credit declined and those of the Northern, Central and Southern regions increased (Table VII-30).

### Distribution of Credit According to Interest Rate Range

Data on scheduled commercial banks' credit classified according to interest rate range for four years 1983 to 1986 are presented in Table VII-31. The data show concentration of credit in two interest rate ranges, viz., above 12 and up to 14 per cent and above 17 and up to 18 per cent. The former category captures the bulk of priority sector advances and food and export credit. The latter category captures advances subject to fixed rates and advances subject to a ceiling rate.

### Composition and Ownership Pattern of Bank Deposits*

Data for 1984 and 1986 furnished in Table VII-32A reveal that the ownership pattern of bank deposits has not undergone any significant change. There was a modest rise in percentage share of 'Corporate Sector — Non-financial and Financial' and 'Individuals' in total deposits. The increase in the share of 'Corporate Sector —Financial' in total deposits was on account of inter-bank deposits. In respect of 'Individuals', deposits owned by non-residents showed a rise of 1.7 percentage points. The share of deposits of residents in 1986 was somewhat lower as compared with that in 1984. Among the residents, the shares of 'Farmers,

* A detailed article on the subject has appeared in the July 1989 issue of the RBI Bulletin.

**Table VII-29 : Distribution of Deposits of Scheduled Commercial Banks According to Population Group and Type of Deposits (As on the last Friday of December 1986)**

(No. of accounts in thousands)
(Amount in rupees lakhs)

| Population Group | Current | | | Savings | | | Term | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Accounts | Amount Outstanding | Average per Account (Rs.) | No. of Accounts | Amount Outstanding | Average per Account (Rs.) | No. of Accounts | Amount Outstanding | Average per Account (Rs.) | No. of Accounts | Amount Outstanding | Average per Account (Rs.) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| **Rural** | **12,81** | **966,60** | **7546** | **530,92** | **5490,25** | **1034** | **158,64** | **7893,20** | **4976** | **702,37** | **14350,05** | **2043** |
| Percent to total deposits category | 12.7 | 6.1 | | 31.1 | 19.0 | | 23.9 | 13.6 | | 28.4 | 14.0 | |
| Percent to total deposits | 1.8 | 6.7 | | 75.6 | 38.3 | | 22.6 | 55.0 | | 100.0 | 100.0 | |
| **Semi-urban** | **25,87** | **2166,15** | **8373** | **481,38** | **7120,60** | **1479** | **182,07** | **12169,88** | **6684** | **689,32** | **21456,63** | **3113** |
| Percent to total deposits category | 25.7 | 13.7 | | 28.2 | 24.7 | | 27.4 | 21.0 | | 27.9 | 20.9 | |
| Percent to total deposits | 3.8 | 10.1 | | 69.8 | 33.2 | | 26.4 | 56.7 | | 100.0 | 100.0 | |
| **Urban** | **31,35** | **4013,86** | **12803** | **381,50** | **7251,16** | **1901** | **179,81** | **15405,46** | **8568** | **592,66** | **26670,48** | **4500** |
| Percent to total deposits category | 31.2 | 25.5 | | 22.3 | 25.1 | | 27.1 | 26.6 | | 23.9 | 26.0 | |
| Percent to total deposits | 5.3 | 15.0 | | 64.4 | 27.2 | | 30.3 | 57.8 | | 100.0 | 100.0 | |
| **Metropolitan** | **30,64** | **8632,55** | **28174** | **314,50** | **9011,19** | **2865** | **143,67** | **22510,36** | **15668** | **488,81** | **40154,10** | **8215** |
| Percent to total deposits category | 30.4 | 54.7 | | 18.4 | 31.2 | | 21.6 | 38.8 | | 19.8 | 39.1 | |
| Percent to total deposits | 6.3 | 21.5 | | 64.3 | 22.4 | | 29.4 | 56.1 | | 100.0 | 100.0 | |
| **Total** | **100,67** | **15779,16** | **15674** | **1708,30** | **28873,20** | **1690** | **664,19** | **57978,90** | **8729** | **2473,16** | **102631,26** | **4150** |
| 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 | 15.4 | | 69.1 | 28.1 | | 26.8 | 56.5 | | 100.0 | 100.0 | |

*Source :* BSR-2 Survey, Banking Statistics Division, DESACS, R.B.I.

**Table VII-30 : Region-wise Distribution of Deposits and Advances of All Scheduled Commercial Banks (As on the last Friday)**

(Rupees crores)

| Region/State/ Union Territory | Aggregate Deposits | | | Gross Bank Credit | | |
|---|---|---|---|---|---|---|
| | June 1969 | December 1988 | Variation | June 1969 | December 1988 | Variation |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **I. Northern Region** | **869.78** | **31942.00** | **31072.22** | **493.80** | **16626.29** | **16132.49** |
| | **(18.6)** | **(22.5)** | **(22.6)** | **(13.7)** | **(19.0)** | **(19.2)** |
| (i) New Delhi | 449.25 | 14254.31 | 13805.06 | 291.22 | 7737.91 | 7446.69 |
| | (9.6) | (10.1) | (10.1) | (8.1) | (8.8) | (8.9) |
| **II. North-Eastern Region** | **49.05** | **2432.40** | **2383.35** | **16.90** | **1197.68** | **1180.78** |
| | **(1.1)** | **(1.7)** | **(1.7)** | **(0.5)** | **(1.4)** | **(1.4)** |
| **III. Eastern Region** | **844.27** | **22912.87** | **22068.60** | **768.62** | **11338.97** | **10570.35** |
| | **(18.1)** | **(16.1)** | **(16.1)** | **(21.3)** | **(12.9)** | **(12.6)** |
| (i) West Bengal | 643.45 | 14206.52 | 13563.07 | 699.71 | 7152.21 | 6452.50 |
| | (13.8) | (10.0) | (9.9) | (19.4) | (8.2) | (7.7) |
| **IV. Central Region** | **476.06** | **20225.26** | **19749.20** | **238.23** | **9917.58** | **9679.35** |
| | **(10.2)** | **(14.3)** | **(14.4)** | **(6.6)** | **(11.3)** | **(11.5)** |
| (i) Uttar Pradesh | 364.90 | 14673.59 | 14308.69 | 172.95 | 6374.72 | 6201.77 |
| | (7.8) | (10.3) | (10.4) | (4.8) | (7.3) | (7.4) |
| **V. Western Region** | **1575.79** | **35263.26** | **33687.47** | **1285.86** | **23801.55** | **22515.69** |
| | **(33.8)** | **(24.9)** | **(24.6)** | **(35.6)** | **(27.1)** | **(26.7)** |
| (i) Gujarat | 401.99 | 8463.84 | 8061.85 | 195.43 | 4936.59 | 4741.16 |
| | (8.6) | (6.0) | (5.9) | (5.4) | (5.6) | (5.6) |
| (ii) Maharashtra | 1124.42 | 25657.66 | 24533.24 | 1070.62 | 18490.99 | 17420.37 |
| | (24.1) | (18.1) | (17.9) | (29.7) | (21.1) | (20.7) |
| **VI. Southern Region** | **850.24** | **29047.13** | **28196.89** | **805.45** | **24863.64** | **24058.19** |
| | **(18.2)** | **(20.5)** | **(20.6)** | **(22.3)** | **(28.3)** | **(28.6)** |
| (i) Tamil Nadu | 293.49 | 9044.72 | 8751.23 | 380.63 | 8533.71 | 8153.08 |
| | (6.3) | (6.4) | (6.4) | (10.5) | (9.7) | (9.7) |
| **All India** | **4665.19** | **141822.92** | **137157.73** | **3608.86** | **87745.71** | **84136.85** |

*Note :* Figures in brackets indicate percentage to total.

*Source :* Quarterly Return on Aggregate Deposits and Gross Bank Credit, Banking Statistics Division, DESACS, R.B.I.

Businessmen and Traders' and 'Wage and Salary Earners' in total deposits registered modest increases.

The share of 'Individuals' in incremental deposits during 1984 to 1986 rose sharply while the shares of other sectors declined (Table VII-32B).

The ownership pattern of different types of deposits has also remained more or less unchanged. Savings and term deposits, being primarily in the nature of asset balances, are held mostly by 'Individuals' whose share in these two types of deposits continued to remain around 90 per cent and 76 per cent, respectively. Current account deposits being transaction balances in nature, are mostly held by 'Corporate and Institutional categories' and amongst 'Individuals', primarily by businessmen, traders, professionals and self-employed persons. However, some changes at a disaggregated level are discernible. The share of non-residents in total term deposits increased from 5.9 per cent in 1984 to 9.2 per cent in 1986. There was concomitant decline in the share of residents in total term deposits. The share of farmers increased in all types of deposits, particularly in term deposits where it increased from 8.8 per cent in 1984 to 10.9 per cent in 1986. The composition and ownership pattern of deposits according to population groups show that of the total deposits of Rs. 87,299

**Table VII-31 : Distribution of Loans and Advances* of Scheduled Commercial Banks According to Interest Range (As on the last Friday)**

(Rupees crores)

| Interest Range | December 1983 | | December 1984 | | December 1985 | | December 1986 | |
|---|---|---|---|---|---|---|---|---|
| | No. of Accounts | Amount Outstanding | No. of Accounts | Amount Outstanding | No. of Accounts | Amount Outstanding | No. of Accounts | Amount Outstanding |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 6 percent and less | 60,192 | 358 | 70,672 | 443 | 91,997 | 596 | 1,13,207 | 730 |
| | (5.3) | (1.4) | (5.6) | (1.6) | (6.3) | (1.8) | (6.9) | (2.0) |
| Above 6 and up to 10 percent | 40,008 | 740 | 51,574 | 1,218 | 66,281 | 1,144 | 88,512 | 2,037 |
| | (3.5) | (2.9) | (4.1) | (4.4) | (4.5) | (3.4) | (5.4) | (5.6) |
| Above 10 and up to 12 percent | 1,11,388 | 2,059 | 99,331 | 2,451 | 1,12,972 | 2,498 | 1,10,480 | 2,171 |
| | (9.7) | (8.2) | (7.9) | (8.8) | (7.7) | (7.4) | (6.8) | (6.0) |
| Above 12 and up to 14 percent | 5,26,522 | 7,222 | 6,04,311 | 8,047 | 7,37,404 | 11,307 | 8,16,424 | 10,053 |
| | (45.9) | (28.7) | (47.9) | (29.0) | (50.2) | (33.5) | (50.0) | (27.6) |
| Above 14 and up to 15 percent | 1,16,305 | 2,252 | 1,20,024 | 2,581 | 1,17,920 | 3,017 | 1,15,031 | 2,863 |
| | (10.1) | (9.0) | (9.5) | (9.3) | (8.0) | (9.0) | (7.0) | (7.9) |
| Above 15 and up to 16 percent | 41,661 | 918 | 40,768 | 964 | 38,427 | 1,101 | 44,962 | 1,526 |
| | (3.6) | (3.7) | (3.2) | (3.5) | (2.6) | (3.3) | (2.8) | (4.2) |
| Above 16 and up to 17 percent | 49,347 | 1,516 | 57,017 | 1,472 | 76,908 | 3,252 | 96,932 | 4,239 |
| | (4.3) | (6.0) | (4.5) | (5.3) | (5.2) | (9.6) | (5.9) | (11.7) |
| Above 17 and up to 18 percent | 1,66,152 | 8,858 | 1,90,074 | 9,537 | 2,12,406 | 10,133 | 2,35,563 | 12,162 |
| | (14.5) | (35.2) | (15.1) | (34.3) | (14.5) | (30.1) | (14.4) | (33.5) |
| Above 18 percent | 34,986 | 1,222 | 26,974 | 1,067 | 15,329 | 657 | 12,445 | 558 |
| | (3.1) | (4.9) | (2.2) | (3.8) | (1.0) | (1.9) | (0.8) | (1.5) |
| **Total** | **11,46,561** | **25,145** | **12,60,745** | **27,780** | **14,69,644** | **33,705** | **16,33,556** | **36,340** |
| | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** |

* Relate to accounts with credit limit over Rs. 25,000; exclude inland and foreign bills purchased and discounted.

*Note :* Figures in brackets indicate percentage to total.

*Source :* Basic Statistical Returns, Banking Statistics Division, DESACS, R.B.I.

**Table VII-32A : Ownership Pattern of Bank Deposits (As on the last Friday of March)**

(Per cent)

| Sector | 1984 | 1986 |
|---|---|---|
| 1 | 2 | 3 |
| 1. Government sector | 6.7 | 6.3 |
| 2. Corporate Sector — Non-financial | 6.2 | 6.5 |
| 3. Corporate Sector — Financial | 5.8 | 6.0 |
| *Of which :* Banks | 3.1 | 3.4 |
| 4. Other Institutions | 10.3 | 9.3 |
| 5. Individuals including Hindu Undivided Families | 71.0 | 71.9 |
| (a) Non-residents | 5.0 | 6.7 |
| (b) Residents | 66.0 | 65.2 |
| (i) Farmers | 8.3 | 10.1 |
| (ii) Businessmen and Traders | 14.9 | 16.1 |
| (iii) Wage and Salary Earners | 16.6 | 17.8 |
| (iv) Others (not elsewhere classified) | 26.1 | 21.2 |
| **Total** | **100.0** | **100.0** |

Sector *Source :* Department of Statistical Analysis and Computer Services, R.B.I.

crores as on the last Friday of March 1986, metropolitan centres accounted for 39.4 per cent. The share of urban and semi-urban centres in total deposits was 26.4 per cent and 21.4 per cent, respectively (Table VII-32C). Rural deposits of Rs. 11,135 crores accounted for 12.8 per cent of total deposits. A noticeable feature with regard to the composition of deposits is the increase in the share of current account deposits in total deposits in all the areas between March 1984 and 1986.

Among the major economic sectors, 'Individuals' accounted for the highest share in total deposits in all areas varying from 59.2 per cent to 89.8 per cent, their share being inversely related to the degree of urbanisation.

### Maturity Pattern of Deposits

The maturity pattern of term deposits (Table VII-32D) reveals that while there was a decline in the share of term deposits with maturity ranging from 1 to 5 years between 1984 and 1986, the five years and above maturity acquired an improved share. The sharpest decline was in the category of 'more than 3 years but upto 5 years' — from 28.9 per cent to 23.9 per cent. The changes in term structure of interest rates effective from October 26, 1982 have contributed to this trend, since the interest rate on the longest period of term deposits (5 years and above) was increased by one percentage point.

In contrast, the share of medium-period term deposits registered declines due to better availability of alternative financial instruments like corporate debentures and fixed deposits with comparable maturity period and carrying higher rates of interest. The increase in the share of short-term deposits may be attributed to the rise in interest rates on short term deposits effective from May 27, 1985.

## GEOGRAPHICAL AND FUNCTIONAL COVERAGE OF BANKS

### Branch Expansion

In recent years there has been considerable emphasis on the consolidation of the banking system. Towards that end, the new branch licensing policy for the period April 1985 to March 1990 was formulated keeping in view the need for banks to concentrate on consolidation of their position and achieving a coverage of 17,000 population (1981 Census) per bank office in rural and semi-urban areas of each block and providing banking facilities in those pockets of rural areas where wide spatial gaps existed. With the adoption of the Service Area Approach (SAA), it had become necessary to allow opening of additional branches in the rural areas so that the number of villages allocated to a rural branch was within a manageable limit of 15 to 25 villages per bank branch. In other areas, opening of branches is allowed purely on viability criteria.

Under the current branch licensing programme covering the period April 1, 1985 to March 31, 1990, on the basis of lists of identified centres received from Lead Bank Groups/State Governments, 5360 rural/semi-urban centres were allotted to commercial banks, including RRBs, up to June 30, 1989. In addition, 306 urban and 324 Metropolitan/Port Town centres were allotted to banks under the current programme. Of the total allotment of 5,990 centres, RRBs were allotted 2,029 centres, while the public sector banks and private sector banks were allotted 3,735 and 206 centres, respectively.

The impressive performance of banks with regard to geographical coverage of branches since nationalisation is evident from the fact that there was nearly seven fold increase in the number of offices from 8,262 in June 1969 to 57,698 as on June 30, 1989 (Table VII-33). Out of 49,377 offices opened since nationalisation, 32,983 (67 per cent) were opened in unbanked areas.

Data on State-wise distribution of commercial banks' branches and average population per bank office in June 1969, June 1988 and June 1989 are presented in Table VII-33. The average population per bank office which was 65,000 in June 1969 came down to 12,000 in June 1989.

Out of total 2,269 offices opened during the first half of 1988-89, 1,778 (78.4 per cent) were opened in rural areas (Table VII-34). Bank group/population group-wise distribution of offices is shown in Table VII-35. As at the end of June 1989, 49.0 per cent of offices of the State Bank of India, 39.7 per cent offices of its associate banks, 47.8 per cent of offices of nationalised banks, and 32.1 per cent offices of

**Table VII-32B : Relative Shares in Incremental Deposits**
**(As on the last Friday of March)**

(Per cent)

| Sector | 1982-84 | 1984-86 |
|---|---|---|
| 1 | 2 | 3 |
| 1. Government Sector | 8.8 | 5.5 |
| 2. Corporate — Non-financial | 12.2 | 7.0 |
| 3. Corporate — Financial | 7.2 | 6.5 |
| 4. Other Institutions | 12.3 | 7.0 |
| 5. Individuals | 59.5 | 73.9 |
| *Of which :* Non-residents | 9.4 | 10.4 |
| **Total** | **100.0** | **100.0** |
| Incremental Deposits (Rs. crores) | 16,561 | 26,947 |

*Source :* Department of Statistical Analysis and Computer Services, R.B.I.

**Table VII-32C : Composition of Deposits according to Population Groups**
**(As on the last Friday of March 1986)**

(Rupees crores)

| Population Group | Current Deposits | Saving Deposits | Term Deposits | Total Deposits |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| Rural | 809 | 4,136 | 6,190 | 11,135 |
| | (7.3) | (37.1) | (55.6) | (100.0) |
| | (5.7) | (17.2) | (12.6) | (12.8) |
| Semi-urban | 2,002 | 6,145 | 10,562 | 18,709 |
| | (10.7) | (32.8) | (56.5) | (100.0) |
| | (14.2) | (25.6) | (21.5) | (21.4) |
| Urban | 3,750 | 6,059 | 13,215 | 23,024 |
| | (16.3) | (26.3) | (57.4) | (100.0) |
| | (26.6) | (25.2) | (26.8) | (26.4) |
| Metropolitan | 7,516 | 7,674 | 19,241 | 34,431 |
| | (21.8) | (22.3) | (55.9) | (100.0) |
| | (53.5) | (32.0) | (39.1) | (39.4) |
| **Total** | **14,077** | **24,014** | **49,208** | **87,299** |
| | **(16.1)** | **(27.5)** | **(56.4)** | **(100.0)** |
| | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** |

*Note :* Figures in first brackets are percentage to row totals, whereas figures in second brackets are percentages to column totals.

*Source :* Department of Statistical Analysis and Computer Services, R.B.I.

other commercial banks were in rural areas. RRB offices which are mostly located in rural areas, accounted for 24.5 per cent of total offices of commercial banks. Considering the current policy norm of providing one bank office for a population of 17,000 in rural/semi-urban areas of each block, 775 blocks still remain deficient and require about 1,300 additional bank offices. With the adoption of the Service Area Approach to rural lending, it was necessary to allow some more rural centres where the number of villages allocated to a rural branch exceeded the prescribed limit of 15 to 25 villages. It was felt that the centres identified under the Service Area Approach, which will normally be located centrally among the villages proposed to be served by the branches, will take care not only of the spatial gaps in availability

of banking facilities but also of the deficiency in banking coverage of blocks on the basis of the population norm. It was, therefore, decided to have one combined list of centres identified in deficit blocks and under the Service Area Approach. On the basis of the lists of identified centres received from the State Governments, 971 centres were allotted to various banks under the Service Area Approach up to 30 June, 1989. After the process of allotments under the Service Area Approach to rural lending is completed, rural and semi-urban areas will have a wide net-work of branches and banking facilities will be available to every village.

**Indian Banks' Offices Abroad**

During 1988-89, no new branch was opened abroad by Indian banks. Bank of Baroda closed an overseas mobile agency based at Kisumu in Kenya. Indian Overseas Bank also closed its four branches, viz., Kwun Tong and Mongkok and Causeway Bay all in Hongkong and Matara in Singapore. Thus, the number of foreign branches (of 8 public sector banks and one private sector bank) was reduced from 119 to 114 as on December 31, 1989. The number of representative offices of four Indian banks remained unchanged at 10, as on December 31,

**Table VII-32D : Maturity Pattern of Term Deposits with the Scheduled Commercial Banks 1969-1986 (As on the last Friday of March)**

(Rupees crores)

| Maturity | 1969 Amount | 1980 Amount | 1982 Amount | 1984 Amount | 1986£ Amount |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 6 months or less | 456.0 | 810.3 | 839.1 | 1283.6 | 2669.7 |
| | (20.2) | (4.7) | (3.8) | (3.9) | (5.5) |
| Above 6 months and up to 1 year | 882.1 | 478.4 | 443.9 | 878.6 | 1,860.4 |
| | (39.1) | (2.8) | (2.0) | (2.6) | (3.9) |
| Above 1 year and up to 2 years | 197.6 | 3074.3@ | 2709.1 | 3844.8 | 5225.2 |
| | (8.8) | (17.9) | (12.2) | (11.6) | (10.9) |
| Above 2 years and up to 3 years | 118.5 | | 2115.9 | 2580.6 | 3297.7 |
| | (5.3) | | (9.5) | (7.8) | (6.9) |
| Above 3 years and up to 5 years | 461.2 | 2194.4 | 16079.6@ | 9629.6 | 11499.8 |
| | (20.4) | (12.8) | (72.5) | (28.9) | (23.9) |
| 5 years and above | 139.9 | 10615.9 | | 15055.2 | 23502.9 |
| | (6.2) | (61.8) | | (45.2) | (48.9) |
| **Total** | **2255.3** | **17173.3** | **22187.6** | **33272.4** | **48055.8** |
| | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** | **(100.0)** |

£ Provisional.

@ Break-up not available.

*Notes:* (1) Data are based on returns received from banks.

(2) Data for 1969 relate to March 31.

(3) Data for 1980, 1982, 1984 and 1986 exclude inter-bank deposits.

(4) Figures in brackets are percentages to total.

(5) Maturity classification for 1969 is not strictly comparable with 1980, 1982, 1984 and 1986 due to difference in sources of data.

(6) Till 1986,Term Deposits were known as Fixed Deposits having following components (besides deposits with a fixed maturity of not less than 15 days):

(a) Call Deposits including inter-bank deposits payable after 14 days notice,

(b) Cash Certificates,

(c) Cumulative or Recurring Deposits and

(d) Kuri and Chit deposits.

Since 1978 Fixed Deposits are termed as Term Deposits which include in addition to above components, special deposits in the nature of term deposits.

*Source :* Department of Statistical Analysis and Computer Services, R.B.I.

**Table VII-33: State-wise Distribution of Commercial Bank Offices and Population per Bank Office as at the end of June 1969, June 1988 and June 1989**

| State/Union Territory | No. of Offices at the end of | | | No. of offices opened | | | | Population per bank office (in thousands) as at end of | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | June 1969 | June 1988 | June 1989 | 1987-88 (July to June) | Of which at un-banked centres | July 1988 to June 1989 | Of which at un-banked centres | June 1969 | June 1988 | June 1989 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| Andhra Pradesh | 567 | 4308 | 4460 | 108 | 92 | 153 | 121 | 75 | 12 | 12 |
| Arunachal Pradesh | — | 57 | 61 | 1 | 1 | 4 | 4 | — | 11 | 10 |
| Assam | 74 | 1031 | 1094 | 43 | 41 | 62 | 56 | 198 | 19 | 18 |
| Bihar | 273 | 4317 | 4493 | 76 | 68 | 179 | 158 | 207 | 16 | 16 |
| Goa | 85@ | 253 | 156 | 2 | 2 | 2 | 2 | 8 | 4 | 4 |
| Gujarat | 752 | 3163 | 3273 | 69 | 60 | 111 | 85 | 34 | 11 | 10 |
| Haryana | 172 | 1220 | 1250 | 73 | 71 | 31 | 22 | 57 | 11 | 10 |
| Himachal Pradesh | 42 | 624 | 670 | 46 | 45 | 45 | 45 | 30 | 7 | 6 |
| Jammu and Kashmir | 35 | 731 | 744 | 2 | — | 15 | 9 | 114 | 8 | 8 |
| Karnataka | 756 | 4026 | 4172 | 67 | 55 | 149 | 115 | 38 | 9 | 9 |
| Kerala | 601 | 2775 | 2805 | 54 | 27 | 29 | 16 | 35 | 9 | 9 |
| Madhya Pradesh | 343 | 3919 | 4187 | 114 | 103 | 275 | 265 | 116 | 13 | 12 |
| Maharashtra | 1118 | 5117 | 5379 | 157 | 145 | 271 | 221 | 44 | 12 | 12 |
| Manipur | 2 | 67 | 67 | 2 | 1 | — | | 497 | 21 | 21 |
| Meghalaya | 7 | 135 | 142 | 2 | — | 7 | 6 | 147 | 10 | 9 |
| Mizoram | — | 50 | 63 | — | — | 13 | 13 | — | 10 | 8 |
| Nagaland | 2 | 68 | 69 | — | — | 1 | 1 | 205 | 11 | 11 |
| Orissa | 100 | 1812 | 1886 | 47 | 42 | 73 | 59 | 212 | 14 | 14 |
| Punjab | 346 | 2058 | 2103 | 23 | 18 | 46 | 40 | 42 | 8 | 8 |
| Rajasthan | 364 | 2796 | 2905 | 85 | 83 | 97 | 85 | 70 | 12 | 12 |
| Sikkim | — | 21 | 26 | 2 | 2 | 5 | 5 | — | 15 | 12 |
| Tamil Nadu | 1060 | 4039 | 4187 | 103 | 97 | 152 | 131 | 37 | 12 | 12 |
| Tripura | 5 | 145 | 157 | 8 | 6 | 12 | 12 | 276 | 14 | 13 |
| Uttar Pradesh | 747 | 7758 | 8066 | 275 | 253 | 297 | 262 | 119 | 14 | 14 |
| West Bengal | 504 | 3656 | 3868 | 152 | 139 | 194 | 180 | 87 | 15 | 14 |
| Andaman and Nicobar Islands | 1 | 15 | 20 | 1 | — | 5 | 3 | 82 | 13 | 9 |
| Chandigarh | 20 | 107 | 108 | — | — | — | — | 7 | 4 | 4 |
| Dadra and Nagar Haveli | — | 6 | 7 | — | — | 1 | 1 | — | 17 | 15 |
| Daman and Diu | — | 10 | 10 | — | — | — | — | — | 8 | 8 |
| Delhi | 274 | 1062 | 1096 | 7 | — | 35 | — | 10 | 6 | 6 |
| Lakshadweep | — | 5 | 6 | — | — | 1 | 1 | — | 8 | 7 |
| Pondicherry | 12 | 63 | 68 | — | — | 4 | 1 | 31 | 10 | 9 |
| **All India Total** | **8262** | **55414*** | **57698**** | **1519@@** | **1351** | **2269** | **1919** | **65** | **12** | **12** |

* Revised figures.
** Closure of 1 bank office adjusted.
@ Includes figures for Union Territory of Daman and Diu.
@@ Actual number of offices opened. 55 offices opened before June 30, 1987 were reported late by the banks.
*Source:* Department of Banking Operations & Development, R.B.I.

**Table VII-34: Share of Rural Offices in New Offices**

| Period (July to June) | Total offices opened during the year | Of which : those opened in rural areas | (2) as percentage of (1) |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 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 | 1519 | 1346 | 88.6 |
| 1988-89 | 2269 | 1778 | 78.4 |

@ Adjusted for the offices closed.

*Source :* Department of Banking Operations and Development, R.B.I.

1989. Indian banks had 6 wholly-owned subsidiaries (including 3 deposit taking companies in Hongkong) and 6 joint venture banks/affiliates abroad (having less than 50 per cent share holding) as at the end of December 1989 (Table VII-36).

**Foreign Banks' Branches in India**

During 1988-89, Deutsche Bank opened one more branch and Credit Lyonnais has upgraded its representative office into a branch thus raising the number of branches of 22 foreign banks from 136 to 138 as on December 31, 1989. Dresdner Bank, BHF Bank (W. Germany), Banca Commercial Italiana (Italy) and Banque Indosuez (France), Mitsui Bank Ltd., (Japan) and National Australian Bank (Australia), opened a representative office each. Lloyds Bank International (U.K.) and Credit Lyonnais (France) closed its representative office during the year under review. As a result, the number of representative offices of foreign banks stood at 21 as on December 31, 1989.

**Primary (Urban) Co-operative Banks**

The Primary (Urban) Co-operative Banks (PCBs) are 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 etc. The Reserve Bank is the licensing authority to existing/new banks and branches. The Reserve Bank also sanctions credit limits to State Co-operative Banks on behalf of PCBs for financing the SSI units and conducts their statutory inspections.

The number of PCBs increased from 1,325 at end-June 1988 to 1,331 (which included 92 Salary Earners' Banks and 33 Mahila banks) at end-June 1989 (excluding banks under liquidation). As at end-December 1988, there were 3,183 offices of PCBs operating in the country including 254 offices of Salary Earners' Banks. The deposits mobilised by the PCBs rose from Rs. 4,838 crores at end-June 1987 to Rs. 5,789 crores at end-June 1988, showing an increase of Rs. 951 crores or 19.7 per cent over the previous year. The outstanding loans of PCBs rose by Rs. 943 crores or 25.5 per cent to Rs. 4,636 crores during the co-operative year ended June 1988. The progress made by PCBs over the years is presented in Table VII-37.

*Inclusion of PCBs in the Second Schedule to the Reserve Bank of India Act*

Eleven PCBs with Time and Demand Liabilities of over Rs. 50 crores each were included in the Second Schedule to the Reserve Bank of India Act, 1934, with effect from September 1, 1988. Eight of these banks are located in Maharashtra and three in Gujarat.

*Licensing and Inspection*

During the period July 1988 to June 1989, 18 PCBs (seven new banks and eleven existing banks) were issued licences to commence and/or carry on banking business, taking the total number of licensed PCBs to 982 as at the

**Table VII-35 : Bank Group-wise/Population Group-wise Distribution of Commercial Bank offices in India**

| Bank Group | Number of Offices as on | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 19.07.1969* | | | | | 30.06.1989 | | | | | 30.06.1989 | | | | |
| | 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 | 16 |
| State Bank of India | 462 | 797 | 163 | 150 | 1571 | 3651 | 2153 | 1079 | 760 | 7643 | 3915 | 2163 | 1118 | 792 | 7988 |
| | (29.4) | (50.7) | (10.4) | (9.5) | (100.0) | (47.8) | (28.2) | (14.1) | (9.9) | (100.0) | (49.0) | (27.1) | (14.0) | (9.9) | (100.0) |
| Associate Banks of SBI | 358 | 375 | 86 | 75 | 894 | 1320 | 1170 | 570 | 385 | 3445 | 1416 | 1173 | 583 | 399 | 3571 |
| | (40.0) | (42.0) | (9.6) | (8.4) | (100.0) | (38.3) | (34.0) | (16.5) | (11.2) | (100.0) | (39.7) | (32.8) | (16.3) | (11.2) | (100.0) |
| Nationalised Banks | 703 | 1465 | 928 | 1072 | 4168@ | 12267 | 5464 | 4714 | 3962 | 26407 | 13177 | 5510 | 4826 | 4061 | 27574 |
| | (16.9) | (35.1) | (22.3) | (25.7) | (100.0) | (46.5) | (20.7) | (17.8) | (15.0) | (100.0) | (47.8) | (20.0) | (17.5) | (14.7) | (100.0) |
| Regional Rural Banks | — | — | — | — | — | 12515 | 910 | 140 | 3 | 13568 | 13083 | 908 | 141 | 4 | 14136 |
| | | | | | | (92.3) | (6.7) | (1.0) | -- | (100.0) | (92.6) | (6.4) | (1.0) | -- | (100.0) |
| Other Commercial Banks | 337 | 708 | 279 | 364 | 1688 | 1398 | 1401 | 835 | 717 | 4351 | 1423 | 1414 | 856 | 739 | 4429 |
| | (20.0) | (41.9) | (16.5) | (21.6) | (100.0) | (32.1) | (32.2) | (19.2) | (16.5) | (100.0) | (32.1) | (31.9) | (19.5) | (16.7) | (100.0) |
| **Total** | **1860** | **3344** | **1456** | **1661** | **8321** | **31151** | **11098** | **7338** | **5827** | **55414**** | **33014** | **11165** | **7524** | **5995** | **57698** |
| | **(22.5)** | **(40.2)** | **(17.5)** | **(20.0)** | **(100.0)** | **(56.2)** | **(20.0)** | **(13.3)** | **(10.5)** | **(100.0)** | **(57.2)** | **(19.4)** | **(13.0)** | **(10.4)** | **(100.0)** |

* Classification of branches according to population groups based on 1961 census.

@ Figures of 14 nationalised banks only.

** Revised Figures.

*Note :* Figures in brackets indicate percentage to total in each group.

*Source :* Department of Banking Operations and Development, R.B.I.

**Table VII-36 : Offices of Indian Scheduled Commercial Banks outside India**
**(As at the end of December 1989)**

| Country | Bank of Baroda | Bank of India | Bharat Overseas Bank Ltd. | Canara Bank | Indian Bank | Indian Overseas Bank | State Bank of India | Syndicate Bank | United Commercial Bank | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 1. Bangladesh | — | — | — | — | — | — | 1 | — | — | 1 |
| 2. Bahamas | 1 | — | — | — | — | — | 1 | — | — | 2 |
| 3. Belgium | 1 | — | — | — | — | — | 1 | — | — | 2 |
| 4. Bahrain | 1 | — | — | — | — | — | 1 | — | — | 2 |
| 5. Cayman Islands | — | 1 | — | — | — | — | — | — | — | 1 |
| 6. Channel Islands | — | 1 | — | — | — | — | — | — | — | 1 |
| 7. Fiji Islands | 9 | — | — | — | — | — | — | — | — | 9 |
| 8. France | — | 1 | — | — | — | — | 1 | — | — | 2 |
| 9. Guyana | 1 | — | — | — | — | — | — | — | — | 1 |
| 10. Hongkong | — | 2 | — | — | — | 2 | 1 | — | 2 | 7 |
| 11. Japan | — | 2 | — | — | — | — | 2 | — | — | 4 |
| 12. Kenya | 6 | 2 | — | — | — | — | — | — | — | 8 |
| 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 | 2 | 2 | — | — | 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** | **47** | **25** | **1** | **1** | **3** | **6** | **23** | **1** | **7** | **114** |

*Source* : Department of Banking Operations & Development, Reserve Bank of India.

end of June 1989 from 964 as at end-June 1988. Permission was granted to 29 PCBs for opening 33 new places of business. In addition, during the year, two urban co-operative banks and one Salary Earners' Bank were granted permission for opening an extension counter each. During 1988-89 (July-June), 500 PCBs were inspected under Section 35 of the Banking Regulation Act, 1949 (as applicable to co-operative societies).

*Short-term credit limits*

During 1988-89 (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. 26 crores were sanctioned to 5 State Co-operative Banks on behalf of 52 PCBs as against Rs. 28 crores sanctioned on behalf of 57 PCBs in the previous year. The outstanding borrowings against these limits amounted to Rs. 22 crores as on March 31, 1989 as against Rs. 24 crores a year ago, i.e., end-March 1988.

*Credit Authorisation Scheme*

The Credit Authorisation Scheme as applicable to PCBs was liberalised with effect from January 18, 1989. The PCBs are now required to seek prior approval of the Reserve Bank of India for grant of advances to a single party exceeding certain limits as indicated in Table VII-38.

During the period, 48 proposals were received from 12 banks involving an aggregate amount of Rs. 33 crores seeking authorisation (for grant of advances) out of which 24 proposals for an aggregate amount of Rs. 15 crores were cleared.

The interest rate on term deposits for 46 days to 90 days was raised from 4 per cent to 6 per cent per annum with effect from March 28, 1989. The category of term deposits for 15 days to 45 days on which rate of interest of 3 per cent has been prescribed was abolished with effect from the same date. The term deposit rate for 91 days and above but less than six months remains unchanged at 8.0 per cent per annum. The facility given to PCBs to allow interest at 0.5 per cent per annum on deposits upto 14 days and on deposits subject to withdrawal or repayment by notice was also withdrawn from March 28, 1989. However, the PCBs are allowed to continue to pay 1 per cent higher interest on deposits at their discretion. Interest rates on deposits accepted in Foreign Currency (Non-Resident) Account were revised on a number of occasions during the year.

*Inventory Norms*

The inventory norms relating to paper industry and consumable spares were advised to PCBs and they were instructed to observe these norms in respect of the borrowing units enjoying working capital limits of Rs. 10 lakhs

**Table VII-37 : Progress of Primary (Urban) Co-operative Banks**

(Rupees crores)

| | Co-operative Year (July-June) | | | | |
|---|---|---|---|---|---|
| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| Number of PCBs* | 1,289£ | 1,306£ | 1,314£ | 1,325£ | 1,331£ |
| | (100) | (97) | (94) | (92) | (92) |
| Number of offices of PCBs* | 2,855£ | 2,985£ | 3,014£ | 3,199£ | 3,183@ |
| | (234) | (243) | (249) | (250) | (254) |
| Deposits | 3,255 | 3,939 | 4,838 | 5,789 | N.A. |
| Loans outstanding | 2,524 | 3,046 | 3,693 | 4,636 | N.A. |

* = Figures for Salary Earners' Banks are indicated in brackets.
@ = As on December 31, 1988.
N.A. = Not available
£ = Revised.

**Table VII-38 : Limits for Single Party Advances**

| Banks with Time and Demand Liabilities (TDL) | Limits |
|---|---|
| 1 | 2 |
| i) Below Rs. 1 crore | Rs. 5 lakhs or 5% of TDL whichever is lower |
| ii) Rs. 1 crore and above but less than Rs. 10 crores | Rs. 20 lakhs or 5% of TDL whichever is lower |
| iii) Rs. 10 crores and above but less than Rs. 50 crores | Rs. 50 lakhs |
| iv) Rs. 50 crores and above | Rs. 75 lakhs |

or more from the banking system.

*Opening and Maintaining Non-Resident (External/Ordinary) Accounts in Rupees*

As at end-April 1989, 40 PCBs were authorised to open and maintain Non-Resident (External) and Non-Resident (Ordinary) Accounts in rupees.

*Rate of Interest on Advances for Housing*

The housing loans granted by PCBs were earlier covered under the category of 'other term loans' and subject to interest rate stipulation 'not exceeding 15 per cent per annum'. The interest rates revised with effect from October 10, 1988 are indicated below:

**Table VII-39 : Lending Rates on Housing Finance**

| Amount of Loan | Rate of Interest (per cent per annum) |
|---|---|
| 1 | 2 |
| Upto Rs. 20,000 | 12.5 |
| Above Rs. 20,000 and upto Rs. 50,000 | 13.5 |
| Above Rs. 50,000 and upto Rs. 1 lakh | 14.0 |
| Above Rs. 1 lakh | 14.5 to 16.0 |

Urban banks are permitted to extend housing finance upto Rs. 1 lakh to an individual as in the case of State and Central Co-operative Banks. However, the scheduled PCBs have been permitted to extend housing finance upto Rs. 3 lakhs per individual.

*Advances against Shares and Debentures*

The ceiling on advances by PCBs to a single party against the corporate securities was revised with effect from January 11, 1989. The revised ceilings are Rs. 50,000, Rs. 1 lakh and Rs. 3 lakhs, in the case of PCBs with total time and demand liabilities (TDL), respectively, of less than Rs. 1 crore, Rs. 1 crore and above but less than Rs. 10 crores and Rs. 10 crores and above.

*Advances against Sensitive Commodities*

The following changes/modifications were advised to the PCBs with reference to their advances against sensitive commodities: (i) Effective from February 29, 1989, level of credit ceiling on advances against oilseeds, vegetable oils (including vanaspati) was raised from 85% to 100% of the peak level in any of the three years (November-October) 1983-84, 1984-85 and 1985-86 and simultaneously the discretion given to the urban banks to sanction limits upto Rs. 2 lakhs against the security of oilseeds and oils (including vanaspati) was withdrawn.

(ii) Special concessions given to the banks in Punjab in respect of margin on advances against stocks of wheat to mills/processing units were withdrawn effective March 27, 1989.

(iii) Minimum margin to be maintained against stocks of wheat was increased across the board by 15 percentage points with effect from April 22, 1989.

(iv) Roller flour mills which were hitherto exempted from the level of credit ceilings have been brought under the ceiling of 85 per cent of the peak level of credit maintained by them in any of the three years (November-October) 1984-85, 1985-86 and 1986-87.

*Priority Sector Lending*

Primary Co-operative banks have been advised to lend 60 per cent of their total advances to the priority sector. Out of the 476 reporting urban banks, 335 banks had achieved

the prescribed level as at end-June 1988. The priority sector advances of 476 urban banks amounted to Rs. 860.07 crores and formed 65.75 per cent of their total advances.

*Credit Monitoring System (Health Code) for Borrowal Accounts*

Guidelines on comprehensive and uniform grading system (Health Code) to classify the borrowal accounts into various categories such as satisfactory, irregular, suit filed, bad and doubtful etc., were issued to urban banks in June 1987. So far, only 316 of the 1,239 urban banks (excluding Salary Earners' Banks) have responded.

**Regional Rural Banks**

*Branch Expansion Programme*

The branch expansion programme of banks continued to be operated on the basis of the branch licencing policy announced for the period April 1985 to March 31, 1990 (co-terminus with the Seventh Plan) which envisages provision of banking facilities in deficient rural areas, especially those where identifiable spatial gaps exist. Branch expansion has to be done on a selective basis 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,continues to be accorded to RRBs in allotment of identified centres in districts covered by them. However, with the introduction of the Service Area Approach, it was felt that non-target groups in the service areas of RRBs may face some difficulties in obtaining finance. It has, therefore, been decided by the Reserve Bank that further allotment of identified centres would be made to RRBs only if they do not already have 25 and 40)branches when they cover one and more than one district respectively.

As on March 31, 1989, there were 196 RRBs which together covered 369 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 |
| 7. UCO Bank | 11 |
| 8. Syndicate Bank | 10 |
| 9. Canara Bank | 8 |
| 10. Allahabad Bank | 7 |
| 11. State Bank of Hyderabad | 4 |
| 12. Dena Bank | 4 |
| 13. Indian Bank | 4 |
| 14. Union Bank of India | 4 |
| 15. State Bank of Bikaner and Jaipur | 3 |
| 16. State Bank of Saurashtra | 3 |
| 17. Andhra Bank | 3 |
| 18. Bank of Maharashtra | 3 |
| 19. Indian Overseas Bank | 3 |
| 20. State Bank of Mysore | 2 |
| 21. The Jammu and Kashmir Bank Ltd. | 2 |
| 22. State Bank of Patiala | 1 |
| 23. State Bank of Indore | 1 |
| 24. Corporation Bank | 1 |
| 25. New Bank of India | 1 |
| 26. Punjab and Sind Bank | 1 |
| 27. Vijaya Bank | 1 |
| 28. Bank of Rajasthan Ltd. | 1 |
| 29. The U.P. State Co-operative Bank Ltd. | 1 |

As at the end of December 1988, RRBs had 13,920 branches as against 13,353 as at end-December 1987. Uttar Pradesh had the largest number of RRB branches (2,982), followed by Bihar (1,815), and Madhya Pradesh (1,562). The number of RRB branches varied between 700 and 1,100 in Andhra Pradesh, Karnataka, Orissa, Rajasthan and West Bengal and between 200 and 600 in Assam, Gujarat, Haryana, Jammu and Kashmir, Kerala and Maharashtra. The State-wise position of branches is furnished in Table VII-40.

*Operations of RRBs*

As at the end of December, 1988, deposits and advances of 196 RRBs aggregating Rs. 2,966 crores and Rs. 2,804 crores (direct and indirect advances), respectively, were higher compared with Rs. 2,306 crores and Rs. 2,232 crores, respectively, as at the end of December 1987. Purpose-wise break-up of outstanding advances

**Table VII-40 : State-wise Branches of Regional Rural Banks (As on December 31, 1988)**

| State/Union Territory | No. of RRBs | No. of branches | No. of districts covered |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| Andhra Pradesh | 16 | 1,096 | 23 |
| Assam | 5 | 361 | 20 |
| Bihar | 22 | 1,815 | 38 |
| Gujarat | 9 | 370 | 17 |
| Haryana | 4 | 287 | 11 |
| Himachal Pradesh | 2 | 125 | 4 |
| Jammu and Kashmir | 3 | 256 | 10 |
| Karnataka | 13 | 1,053 | 20 |
| Kerala | 2 | 269 | 6 |
| Madhya Pradesh | 24 | 1,562 | 44 |
| Maharashtra | 10 | 549 | 17 |
| Manipur | 1 | 24 | 8 |
| Meghalaya | 1 | 46 | 3 |
| Nagaland | 1 | 8 | 7 |
| Orissa | 9 | 799 | 13 |
| Punjab | 5 | 154 | 10 |
| Rajasthan | 14 | 1,040 | 27 |
| Tamil Nadu | 3 | 194 | 7 |
| Tripura | 1 | 84 | 3 |
| Uttar Pradesh | 40 | 2,982 | 56 |
| West Bengal | 9 | 787 | 18 |
| Arunachal Pradesh | 1 | 15 | 4 |
| Mizoram | 1 | 44 | 3 |
| **Total** | **196** | **13,920** | **369** |

**Source :** National Bank for Agriculture and Rural Development.

as at the end of December 1988 was as follows :

| **Purpose** | **Amount (Rs. crores)** |
|---|---|
| Short-term (crop loans) | 496 |
| Term loans for agricultural activities | 530 |
| Allied activities | 471 |
| Rural artisans, village and cottage industries | 201 |
| Retail trade and self-employed, etc. | 794 |
| Consumption loans | 16 |
| Other purposes | 253 |
| Indirect advances | 43 |
| Total | **2,804** |

Indirect advances of RRBs amounted to Rs. 43 crores as on December 31, 1988. RRBs disbursed during 1988 calender year a sum of Rs. 959 crores in 31.73 lakh accounts out of which Rs. 348 crores were disbursed under Government sponsored programmes such as IRDP, DRI, etc. Approximately 92 per cent of RRB advances were to weaker sections of the society.

*Refinance from NABARD*

During 1988-89 upto June, 1989 NABARD sanctioned to 164 RRBs short-term limits aggregating Rs. 379.02 crores [i.e. Rs. 17.78 crores for National Oilseeds Development Programme purposes, Rs. 262.40 crores for short-term (Seasonal agricultural operations) and Rs. 98.84 crores for short term (other than seasonal agricultural operations)] and medium-term (non-schematic lending) limits of Rs. 94.79 crores to 131 RRBs. The outstandings against these limits at end-June 1989 were Rs. 343.76

crores as short-term and non-schematic lending as medium-term Rs. 238.42 crores. NABARD also sanctioned medium term (conversion) loans of Rs. 5.24 crores to 10 RRBs, outstanding balance against which was Rs. 11.59 crores at the end of June 1989. Besides, NABARD provided a long-term refinance to RRBs. As at the end of December 1988, 3,488 schemes involving NABARD's commitment of Rs. 1,159.23 crores were sanctioned to RRBs and drawals amounted to Rs. 1,055.87 crores as on that date as compared with 2,814 schemes involving a commitment of Rs. 890.45 crores and drawals of Rs. 793.42 crores at the end of December 1987.

*Refinance from Sponsor Banks and Other Institutions*

The amount of refinance availed of by RRBs from their respective sponsor banks aggregated Rs. 267.39 crores at the end of December 1988 as against Rs. 227.29 crores as at the end of December 1987. RRBs had also availed of refinance from IDBI to the tune of Rs. 28.63 crores and borrowed Rs. 13.27 crores from other sources as at the end of December 1988.

*RRB (Amendment) Act, 1987*

Pursuant to the recommendations of Kelkar Group, the Regional Rural Banks Act, 1976 was amended by the Regional Rural Bank (Amendment) Act, 1987 which came into force on September 28, 1988. Some of the important amendments are:

(i) 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;

(ii) appointment of RRB Chairman by the concerned sponsor bank in consultation with NABARD;

(iii) provision of aid and assistance by sponsor banks to RRBs in greater measures by imparting training to RRB personnel and giving financial assistance to RRBs during the first five years of their functioning;

(iv) provision for amalgamation of the RRBs in consultation with NABARD, concerned State Government and sponsor bank after taking into consideration public interest, development of the area and interests of concerned RRBs; and

(v) empowering sponsor banks to monitor the progress of RRBs sponsored by them and also to arrange inspection, internal audit and scrutiny and to suggest corrective measures whenever necessary.

*R and D Fund*

NABARD continues to offer assistance to RRBs from its R and D Fund for setting up technical cells for preparation and evaluation of schemes under project lending. Out of 196 eligible RRBs, 65 have taken advantage of the schemes.

## 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/ Credit Monitoring Arrangement

As mentioned in the section on 'Credit Policy', the system of obtaining prior authorisation by the Reserve Bank under the Credit Authorisation Scheme (CAS) for sanction of working capital limits/term loans by scheduled commercial banks beyond stipulated levels was withdrawn with effect from October 10, 1988. However, to ensure that the basic financial discipline continued to be observed, it was decided that all proposals involving sanction of aggregate working capital limits exceeding Rs. 5 crores from the banking system would be subject to post-sanction scrutiny by the Reserve Bank; as regards term loans all proposals in which the share of the banking system exceeded Rs. 2 crores would be subjected to post-sanction scrutiny. This post-sanction scheme has been designated as 'Credit Monitoring Arrangement' (CMA). If any particular bank is found to be not enforcing the basic discipline, the Reserve Bank may instruct such a bank to refer cases in excess of the stipulated limits to it for prior authorisation.

Banks have been advised that there is no change in the prescribed criteria of lending to borrowers and the assessment of the working capital requirements by banks should be in conformity with the basic financial discipline, viz., (i) reasonableness of estimates/projections in regard to sales, chargeable current assets, and current liabilities (other than bank borrowings)

and net working capital; (ii) classification of current assets and current liabilities in accordance with the guidelines issued by the Reserve Bank; (iii) maintenance of minimum current ratio of 1.33:1 (except in certain exempted categories); (iv) prompt submission of quarterly operating statements; and (v) an undertaking by each borrower to submit his annual accounts promptly and regular annual review being carried out by the respective banks even where enhancement in credit limits is not involved.

Banks have also been advised that the term loans granted to industrial units should be in consonance with the guidelines laid down by the Government of India on allocation of financial resources by financial institutions and that term credit, either as loan or as guarantees/acceptances, should not be provided for infrastructural activities normaly financed from budgetary sources.

The number of parties with credit limits stipulated under CAS/CMA increased to 931 by the end of March 1989 from 712 at the end of March 1988. The total credit limit in force relating to these 931 parties amounted to Rs. 22,897 crores at the end of March 1989 as compared with Rs. 20,936 crores as at the end of March 1988. The share of public sector undertakings in the total limits at the end of March 1989 was Rs. 11,106 crores i.e., 48.5 per cent. The facility-wise distribution pattern of the total limits in force at end-March 1989 was 92.7 per cent for working capital purposes (including packing credits and bills), 6.3 per cent for term finance and 1.0 per cent for sale of machinery on deferred payment basis.

**(b) Differential Rate of Interest Scheme**

Since the inception of the Differential Rate of Interest (DRI) Scheme in 1972, public sector banks have made progress in financing the weaker sections of the society as may be observed from Table VII-41.

Aggregate advances of public sector banks under the DRI scheme stood at Rs. 646.58 crores in 46.19 lakh borrowal accounts as at the end of December 1988 as against Rs. 597.65 crores in 48.14 lakh accounts in December 1987, showing an increase in advances of 8.2 per cent over the year. The target for lending under DRI Scheme was fixed at one per cent of the banks' outstanding advances (as at the end of the previous year). Public sector banks as a group exceeded this target in 1980. The prescribed target of 40 per cent of lending under DRI Scheme to beneficiaries belonging to scheduled castes/scheduled tribes has also been exceeded. As at the end of June 1989 advances of public sector banks under DRI stood at Rs. 664.9 crores in 47.01 lakh accounts.

**(c) Self-employment Scheme for Educated Unemployed Youth (SEEUY)**

This scheme was introduced by the Govern-

**Table VII-41 : Progress of lending under the DRI Scheme (Public Sector Banks)**

| As at the end of December | No. of borrowal Accounts (000's) | Amount outstanding (Rupees crores) | Percentage of DRI advances to total advances at the end of previous year |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 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 |
| 1988 | 4619 | 646.58 | 1.00 |
| 1989 (June)@ | 4701 | 664.94 | 0.92 |

@ Data are provisional.

*Source :* Rural Planning and Credit Department, R.B.I.

and net working capital; (ii) classification of current assets and current liabilities in accordance with the guidelines issued by the Reserve Bank; (iii) maintenance of minimum current ratio of 1.33:1 (except in certain exempted categories); (iv) prompt submission of quarterly operating statements; and (v) an undertaking by each borrower to submit his annual accounts promptly and regular annual review being carried out by the respective banks even where enhancement in credit limits is not involved.

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@ Data are provisional.

*Source :* Rural Planning and Credit Department, R.B.I.

ment of India in 1983-84 with the objective of encouraging educated unemployed youth to undertake self-employment ventures in industry, service and business sectors. The scheme which continued on a year-to-year basis has been extended to cover the entire Seventh Plan period. According to available data, banks sanctioned loans to 1.91 lakh beneficiaries aggregating Rs. 403.5 crores during 1988-89 as against 1.20 lakh beneficiaries with loans of Rs. 259.8 crores sanctioned in the preceding year.

**(d) Self-employment Programme for Urban Poor (SEPUP)**

This scheme was introduced by the Government of India in September 1986 for providing self-employment opportunities to the urban poor. It covers all cities/towns not covered under IRDP. The scheme has been extended up to 1989-90. According to available data, banks sanctioned to 3.57 lakh beneficiaries an aggregate amount of Rs. 137.1 crores in 1988-89 as against 3.82 lakh beneficiaries who were sanctioned an amount of Rs. 132.3 crores in 1987-88.

**(e) Financial Assistance to Ex-Servicemen — Scheme for Preparing Ex-Servicemen for Self-Employment (PEXSEM)**

This scheme, which was in operation in 29 districts of 11 states was subsequently extended to 18 more districts; whereas one district, viz., Visakhapatnam - A.P. was dropped from the earlier list with the result the scheme will now be operative in 46 districts of 13 States in the country during the financial year 1989-90. Ex-Servicemen belonging to Non-PEXSEM districts are also entitled to the benefit of the scheme.

**(f) Advances to Minority Communities**

Banks were advised in July 1986 to take certain steps to ensure adequate flow of credit to certain minority communities. The suggested steps included among others, the setting up of separate cells in each bank for monitoring the credit flow to minority communities. Accordingly, all 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 the credit flow to minority communities. Advances from public sector banks in the 40 identified districts having concentration of minority communities have gone up from Rs. 428.61 crores in 7.88 lakh borrowal accounts as at the end of December 1987 to Rs. 548.66 crores in 10.17 lakh borrowal accounts as at the end of December 1988.

**(g) Integrated Rural Development Programme (IRDP)**

During the year under review banks continued their efforts in providing finance under the IRDP to families falling below the poverty line. The Seventh Plan envisaged a target of assisting 20 million families (including about 10 million of Sixth Plan beneficiaries who could not cross the poverty line and are to be provided with supplementary assistance). During 1988-89, 37.72 lakh families were assisted and term loans amounting to Rs. 1231.6 crores were disbursed by banks as against 42.47 lakh families and term loans of Rs. 1175.4 crores in 1987-88. Of the total number of families assisted in 1988-89, 17.50 (46.4 per cent) lakhs belonged to scheduled castes/scheduled tribes and the number of women beneficiaries stood at 8.74 lakhs (23.2 per cent) (Table VII-42).

**(h) Lead Bank Scheme**

As on April 30, 1989, the Lead Bank Scheme covered 445 districts in the country. The District Level Review Committee (DLRC) meetings are convened by lead banks at half-yearly intervals to review the progress in implementation of district credit plans. Lead banks were advised to invite local MPs/MLAs for DLRC meetings.

**(i) 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 clusters of branches for continuous and effective supervision and recovery of loans, where overdues exceeded 50 per cent of demand and where agricultural advances were sizeable. Lead Banks were advised to effectively utilise the forum of State Level Bankers Committee for discussing problems of recovery and eliciting proper support from the State Government machinery in dealing with defaults.

The percentage of recovery to demand of

public sector banks as at the end of June 1988, in respect of their direct agricultural advances increased marginally to 57.2 per cent from 57.1 per cent in the previous year. The recovery performance continues to show an improving trend from 51.6 per cent as at the end of June 1984 to 57.2 per cent as at the end of June 1988.

**(j) Export Credit (Interest Subsidy) Scheme 1968**

During 1988-89, from the funds made available to it out of Marketing Development Assistance (MDA) of the Government of India, Ministry of Commerce, the Reserve Bank disbursed Rs. 101.9 crores as interest subsidy to commercial banks and eligible cooperative banks at 3 per cent per annum on the export credit extended by them to exporters. Besides, on behalf of the Ministry of External Affairs, the Reserve Bank also disbursed special subsidy of Rs. 37.51 lakhs at different rates in respect of certain special lines of credit extended to Bangladesh for its imports from India.

**(k) Duty Drawback Credit Scheme, 1976**

During the period November 1988 to October 1989, the Reserve Bank sanctioned limits aggregating Rs. 35.30 crores to 26 banks to enable them to avail of interest free refinance admissible under the Duty Drawback Credit Scheme. During the quarter ended January 31, 1989 refinance to the extent of Rs. 6.11 crores was availed of by banks and the outstanding amount as on January 31, 1989 was Rs. 5.08 crores.

**(l) Housing Finance**

The establishment of the National Housing Bank in July 1988 has provided an impetus to housing finance. The policy measures relating to housing finance announced in October 1988 have been reviewed in the section on 'Credit Policy'. In November 1988, the Reserve Bank issued detailed revised guidelines on housing finance by scheduled commercial banks. The revised guidelines, apart from giving effect to the policy changes of October 1988, have the following salient features:

(i) Bank loan per individual allowed up to Rs. 3 lakhs. (ii) If mortgage of property/government guarantee is not feasible, banks can accept at their discretion LIC policy, government promissory notes, shares and debentures or any other appropriate security for housing loan. (iii) Banks can extend need-based credit to houseowners for repairs, additions etc., whether it is owner-occupied or tenant-occupied. (iv) Banks may extend finance to public agencies for acquisition and development of land provided it is a part of the complete project including development of infrastructure such as water system, drainage, roads, provision of electricity etc. (v) Banks may grant term loans to housing finance institutions up to a stipulated level taking into consideration their (long-term) debt-equity ratio, track record, recovery performance and other relevant factors, (vi) Banks may extend credit to private builders on commercial terms (i.e., at a rate of interest of

**Table VII-42 : Progress in Assistance provided by Banks under IRDP**

| | First Four Years of VII Five Year Plan | | | |
|---|---|---|---|---|
| | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 |
| 1. Subsidy allocated@ (Rupees crores) | 407.36 | 543.83 | 613.38 | 687.95 |
| 2. Subsidy utilised@ (Rupees crores) | 441.10 | 613.38 | 727.44 | 768.47 |
| 3. Term loans disbursed (Rupees crores) | 730.15 | 1014.88 | 1175.35 | 1231.62 |
| 4. Number of SC/ST families assisted (in lakhs) | 13.23 | 16.80 | 18.99 | 17.50 |
| 5. Total number of families assisted (in lakhs) | 30.61 | 37.47 | 42.47 | 37.72 |
| 6. Target-number of families to be assisted (in lakhs) | 24.71 | 35.00 | 39.64 | 31.94 |
| 7. Number of women beneficiaries (in lakhs) | 3.03 | 5.67 | 8.30 | 8.74 |

@ Indicates share of Central and State Governments.

*Source :* Government of India, Ministry of Agriculture, Department of Rural Development.

not less than 16 per cent per annum) by way of demand loans linked to each specific project for a maximum period up to 18 months, subject to ususal safeguards and after obtaining such security as they may deem appropriate.

The quantum earmarked for housing finance to be provided by the banking system was raised from Rs. 225 crores for the calendar year 1988 to Rs. 300 crores for 1989. Keeping in view the change in their accounting year, banks were advised to compute their respective shares of housing finance for the year ending March 1990 at 1.5 per cent of incremental deposits during the preceding 12 months. Thus, a sum of Rs. 385 crores is likely to be available for lending as housing finance during 1989-90. There is no objection to a bank exceeding the housing finance level of 1.5 per cent of incremental deposits up to a reasonable limit, having regard to its resources position and compliances with the statutory reserve requirements. Refinance provided by the National Housing Bank will be in addition to and separate, from the current allocation.

With a view to increasing the share of housing finance extended directly to the beneficiaries, the following sub-targets have been prescribed: (i) at least 30 per cent of the allocation should be reserved for direct lending. Of this, at least half (15 per cent of the total allocation) should be disbursed in rural and semi-urban areas; (ii) a further 30 per cent of the allocation may be channelled by way of term loans to housing finance companies, housing boards and other public housing agencies; and (iii) the balance 40 per cent of the allocation should be provided in the form of subscription to the guaranteed bonds and debentures of the National Housing Bank and the Housing and Urban Development Corporation (HUDCO).

As at the end of December 1988, an aggregate sum of Rs. 1087.72 crores from scheduled commercial banks was outstanding as housing finance. Out of this, a sum of Rs. 69.18 crores (6.4 per cent) comprised direct finance to individuals and groups of individuals such as co-operative societies while the balance of Rs. 1018.54 crores (93.6 per cent) comprised indirect finance either provided as loans to housing finance institutions/Housing Boards or invested in the guaranteed bonds of HUDCO and State Housing Boards.

**National Housing Bank**

The National Housing Bank (NHB) was set up on July 9, 1988 with an initial share capital of Rs. 100 crores entirely subscribed by the Reserve Bank. During 1988-89 NHB floated bonds for Rs. 20 crores guaranteed by the Central Government and carrying an interest rate of 11.5 per cent per annum. NHB was sanctioned a long term loan of Rs. 50 crores out of the National Housing Credit (Long Term Operations) Fund constituted by the Reserve Bank of India.

With a view to promoting savings for acquisition of a house, a new scheme called Home Loan Account Scheme (HLAS) has been introduced by the National Housing Bank from July 1, 1989, in co-operation with the scheduled banks. The scheme was announced by the Union Finance Minister at the time of presenting the Union Budget for 1989-90. The minimum contribution to the saving scheme is fixed at Rs. 30 per month or Rs. 360 per annum. These savings would earn interest at 10 per cent per annum. Any individual not owning a house anywhere in India would be eligible to join the scheme. After saving for a minimum period of 5 years, a member would be eligible for a loan equal in amount to a multiple of the accumulated savings including interest. In order to make the scheme attractive, some fiscal concessions have been given. Savings in the HLAS of the NHB would qualify for deduction from gross income under Section 80C of the Income Tax Act 1961. Repayment of the housing loan upto a maximum of Rs. 10,000 per annum would also qualify for deduction under Section 80C. Furthermore, investments under the HLAS would be exempted from wealth tax subject to the overall ceiling of Rs. 5 lakhs under Section 5 of the Wealth Tax Act.

Another major initiative of NHB, whose charter enjoins on it to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support to such institutions, was the formulation of guidelines on formation of Housing Finance Companies (HFCs) in the private and joint sectors. The guidelines stipulate that an HFC should have a minimum paid-up capital of Rs. 1 crore and that at least 20 per cent of the equity should be from a scheduled bank or a public financial institution

or a State Government or a housing finance company approved by NHB. There should be at least two Directors from banking/financial institutions, failing which NHB reserves the right to nominate two Directors. Limitations have also been prescribed on the total borrowings of an HFC as a multiple of its net owned funds, on the maturity period of deposits, on the interest rate payable on deposits, lending rates and margins, front-end charges, and administrative cost etc., and on the proportion of total lending which an HFC can undertake for purposes other than housing. The guidelines have sought to strike a balance between the regulatory and promotional roles of NHB as the object is to create an enabling environment for growth of housing finance institutions on sound lines.

NHB has already introduced its Refinance Schemes for scheduled commercial banks, scheduled state co-operative banks, scheduled urban co-operative banks, housing finance companies and apex co-operative housing finance societies. It has also formulated a scheme to extend financial support to State-level Land Development Banks in respect of housing loans granted by them, through subscription to Special Rural Housing Debentures to be floated by them. The terms and conditions of all the Refinance Schemes are more or less similar. Refinance will be provided only in respect of *direct* lending to individuals/groups of borrowers (formal or informal, including co-operative housing societies). Housing finance routed through RRBs by sponsor banks will be treated as 'direct lending' of the latter. Refinance will be up to one hundred per cent of direct loans up to Rs. 50,000 for construction of new housing units with built-up accommodation of up to 40 sq. mts. and it will be additional to, and separate from, housing loans granted under the annual credit allocation for housing made by the Reserve Bank and housing loans up to Rs. 5,000 at concessional rate of interest of 4 per cent per annum extended to persons belonging to scheduled castes/scheduled tribes. Individual housing loans up to Rs. 1 lakh granted in urban areas, will be eligible for refinance provided the built-up accommodation does not exceed 40 sq. mt., but the refinance amount will be restricted to Rs. 50,000. In rural areas, the area limit of 40 sq. mt. may be relaxed at the discretion of the lending agency provided the cost of the housing unit does not exceed Rs. 65,000. The aggregate amount of refinance will in no case exceed the aggregate amount of outstanding loans to the eligible categories excluding overdues. Refinance is available to banks for 15 years irrespective of the actual repayment period or moratorium allowed by them in individual cases. Banks are expected to stipulate a repayment schedule of fifteen years as provided under the Reserve Bank guidelines. In the case of HFCs and apex co-operative housing finance societies, the repayment period for refinance is 20 years.

The refinance schemes have come into operation from January 1, 1989 and specified housing loans sanctioned since then are eligible for being covered under the scheme. As at end-June, 1989, NHB has released refinance aggregating Rs. 96.37 lakhs to two housing finance companies and a scheduled commercial bank.

During the year, USAID approved a programme which will provide a loan gurantee for US $ 50 million to NHB under the USAID Government Housing Guarantee Program under which developing countries can borrow in the US capital market with a guarantee of the US Government for periods up to 30 years.

Apart from organising financial resources for housing, NHB has taken steps to augment real resources for housing. Towards this objective, it has evolved guidelines to finance land development and shelter projects. NHB will appraise a land development project flexibly keeping in view local conditions, technical feasibility and affordability of different income groups so long as it is an integrated project, that is, including acquisition of land and on-site infrastructure. Funds will be made available in the form of term loans at market rates of interest. To ensure timely execution, NHB will charge higher rates for time overruns. Normally a period not exceeding three years is envisaged for developing land and making site available for construction of shelter. To keep land prices within affordability of economically weaker sections/lower income groups, NHB has proposed internal cross subsidisation to the extent feasible and external subsidisation to the extent available.

NHB has also proposed to extend full support to industries that augment supplies of

building materials and/or lead to construction at lower cost. Some of the activities that will get the support of NHB are those related to production and use of (a) locally produced, low-cost building materials and construction components; (b) standardised building materials and components; (c) building materials and components produced by use of agricultural and industrial wastes; (d) building materials and components which replace or reduce substantially the use of scarce resources like wood; and (e) low energy consumption building materials and components.

**(m) Comprehensive Crop Insurance Scheme (CCIS)**

A Comprehensive Crop Insurance Scheme (CCIS) was introduced by Government of India throughout the country from *Kharif* 1985, which covers major cereal crops,oilseeds and pulses. Initially the scheme was implemented in 13 States where the State Governements had agreed for implementation of the scheme.

CCIS was temporarily suspended; it was again continued during *Kharif* 1988 season, subject to the conditions that the sum insured would be reduced from 150 per cent to 100 per cent of the crop loan and its maximum limit would be Rs. 10,000/- per farmer.

The Government of India had decided that CCIS may be continued in *Rabi* 1988-89 season only in those States where premia towards the scheme had already been recovered. The conditions for continuance of the scheme would be the same as in *Kharif* 1988 season. Indemnity claims would be shared between State and Central Governments in the ratio of $33^1/_3$ per cent : $66^2/_3$ per cent. The level of indemnity in the existing CCIS has been changed from *Rabi* 1988-89 season as follows:

| Category | Risk (yield variation) | Indemnity |
|---|---|---|
| | | (per cent) |
| Low | Upto 15% | 90 |
| Medium | 16 - 30% | 80 |
| High | Above 30% | 60 |

Data relating to coverage under CCIS are presented in Table VII-43.

**Table VII-43 : 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) |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| Rabi 1987-88* | 21.28 | 32.37 | 47543.93 | 884.71 |
| Kharif 1988* | 29.64 | 52.35 | 54788.63 | 881.91 |
| Rabi 1988-89* | 8.72 | 10.12 | 16386.79 | 312.02 |

* As on 28.6.1989

*Source* : General Insurance Corporation.

## OTHER BANKING DEVELOPMENTS

**Action Plans for Banks : 1988-90**

The second round of Action Plans of commercial banks, which were introduced as a measure to improve the operational efficiency and working of banks, covers the period upto March 1990. Banks have taken various measures to implement these detailed plans. The progress in the implementation of the plans is reviewed quarterly with the concerned Chairmen and senior executives of public sector banks. As a result of the implementation of these plans, there has been a perceptible improvement in various areas like customer service, house-keeping, organisational and control arrangements, credit administration, profitability and staff productivity.

*Prudential Supervision*

While continuing on-site inspections as a major tool for evaluating the performance of

banks and follow-up, a number of steps were taken during the year for strengthening the area of prudential supervision. Proposals are under consideration regarding introduction of suitable capital adequacy norms, in relation to risk assets, including off-balance sheet business. Guidelines have been issued regarding exposure risk management in the domestic sector by laying down norms for individual and group exposure, covering both funded and non-funded limits in relation to owned funds. Such norms were already in vogue in respect of the overseas operations of Indian banks. Suitable guidelines have also been issued regarding recognition of non-performing loans based on health codes and banks have been advised not to take to income interest on loans so classified. The need for greater transparency in accounting policies and practices of the banks is also receiving attention.

*Financial Diversification by Banks*

Banks in India have been diversifying their functions by taking up activities like merchant banking, equipment leasing, housing finance, venture capital, mutual funds, etc. With the approval of the Reserve Bank, six equipment leasing-cum-merchant banking subsidiaries (five by public sector banks and one by a private sector bank) have been set up. Three more subsidiaries exclusively for providing housing finance have also been set up. One of the public sector banks has been permitted by the Reserve Bank to set up a subsidiary jointly with the Bombay Stock Exchange for providing share clearing and stock-holding services. Two public sector banks have also set up mutual funds. With a view to ensuring orderly functioning of mutual funds set up by banks, the Reserve Bank has issued detailed guidelines to banks on important aspects of mutual fund business. The question of extending prudential supervision over the subsidiaries of banks is also receiving consideration.

## COMMITTEES AND WORKING GROUPS RELATING TO BANKING

### Committee of Direction (COD)

*Revision of Inventory Receivable Norms*

Based on the recommendations of the Committee of Direction (COD), norms for spares were revised and advised to banks in December 1988 pegging the same to the level of consumption instead of as a portion of inventories, i.e., up to 9 months' consumption for indigenously made spares and up to 12 months' for imported spares. Norms for inventory and receivables relating to paper industry were revised in December 1988 based on the recommendations of the Sub-Committee of COD which went into the matter. Apart from the above, the norms relating to diamond industry and flour mills were also modified taking into account the representations received from the concerned industries and the prevailing market conditions.

As against 15 major industries for which the Tandon Committee had prescribed norms, the COD has continuously reviewed their validity in terms of changes in market conditions and revised the norms in respect of most of them. Besides, some of the industries such as textiles, engineering and chemicals were disaggregated into several sub-groups on account of their special characteristics and norms were prescribed for each of them. Inventory and receivables norms have been prescribed for 45 sub-groups.

### 'Single Window' Concept for Lending by Banks on Consortium Basis

The Committee, comprising officials from the Reserve Bank and commercial banks, set up to examine the difficulties encountered in following the 'single window' approach for day-to-day disbursements and recoveries under the consortium financing arrangements, recommended the 'single window' approach only for documentation and first disbursement. Following the recommendations of this Committee, banks were advised in August 1988 that the lead bank in all consortium arrangements should release the initial fund requirements of borrowers and thereafter obtain pro rata reimbursement from the member banks.

## WORKING OF GUARANTEE CORPORATIONS

### Deposit Insurance and Credit Guarantee Corporation

The Deposit Insurance and Credit Guarantee Corporation (DICGC) made further progress during the year under review in providing insurance cover to small depositors in banks and guarantee support to credit facilities

extended by banks and other eligible financial institutions to certain categories of small borrowers in the priority sectors, including small-scale industrial units.

The scope of guarantee support has been extended with effect from April 1, 1989 to cover the entire priority sector advances to agriculture, small borrowers, and small scale industry. Besides its deposit insurance scheme, DICGC operates five credit guarantee schemes — four for small borrowers engaged in a wide range of activities, and one for SSI units.

The number of insured banks increased from 1,907 as on June 30, 1988 to 1,908 as on June 30, 1989.

The deposit insurance scheme covers 82 commercial banks, 196 RRBs, and 1630 co-operative banks in 16 States and 3 Union Territories. The insured deposits amounted to Rs. 90,192 crores, representing 71.1 per cent of the total assessable deposits at the end of June 1988.

The number of credit institutions participating in the Small Loans Guarantee Scheme, 1971 increased from 265 at the end of June 1988 to 267 at the end of June 1989, while those participating in the Service Co-operative Societies Guarantee Scheme, 1971, remained unchanged at 178. The number of State Financial Corporations (including State Industrial Development Corporations) participating in the Small Loans (Financial Corporations) Guarantee Scheme, 1971 and the primary urban co-operative banks participating in the Small Loans (Co-operative Banks) Guarantee Scheme, 1984 also remained same at 20 and 87, respectively, at the end of June 1989. The total guaranteed advances to small borrowers under the above four schemes aggregated Rs. 14,390 crores at the end of March 1989.

The number of institutions participating in the Corporation's Small Loans (Small Scale Industries) Guarantee Scheme, 1981 rose from 536 at the end of June 1988 to 545 at the end of June 1989. The guaranteed advances to small-scale industrial sector increased from Rs. 11,012 crores at the end of June 1988 to Rs. 15,836 crores at the end of June 1989, recording a rise of 43.8 per cent.

During the period July 1988-June 1989, the Corporation received 13.46 lakh claims for Rs. 327 crores in respect of the guarantee schemes relating to small borrowers and 0.84 lakh claims for Rs. 179 crores in respect of its scheme for small-scale industries. During the same period, 11.57 lakh claims for Rs. 252 crores in respect of small borrowers and 0.86 lakh claims for Rs. 166 crores in respect of the SSI scheme were settled by the Corporation.

The guarantee claims received by the Corporation have been exceeding the guarantee fee receipts since 1984. According to the system of valuation of the Corporation's liability on an actuarial basis, the Credit Guarantee Fund disclosed a deficit of Rs. 149 crores as on March 31, 1989, which was adjusted by transfer from the Deposit Insurance Fund of Rs. 221 crores, reducing thereby the Deposit Insurance Fund to Rs. 72 crores. In the previous year also a deficit of Rs. 265 crores in the Credit Guarantee Fund was adjusted by transfer from the Deposit Insurance Fund of Rs. 349 crores. The Corporation has raised its guarantee fee rate to 1.5 per cent per annum uniformly from April 1, 1989. The Corporation's accounting year has been changed from January-December to April-March.

**Export Credit Guarantee Corporation of India Ltd.**

During the financial year 1988-89, the Export Credit Guarantee Corporation of India Ltd. (ECGC) issued 8,235 policies and guarantees (excluding long-term guarantees) as against 6,228 in 1987-88. Including long-term policies and guarantees, the number stood at 8,546 during 1988-89 as against 6,498 in 1987-88. The total number of policies and guarantees (excluding long-term) in force at the end of March 1989 at 11,855 was larger as compared with 10,390 at the end of March 1988; including long-term policies and long-term guarantees, it stood at 13,744 at the end of March 1989 as against 12,521 at the end of March 1988. Value covered under insurance policies during 1988-89 was higher at Rs. 3,218 crores than that of Rs. 2,857 crores in 1987-88. Export finance (excluding long-term) covered under financial guarantees was also higher at Rs. 18,080 crores as compared with Rs. 13,097 crores in 1987-88; including long-term guarantees it stood at Rs. 18,229 crores during 1988-89 as against Rs. 13,233 crores in 1987-88. Scheme-wise details are furnished in Table VII-44. The

**Table VII-44 : 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 under Guarantees during April-June | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued during | | In force at the end of | | Bank Finance Guarantees availed of | | Issued during (April-June) | | In force at the end of June | | | |
| | 1987-88 | 1988-89 | 1987-88 | 1988-89 | 1987-88 | 1988-89 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| Standard Policies including Transfer Guarantees | 3,715 | 5,199 | 7,947 | 8,775 | — | — | 1,164 | 1,301 | 7,968 | 9,307 | — | — |
| Long-term Policies | 94 | 118 | 738 | 655 | — | — | 16 | 21 | 665 | 670 | — | — |
| Packing Credit Guarantees | 578 | 412 | 441 | 342 | 9,331 | 12,340 | 122 | 105 | 431 | 373 | 2,691 | 4,052 |
| Post-shipment Guarantees | 905 | 935 | 791 | 841 | 3,685 | 5,560 | 212 | 197 | 798 | 847 | 1,128 | 1,661 |
| Export Finance Guarantees | 177 | 249 | 163 | 230 | 35 | 54 | 45 | 77 | 184 | 260 | 6 | 17 |
| Export Production Finance Guarantees | 11 | 17 | 11 | 16 | 6 | 29 | 2 | 3 | 12 | 16 | 1 | Neg. |
| Export performance Guarantees (Short-term) | 842 | 1,423 | 1,037 | 1,651 | 40 | 97 | 306 | 380 | 1,215 | 1,884 | 14 | 19 |
| Export Performance Guarantees (Long-term) | 176 | 193 | 1,393 | 1,234 | 136 | 149 | 47 | 46 | 1,356 | 1,244 | 58 | 50 |
| **Total (excluding Long-term Policies and Long-term EPG)** | **6,228** | **8,235** | **10,390** | **11,855** | **13,097** | **18,080** | **1,851** | **2,063** | **10,608** | **12,687** | **3,840** | **5,749** |
| **Total (including Long-term Policies and Long-term EPG)** | **6,498** | **8,546** | **12,521** | **13,744** | **13,233** | **18,229** | **1,914** | **2,130** | **12,629** | **14,601** | **3,898** | **5,799** |

*Source :* Export Credit Guarantees Corporation of India Ltd.

premium earned during 1988-89, excluding that under Exchange Fluctuation Risk Cover Scheme, aggregated Rs. 31,40 crores as against Rs. 23,96 crores indicating a rise of 31.05 per cent over the previous year 1987-88. During 1988-89, total value of gross claims paid amounted to Rs. 31.40 crores and value of claims recovered amounted to Rs. 2.84 crores, resulting in net claims paid of Rs. 28.56 crores.

During April-June 1989, ECGC issued 2,063 policies and guarantees (excluding long-term ones) as against 1,851 in April-June 1988. Including long-term policies and guarantees, the number stood at 2,130 during April-June 1989 as against 1,914 during April-June 1988. The total number of policies and guarantees (excluding long-term ones) in force at the end of June 1989 at 12,687 was higher as compared with 10,608 at the end of June 1988; including long-term policies and guarantees it stood at 14,601 at the end of June 1989 as against 12,629 at the end of June 1988. Scheme-wise details are furnished in Table VII-44.

The schemes to cover Exchange Fluctuation Risk at bid and contract stages introduced in 1980 are operated by the Corporation on behalf of the Government of India and the operational gains or losses are transferred to the Market Development Fund administrated by the Ministry of Commerce. The scope of the Scheme is now enlarged to cover certain export-linked-import-transactions and advance payments received from foreign buyers.

The Corporation continued its endeavours to get closer to its existing and potential customers and identified more centres for expanding the network of its branches. Offices of the Corporation were set up at Jaipur, Bhubaneswar, Coimbatore and Guwahati to cater to the needs of the clients in the States of Rajasthan, Orissa, Tamil Nadu and Assam.

During the year, a number of seminars/meetings were organised at various export centres for creating better awareness of the schemes amongst exporters and banks.

## REGULATION OF DEPOSITS ACCEPTED BY NON-BANKING COMPANIES AND FIRMS

### Non-Banking Companies — Regulations Governing Acceptance of Deposits

The Reserve Bank's directions of 1977 applicable to financial companies have been amended in terms of Notification dated March 28, 1989. The amendment, *inter alia*, provides for raising the minimum and maximum periods for which deposits can be accepted/renewed by hire-purchase finance, equipment leasing and housing finance companies and imposes, for the first time, ceiling restrictions in respect of quantum and rates of interest and brokerage on deposits accepted by housing finance companies. The rates of brokerage payable to brokers have also been raised and brought on par with those payable by non-financial companies. With a view to protecting the interest of depositors, the Companies (Amendment) Act, 1988, *inter alia*, has empowered the Company Law Board to take cognisance of non-payment of deposits by any non-banking company and provide adequate relief to the depositors by issuing orders to the defaulting company to make repayment of such deposits.

### Non-Banking Companies — Chit Funds Act, 1982

The Chit Funds Act, 1982 has become operative in 17 States/Union Territories and the Government of India have since issued a notification to bring into force the Act in the State of Rajasthan with effect from July 1, 1989. Necessary follow-up action is being taken with the remaining States.

### Acceptance of Deposits by Unincorporated Bodies

During the year under review, five more State Governments issued notification authorising suitable officers to take action against unincorporated bodies as envisaged in Sections 45T and 58E of the Reserve Bank of India Act, 1934, thereby bringing the total number of such States/Union Territories to 20.

Apart from the action taken by the State Governments, the Reserve Bank either singly or with the assistance of the State police/Government officials has so far conducted raids in the office premises of 114 unincorporated bodies located in Gujarat, Karnataka, Kerala, Tamil Nadu and Delhi. Prosecution proceedings have been launched against 17 such bodies for violation of the provisions of Chapter IIIC of the Reserve Bank of India Act, 1934. While fine has been levied in one case, in another case

proceedings have been quashed. The remaining cases are in different stages of proceedings.

### Trend in Growth of Deposits with Non-Banking Corporate Sector

Aggregate deposits with 10,166 non-banking companies as on March 31, 1988 stood at Rs. 24,917 crores as against Rs. 21,400 crores held by 9,916 companies at the end of March 1987 — an increase of Rs. 3,517 crores over the year. Non-financial companies numbering 2,691 held a total of regulated deposits of Rs. 3,706 crores and exempted deposits of Rs. 14,583 crores accounting for a major share of company deposits in the non-banking corporate sector. Financial companies numbering 7,475 (including 1,148 miscellaneous non-banking companies) held regulated and exempted deposits aggregating Rs. 739 crores and Rs. 5,889 crores, respectively, at the end of March 1988. Regulated deposits of Rs. 4,445 crores with the non-banking corporate sector as on March 31, 1988 constituted 3.8 per cent of total deposits with all scheduled commercial banks as compared with 4 per cent in March 1987. Regulated deposits with non-banking companies rose by 9 per cent during 1987-88, as against the rise of 14.9 per cent in deposits of scheduled commercial banks. Details of deposits held by differnt categories of companies as at the end of March 1987 and 1988 are presented in Table No. VII-45.

## RURAL CREDIT

### Institutional Finance for Agriculture

Under the multi-agency approach for provision of finance for agriculture and allied activities, the rural credit delivery system in the country are co-operatives and Scheduled Commercial Banks including Regional Rural Banks (RRBs). Active support is provided by both the Central and State Governments and the national level institutions such as the National Bank for Agriculture and Rural Development (National Bank) and the Reserve Bank of India

**Table VII-45 : Deposits with the Non-Banking Corporate Sector (End-March)**

(Rupees crores)

| Category | 1986-87 | | 1987-88* | |
|---|---|---|---|---|
| | No. of Companies Reporting | Amount | No. of Companies Reporting | Amount |
| 1 | 2 | 3 | 4 | 5 |
| Aggregate deposits (i+ii) | 9,916 | 21,400 | 10,166 | 24,917 |
| (i) Regulated deposits | | 4,077 | | 4,445 |
| (ii) Exempted deposits | | 17,323 | | 20,472 |
| **A. Deposits held by :** | | | | |
| (i) Government companies | 63 | 11,958 | 109 | 12,766 |
| | (0.6) | (55.9) | (1.1) | (51.2) |
| (ii) Public limited companies | 3,143 | 7,924 | 3,176 | 9,961 |
| | (31.7) | (37.0) | (31.2) | (40.0) |
| (iii) Private limited companies | 6,710 | 1,518 | 6,881 | 2,190 |
| | (67.7) | (7.1) | (67.7) | (8.8) |
| **B. Deposits held by :** | | | | |
| (i) Financial companies | 5,957 | 5,206 | 6,327 | 5,852 |
| | (60.0) | (24.3) | (62.2) | (23.5) |
| (ii) Non-financial companies | 2,803 | 15,459 | 2,691 | 18,289 |
| | (28.3) | (72.3) | (26.5) | (73.4) |
| (iii) Miscellaneous non-banking companies | 1,156 | 735 | 1,148 | 776 |
| | (11.7) | (3.4) | (11.3) | (3.1) |

* Provisional.

*Note :* Figures in brackets are percentages to total number of reporting companies/aggregate deposits as the case may be.

(RBI). 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). At the grassroot level, Primary Agricultural Credit Societies (PACS) provide mainly short-term and medium-term loans to agriculture, while long-term credit to members is granted by State Land Development Banks (SLDBs). Commercial banks and RRBs provide multi-purpose and multi-term credit for agriculture and allied activities. At the national level, the National Bank for Agriculture and Rural Development is the apex financial institution for agricultural credit and provides refinance assistance to the agencies disbursing rural credit. 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**

The genesis of the Service Area Approach and its salient aspects were explained in last year's Report. In brief, the Service Area Approach to rural lending which is in operation since April 1989 envisages that each semi-urban and rural branch of commercial banks would be assigned specific areas within which they will operate, adopting a planned approach for its economic growth and thus avoid duplication of efforts and scattered lending over wide areas. The new approach is expected to result in a distinct improvement in the quality of rural lending and lead to a better and more integrated system of credit delivery. This approach is also expected to forge a better link between bank credit and production, productivity and income levels.

As at the end of June 1989, branches of banks that have prepared integrated credit plans have covered 6 lakh villages that fall in their service areas. They were prepared by branches in all the States, except Arunachal Pradesh where the work was still in progress. The annual branch credit plans have been aggregated into block credit plans which in turn have been aggregated into district credit plans. The service area of each branch normally comprises 15 to 25 villages. The Lead Bank Groups have identified new centres for opening of branches in areas where villages allotted exceeded the prescribed norm and 1,236 additional centres were allotted upto June 30, 1989 for opening new branches, besides the 5,360 centres already allotted under the Branch Licensing Policy 1985-90. The Block Level Bankers' Committees have been constituted for co-ordination between credit institutions and field level developmental agencies and monitoring the implementation of the credit plans. Guidelines have been issued to banks to ensure flexibility in implementation so that transition to the new approach is brought about in a smooth manner without any dislocation in the rural lending operations and for flexibility in the implementation of the Service Area Approach.

**Finance for Agricultural and Allied Activities**

Complete data on institutional finance for agriculture and allied activities are not available for 1988-89. Data in respect of loans issued by the co-operatives are provisional for 1987-88 and those for the year 1988-89 are estimates of the National Bank. In the case of scheduled commercial banks, the available data relate to loans issued in 1986-87 and outstandings upto end-June 1988 and end-March 1989. Tables VII-46 and VII-47 contain data on institutional finance to agriculture and allied activities on the basis of available data.

*(a) Direct Finance*

Direct finance outstanding for agriculture and allied activities to institutional agencies, viz., co-operatives, scheduled commercial banks, and State Governments together aggregated Rs. 20,642 crores at the end of June 1988 as against Rs. 17,881 crores at the end of June 1987, registering an increase of Rs. 2,761 crores or 15.4 per cent over the year. Among the different agencies catering to rural credit, co-operatives reported outstandings of Rs. 9,213 crores at the end of June 1989, which represents an increase of 10.4 per cent over outstandings of Rs. 8,347 crores at the end of June 1988. The short-term loans outstanding by PACS were estimated to have gone up from Rs. 3,871 crores at the end of June 1988 to Rs. 4,335 crores at end-June 1989 or a rise of 12 per cent.

The medium and long-term loans by PACS and LDBs have shown a similar increase from

**Table VII-46 : 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 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 | 1985 | 1986 | 1987 | 1988 | 1989 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| **I. Co-operatives** | **3,154.3** | **3,674.0** | **3,701.0** | **4,710.4P** | **5,226.5E** | **6,366.9** | **6,947.0** | **7,465.1** | **8,346.6P** | **9,213.0E** |
| *of which :* | | | | | | | | | | |
| (a) Short-term loans by PACS[1] | 2,323.3 | 2,747.0 | 2,619.9 | 3,119.8 | 3,431.8 | 2,835.9 | 3,237.0 | 3,293.0 | 3,870.8P | 4,335.2P |
| | (45.0) | (52.2) | (58.0) | (66.7)E | (73.4) | (105.0) | (114.5) | (125.0) | (136.0) | (152.3) |
| (b) Medium and long-term loans by PACS/LDBs[2] | 831.0 | 927.0 | 1,081.1 | 1,590.6 | 1,794.7 | 3,531.0 | 3,710.0 | 4,172.1 | 4,475.8 | 4,877.8 |
| | (461.3) | (533.0) | (551.7) | (1,023.8) | (1,177.3) | (2,386.4) | (2,624.0) | (2,829.4) | (3,084.4) | (3,361.6) |
| **II. State Governments[3]** | **241.4** | **353.6** | **209.6** | **478.4** | **309.3RE** | .. | .. | .. | .. | .. |
| **III. Scheduled Commercial Banks (excluding RRBs)** | **2,461.0** | **2,728.9** | **3,332.4** | .. | .. | **6,612.9** | **8,416.0** | **9,354.8** | **10,982.2P** | **13,147.1*** |
| *of which :* | | | | | | | | | | |
| (a) Short-term loans | 1,034.9 | 1,252.4 | 1,481.5 | .. | .. | 1,964.2 | 2,355.4 | 2,619.1 | .. | .. |
| (b) Term loans | 1,426.1 | 1,476.5 | 1,850.9 | .. | .. | 4,648.7 | 6,060.6 | 6,735.7 | . | .. |
| **IV. Regional Rural Banks** | **310.1** | **402.0** | **476.9** | **483.2** | **480.8P** | **696.4** | **871.1** | **1,061.2** | **1,313.4** | **1,686.8E** |
| *of which :* | | | | | | | | | | |
| (a) Short-term loans | 131.7 | 176.1 | 201.1 | 245.8 | 264.6 | 206.1 | 265.2 | 324.0 | 400.4 | 558.7 |
| (b) Term loans | 178.4 | 225.9 | 275.8 | 237.4 | 216.2 | 490.3 | 605.9 | 737.2 | 913.0 | 1,128.1 |
| **V. Total Direct Finance (I to IV)** | **6,166.8** | **7,158.5** | **7,719.9** | .. | .. | **13,676.2** | **16,234.1** | **17,881.1** | **20,642.2** | .. |
| *of which :* | | | | | | | | | | |
| (a) Short-term loans | 3,731.3 | 4,529.1 | 4,512.1 | .. | .. | 5,006.2 | 5,857.6 | 6,236.1 | .. | .. |
| (b) Medium and long-term loans | 2,435.5 | 2,629.4 | 3,207.8 | .. | .. | 8,670.0 | 10,376.5 | 11,645.0 | .. | .. |

E = Estimates. RE = Revised Estimates P = Provisional .. = Not available * = End-March 1989 (Provisional).

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-47 : 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 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 | 1985 | 1986 | 1987 | 1988 | 1989 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| **I. Co-operatives[1]** | **2,993.0** | **3,744.2** | **4,803.0E** | **6,047.0E** | **7,635.0E** | **2,195.0** | **2,885.5** | **3,937.0E** | **5,202.0E** | **6,314.0E** |
| *of which :* | | | | | | | | | | |
| (a) State Co-operative Banks[2] | 2,015.0 | 2,619.5 | 3,497.0 | 4,546.0 | 5,909.0 | 1,250.0 | 1,562.5 | 2,064.0 | 2,580.0 | 2,644.0 |
| (b) Central Co-operative Banks[2] | 978.0 | 1,124.7 | 1,306.0 | 1,501.0 | 1,726.0 | 945.0 | 1,323.0 | 1,873.0 | 2,622.0 | 3,670.0 |
| **II. Scheduled Commercial Banks (excluding RRBs)[3]** | .. | .. | .. | .. | .. | **1,459.3** | **1,366.4** | **1,361.0P** | **1,462.1P** | **1,507.0*** |
| **III. Regional Rural Banks** | **8.0** | .. | .. | .. | **7.4E** | **30.3** | **33.3** | **34.2** | **35.4** | **48.7E** |
| **IV. Rural Electrification Corporation[4]** | **327.1** | **354.5** | **440.0#** | **654.6#** | **804.5#** | **1,674.5** | **1,920.6** | **2,291.7#** | **2,828.6#** | **3,467.3#** |
| **V. TOTAL INDIRECT FINANCE** | .. | .. | .. | .. | .. | **5,359.1** | **6,205.8** | **7,623.9** | **9,528.1** | .. |

.. = Not available. E = Estimates. P = Provisional. # = Financial year (April-March) * = End March 1989 (Provisional).

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 outstanding 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.

*Sources :* (i) National Bank for Agriculture and Rural Development.
(ii) Reserve Bank of India.
(iii) Rural Electrification Corporation Ltd.

Rs. 4,476 crores at end-June 1988 to Rs. 4,878 crores at end-June 1989. Direct finance disbursed for agriculture by the co-operatives increased from Rs. 4,710 crores in 1987-88 to Rs. 5,227 crores in 1988-89 (estimates) or an increase of Rs. 517 crores or 11.0 per cent. The short-term loans by PACS went up by Rs. 312 crores (10.0 per cent) to Rs. 3,432 crores in 1988-89 from Rs. 3,120 crores in 1987-88. Disbursements by RRBs in the year recorded a marginal decline from Rs. 483 crores in 1987-88 to Rs. 481 crores in 1988-89. Loans outstanding in respect of direct finance provided by RRBs rose from Rs. 1,313 crores at the end of June 1988 to Rs. 1,687 crores at the end of June 1989, recording an increase of 28.4 per cent over the preceding year. The amount of direct loans outstanding by scheduled commercial banks moved up from Rs. 10,982 crores at the end of June 1988 to Rs. 13,147 crores at the end of March 1989, which is an increase of 19.7 per cent over the period.

*(b) Indirect Finance**

Data on indirect finance to agriculture are given in Table VII-47. The outstandings of the co-operatives increased from Rs. 5,202 crores at the end of June 1988 to Rs. 6,314 crores (estimates) at the end of June 1989, which represents a rise of Rs. 1,112 crores or 21.4 per cent over the year.

Similarly the outstandings of scheduled commercial banks which are estimated at Rs. 1,507 crores at the end of March 1989, marks an increase of Rs. 45 crores or 3.1 per cent over the outstandings of Rs. 1,462 crores at the end of June 1988. In the case of RRBs, the outstandings at Rs. 49 crores at the end of June 1989 represent an increase of Rs. 14 crores or 40.0 per cent over the amount outstanding at the end of June 1988. The loans outstanding by the Rural Electrification Corporation went up from Rs. 2,829 crores at the end of June 1988 to Rs. 3,467 crores at the end of June 1989 or by 22.5 per cent.

The estimates of indirect finance for agriculture and allied activities by co-operatives are available up to 1988-89. Indirect finance by co-operatives increased from Rs. 6,047 crores in 1987-88 to Rs. 7,635 crores in 1988-89, a major portion of which (77.4 per cent) was disbursed by the SCBs. The loans disbursed by the Rural Electrification Corporation also showed an upward trend from Rs. 655 crores in 1987-88 to Rs. 805 crores in 1988-89.

## NATIONAL BANK AND RURAL CREDIT

### Sources and Uses of Funds

### Resources of the National Bank

The National Bank mobilised its financial resources during 1988-89 (July-March),* mainly by borrowings from the Reserve Bank of India under General Line of Credit and contributions from the Reserve Bank to the National Rural Credit (Long-term Operations) Fund and National Rural Credit (Stabilisation) Fund. The aggregate net resources mobilised by the National Bank during 1988-89 (July-March) amounted to Rs. 1,596 crores as indicated in Table VII-48.

During 1988-89 (July-March), the Reserve Bank contributed Rs. 330 crores to NRC (LTO) Fund and Rs. 10 crores to NRC (Stabilisation) Fund out of its profits as against Rs. 300 crores and Rs. 10 crores, respectively, in the previous year. Similarly, the contributions of the National Bank were Rs. 235 crores to NRC (LTO) Fund and Rs. 10 crores to NRC (Stabilisation) Fund during the year, as compared to Rs. 285 crores and Rs. 10 crores, respectively, in the previous year. The net borrowings from the Reserve Bank during the year amounted to Rs. 1,010 crores under the General Line of Credit (GLC) for short-term lending operations for agriculture and other purposes as against the net borrowings of Rs. 467 crores during 1987-88 under Section 17 (4E) of the Reserve Bank of India Act, 1934. The limit under this line of credit was Rs. 2,700 crores (Rs. 2,100 crores under GLC-I for seasonal agricultural operations and Rs. 600 crores under GLC-II for purposes other than seasonal agricultural operations) as against the

* 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 Corporation for on-lending to weaker sections in the agriculture sector.

* The National Bank has changed its accounting year from July-June to April-March from the year 1988-89 onwards. Therefore, the material data on the operations of the National Bank appearing in this Chapter pertains to the 9 month period from July 1988 to March 1989, unless indicated otherwise.

**Table VII-48 : Resources (Net) Mobilised by the National Bank**

(Rupees crores)

| Resources | 1987-88 (July-June) | 1988-89 (July-March) |
|---|---|---|
| 1 | 2 | 3 |
| Reserves and Surplus | 45 | 34 |
| NRC (LTO) Fund | 585 | 565 |
| NRC (Stabilisation) Fund | 20 | 20 |
| Deposits | 3 | (-)6 |
| Bonds & Debentures | 19 | (-) 44 |
| Borrowings from Government of India | 196 | (-)6 |
| Borrowings from RBI | 467 | 1,010 |
| Other Liabilities | 10 | 23 |
| **Total** | **1,345** | **1,596** |

limit of Rs. 1,950 crores sanctioned by the Reserve Bank during the year 1987-88.

The borrowings from the Government of India during 1988-89 (July-March) amounted to Rs. 93 crores. However, as a result of repayments of Rs. 99 crores during the year, there was a net repayment of Rs. 6 crores to the Government of India, as against the net borrowings of Rs. 196 crores during the year 1987-88. The National Bank did not resort to market borrowings during 1988-89 (July-March). The Bonds of the erstwhile Agricultural Refinance and Development Corporation (ARDC) XIV series for Rs. 44 crores were redeemed during the year. There was, therefore, a net repayment of Rs. 44 crores on this account as against the net borrowings of Rs. 19 crores in the previous year, i.e., 1987-88. The National Bank received deposits from tea companies under the Tea Development Account Scheme, 1985 and Investment Deposit Account Scheme 1986 (Tea). The balances under these schemes as at end-March 1989, were Rs. 14 crores and Rs. 16 crores, respectively, as against the corresponding balances of Rs. 20 crores and Rs. 16 crores in the respective schemes at end-June 1988. Deposits are also received by the National Bank from the Central and State Governments under Special Loan Account for financing ineligible farmers under Comprehensive Area Development Authority (CADA) Projects. The balances outstanding as on March 31, 1989 under this head of account were Rs. 18 crores from the Central Government and Rs. 11 crores from the State Governments, as against Rs. 18 crores and Rs. 10 crores, respectively, at end-June 1988.

**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; another two are 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 negotiated for routing 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 $2,783 million as on March 31, 1989 as against US $2,700 million as on June 30, 1988. Of the 44 projects, 40 projects have been completed/closed as on March 31, 1989. The utilisation of credit component under these projects by the National Bank was to the extent of 96 per cent. The currently on-going projects are NABARD Credit Project-I, Haryana Irrigation Project - Phase-II, OPEC Fund Project (to supplement three Minor Irrigation Schemes in Uttar Pradesh) and the Vth Indo-Swiss NABARD Project in support of non-farm sector activities and institutional developments. During the period July 1988 to March 1989, credit assistance to the extent of

Dfl. 50 million, in addition to an amount of Dfl. 45 million in the previous year, was made available by the Royal Government of the Netherlands. It was received and utilised by way of co-financing of the National Bank's operations under the NABARD Credit Project-I. Of the World Bank assistance of US $375 million under NABARD Credit Project-I, the cumulative drawals as on March 31, 1989, were of the order of US $314.5 million. The overall progress under the NABARD Credit Project-I has been quite satisfactory. However, the pilot project component is yet to fully achieve its objectives and for this purpose the World Bank has agreed in principle to extend the period of its implementation.

**Projects in Pipeline**

*National Seeds Project-III*

The National Seeds Project (NSP) - III has been negotiated by the Government of India with World Bank for IDA assistance aggregating US $29.9 million to be routed through the National Bank as Investment Credit Component for providing refinance support to the participating banks under the project. The date from which the project would become effective is yet to be finalised.

**The National Bank's Assistance for Agriculture and Other Allied Activities**

The National Bank, as an apex institution in the organised rural credit structure, supports a broad spectrum of productive activities in the rural sector. It channelises its refinance facilities for agricultural and rural development in the country through the major financial intermediaries of the organised banking sector dispensing credit, namely the co-operatives and commercial banks including RRBs. The National Bank has imparted an impetus 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.

Short-term credit is provided by the National Bank to SCBs/RRBs for financing seasonal agricultural operations (crop loans), marketing of crops, purchase and distribution of fertilisers and working capital requirements of the co-operative sugar factories. It also provides medium-term credit 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-49 and credit facilities are reviewed in the following paragraphs.

**Credit Limits**

**Short-term**

The National Bank sanctioned short-term credit limits for Seasonal Agricultural Operations (SAO) during 1988-89 (July-June) aggregating Rs. 2,554 crores as against Rs. 2,000 crores in the corresponding period last year. The increase of Rs. 554 crores represents a rise of 27.7 per cent during the period July 1988 to June 1989 as compared to an increase of Rs. 575 crores in 1987-88 (July-June). The sanctions during 1988-89 also included Rs. 243 crores under the National Oilseeds Development Project (NODP)/Oilseeds Production Thrust Project (OPTP). The drawals against these limits up to June 1989 were Rs. 3,677 crores as compared to Rs. 2,576 crores in 1987-88 (July-June). Total repayments for the year 1988-89 (July-June) were of the order of Rs. 2,935 crores as against Rs. 2,326 crores in 1987-88 (July-June). The outstanding amounts increased from Rs. 910 crores at the end of June 1988 to Rs. 1,652 crores by the end of June 1989. Table VII-49 gives the details of financial accommodation provided by the National Bank for agriculture and other activities such as marketing of crops and distribution of fertilisers, etc.

**Medium-term**

Credit limits for medium-term agricultural investment purposes sanctioned to SCBs on behalf of CCBs and drawals against these limits

**Table VII-49 : The National Bank's Credit To Co-operatives and State Governments During 1987-88 and 1988-89**

(Rupees crores)

| Section of the NABARD Act, 1981 | Term-wise Purpose-wise Finance | Period for which limits are sanctioned | 1987-88 | | | | 1988-89 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 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** | **2496** | **3380** | **3038** | **1132** | **3015** | **4576** | **3718** | **1990** |
| 21(1)(i)/2(i) | (i) (a) Seasonal agricultural operations@ (at 3% below Bank Rate from March 1978) | July-June | 2000 | 2576 | 2326 | 910 | 2554 | 3677 | 2935 | 1652 |
| 21(1)(i)/3 | (b) Out of which for National Oilseeds Development Project/Oilseeds Production Thrust Project | July-June | 192 | 197 | 142 | 68 | 243 | 538 | 486 | 120 |
| | (c)Interim limits for creation of non-overdue cover in respect of SAO | July-June | 102 | 35 | 32 | 3 | 33 | 25 | 28 | -- |
| 21(1)(i)/3(b) | (ii) Marketing of crops other than cotton and kapas (at Bank Rate from June 1978) | July-June | 3 | ... | ... | 1 | 9 | 5 | 1 | 5 |
| 21(1)(i)/3(b) | (iii) Marketing of cotton and kapas including monopoly procurement of cotton (at Bank Rate from June 1978) | July-June | 2 | -- | -- | -- | 1 | -- | -- | -- |
| 21(1)(ii)/3(b) | (iv) Purchase and distribution of fertilisers (at 1% above Bank Rate from June 1978) | January-December | 37 | 33 | 35 | 15 | 42 | 19 | 19 | 15 |
| 21(1)(v)/3(a) | (v) (a) Production and marketing of handloom products (at 2½% below Bank Rate from March 1978) | April-March | 313 | 694 | 613 | 183 | 338 | 796 | 689 | 290 |
| | (b) Interim limits for creation of non-overdue cover in respect of weavers' societies | April-March | 2 | -- | -- | -- | -- | -- | -- | -- |
| 21(1)(v)/3(a) | (vi) Financing of other cottage and small scale industries (2½% below Bank Rate from March 1978)£ | April-March | 14 | 10 | 9 | 9 | 16 | 12 | 9 | 12 |

(Contd.)

**Table VII-49 : The National Bank's Credit To Co-operatives and State Governments During 1987-88 and 1988-89 (Concld.)**

(Rupees crores)

| Section of the NABARD Act, 1981 | Term-wise/Purpose-wise Finance | Period for which limits are sanctioned | 1987-88 | | | | 1988-89 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Limits sanctioned | Drawals | Repayments | Outstandings | Limits sanctioned | Drawals | Repayments | Outstandings |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 21(1)(iv)/21(4) | (vii) Purchase and sale of yarn (at Bank Rate) | April-March | 13 | 22 | 23 | 1 | 15 | 42 | 34 | 9 |
| 21(1)(iii)/21(3)(a)&(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) | Specified period | 10 | 10 | — | 10 | 7 | — | 3 | 7 |
| 21(1)(iii)/(21)(3)(a) | (x) Collection & Marketing of minor forest produce (Bank Rate) | July-June | — | — | — | — | — | — | — | — |
| | **II. Medium-term** | **Total** | **356** | **293** | **156** | **339** | **174** | **135** | **145** | **329** |
| 24 | (i) Agricultural Purposes (3% below Bank Rate)@ | January-December | 21 | 13 | 16 | 31 | 18 | 10 | 14 | 27 |
| | (ii) Purchase of shares in co-op. processing societies/sugar factories (Bank Rate) | January-December | — | — | — | — | — | — | — | — |
| 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 | 335 | 280 | 140 | 308 | 156 | 125 | 131 | 302 |
| | **III. Long-term** | **Total** | **88** | **88** | **15** | **169** | **51** | **45** | **19** | **195** |
| 27 | Loans to State Governments for contribution to share capital of co-op. credit institutions (at 6% per annum) | April-March | 88 | 88 | 15 | 169 | 51 | 45 | 19 | 195 |
| | **Total Credit (I+II+III)** | | **2940** | **3761** | **3209** | **1640** | **3240** | **4756** | **3882** | **2514** |

— = Nil or Negligible.

£ Includes financing of individual rural artisans through PACS.

@ Includes limits sanctioned and operations for NODP/OPTP which is separately indicated at "b"

*Source :* National Bank for Agriculture and Rural Development.

amounted to Rs. 18 crores and Rs. 10 crores, respectively, during 1988 (January-December) as against Rs. 21 crores and Rs. 13 crores, respectively, in 1987. The amount outstanding at the end of December 1988 was Rs. 27 crores as against Rs. 31 crores in the corresponding period of 1987. The details of credit limits sanctioned to SCBs on behalf of CCBs and drawals made by them during the year is given in Table VII-49.

*Conversion Loans*

During 1988-89 (July-June), SCBs/CCBs were sanctioned by the National Bank, credit limits of Rs. 156 crores, upto end-June 1989, to convert short-term agricultural loans (including rephasing and rescheduling of loans) granted to farmers into medium-term loans due to the occurrence of widespread crop failure following drought, floods or other natural calamities. During 1987-88 (July-June), an aggregate credit limit of Rs. 335 crores had been sanctioned. The drawals against the limits for 1988-89 upto June 1989 amounted to Rs. 125 crores as compared to the drawals of Rs. 280 crores during 1987-88 (July-June). The amount of outstanding credit was Rs. 308 crores at the end of June 1988 as compared to Rs. 302 crores at the end of June 1989.

**Long-term**

During 1988-89 (April-March), long-term credit limits amounting to Rs. 51 crores were sanctioned to State Governments for contribution to the share capital of co-operative credit institutions as against Rs. 88 crores sanctioned in 1987-88. The drawals against these limits amounted to Rs. 45 crores during 1988-89 as against Rs. 88 crores in 1987-88. The amount outstanding against these loans increased from Rs. 169 crores at the end of March 1988 to Rs. 195 crores at the end of March 1989.

**Important Policy Changes**

**Short-term credit**

*(a) National Oilseeds Development Project*

The National Bank has decided to sanction separate short-term credit limits to CCBs and RRBs for providing credit to areas under the Oilseeds Production Thrust Project (OPTP) districts. Also, those CCBs which are ineligible for sanction of limits for financing SAO on account of the high level of overdues will be sanctioned special credit limits against Government guarantee for the limited purpose of financing oilseeds growers under OPTP. In respect of the districts covered under National Oilseeds Development Project (NODP) and OPTP, the credit limits sanctioned for NODP can also be utilised for financing cultivation of oilseeds under OPTP.

*(b) Special Rice Production Programme (SRPP)*

The CCBs which are covered under the Special Rice Production Programme (SRPP) launched by the Government of India are required to indicate separately, the total acreage proposed to be brought under the scheme and the estimated credit requirements. These credit requirements are taken into consideration by the National Bank and accordingly higher credit limits are sanctioned to the banks functioning in the SRPP districts.

*(c) 12-point Action Programme for Rehabilitation of Weak CCBs*

The National Bank has launched from the year 1987-88, a three year time-bound 12-Point Action Programme for restoration of eligibility credit limits for weak SCBs under two-tier and weak CCBs in the three-tier structure. The National Bank agreed to sanction ad hoc short-term credit limits for financing seasonal agricultural operations to such of the weak banks that are covered under the 12-Point Programme and are otherwise ineligible to enjoy a credit limit from the National Bank provided these banks complied with the other conditions stipulated in the programme.

*(d) Finance for CCBs not having sufficient Non-overdue Cover*

With a view to enabling the co-operative banks to provide crop loans to the farmers who have repaid their dues in full, the National Bank has decided to allow drawals on behalf of those CCBs which are not having sufficient non-overdue cover to operate on the credit limits, with a condition that within a period of 3 months from the date of such drawals the banks will ensure an increase in the outstanding

against PACS to the extent of such drawals made.

*(e) Produce Marketing Loans*

The Government of India has formulated a scheme, viz., Produce Marketing Loan Scheme, to extend loans to small farmers against hypothecation of the agricultural produce stored in the farmers' premises. The scheme is to be implemented in districts covered under Special Foodgrains Production Programme (SFPP) covering paddy, wheat, mustard and groundnut, chana, arhar/tur. The quantum of the loan will be twice the crop loan or 75 per cent of the value of the produce subject to a maximum of Rs. 10,000 per individual. The loan will carry the same rate of interest as that of crop loans. The National Bank has agreed to provide refinance to the co-operative banks for the purpose at the same rate as that of seasonal agricultural operations .

**Medium-term Credit**

*(a) Conversion of Short-term Loans into Medium-term Loans*

The National Bank has been providing conversion facilities in the event of natural calamities in respect of short-term crop loans provided to farmers as net of subsidy. It has since been decided to grant medium-term credit facilities pending settlement of claims by the General Insurance Corporation (GIC) for the entire amount of short-term loans outstanding against members of PACS in affected areas provided the State Government furnishes crop cutting data to the GIC. The insurance claims settled afterwards will be adjusted in the same ratio as conversion loans are shared between the various institutions involved.

The National Bank has decided to charge the same rate of interest as that for financing seasonal agricultural operations in respect of refinance provided for conversion of short-term agricultural loans into medium-term loans. This revised interest rate will be applicable only in respect of those short-term agricultural loans issued on or after March 1, 1988 and converted on account of natural calamities.

*(b) Measures for Drought/Flood Relief*

In view of the frequent recurrence of natural calamities such as drought and floods in several States of the country in the recent past, the National Bank decided to extend the facilities granted to the farmers affected by natural calamities for 3 or more years in succession. The concessions/re-schedulement of crop loans extended in the year 1988-89 are enumerated below:

(i) The State Co-operative Banks/Central Co-operative Banks/Regional Rural Banks (SCBs/CCBs/RRBs) shall defer, till the next normal year, the recovery of the amounts falling due on account of principal as well as interest in the current year (July 1988 to June 1989) in respect of short-term (crop) loans converted/rescheduled as medium-term loans.

(ii) For each of the years affected by drought/floods, banks shall grant the conversion/reschedulement facility to the affected borrowers for a period of 7 years (instead of the usual period of 5 years) inclusive of the one-year moratorium period as referred to in sub-paragraph (i) above. The loans borrowed during the consecutive years of drought/floods will thus be rescheduled over a total period of 10 years.

(iii) The rate of interest charged for such rescheduled loans shall be the same as that for crop loans.

(iv) Banks shall not charge penal interest on individual agricultural loans upto Rs. 25,000 borrowed during the period of 3 or more years of consecutive drought/floods. The penal interest so foregone by PACS shall be borne by the respective SCB/CCB/PACS in the same proportion of their involvement (outstandings) in such loans.

(v) Banks shall not compound interest on the dues converted/rescheduled.

Further, certain concessions to borrowers affected by crop failure during 1988-89 or 2 consecutive years (1987-88 and 1988-89) were granted. The crop loans affected by natural calamities in 1987-88 would have been already converted into three-year loans. Such loans may be rescheduled as five-year loans. Loans affected only during the current year, i.e., 1988-89 by drought/floods may be converted into three-year loans and interest may be deferred

and collected next year in the case of small farmers.

In the case of short-term (crop) loans, the total interest payable by small and marginal farmers shall not exceed the principal amount. This will apply to CCBs also which have advanced (crop) loans to PACS for small and marginal farmers.

*(c) National Bank Assistance*

In regard to the conversion/reschedulement facilities granted by banks, the National Bank will provide corresponding facilities including the deferment of principal and interest, longer period of repayment, wherever applicable. For co-operative banks, the National Bank provides refinance upto 60 per cent of the conversions and reschedulement to be effected at the field level. This share will be raised by reducing, on merits of each case, the shares of the SCBs from 10 per cent to 5 per cent, CCBs from 15 per cent to 5 per cent and in exceptional cases, also of the State Governments if Central Government drought assistance is not available for the purpose. Similarly, the share of the National Bank of 70 per cent in the case of RRBs will be raised if RRBs are unable to meet their share of 5 per cent.

**Long-term Credit**

The National Bank continued to provide loans to State Governments for contributing to the share capital of co-operative credit institutions out of NRC (LTO) Fund. In order to extend relief to the PLDBs functioning in the areas of operation where there has been three consecutive droughts, the National Bank decided to provide loans to State Governments for contribution to the share capital of PLDBs irrespective of their level of overdues. Such contribution is Rs. 2 lakhs to each of the PLDBs.

It was decided to charge a penal interest in case of default by the State Governments in repayment of the loan instalments provided to them for contribution to the share capital of co-operative institutions and to stop providing further loans till such defaults are cleared.

*Postponement of Long-term Loan (Investment Credit) Instalments Due in 1988-89*

In the case of long-term loans,normally the instalments falling due in drought/flood years are automatically deferred under the schemes sanctioned by the National Bank. However, relaxation in the recovery of dues, both principal and interest, would be necessary in the case of farmers affected by drought/floods for three or more years in succession ending with 1988-89. It was, therefore, decided that in respect of those borrowers in whose case the term loan instalment and interest thereon payable during 1988-89 was the penultimate or the last instalment, the banks shall grant, as a special case, a moratorium till the next normal year for the repayment of the instalment due and the payment of interest. In all other cases in the affected areas, the banks shall postpone, under the existing procedure, the recovery of loan instalments due during the year 1988-89 by extending the total period of the loan by one year. The banks might, however, refix the period of loan up to a maximum of 15 years on the merits of each case.

**State Land Development Banks**

**Lending Programmes and Resources of SLDBs**

The major sources of funds for the State Land Development Banks (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 1988-89 (April-March), was fixed at Rs. 840 crores compared to Rs. 695 crores for the year 1987-88. The resources for the programme were to be raised by flotation of special development debentures to the extent of Rs. 746 crores subscribed by National Bank, Central and State Governments and by issue of ordinary debentures for Rs. 94 crores subscribed by institutional investors, viz., Life Insurance Corporation of India (LIC), Commercial Banks, Central and State Governments besides mutual support/self-help by SLDBs themselves. The support availed of from institutional

investors under the ordinary debenture programme together with the overall achievements under both normal and special programmes for the year 1987-88 and 1988-89 together with the targets for lending programme 1989-90 are indicated in Table VII-50. During the financial year 1988-89, SLDBs were permitted to float ordinary debentures in two sets of 15 and 20 years maturity instead of 10 years and 15 years maturity as in the past. The rates of interest on 15 and 20 year debentures were 11.0 per cent and 11.5 per cent per annum, respectively.

Keeping in view the small margin available to SLDBs on their lendings under ordinary programme at the present interest rates on ordinary debentures and based on the representations received from SLDBs and National Co-operative Agricultural and Rural Development Banks' Federation in this regard, the National Bank relaxed the terms and conditions for flotation of ordinary debentures during the financial year 1988-89 as under:

(i) The funds to be raised at 11.5 per cent per annum may be utilised by SLDBs for financing tractors and/or any other purpose, for which the interest rate to be charged to ultimate borrowers is 12.5 per cent, if the demand for such purposes was in excess of the amount that could be met under the special development debenture programme.

(ii) Such disbursements should, however, be within the lending eligibility of the Primary Land Development Banks (PLDBs)/branches of SLDBs for the schematic lending programme for the co-operative year 1988-89.

*Issue of Long-term Loans by LDBs for purchase of Shares in Co-operative Sugar Factories*

The National Bank enhanced the ceiling on share holding per borrower from the existing level of Rs. 5,000 to Rs. 6,000 for providing long-term loans by LDBs, after taking into account the latest changes in the share-holding requirements of grower members of co-operative sugar factories.

*Issue of Long-term Loans to individuals by LDBs for purchase of Shares in Co-operative Spinning Mills*

The National Bank decided to permit LDBs to

**Table VII-50 : Resources of SLDBs**
**(April-March)**

(Rupees crores)

| Item | 1987-88 (Achievements) | 1988-89 (Achievements) | 1989-90 (Targets) |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| **Lending Programme/Resources** | **695** | **840** | **826** |
| a) Special Development Debentures | | | |
| 1) Programme | 600 | 746 | 728 |
| 2) Achievements | 514 | 552 | — |
| b) Internal Resources | — | — | — |
| c) Ordinary Debentures : | | | |
| 1) Target | 95 | 94 | 98 |
| 2) Actual flotation | 87 | 98 | — |
| (i) Subscription to Ordinary Debentures Received from Central and State Governments | 15 | 18 | — |
| (ii) LIC | 35 | 35 | — |
| (iii) SBI Group | 15 | 15 | — |
| (iv) Commercial Banks | 12 | 13 | — |
| (v) Mutual Support/Self-help | 10 | 17 | — |
| **Total Amount Raised [(a(2)+b+c(2)]** | **601** | **650** | **—** |

*Source :* National Bank for Agriculture and Rural Development.

issue long-term loans to cotton growers for purchase of shares in co-operative spinning mills as part of a composite loan or where the medium-term loans available through short-term credit structure for the purpose are not within the repaying capacity of the individual farmer. LDBs have been empowered to issue such loans only where the borrowers want to acquire shares in the co-operative spinning mills which are in advanced stages of installation. A ceiling of Rs. 6,000 on the value of shares to be acquired by a borrower has also been stipulated for the grant of such loans.

*Postponement of Current Demand in Areas Affected by Natural Calamities*

LDBs may, with the prior approval of the National Bank, allow postponement facilities to borrowers affected by natural calamities during 1988-89, upto a maximum of 4 occasions during the loan period.

*Rehabilitation Programme of SLDBs*

The National Bank pursued with the State Governments/SLDBs concerned the matter of implementation of the Organisation & Management (O & M) Study recommendations for the rehabilitation of the weak SLDBs viz., Bihar, Gujarat, Jammu & Kashmir, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Tripura and West Bengal and also other SLDBs except Andhra Pradesh, in the case of which the short-term and long-term credit structure has since been integrated. The SLDBs in Himachal Pradesh, Karnataka and Pondicherry have fully implemented the recommendations.

*Action Programme for Strengthening of LDB Structure*

The National Bank launched in 1986 the 10-Point Action Programme for rehabilitation of weak primary units in the LDB structure. The programme provides for, among others, formation of district level review committees to conduct detailed investigation of overdues in the areas of operations 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 10-Point Action Programme, 194 units were selected out of the total number of 1,784 PLDBs/branches of SLDBs functioning in the country as on that date for rehabilitation under the 10-Point Action Programme. The identified weak units are in the States of Assam, Bihar, Gujarat, Himachal Pradesh, Jammu & Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal. Rehabilitation programmes prepared for 139 weak units have been approved by the National Bank. They are in Gujarat (61), Himachal Pradesh (3), Karnataka (33), Rajasthan (8), Tamil Nadu (14), Tripura (2), Uttar Pradesh (12), and West Bengal (6). A total financial assistance of Rs. 14 crores comprising Rs. 13 crores as loans to State Governments towards additional share capital contribution and Rs. 1 crore as subsidy towards technical staff and staff of rehabilitation cell of SLDBs has been sanctioned by the National Bank. As on June 30, 1989, the National Bank has released loans totalling Rs. 3.17 crores to the Governments of Rajasthan, Gujarat, Himachal Pradesh and Karnataka towards additional share capital contribution. Subsidy amounting to Rs. 22.9 lakhs has also been released to the SLDBs in Rajasthan, Gujarat, Himachal Pradesh and Karnataka as provided for in the programme. The rehabilitation programmes prepared by the National Bank in respect of weak units in Assam, Bihar, Jammu and Kashmir, Madhya Pradesh and Orissa were under modification. The Maharashtra State Land Development Bank is yet to submit the rehabilitation programme.

**National Bank's Long-Term Refinance Assistance under Various Schemes**

The National Bank sanctioned 7,037 schemes involving refinance commitments of Rs. 1,381 crores during the period 1988-89 (July-March) as against 7,349 schemes with refinance commitments of Rs. 1,404 crores during the corresponding period (July-March) of previous year (1987-88). Disbursements amounted to Rs. 1,270 crores in 1988-89 (July-March) as against Rs. 965 crores during the corresponding period of the previous year. As at the end of March 1989, the cumulative number of schemes sanctioned by the National Bank stood at 69,652

with commitments at Rs. 14,165 crores and the cumulative disbursements till March at Rs. 10,705 crores (Table VII-51).

Scheme-wise, minor irrigation continued to be the single largest item both in regard to number of schemes sanctioned and commitments made (other than IRDP). During 1988-89 (July-March), the National Bank sanctioned 2,162 schemes for minor irrigation,involving commitments of Rs. 400 crores and 4,875 schemes for diversified purposes (i.e., other than minor irrigation) involving commitments of Rs. 573 crores [other than minor irrigation (Rs. 400 crores) and IRDP] (Table VII-51). Agency-wise, the shares of commercial banks (including RRBs), State Land Development Banks (SLDBs) and State Co-operative Banks (SCBs) in the National Bank's total disbursements stood at Rs. 814 crores (64 per cent), Rs. 381 crores (30 per cent) and Rs. 75 crores (6 per cent), respectively, during 1988-89 (July-March) (Table VII-52).

Region-wise,the shares of North Eastern, Central and Southern Regions in total disbursements rose from 1.6 per cent, 19.5 per cent and 27.7 per cent, in 1987-88 (July-March) to 2.0 per cent, 23.0 per cent and 32.6 per cent, respectively,in 1988-89 (July-March). The shares of Northern and Eastern regions showed declines while the share of Western region also recorded a marginal decline in the above periods (Table-VII-53).

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 rose from Rs. 428 crores in 1987-88 (July-March) to Rs. 551 crores during 1988-89 (July-March) (Table VII-54). The total cumulative disbursements in these States upto the end of March 1989 amounted to Rs. 4,473 crores.

**Integrated Rural Development Programme**

The Integrated Rural Development Programme (IRDP) has been deployed as a major instrument of the Government strategy to alleviate poverty. The chief objective of this programme which is in operation since the Sixth Plan are provision of self-employment and raising of income-generating capacity of the target group, viz., Scheduled Castes, Scheduled Tribes, agricultural labourers, rural artisans and marginal and small farmers below poverty line, through bank credit and Government subsidies.

During the first four years of the Seventh Plan upto December 1988, over 1.3 crore families were assisted and Rs. 2,273 crores of funds utilised. Term credit of Rs. 3,683 crores was mobilised by financial institutions. During 1988-89, 31.9 lakh families were targetted to be assisted and an amount of Rs. 687.95 crores was allocated for the purpose. As at end-December 1988, 23.62 lakh families have been assisted and an amount of Rs. 491 crores utilised. State-wise, almost all States, except Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya and Nagaland have achieved their targets upto end-December 1988. The Central Sector provided an allocation of Rs. 345 crores and the total expenditure including States' share is Rs. 490.79 crores. Term-credit of the order of Rs. 762.43 crores was disbursed for implementing the programme during 1988-89 (April-December). The progress of IRDP since 1984-85 is shown in Table VII-55.

**National Bank's Refinance under Integrated Rural Development Programme (IRDP)**

The National Bank's refinance assistance under IRDP during 1988-89 (July-March), amounted to Rs. 403 crores, of which RRBs accounted for 41 per cent, commercial banks for 47 per cent and SCBs and SLDBs together for 12 per cent. The Industry, Service and Business (ISB) Component accounted for Rs. 225 crores of the total disbursements during 1988-89 (July-March) as compared to Rs. 221 crores a year ago (Table VII-56).

**Refinance Facilities-Policy Changes**

*Refinance for Wasteland Development*

Various types of wasteland development schemes, viz., setting up of commercial nurseries for raising seedlings for plantation on wastelands, afforestation of wastelands (including those under Tree Patta Scheme) and raising of captive plantation by user-industries, etc., continued to receive refinance support from the National Bank.

One significant development has been the reduction in the rate of interest at the ultimate borrowers' level, making it 10 per cent per

**Table VII-51 : Purpose-wise Sanctions and Disbursements of Refinance Assistance by the National Bank (July-March)**

(Rupees crores)

| Purpose | 1987-88 | | | 1988-89 | | | Cumulative position as on March 31, 1989 | | |
|---|---|---|---|---|---|---|---|---|---|
| | No. of Schemes sanctioned | Commit-ments | Disburse-ments | No. of Schemes sanctioned | Commit-ments | Disburse-ments | No. of Schemes sanctioned | Commit-ments | Disburse-ments |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Minor Irrigation | 2,651 | 631 | 335 | 2,162 | 400 | 387 | 24,575 | 5,840 | 4,244 |
| Land Development/CAD | 85 | 23 | 21 | 67 | 27 | 18 | 2,037 | 449 | 278 |
| Farm Mechanisation | 813 | 117 | 120 | 1,113 | 179 | 158 | 11,246 | 1,903 | 1,787 |
| Plantation/Horticulture | 818 | 107 | 48 | 789 | 95 | 65 | 6,896 | 1,004 | 502 |
| Poultry/Sheep breeding/ Piggery | 655 | 38 | 22 | 689 | 52 | 45 | 5,276 | 364 | 234 |
| Fisheries | 284 | 28 | 12 | 268 | 38 | 19 | 2,633 | 291 | 144 |
| Dairy Development | 601 | 81 | 35 | 473 | 61 | 51 | 5,181 | 492 | 292 |
| Storage/Market Yards | 82 | 24 | 22 | 22 | 4 | 16 | 1,930 | 299 | 254 |
| Others | 1,360 | 355 | 350 | 1,454 | 525 | 511 | 9,878 | 3,523 | 2,970 |
| **Total** | **7,349** | **1,404** | **965** | **7,037** | **1,381** | **1,270** | **69,652** | **14,165** | **10,705** |

*Source :* National Bank for Agriculture and Rural Development.

**Table VII-52 : Agency-wise Sanctions and Disbursements of Refinance Assistance by the National Bank During 1987-88 (July-June) and 1988-89 (July-March)**

(Rupees crores)

| Agency | Number of Schemes* | | Financial Assistance | | National Bank Commitments | | Disbursements by National Bank | | Cumulative position as on March 31, 1989£ | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1987-88 (July-June) | 1988-89 (July-March) | 1987-88 (July-June) | 1988-89 (July-March) | 1987-88 (July-June) | 1988-89 (July-March) | 1987-88 (July-June) | 1988-89 (July-March) | No. of Schemes | Financial Assistance by agencies | National Bank Commitments | Disbursements by National Bank@ |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 1. State Land Development Banks | 2,911 | 1,868 | 811 | 519 | 726 | 461 | 467 | 381 | 19,204 | 5,979 | 5,298 | 3,870 |
| 2. Scheduled Commercial Banks@@ | 6,747 | 4,918 | 1,628 | 1,132 | 1,203 | 823 | 951 | 814 | 48,699 | 10,883 | 8,299 | 6,436 |
| 3. State Co-operative Banks | 337 | 251 | 122 | 109 | 108 | 97 | 64 | 75 | 1,749 | 648 | 568 | 399 |
| **Total** | **9,995** | **7,037** | **2,561** | **1,760** | **2,037** | **1,381** | **1,482** | **1,270** | **69,652** | **17,510** | **14,165** | **10,705** |

@ Excludes short-term finance.
* Excludes IRDP.
@@ Including RRBs.
£ Cumulative position includes adjustments.

*Source :* National Bank for Agriculture and Rural Development.

**Table VII-53 : Region-wise Disbursements of Refinance Assistance by the National Bank During 1987-88 and 1988-89 (July-March)**

| Region | 1987-88 | | 1988-89 | |
|---|---|---|---|---|
| | Amount (Rs. crores) | Percentage to total | Amount (Rs. crores) | Percentage to total |
| 1 | 2 | 3 | 4 | 5 |
| Northern | 189 | 19.6 | 191 | 15.0 |
| North-Eastern | 16 | 1.6 | 25 | 2.0 |
| Eastern | 161 | 16.7 | 167 | 13.2 |
| Central | 188 | 19.5 | 292 | 23.0 |
| Western | 144 | 14.9 | 181 | 14.2 |
| Southern | 267 | 27.7 | 414 | 32.6 |
| **Total** | **965** | **100.0** | **1,270** | **100.0** |

Northern Region : Chandigarh, Delhi, Haryana, Himachal Pradesh, Jammu and 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-54 : Disbursement of Refinance Assistance by the National Bank to Less Developed and/or Under-banked States During 1987-88 and 1988-89 (July-March) (Schematic Lending)**

(Rupees crores)

| States Union Territories | 1987-88 | 1988-89 |
|---|---|---|
| 1 | 2 | 3 |
| Uttar Pradesh | 127 | 201 |
| Madhya Pradesh | 61 | 91 |
| Bihar | 96 | 71 |
| Rajasthan | 50 | 54 |
| Orissa | 32 | 39 |
| Jammu & Kashmir | 6 | 7 |
| West Bengal | 33 | 56 |
| Assam and other North-Eastern States | 16 | 25 |
| Himachal Pradesh | 7 | 6 |
| Andaman & Nicobar Islands | — | 1 |
| Sikkim | — | — |
| **A) Total** | **428** | **551** |
| **B) Total Disbursements (All-India)** | **965** | **1,270** |
| **Percentage of A to B** | **(44.4)** | **(43.4)** |

*Source* : National Bank for Agriculture and Rural Development.

**Table VII-55 : Progress of Integrated Rural Development Programme**

| Item | Unit | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 (upto Dec. 1988) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Central allocation | Rs. crores | 207.72 | 205.93 | 277.31 | 310.60 | 345.00 |
| 2. Central releases | " | 206.96 | 207.10 | 279.67 | 299.72 | 309.07 |
| 3. Total expenditure including States' shares | " | 472.20 | 441.10 | 613.38 | 727.44 | 490.79 |
| 4. Term credit disbursed | " | 857.48 | 730.15 | 1,014.88 | 1,175.35 | 762.43 |
| 5. No. of families assisted | in lakhs | 39.82 | 30.61 | 37.47 | 42.47 | 23.62 |
| 6. No. of SC/ST families assisted | " | 17.38 | 13.23 | 16.80 | 18.99 | 10.72 |

*Source :* Ministry of Agriculture,Department of Rural Development, Government of India.

**Table VII-56 : National Bank's Refinance Assistance Under IRDP During 1987-88 (July-June) and 1988-89 (July-March)**

(Rupees crores)

| Agency | Disbursements | | Cumulative Assistance upto end of March 1989 |
|---|---|---|---|
| | 1987-88 (July-June) | 1988-89 (July-March) | |
| 1 | 2 | 3 | 4 |
| SLDBs | 10 | 6 | 84 |
| | (—) | (—) | (—) |
| Commercial Banks (excluding RRBs) | 237 | 188 | 1,270 |
| | (109) | (102) | (444) |
| RRBs | 166 | 166 | 910 |
| | (98) | (107) | (463) |
| SCBs | 35 | 43 | 228 |
| | (14) | (16) | (51) |
| **Total** | **448** | **403** | **2,492** |
| | **(221)** | **(225)** | **(958)** |

*Note :* Figures in brackets indicate disbursements for ISB Component.
*Source :* National Bank for Agriculture and Rural Development.

annum uniformly for all categories of individual borrowers and/or groups of individuals such as co-operatives. However, corporate and other borrowers would continue to be charged at the rate of 12.5 per cent per annum. The rate of interest to be charged by the National Bank on its refinance in respect of these two categories was refixed at 6.5 per cent and 8 per cent, respectively. During 1987-88, 73 schemes were sanctioned for forestry and wasteland development, involving refinance assistance to the extent of Rs. 32.3 crores. The disbursements made during the year amounted to Rs. 19.1 crores.

*Rainfed Farming*

One pilot rainfed farming project has been implemented by the National Bank in each of the

States of Andhra Pradesh, Karnataka and Tamil Nadu, wherein it is proposed to provide uninterrupted production credit to farmers in the watershed areas to enable them to persevere with the technology package recommended for adoption under the project. To be eligible for production credit every year, the farmers have to repay that portion of production credit which is required to be repaid by them in that year. This proportion is based on the crop yields obtained by them in that year as determined by crop-cutting experiments. In the year/s when actual yields of crops are below the normative yield, farmers are required to pay only a portion of crop loans taken in that year to be eligible for crop loans in the next year. The balance amount of crop loans will be recovered in the next good or very good year of harvest.

*Minor Irrigation*

The National Bank decided that from July 1988, refinance would be available to banks for financing only a complete pumping system. However, in order to ensure smooth flow of credit and to minimise operational difficulties, the National Bank allowed some relaxations. They are: (i) refinance would be available for purchase of good quality flexible PVC pipes in the case of portable agricultural pumpsets, (ii) financing of ISI. mark pumpsets by way of replacement where earlier pumpsets have become unserviceable would be eligible for refinance, and (iii) reasonable charges towards transportation and installation could be included in the unit cost.Under the Million Wells Scheme formulated by the Government of India, the National Bank's refinance is available for lifting devices like pumpsets to be provided to the target beneficiaries under IRDP.

*Farm Mechanisation Programmes*

A total refinance support of Rs. 207.80 crores has been provided for farm mechanisation by the National Bank for 1988-89 (July-June) as against Rs. 200 crores availed of by the banks during 1987-88. This programme covers financing of tractors, power-tillers and other agricultural implements. The National Bank has also taken the following decisions to reinforce its support to the programme of farm mechanisation:

(i) The rate of refinance allowed to commercial banks was made uniform from July 1, 1988, at 50 per cent of the bank loan. The rate of refinance in respect of loans made available for purchase of tractors for the second time to the same beneficiary is 40 per cent of the bank loan. The rate of re-finance to LDBs and RRBs continue to be on liberal terms i.e., 75 per cent (95 per cent in the States of Eastern Region, Madhya Pradesh and Eastern Uttar Pradesh).

(ii) In order to ensure fuller utilisation of tractor potential, guidelines for selection of economic size of tractors have been circulated among financing banks. For systematic appraisal of loan application by banks, apart from existing appraisal norms like land-holdings, tractor usage, etc., banks have been advised to give proper consideration to tractor density in the area. For this purpose the regional offices of National Bank have been involved to map the tractor density in each district of the State/region and circulate it among the financing banks.

(iii) It has also been decided to extend a limited assistance for purchase of tractors/power tillers to State Agro Industries Corporation for providing custom support to farmers in areas of low tractor density, particularly for the small farmers.

*Plantation and Horticulture: Deferment of interest during gestation period - Revision of Policy*

In order to reduce the excess burden of interest at borrowers' level, it was decided by the National Bank that effective July 1, 1988, no interest will be charged on interest deferred during gestation period. Earlier though the facility for deferment of interest to banks was allowed by the National Bank under such schemes, interest on deferred interest was being charged at the same rate as the National Bank charged on refinance.

*Vegetable Cultivation*

With a view to encouraging small and marginal farmers to grow vegetables, the National Bank decided to refinance eligible institutions in respect of their loans to individual farmers for taking up vegetable cultivation in an intensive manner for meeting the growing demand. In this connection, the National Bank

formulated guidelines for financing schemes for vegetable cultivation and circulated the same among eligible financing institutions.

*Animal Husbandry*

The National Bank formulated a 'Pilot Project' for financing salvage of dry pregnant buffaloes from urban areas/city stables for milk production by providing financial assistance to farmers who will purchase such animals and rear them. Besides salvaging good quality buffaloes, this scheme will enable the prospective beneficiaries to obtain good quality animals, offer a good scope of increase in milk production as also employment opportunities for the rural population.

*Dairy Development*

Keeping in view that for successful implementation and operation of dairy projects, there should be, among other things, assured and adequate supply of quality feed including green fodder, the National Bank has introduced a scheme for providing composite loans to dairy farmers to cover not only the cost of milch animals but also the cost of production of green fodder. The model Scheme has already been circulated to all eligible financial institutions. It is envisaged that apart from helping the farmer purchasing the milch animals to meet the feed requirements for the animals, this scheme will go a long way to increase the production of green fodder, the continued shortage of which has affected the dairy development programmes in many parts of the country.

**Strengthening and Future Development of Co-operative Structure**

*Reorganisation of PACS*

The process of reorganisation of PACS on the lines recommended by the National Bank has been accepted by the Government of Jammu & Kashmir. The programme is making a steady progress in Gujarat through a phase-wise selection of PACS for their reorganisation. However, the Government of Maharashtra is yet to accept the scheme of reorganisation.

*Progress of the Reorganised PACS*

The programme for development of selected PACS into truly multi-purpose co-operative societies as recommended by the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), continued to show moderate progress in its implementation. As at the end of March 1989, as many as 5,994 PACS in 20 States and 2 Union Territories had been selected under the programme as compared to 5,744 societies as at the end of June 1988. The scheme is reported to have made steady progress in the States of Kerala, Tamil Nadu and Uttar Pradesh. The progress of the programme in most of the other States has been impeded on account of various factors such as lack of commitment of State Governments and members for the cause of development of co-operatives, low turnover both in credit and non-credit business, high level of overdues, lack of trained staff, absence of adequate government support for infrastructural development, etc.

**Development of PACS - Various Programmes**

*15-Point Programme for Development of PACS and LAMPS*

The 15-Point Programme for the development of PACS and LAMPS which is being implemented in 16 Pilot Project Districts has brought about considerable improvement in the performance of the selected PACS and LAMPS in terms of deposits mobilised, loans issued and recovery of dues from the members. For example, over a two-year period, i.e., end-June 1988 as compared with end-June 1986 position, substantial improvement was noticed in performance. The selected PACS and LAMPS had, over the period, recorded increases in deposit mobilisation of 30 per cent in Himachal Pradesh, 33 per cent in Uttar Pradesh and 110 per cent in Karnataka. Similarly, in terms of loans issued, increases of 33 per cent, 62 per cent and 323 per cent were recorded in the States of Himachal Pradesh, Uttar Pradesh and Karnataka, respectively. In the case of recovery of dues, the increases were of the order of 6 per cent in Himachal Pradesh, 24 per cent in Uttar Pradesh and 121 per cent in Karnataka.

In addition to the various programmes launched by the National Bank, certain State Governments like Andhra Pradesh, Madhya Pradesh and West Bengal had also initiated development programmes of their own to

strengthen the working of the co-operative credit institutions at the base level. Such programmes included State aid to PACS for furniture, banking counters, training to secretaries and management committee members through mobile consultancy service, intensive monitoring through officials of Co-operative Departments/ CCBs (Andhra Pradesh), Group Insurance Scheme, scholarships to meritorious wards of farmers (Madhya Pradesh), staff subsidy and rent subsidy for office premises, subsidy for acquisition of safe, etc. (West Bengal). The above efforts of the State Governments have helped the PACS to raise more deposits, enlarge their membership base, and undertake higher credit and non-credit operations.

**Revision of Viability Norms for PACS**

In a study conducted by the National Bank in 1986, it was observed that despite reorganisation, most of the PACS continued to be non-viable on account of low volume of business, increased establishment costs, high incidence of overdues, inroads made into areas of operation of PACS by commercial banks and RRBs under the multi-agency system. Based on the findings of the study, the National Bank advised all the State Governments that a minimum loan business of Rs. 10 lakhs should be considered necessary for reckoning a PACS as viable and the same may be kept in view while organising/ reorganising the PACS in their respective States.

**Revised Eligibility Criteria for Schematic Refinance**

The eligibility criteria for refinance to short-term co-operative credit structure under schematic lending made applicable from July 1, 1987 was relaxed by 5 percentage points in the recovery norms during 1987-88 for categorisation of CCBs/SCBs owing to drought condition in this year. With the onset of favourable monsoons, the relaxation was withdrawn from July 1988. The eligibility criteria had a mixed impact on the lending operations in as much as the refinance assistance had either moved up or had come down marginally in various States and was negligible in some States.

*Rehabilitation of Weak CCBs/SCBs*

As at end-June 1987, 175 CCBs and 7 SCBs (in two-tier structure) were identified as weak banks in the country on the basis of their financial position and brought under the programme of rehabilitation. In the States like Andhra Pradesh, Bihar, Jammu & Kashmir, Karnataka, Orissa, Rajasthan and Uttar Pradesh, a majority of the CCBs were weak, out of which as many as 81 CCBs were under rehabilitation programme for a period of more than 10 years and 61 CCBs for a period between 5 to 10 years while only 33 CCBs were weak for less than 5 years. While formulating the rehabilitation programme, the underlying assumption was that the concerned banks and the State Government would realise the gravity of deteriorating financial health and would initiate effective measures to rectify the distortions and restore their normal health by taking appropriate steps spelt out in the programme. It was also assumed that the bank's efforts in these directions would be backed administratively, financially and politically by the concerned State Governments. Given these assumptions, it was expected that the rehabilitation programme drawn up for each bank would lead to restoration of their health within a reasonable time frame. All these expectations by and large, did not materialise mainly due to inaction by CCBs, apathy on the part of concerned SCBs and the low priority accorded to the programme by the State Governments. Some of the factors that affected successful implementation have been identified, such as, lack of concerted and sustained efforts by the concerned CCBs, apex banks and State Governments, failure by CCBs to draw up a detailed action programme and set up review committees to monitor progress; and the large number of banks under rehabilitation programme, inhibiting the State Governments from concentrating their efforts in implementing the programme, In many cases, their man-power and monetary resources got thinly spread over a large number/ of institutions. Other reasons were that recovery of overdues did not receive the due attention and vested interests, both within and outside these institutions, did not permit any meaningful efforts in tackling this basic problem.

*12-Point Action Programme*

To enable 'weak' banks that were either ineligible or were on the verge of becoming ineligible for refinance support, a 12-Point Action Programme was formulated and circulated by the National Bank in September 1987 to

all the State Governments. Though the programme provided for certain financial incentives and relaxations in the matter of sanction of credit limits from the National Bank, the response from the States has not been encouraging. So far, only the Government of Uttar Pradesh has communicated specific acceptance of its commitments and forwarded the individual action plans of CCBs. Besides, the Governments of Orissa and Rajasthan have also accepted the various financial and other commitments as envisaged in the programme but have not yet submitted the action plans. The State Governments of Assam, Maharashtra, Manipur and Nagaland have shown interest in the programme.

**National Bank's Refinance Schemes for Non-farm Sector**

**Weavers' Finance**

In the context of flood/drought during the year 1988-89 which would have continued to affect the sale of weavers' products during 1989-90, the National Bank decided to provide certain relaxations in respect of refinance facility for production and marketing activities of primary weavers' societies and procurement and marketing activities of apex/regional weavers' societies, viz.,

(i) The total limit viz., normal and additional limits, would be sanctioned to the extent of 75 per cent of the anticipated production.
(ii) Rebate claims upto 6 months/credit sales to Government servants for which claims have been submitted but pending upto 6 months and subsidy claims in respect of Janata cloth upto 6 months would be reckoned towards cover for the borrowings.
(iii) The working capital requirements of new and revitalised societies would be assessed on a per loom basis for a period of 4 years instead of 2 years.

**Other Developments**

*Credit Authorisation Scheme*

The responsibility of administering the Credit Authorisation Scheme as applicable to co-operative banks is vested with the National Bank. During 1988-89 (July-March), credit authorisations granted to non-credit co-operative societies for block capital finance amounted to Rs. 141 crores as against Rs. 66 crores in 1987-88 (July-June). During 1988-89 (July-March), authorisation for working capital finance was granted for a total amount of Rs. 1,428 crores as compared with Rs. 1,404 crores in 1987-88 (July-June). The bulk of the authorisations granted for block and working capital finance was in favour of co-operative sugar factories.

Some of the important instructions regarding sanction of working capital limits under CAS are enumerated below:

The SCBs were permitted to sanction without prior authorisation the working capital limits against pledge of stocks of sugar to co-operative sugar factories for the 1988-89 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 can be sanctioned to sugar factories without prior authorisation. The CCBs were required to continue to obtain prior authorisation from the National Bank for sanction of working capital limits in excess of Rs. 1.50 crores.

Consequent to withdrawal of prior authorisation by the Reserve Bank as applicable to commercial banks and introduction of post-sanction monitoring under the Credit Monitoring Arrangement System, the continuance of CAS as applicable to the co-operative banks is being reviewed by the National Bank. Till a final decision is taken, CAS as applicable to co-operative banks will continue to operate.

**Compliance with Instructions/Policy Directives Issued by RBI/National Bank**

With a view to ensuring that the co-operative banks comply with the various instructions issued by the RBI/National Bank from time to time, the latter advised all co-operative banks that refinance would be subject to compliance with such instructions/guidelines. Wherever it was observed that such instructions had been violated either directly or indirectly, refinance would be stopped. Refinance would be resumed only after these institutions furnished an

undertaking in writing that they would henceforth comply with the instructions/guidelines issued by the RBI/National Bank.

**Interest Rates on Short-term Agricultural Advances**

Consequent upon reduction of interest rates to 12 per cent per annum on short-term agricultural advances ranging between Rs. 15,000 to Rs. 25,000 by co-operatives, the National Bank issued instructions to co-operatives indicating the rates of interest to be charged by them to the ultimate borrowers with effect from March 1, 1989. Accordingly, the interest rate structure would be as under:

**Short-term Agricultural Loans for Seasonal Agricultural Operations**

| Ranges of advances | Prior to 1.3.1989 (per cent per annum) | Rate of interest effective from 1.3.1989 (per cent per annum) |
|---|---|---|
| 1 | 2 | 3 |
| i) Loans upto Rs. 7,500 | 10.00 | 10.00 |
| ii) Loans over Rs. 7,500 and upto Rs. 15,000 | 11.50 | 11.50 |
| iii) Loans over Rs. 15,000 and upto Rs. 25,000 | 12.50 - 14.00 | 12.00 |
| iv) Loans over Rs. 25,000 | 14.00 - 15.50 | 14.00 - 15.50 |

*Impact on Account of Reduction in Interest Rates on Short-term Agricultural Loans*

The reduction in interest rates on short-term agricultural loans at the ultimate level had affected the income earning capacity of the co-operative credit institutions. With a view to providing necessary compensation to the banks, the National Bank has decided to provide certain relaxations in the financial disciplines and procedural aspects. Accordingly, co-operative banks are now required to maintain the minimum involvement of their own resources on a monthly average basis instead of on a day-to-day basis. The scheme of linking of borrowings from the National Bank with efforts at deposit mobilisation has been discontinued. The SCBs/CCBs can now keep their surplus resources in call and short-term deposits with commercial banks without any ceiling as long as they comply with the minimum involvement requirements and there is no deficit in non-overdue cover. Further, the restrictions that SCBs/CCBs should not maintain cash reserve and liquid assets in excess of 35 per cent of their Time and Demand Liabilities when they have outstanding borrowings from the National Bank has also been withdrawn. Besides, with a view to assisting SCBs/CCBs in deploying their resources in high-interest earning avenues so as to cross-subsidise the losses arising out of their own involvement in agricultural lending, the National Bank, in consultation with RBI, identified high-interest earning avenues and steps are being taken to allocate shares to the SCBs/CCBs in such consortium arrangements as mentioned below depending upon the resources which each bank will be in a position to deploy in such avenues: (i) Participation of SCBs in consortium financing arrangements to meet the credit requirements for procurement of food and other agricultural commodities. (ii) Participation of SCBs in consortium financing arrangements involving commercial banks for working capital requirements for production with federations like Indian Farmers' Fertilisers Co-operative Ltd., (IFFCO), Krishak Bharati Co-operative Ltd., (KRIBHCO) etc., or public sector undertakings which are mainly agro-based. (iii) Consortium financing arrangements with commercial banks for working capital requirements of State level marketing federations. (iv) Consortium financing arrangements exclusively consisting of SCBs/CCBs for block working capital requirements of State level co-operatives and other federations.

*Research and Development Fund*

During the period July 1988 to March 1989, 8 more RRBs were admitted to the National Bank's Scheme for RRBs/SLDBs for setting up/strengthening Technical Monitoring and Evaluation (TME) Cells thus raising the total number of RRBs assisted under the scheme to 64. The total number of SLDBs and SCBs assisted under the same scheme, however, stood

at 13 and 2, respectively, as at end-March 1989. The amount of grants disbursed to SLDBs, SCBs and RRBs under the scheme during the period from July 1988 to March 1989 stood at Rs. 27 lakhs. It was also decided by the National Bank to extend the period of assistance beyond 5 years to RRBs selectively, based on merit.

With a view to improving the involvement of all SCBs/CCBs in project lending for agricultural investments, the National Bank announced a scheme of extending financial assistance to them for setting up/strengthening TME cells effective January 1, 1989. The cells to be set up at SCBs are expected to assist the CCBs in their respective States, in formulation of projects and monitoring of schemes.

The National Bank sanctioned assistance by way of grants 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. In addition, it also sanctioned assistance to co-operative banks under rehabilitation programme towards their technical staff and staff of rehabilitation cells. During the period from July 1988 to March 1989, the National Bank approved 3 new research projects. The amount of grants disbursed during the period for seminar and research studies and co-operative banks under rehabilitation stood at Rs. 2.30 crores. The total number of research proposals approved so far stood at 59. The total financial assistance disbursed by the National Bank from its R & D Fund during the period from July 1988 to March 1989 for all the purposes stood at Rs. 2.57 crores.

*Licensing of Co-operative Banks*

During the year 1988-89 (July-June), no licences were issued to SCBs or DCCBs to carry on banking business under Section 22 of the Banking Regulations Act, 1949 (as applicable to co-operative societies) while licences were issued to 18 primary co-operative banks (7 new banks and 11 existing banks). The total number of licensed banks at the end of 1988-89 (July-June) thus increased from 1,009 in 1987-88 to 1,027 comprising of 8 SCBs, 37 CCBs and 982 PCBs (Table VII-57). During the year, 6 SCBs and 29 PCBs were issued licences to open new offices/extension counters under Section 23 of the Banking Regulation Act, 1949 (as applicable to co-operative societies). Besides, 2 SCBs (Goa and Arunachal Pradesh) were issued general licences to open offices in their respective areas of operation since they function as central financing agencies and are permitted to obtain general licences under the Act (Table VII-57).

*Inspection of Banks*

Out of 623 banks/institutions coming under the purview of inspection of the National Bank, 252 banks/institutions were programmed for inspection and 228 co-operative institutions (13 SCBs, 5 SLDBs, 130 CCBs, 71 RRBs and 9 others) were inspected during 1988-89 (July-March).

*Comprehensive Crop Insurance Scheme (CCIS)*

The Comprehensive Crop Insurance Scheme (CCIS) of the Government of India which is operated through the General Insurance Corporation of India (GIC), was temporarily suspended during *Kharif* 1988.

The Government of India decided to continue CCIS in the *Rabi* 1988-89 season only in those States where premia towards the scheme had already been recovered. The conditions for continuance of the scheme in such States would be the same as in *Kharif* 1988 season. 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.

Wheat, paddy, millets, oilseeds and pulses would continue to be covered under the CCIS. However, the level of indemnity claims to be shared between the States and the Central Government in the proportion of 33 1/3 per cent and 66 2/3 per cent in the existing scheme has been changed from *Rabi* 1988-89 season as follows:

| Category | Variation in yield | Indemnity |
|---|---|---|
| Low | upto 15 per cent | 90% |
| Medium | 16 to 30 per cent | 80% |
| High | Above 30 per cent | 60% |

The Government of India decided to continue the scheme during *Kharif* 1989 and *Rabi* 1989-90

**Table VII-57 : Licences Issued to Co-operative Banks During 1986-87, 1987-88 and 1988-89 (July-June)**

| Item | 1986-87 | | | | 1987-88 | | | | 1988-89 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | SCBs | CCBs | PCBs | Total | SCBs | CCBs | PCBs | Total | SCBs | CCBs | PCBs | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| Licences issued to carry on/ commence banking business | .. | 1 | 384 | 385 | .. | 1 | 271R | 272R | .. | .. | 278 | 278 |
| No. of Licensed banks at the end of the year | 8 | 36 | 844 | 888 | 8 | 37 | 964 | 1,009 | 8 | 37 | 982 | 1,027 |
| Licences issued for opening new offices | 4 (13) | .. | 13 | 17 | 5 (19) | .. | 234R | 239R | 6 (18) | .. | 29 | 35 |

*Note :* Figures in brackets indicate the number of branches for which licences were issued.
.. = Not available.
R = Revised
*Source :* Reserve Bank of India.

seasons, subject to the same conditions as were applicable to *Rabi* 1988-89 season.

*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 end of June 1988, the number of LAMPS stood at 2,857. Of these, as many as 2,496 societies (or 87 per cent) were in six States viz., Madhya Pradesh (1,053), Bihar (474), Maharashtra (275), Rajasthan (268), Orissa (223) and Gujarat (203). These societies had 44.55 lakh members of which Scheduled Castes and Scheduled Tribes numbered 7.2 lakhs and 27.9 lakhs, respectively. The paid-up capital of LAMPS stood at Rs. 64.80 crores which included Government's contribution of Rs. 24.83 crores. The overdues of LAMPS at Rs. 104.92 crores formed 52.3 per cent of their outstanding loans at the end of June 1988.

*Farmers' Service Societies (FSS)*

The Farmers' Service Societies (FSS) have continued to cater to credit and non-credit requirements of farmers at a single window since their inception in 1973-74. As on June 30, 1988, there were 1,826 such societies. Of these, 1,263 societies (or 69 per cent) were located in two States viz., Uttar Pradesh (1,049) and Karnataka (214). The membership as at the end of June 1988 was 45.65 lakhs, of which Scheduled Castes and Scheduled Tribes together constituted 23.17 per cent. The paid-up capital of FSS stood at Rs. 52.63 crores of which Rs. 9.44 crores was contributed by State Governments. The FSS issued loans of Rs. 212.78 crores to 13.17 lakh borrowers during 1987-88. Their overdues at Rs. 115.72 crores formed 34.4 per cent of their outstanding loans at Rs. 336.42 crores as at the end of June 1988.

**Commercial Banks and Rural Credit**

The commercial banks have, since the time of their nationalisation ot 14 major banks in 1969, been providing credit to the rural sector on an increasing scale. They have attained the targets for advances to priority sector (which includes advances to agriculture) prescribed from time to time. According to the latest available data, the total priority sector advances of the public sector banks increased from Rs. 28,468 crores as at end-March 1988 to Rs. 34,623 crores at end-March 1989, showing an absolute increase of Rs. 6,155 crores or 21.6 per cent during the year as compared to an increase of Rs. 3,916 crores or 15.9 per cent in 1987-88. The share of public sector banks' priority sector advances to total

credit stands at 44.3 per cent at end-March 1989 as against 45.8 per cent as at end-March 1988.

The data (provisional) on outstanding advances of public sector banks to priority sectors during the past four years are given in the following table.

**Outstanding Advances of Public Sector Banks**

(Rupees crores)

| | End-March 1986 | End-March 1987 | End-March 1988 | End-March 1989P |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| i) Outstanding advances to priority sectors | 20,853 | 24,552 | 28,468 | 34,623 |
| Percentage to total credit | 42.0 | 44.0 | 45.8 | 44.3 |
| ii) Outstanding direct advances to agriculture | 7,420 | 9,058 | 10,438 | 12,833 |
| Percentage to total credit | 15.0 | 16.2 | 16.8 | 16.4 |
| iii) Outstanding advances to weaker sections | 5,098 | 6,119 | 7,310 | 8,459 |
| Percentage to priority sector advances | 24.4 | 24.9 | 25.7 | 24.4 |
| Percentage to total credit | 10.3 | 11.0 | 11.8 | 10.8 |

P : Provisional.

As at end-March 1989, the outstanding direct advances to agriculture of public sector banks stood at Rs. 12,833 crores or 16.4 per cent of total credit. The advances outstanding to weaker sections from public sector banks as at the end of March 1989 aggregated Rs. 8,459 crores, constituting 10.8 per cent of the total outstanding advances which shows an increase of Rs. 1,149 crores over the previous year, i.e., as at the end of March 1988. In accordance with the latest strategy for increasing agricultural production, the public sector banks have been advised to step up their direct finance to agriculture to 18 per cent of the total outstanding credit by March 1990, from 17 per cent which was to be achieved by March 1989.

*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-58).

*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 (17.6 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-59).

*Region-wise Disbursements*

Region-wise, Southern region continued to account for the bulk of the credit disbursed (Table VII-59). 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 share 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.

**TABLE VII-58 : Disbursements 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 Commercial Banks | 98 | 90 | 125 |
| | (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.

**Table VII-59 : Purpose-wise/Region-wise Distribution of Credit by Scheduled Commercial Banks During 1986-87 (July-June)**

(Rupees lakhs)

| 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 | 34,761 | 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 up to the totals shown.
2) Figures in the first brackets indicate the share of each region to the total loan disbursed under the main categories i.e., short-term loans and 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.

*Interest rates on loans*

The interest rate on short-term loans from Scheduled Commercial Banks (including RRBs) to farmers for agricultural purposes for amounts above Rs. 15,000/- and upto Rs. 25,000/- were reduced with effect from March 1, 1989, from the range of 12.5 per cent to 14.0 per cent per annum to 12.0 per cent per annum.

*Margin Money and Security Norms*

With effect from February 28, 1989, the margin and security norms have been relaxed. The concession of margin money waiver has been extended to all agricultural loans up to Rs. 10,000. The banks have also been advised not to obtain collateral security by way of mortgage of land/charge on land or third party guarantee for crop loans upto Rs. 10,000/- and term loans upto Rs. 10,000/- where movable assets are created. In case of genuine difficulties in the creation of mortgage of land/charge on land, when required, banks can take third party guarantee or such other security as considered appropriate.

*Central/State Governments and Co-operative Credit*

Apart from 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 1988-89 is reviewed in the following paragraphs.

*Risk Fund for Consumption Credit*

Risk Fund for Consumption Credit has been in operation as a non-Plan scheme since 1977-78, covering 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, such as carpenters, barbers, washermen, etc. The entire amount of Risk Fund Assistance (i.e., 10 per cent of the total consumption loans disbursed) is contributed by the State Governments and later 50 per cent of the assistance is claimed as reimbursement from the Government of India. During 1988-89 (April-March), an amount of Rs. 20 lakhs was released to six States, viz., Haryana, Kerala, Maharashtra, Punjab, Tamil Nadu and Uttar Pradesh under this scheme.

*Agricultural Credit Stabilisation Fund*

Under the scheme, financial assistance is provided to the State Agricultural Credit Stabilisation Funds of the State Co-operative Banks. The Central assistance is provided according to the approved pattern by way of 75 per cent as grants and 25 per cent as loans. The main objective of the scheme is to build up a stabilisation fund at the level of State Co-operative Banks and increase the capacity of these banks to provide conversion of short-term loans into medium-term loans, in areas affected by natural calamities where crop loss is more than 50 per cent. During 1988-89, an amount of Rs. 1 crore was released to various State Governments under the scheme as against Rs. 2 crores in 1987-88. The total amount released since the inception of the scheme till end-March 1989 aggregated Rs. 135.6 crores. The scheme is being continued during 1989-90 with a budgetary provision of Rs. 2 crores.

*Assistance to Co-operative Credit Institutions in Co-operatively Under-developed States and Special Areas*

The Centrally Sponsored Scheme, operating since the beginning of the Fifth Five Year Plan, was set up with the objective to correct regional imbalances in co-operative development programmes, particularly in the sphere of agricultural credit. Under this scheme, the Central assistance is provided to District Central Co-operative Banks (DCCBs)/State Co-operative Banks through the State Governments on a fifty-fifty basis between the Central and State Governments. This is to enable the DCCBs to achieve their lending programmes. Originally conceived as a scheme for co-operatively underdeveloped States, the scheme was subsequently extended to cover the tribal areas, areas under Drought Prone Area Programme and areas with a concentration of 20 per cent or more of

Scheduled Castes, and more recently, thrust areas selected for Special Rice Production Programme and National Oilseeds Development Programme. During 1988-89, an amount of Rs. 4 crores was released under the scheme and a budgetary provision of Rs. 2.9 crores has been made for 1989-90.

**Other Institutions in the field of Rural Credit**

*National Co-operative Development Corporation (NCDC)*

The National Co-operative Development Corporation (NCDC) is a development financing institution for the agricultural co-operative sector. Its main functions are to promote, strengthen and develop the institution of farmers' co-operatives for increasing production and productivity and to create post-harvesting facilities for augmenting income. The Corporation's focus is on programmes of providing agricultural inputs, processing, storage and marketing of agricultural produce as also supply of consumer goods in rural areas. In the non-farm sector, the Corporation's efforts are to equip co-operatives with facilities to promote income-generating streams of activities such as, poultry and fishery for the benefit of the rural poor. During 1988-89, the NCDC continued its activities in planning and promotion of programmes through co-operative societies for the production, processing, marketing, storage, export and import of agricultural produce, food-stuffs and certain other commodities. Besides, NCDC continued to implement programmes relating to poultry, fisheries, minor forest produce, handlooms, coir, sericulture, dairy farming, etc., basically intended to benefit the weaker sections of society, namely Scheduled Castes and Tribes. As a lending agency for implementing projects aided by International Development Association (IDA)/European Economic Community (EEC), NCDC has already implemented NCDC-I and II IDA assisted projects and is presently implementing NCDC-III IDA project for mustard seed and coconut development and steps are being taken to formulate NCDC-IV project with IDA assistance. Intensive development of PACS as multipurpose entities being one of the major activities of the Seventh Plan, NCDC has, accordingly, 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. It is proposed 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 19 districts upto March 1989.

The total financial assistance provided by the Corporation during the year 1988-89 amounted to Rs. 206 crores as against Rs. 171 crores in 1987-88. Of this, Rs. 99 crores or 48 per cent (as against Rs. 78 crores in 1987-88) was under Central Sector Schemes and Rs. 107 crores or 52 per cent (as against Rs. 93 crores in 1987-88) under Corporation Sponsored schemes (Table VII-60). The State-wise assistance was shared mainly by Madhya Pradesh (14.6 per cent), Punjab (10.8 per cent), Maharashtra (10.5 per cent), Karnataka (7.8 per cent), Rajasthan (7.4 per cent), Kerala (6.7 per cent), Andhra Pradesh (6.2 per cent), Uttar Pradesh (6.1 per cent) and Tamil Nadu (6.0 per cent). With the expenditure of Rs. 206 crores incurred during 1988-89, the total assistance provided by the NCDC to the various State Governments and other agencies aggregated to Rs. 1,490 crores of which Rs. 943 crores was outstanding as at the end of March 1989.

Distribution of essential consumer goods constitutes an important aspect in the development of primary agricultural credit societies (PACS) as service co-operatives providing a range of useful services to the rural communities. Nearly 55 per cent PACS assisted by NCDC in the country are distributing consumer goods. NCDC has adopted a project approach to rural consumer business by the co-operatives. It has sanctioned an assistance of Rs. 96 crores upto the end of March 1989 for the development of rural consumer business. NCDC has assisted over 57,000 retail outlets in rural areas for distribution of consumer goods for meeting the requirements of village communities. Under the new 20-Point programme that emphasises development of students' consumer stores, the NCDC has sanctioned assistance to 147 students' consumer stores involving a sum of Rs. 19 lakhs. Cumulatively, it has sanctioned Rs. 149 lakhs for 1,054 stores during 1988-89.

*Warehousing Corporations*

The system of public warehousing in the country comprises of the Central Warehousing

**Table VII-60 : NCDC's Financial Assistance (Disbursements)from 1986-87 to 1988-89 (April-March)**

(Rupees crores)

| Schemes/Purposes | Amount disbursed | | |
|---|---|---|---|
| | 1986-87 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 |
| **I. Central Schemes** | **65** | **78** | **99** |
| a) Co-operative Storage Programme with International aid | 47 | 59 | 68 |
| b) Co-operative Marketing, Processing and Storage Programmes in under-developed States/Union Territories | 9 | 8 | 10 |
| c) Margin Money Assistance to Village Societies for Distribution of Consumer Articles in Rural Areas | 2 | 3 | 2 |
| d) Finance for Co-operative Sugar Factories, Co-operative Spinning Mills, NAFED, etc. | 7 | 8 | 19 |
| **II. Corporation Sponsored Schemes** | **84** | **93** | **107** |
| a) Storage | 27 | 26 | 16 |
| b) Agro-processing | 22 | 28 | 51 |
| c) Weaker Sections | 10 | 12 | 18 |
| d) Agricultural Marketing | 8 | 11 | 10 |
| e) Rural Consumer Activity | 2 | 4 | 2 |
| f) Agro-Services and Promotional and Developmental Programmes | 15* | 12 | 10 |
| **III. Total (I + II)** | **149** | **171** | **206** |

* Include Rs. 11 crores for distribution of fertilisers under NCDC-IFFCO schemes.

*Source :* National Co-operative Development Corporation.

Corporation (CWC) serving the markets of all-India importance, the State Warehousing Corporations (SWCs) which serve the secondary markets and the co-operatives in rural areas. CWC was started as a pioneering institution in the country in 1957 mainly for storage of foodgrains and agricultural inputs. Since then its activities have diversified into industrial warehousing also. Realising the role of warehousing corporations in the growth process of the nation, more and more industrial goods are being notified for storage in the warehouses.

In 1957, CWC started with 7 warehouses having a total capacity of 7,000 tonnes. As at end-March 1989, it has developed an all-India network of 465 warehouses, having a total capacity of 63.6 lakh tonnes. In addition, there are also 16 State Warehousing Corporations operating 1,288 warehouses,with a total capacity of 85 lakh tonnes. The total number of warehouses owned/managed by the CWC/SWCs decreased from 1,771 in 1987-88 to 1,753 in 1988-89 and their storage capacity decreased by 3.3 per cent from 153.5 lakh tonnes in 1987-88 to 148.5 lakh tonnes in 1988-89.

*(i) The Central Warehousing Corporation (CWC)*

As at end-March 1989, the owned, hired and plinth capacity of the Central Warehousing Corporation stood at 43.8 lakh tonnes, 18.3 lakh tonnes and 1.5 lakh tonnes, respectively, as against 42.2 lakh tonnes, 19.0 lakh tonnes and 1.6 lakh tonnes, respectively, in 1988. (Table VII-61). The average utilisation of warehousing capacity during the year registered a fall (72 per cent as against 92 per cent in 1987-88) mainly due to severe drought conditions that prevailed in the country last year.

During the Seventh Five Year Plan, CWC planned to construct 15 lakh tonnes of storage capacity involving a total expenditure of Rs. 92 crores. For the year 1988-89, the construction target was fixed at 2.3 lakh tonnes capacity against which a capacity of 2.2 lakh tonnes was completed at an expenditure of Rs. 24.5 crores. For the year 1989-90, the CWC has set the construction target at 4.1 lakh tonnes, with an outlay of Rs. 28 crores to be met from the

internal extra-budgetary resources of the Corporation.

During the year 1989-90, the CWC was also entrusted, among others, with (a) the construction of warehousing complex at Nhava Sheva Port in two Phases — Phase I at an estimated cost of Rs. 9.1 crores and Phase II at an estimated cost of Rs. 19.6 crores and (b) development of container freight station and railway siding platform at Nhava Sheva Port.

*(ii) State Warehousing Corporations*

During 1988-89, the number of warehouses managed by the State Warehousing Corporations (SWCs) decreased from 1,306 to 1,288 and the total warehousing capacity showed a decline of 6.0 lakh tonnes from 91 lakh tonnes to 85 lakh tonnes (Table VII-61).

**Table VII-61 : Increase in the 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** | | | | | |
| 1986-87 | 445 | 39.4 | 18.4 | 1.4 | 59.2 |
| 1987-88 | 465 | 42.2 | 19.0 | 1.6 | 62.8 |
| 1988-89 | 465 | 43.8 | 18.3 | 1.5 | 63.6 |
| **II. State Warehousing Corporations** | | | | | |
| 1986-87 | 1,316 | 52.8 | 34.8 | 0.8 | 88.4 |
| 1987-88 | 1,306 | 58.7 | 28.4 | 3.5 | 90.6 |
| 1988-89 | 1,288 | 61.8 | 21.8 | 1.4 | 85.0 |

*Source* : Central Warehousing Corporation.

*Rural Electrification Corporation Limited (REC)*

The Rural Electrification Corporation Limited (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.

During the year 1988-89, the diversification programme launched by the Corporation in 1987-88 and the traditional lines of business, viz., energisation of pumpsets and rural electrification recorded higher levels of achievement.

The total financial assistance sanctioned by the Corporation during 1988-89 (April-March) amounted to Rs. 954 crores which is, however, lower by Rs. 74 crores or 7.2 per cent than that sanctioned in 1987-88. Disbursements during 1988-89, however, were higher at Rs. 804 crores, showing a rise of Rs. 149 crores or 22.7 per cent as compared to an amount of Rs. 655 crores disbursed during 1987-88.

During the year 1988-89 (April-March), the Corporation sanctioned 2,273 schemes covering 17,389 villages as against 3,101 schemes sanctioned covering 30,019 villages in 1987-88. The cumulative financial assistance sanctioned and disbursed by REC as at end-March 1989 amounted to Rs. 6,012 crores and Rs. 4,192 crores, respectively (Table VII—62).

During 1988-89 (April-March), REC sanctioned 146 schemes for Harijan Bastis covering 4,737 villages involving a financial assistance of Rs. 12 crores that was marginally lower by Rs. 4 crores, as compared to 1987-88 when 160 schemes covered around 6,738 villages.

Disbursements for Harijan Bastis during 1988-89 amounted to Rs. 9 crores, the same as

in 1987-88. Cumulatively, REC had approved and sanctioned 1,227 Harijan Basti schemes covering 58,403 villages with a financial assistance of Rs. 82 crores upto end-March 1989 under the Harijan Basti scheme. The total amount disbursed under this scheme amounted to Rs. 58 crores as at end-March 1989 (Table VII-62).

**Table VII-62 : Schemes Sanctioned and Loans Disbursed by Rural Electrification Corporation (April-March)**

(Rupees crores)

| Items | 1986-87 | 1987-88 | 1988-89 | Cumulative Position as at end-March 1989 (Provisional) |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| 1. No. of Schemes sanctioned | 2,168 | 3,101 | 2,273 | 18,779R |
| | (121) | (160) | (146) | (1,227) |
| 2. No. of villages covered | 28,148 | 30,019 | 17,389 | 3,92,360 |
| | (4,972) | (6,738) | (4,737) | (58,403) |
| 3. Total cost of schemes | 1,093 | 1,471 | 1,263 | 8,565 |
| | (10) | (16) | (11) | (82) |
| 4. Total amount sanctioned | 678 | 1,028 | 954 | 6,012 |
| | (10) | (16) | (12) | (82) |
| 5. Total amount disbursed | 440 | 655 | 804 | 4,192 |
| | (5) | (9) | (9) | (58) |

*Note :* Figures in brackets are in respect of Harijan Basti Schemes included in the respective totals.
R = Revised.
*Source :* Rural Electrification Corporation Limited.

Table VII-63 gives the State-wise data of schemes sanctioned and disbursed by REC (cumulative position) as at the end of March 1988 and 1989.

*Agricultural Finance Consultants Ltd. (AFC)*

During the year 1988-89 (April-March), the Agricultural Finance Consultants Ltd. (AFC) (formerly known as the Agricultural Finance Corporation Ltd.), undertook a variety of consultancy assignments, including monitoring and evaluation studies, on agriculture and rural development, both within the country and outside. During the year, AFC handled 95 assignments within the country, of which 37 were from the State Governments, 25 from member banks, 17 from Government bodies, 8 from the Government of India, 6 from Government Corporations and one each from the Reserve Bank of India and a private concern.

The important projects formulated by AFC during the year include the Comprehensive Land Use Management Project in Karnataka which involves support from Overseas Economic Co-operative Fund, Japan, Intensive Pepper Development Project in Kerala and other non-traditional States, horticulture projects in Andhra Pradesh and Karnataka, sericulture projects in Maharashtra and Uttar Pradesh, Drip Irrigation Projects in Bihar, Tamil Nadu and Uttar Pradesh, Model Comprehensive Block Development Plans in Karnataka, Maharashtra and Uttar Pradesh and Wasteland Development Projects in the States of Gujarat, Karnataka Madhya Pradesh, Maharashtra and Tamil Nadu.

About one-third of the domestic assignments handled during the year were from the Eastern and North-Eastern States in the country. The noteworthy assignments among these included preparation of status reports for river catchment areas in Assam, Meghalaya and Mizoram, block level plans for a block each in Arunachal Pradesh, Assam and Meghalaya, Integrated Fisheries Development Projects for the North-Eastern Region, preparation and monitoring

**Table VII-63 : State-wise Data on Schemes Sanctioned and Loans Disbursed by REC (Cumulative position) as at the end of March 1988 and 1989**

| States | No. of schemes sanctioned | | Villages including HBs covered | | Loan amount sanctioned (Rs. crores) | | Amount disbursed (Rs. crores) | |
|---|---|---|---|---|---|---|---|---|
| | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 |
| Andhra Pradesh | 1786 | 2091 | 14980 | 26462 | 424.5 | 485.9 | 306.1 | 370.2 |
| Arunachal Pradesh | 10 | 24 | 114 | 471 | 19.2 | 34.8 | 2.0 | 4.2 |
| Assam | 277 | 298 | 17004 | 17841 | 181.3 | 201.4 | 138.4 | 156.1 |
| Bihar | 1096 | 1249 | 41928 | 52747 | 321.4 | 366.8 | 241.9 | 284.0 |
| Goa | — | — | — | — | — | — | — | — |
| Gujarat | 771 | 822 | 8336 | 9246 | 254.6 | 302.6 | 148.3 | 194.1 |
| Haryana | 503 | 561 | 90 | 5917 | 125.0 | 147.2 | 94.5 | 112.0 |
| Himachal Pradesh | 241 | 250 | 10561 | 11106 | 132.1 | 140.6 | 86.8 | 97.9 |
| Jammu & Kashmir | 191 | 222 | 4706 | 5454 | 77.8 | 103.6 | 54.2 | 62.1 |
| Karnataka | 843 | 927 | 8862 | 15480 | 174.6 | 194.1 | 148.5 | 157.5 |
| Kerala | 346 | 410 | 151 | 595 | 95.6 | 116.1 | 58.7 | 71.8 |
| Madhya Pradesh | 2494 | 2814 | 58208 | 64889 | 731.6 | 842.0 | 447.2 | 564.7 |
| Maharashtra | 1433 | 1726 | 15139 | 16825 | 339.8 | 514.5 | 296.9 | 420.7 |
| Manipur | 30 | 35 | 1010 | 1103 | 19.4 | 25.8 | 12.2 | 16.0 |
| Meghalaya | 69 | 78 | 2314 | 2559 | 36.3 | 45.8 | 31.9 | 39.7 |
| Mizoram | — | 12 | — | 285 | — | 19.2 | — | 6.1 |
| Nagaland | 42 | 43 | 756 | 756 | 30.9 | 33.3 | 23.7 | 28.0 |
| Orissa | 809 | 885 | 26740 | 31987 | 258.0 | 276.5 | 166.4 | 196.0 |
| Punjab | 725 | 814 | 3908 | 4385 | 215.3 | 267.4 | 160.5 | 184.6 |
| Rajasthan | 1133 | 1273 | 23194 | 29081 | 297.7 | 344.5 | 207.0 | 243.0 |
| Sikkim | 31 | 34 | 278 | 301 | 19.9 | 26.3 | 14.4 | 16.3 |
| Tamil Nadu | 958 | 1142 | 820 | 1264 | 204.4 | 259.4 | 153.8 | 215.4 |
| Tripura | 83 | 87 | 2829 | 2991 | 37.2 | 44.3 | 22.8 | 26.0 |
| Uttar Pradesh | 1906 | 2128 | 65809 | 63571 | 778.3 | 879.3 | 373.4 | 480.8 |
| West Bengal | 730 | 854 | 26222 | 27044 | 283.1 | 340.3 | 198.4 | 245.3 |
| **Total** | **16507** | **18779** | **333959** | **392360** | **5058.0** | **6011.7** | **3388.0** | **4192.5** |

*Source* : Rural Electrification Corporation Limited.

the implementation of abattoir project in Sikkim, preparation and evaluation of Command Area Development Projects in Bihar and evaluation of *Rabi* lending programme (1987-88).

With a view to further intensifying international consultancy, AFC continued to maintain contacts with international funding agencies such as the World Bank, International Fund for Agricultural Development (IFAD) and the Asian Development Bank (ADB) as also explored the possibilities of securing fresh assignments from the Third World countries on a bilateral basis. During the year, AFC provided the services of several of its experts to IFAD's missions functioning in Tamil Nadu and Rajasthan as also in Nepal and Uganda. At the instance of the International Fund for Agricultural Development (IFAD), it conducted a feasibility study of the Second Rajasthan Command Area Development and Settlement Project. It sent a two member team to Mali in West Africa on General Identification Mission on behalf of a private concern from Geneva. Further, the ADB has assigned a major turnkey project, viz., Upper Sagarmatha Integrated Rural Development Project in Nepal, the work on which include conducting impact evaluation of ongoing Sagarmatha IRDP, review of similar IRDPs under implementation and preparation of feasibility report on Sagarmatha IRDP. AFC

has made collaborative arrangements with some of the reputed consultancy firms from developing countries of Nepal, Mauritius, Philippines and with those from the developed countries for undertaking international consultancy work. A memorandum of understanding has been executed with the Asia and Pacific Agricultural Credit Association (APRACA), enabling AFC to act as the consultancy wing of APRACA.

The aggregate consultancy fees earned by AFC in respect of international assignments amounted to US. $ 166,464 in 1988-89 (April-March) as compared to US $ 196,221 in 1987-88.

**Study Teams/Committees/Working Groups**

*Constitution of a Study Group on Lac*

The National Bank has set up a Study Group to examine the various aspects relating to lac cultivation, processing, marketing, etc. The Group comprises representatives of RBI, IDBI, nationalised banks, Government of India and other institutions concerned with the development of lac and shellac. The report of the study group is awaited.

*Study on Problems of Handloom Co-operatives in Selected States*

In response to the representations received from some States with regard to difficulties faced by handloom societies in obtaining adequate and timely financial assistance from District Central Co-operative Banks (DCCBs), it was decided that a study should be undertaken in a few selected States for an indepth analysis of the problems relating to availment of credit under the National Bank's scheme for block and working capital assistance to handloom co-operatives. The study is being co-sponsored by the National Bank jointly with the Government of India.

*Utilisation Studies*

In the context of the progress achieved in provision of credit for non-farm sector and in order to explore the scope for future development in this regard, it was decided to make a study of the various qualitative and quantitative aspects of the lendings by the participating banks for non-farm activities. The services of the Technical Consultancy Organisation in the States of Karnataka, Kerala and Rajasthan were availed of to carry out studies in the respective States. The National Bank's Regional Offices in West Bengal and Orissa have also been instructed to conduct similar studies.

*Linkages Studies*

With the objective of ensuring proper and effective implementation of schemes sanctioned under ISB component of IRDP as well as under other non-farm sector activities with provision of adequate linkages, the National Bank decided to conduct indepth studies in selected blocks in the States of Andhra Pradesh, Karnataka, Maharashtra, Uttar Pradesh and West Bengal. The studies are for assessing the existing backward and forward linkages and identifying the scope of agencies for bridging the gaps in the linkages to the desired level. While the study has been completed in the States of Andhra Pradesh and Karnataka, selection of blocks to be covered under the study in the States of Maharashtra, Uttar Pradesh and West Bengal is under way in consultation with the respective State Governments.

*Regional Policy Seminar on Non-farm Activities*

The National Bank, under Swiss Development Co-operation Programme, organised a Regional Policy Seminar on Non-farm Sector activities at Hyderabad from February 1 to 3, 1989 to discuss the future strategies for the growth/development of non-farm sector activities in the southern States of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu. This was one among the series of seminars to be organised at the regional level by the National Bank for seeking innovative approaches to rural development. Officials from State Governments, Government of India, Research/Development Institutions etc., participated in the seminar.

*Scheme to Assist Voluntary/Promotional Agencies for Setting up Training-cum-Production Centres for Non-farm Activities*

The National Bank introduced a scheme to provide financial assistance on grant basis to voluntary/promotional agencies for setting up Training-cum-Production Centres (TPCs) for non-farm activities. The TPCs incorporate a unique blend of entrepreneurial development

programmes, technology upgradation; backward and forward linkages and thereby greatly assist in setting up viable industrial units by entrepreneurs developed by them, with financial assistance under the National Bank's refinance scheme.

*Concurrent Evaluation of IRDP*

A system of concurrent evaluation of the Integrated Rural Development Programme (IRDP) has been in operation under the aegis of the Government of India in selected parts of the country with the assistance of various research institutions such as the National Institute of Rural Development (NIRD), Hyderabad, Institute for Rural Management, Anand and Institution for Development Studies, Jaipur, etc. The findings are being conveyed to State Governments and banks by the Government of India/Reserve Bank of India and the National Bank suggesting remedial measures to improve the qualitative aspects of lending. The National Bank also initiates such measures through its Regional Offices by undertaking periodical visits to banks and bringing such deficiencies to the notice of banks in district level forums. The third round of Survey for the period (January 1989 to December 1989) is under progress.

Under NABARD Credit Project-1 (NCP-1), the National Bank has undertaken 100 District Oriented Monitoring (DOM) Studies, out of which 15 have a special focus on the implementation of IRDP. In 1988-89 (July-March), the National Bank completed studies in respect of 22 districts and the studies have highlighted the need for periodic revision of unit cost, adherence to minimum economic size, shorter repayment period, provision of the grace period, etc. Remedial measures have been undertaken by the regional offices of the National Bank which also periodically meet the State Level Unit Cost Committee (s) so that no under-financing/over-financing takes place.

Further, an orientation programme for IRDP beneficiaries is being considered by the National Bank at the district levels in conjunction with the Reserve Bank.

**Annexure — I**
**Interest Rates Structure**

| Category of advances | Rate of Interest (per cent per annum) | | |
|---|---|---|---|
| | Prior to October 10, 1988 | Effective October 10, 1988 | Subsequen Change |
| 1 | 2 | 3 | 4 |
| **I. Public Procurement and Distribution Agencies** | | | |
| 1. FCI, State Governments/agencies acting as agencies of FCI for procurement of foodgrains (wheat, paddy/rice and coarse foodgrains) under the full price support scheme of the Government of India, where the sales are at fixed prices through Government approved outlets | 14.00 | 14.00 | |
| 2. (i) Advances to Central and State Government agencies entrusted with procurement/distribution of specified essential consumer commodities for sale at fixed prices through Government approved outlets, the commodities being pulses, edible oils, kerosene, salt and sugar | 15.00 | 15.00 | |
| (ii) Advances to Central and State Government agencies entrusted with the procurement of pulses and oilseeds at support prices fixed by the Central Government | 15.00 | 15.00 | |
| 3. (i) Advances to Central and State Government agencies entrusted with the procurement and distribution of essential consumer commodities other than those specified in category 2 above | 15.50 | 15.50 | |
| (ii) Advances to Central and State Government agencies entrusted with the procurement of cash crops where there is an element of price support | 15.50 | 15.50 | |
| (iii) Advances to Central and State Government agencies entrusted with the procurement and distribution of fertilizers, pesticides and seeds | 15.50 | 15.50 | |
| 4. Advances to Central and State Government agencies entrusted with the procurement and distribution of commodities for sale on a commercial basis | 16.50 | 16.00 (Minimum) | |
| **II. Lending Rate for Commodities coming within the purview of Selective Credit Control** | | | |
| Loans/advances/cash credit/overdrafts against commodities subject to selective credit control | 16.50 | 16.00 (Minimum) | |
| **III. Exports** | | | |
| 1. *Pre-shipment credit* | | | |
| a. (i) Upto 180 days | 9.50 | 9.50 | 7.50* |
| (ii) Beyond 180 days, and in all, upto 270 days (with the prior approval of the Reserve Bank of India) | 11.50 | 11.50 | 9.50* |
| b. Against cash incentives, etc. covered by ECGC guarantee - Upto 90 days | 9.50 | 9.50 | 7.50* |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| 2. *Post-shipment credit* | | | |
| (i) Demand bills - for transit period (as specified by FEDAI) | 9.50 | 9.50 | 8.65* |
| (ii) Usance bills - upto 180 days comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable | 9.50 | 9.50 | 8.65* |
| (iii) Cash incentives, duty draw-back etc. receivable from Government covered by ECGC guarantee (upto 90 days) | 9.50 | 9.50 | 8.65* |
| (iv) Undrawn balances (upto 90 days) | 9.50 | 9.50 | 8.65* |
| (v) Against retention money (for supplies portion only) payable within one year from the date of shipment (upto 90 days) | 9.50 | 9.50 | 8.65* |
| 3. *Deferred Credit* | | | |
| a) Deferred credit for period beyond 180 days | | | 8.65(1)* |
| b) Deferred credit for period beyond one year | 8.65 | 8.65 | |
| 4. *Duty Draw-back Credit Scheme, 1976* | | | |
| Against duty draw-back as provisionally certified by the Customs Authorities (upto 90 days) | Free of interest | Free of interest | Free of interest* |
| 5. *Export credit not otherwise specified* | 14.00 to 15.50 | 14.00 to 15.50 | 14.00 to 15.50* |
| **IV. Agriculture** | | | |
| A. Short-term loans to farmers (2) | | | |
| (a) Upto Rs. 5,000/- | 11.50 | | |
| (b) Over Rs. 5,000/- and upto Rs. 10,000/- | 12.50 | | |
| (c) Over Rs. 10,000/- and upto Rs. 25,000/- | 12.50 to 14.00 | | |
| (d) Over Rs. 25,000/- | 14.00 to 15.50 | | |
| (e) Upto Rs. 7,500/- | | 10.00 | |
| (f) Over Rs. 7,500/- and upto Rs. 15,000/- | | 11.50 | |
| (g) Over Rs. 15,000/- and upto Rs. 25,000/- | | 12.50 to 14.00 | 12.00* |
| (h) Over Rs. 25,000/- | | 14.00 to 15.50 | |
| B. Advances to units engaged in both production and distribution of seeds | 14.00 | 14.00 | |
| C. Advances for distribution of fertilizers | | | |
| (a) Upto Rs. 5,000/- | 11.50 | 11.50 | |
| (b) Over Rs. 5,000/- and upto Rs. 25,000/- | 11.50 to 14.00 | 11.50 to 14.00 | |
| (c) Over Rs. 25,000/- | 14.00 to 15.50 | 14.00 to 15.50 | |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| **V. Small-Scale Industry** | | | |
| 1. Composits loans upto Rs. 25,000/- | | | |
| (a) Backward areas | 10.00 | 10.00 | |
| (b) Other areas | 12.00 | 12.00 | |
| 2. Short-term advances with limits | | | |
| (a) Upto and inclusive of Rs. 2 lakhs | 12.50 to 14.00 | 12.50 to 14.00 | |
| (b) Over Rs. 2 lakhs and upto Rs. 25 lakhs | 14.00 to 15.50 | 14.00 to 15.50 | |
| (c) Over Rs. 25 lakhs | 16.50 | 16.00 (Minimum) | |
| 3. Advances to State-level corporations for assisting artisans, village and cottage industries *(for the purpose of the purchase and supply of inputs to and/or the marketing of the outputs of the beneficiaries)* | 12.50 | 12.50(3) | |
| 4. Advances to State-sponsored scheduled castes/scheduled tribes development corporations *(for the purpose of purchase and supply of inputs to and/or the marketing of the outputs of the beneficiaries)* | 12.50 | 12.50 | |
| **VI. Other categories** | | | |
| 1. Retail trade advances | | | |
| (a) Limits upto and inclusive of Rs. 5,000/- | 12.50 | 12.50 | |
| (b) Over Rs. 5,000/- and upto Rs. 25,000/- | 12.50 to 15.00 | 12.50 to 15.00 | |
| (c) Over Rs. 25,000/- and upto Rs. 1 lakh | 15.00 to 16.50 | 15.00 to 16.00 | |
| (d) Over Rs.1 lakh | — | 16.00 (Minimum) | |
| 2. Educational advances | | | |
| (a) Indigent students for purpose of higher education in India | Not less than Bank rate | Not less than Bank rate | |
| (b) Other educational advances | 14.00 to 15.50 | 14.00 to 15.50 | |
| 3. Priority sector not otherwise specified | 14.00 to 15.50 | 14.00 to 15.50 | |
| 4. All other advances | 16.50 | 16.00 (Minimum) | |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| 5. (i) Interest Rate on discounting of bills of exchange for categories of borrowers subject to the maximum interest rate of 16.50 per cent per annum | 15.50 | | |
| (ii) Interest Rate on discounting of bills of exchange for categories of borrowers subject to the minimum interest rate of 16.00 per cent per annum | | 15.50 | |
| 6. Advances to Discount and Finance House of India Ltd. | | 12.00 | |
| **VII. Term Loans** | | | |
| 1. *Small-Scale Industry Units in* | | | |
| (i) Backward areas | 12.50(4) | 12.50(4) | |
| (ii) Other areas | 13.50 | 13.50 | |
| 2. *Agriculture (5)* | | | |
| (i) Minor irrigation land development | 10.00 | 10.00 | |
| (ii) Other purposes | | | |
| (a) Small farmers | 10.00 | 10.00 | |
| (b) Other farmers | 12.50 | 12.50 | |
| (iii) Advances by way of term loans for purchase of equipment based on new and renewable sources of energy for agricultural purposes irrespective of whether the borrower/farmer is "small farmer" or otherwise | 10.00 | 10.00 | |
| (iv) Wasteland Development | | | |
| (a) Individuals or group of individuals such as cooperatives | | 10.00 | |
| (b) Corporate and other borrowers | | 12.50 | |
| 3. *Housing* | | | |
| (i) Advances upto and inclusive of Rs. 5,000/- | 12.50 | | |
| (ii) Over Rs. 5,000/- and upto Rs. 50,000/- | 13.50 | | |
| (iii) Over Rs. 50,000/- | 15.00 | | |
| (iv) Advances upto and inclusive of Rs. 20,000/- | | 12.50 | |
| (v) Over Rs. 20,000/- and upto Rs. 50,000/- | | 13.50 | |
| (vi) Over Rs. 50,000/- and upto Rs. 1 lakh | | 14.00 | |
| (viii) Over Rs. 1 lakh | | 14.50 to 16.00 | |
| 4. *Road Transport Operators (6)* | | | |
| (i) Upto two vehicles | 12.50 | 12.50 | |
| (ii) Three or more vehicles | 15.00 | 15.00 | |
| 5. All other term loans | 15.00 | 15.00 | |
| **@VIII. Advances to professionals and self-employed persons belonging to Scheduled Castes/Scheduled Tribes (7)** | | | |
| (a) Advances by way of loans other than term loans | 14.00 | 14.00 | |
| (b) Advances by way of term loans | 13.50 | 13.50 | |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| **@IX. Advances to professionals and self-employed women (7)** | | | |
| (a) Advances by way of loans other than term loans | 14.00 | 14.00 | |
| (b) Advances by way of term loans | 13.50 | 13.50 | |
| **X. DRI advances** | **4.00** | **4.00** | |
| **XI. Housing Loans to SC/ST upto and inclusive of Rs. 5,000/-** | **4.00** | **4.00** | |
| **XII. Loans to IRDP beneficiaries** | 10.00 | 10.00 | |
| **XIII. Loans under Self-Employment Programme for Urban poor** | 10.00 | 10.00 | |
| **XIV. Loans under scheme for providing self-employment to educated unemployed youth** | | | |
| (a) Backward districts upto Rs. 25,000/- | 10.00 | 10.00 | 10.00(9) |
| (b) Backward districts exceeding Rs. 25,000/- | | 12.50 (8) | |
| (c) Other districts upto Rs. 25,000/- | 12.00 | 12.00 | 12.00(9) |
| (d) Other districts exceeding Rs. 25,000/- | | 13.50 (8) | |
| **XV. Financial assistance to physically handicapped persons other than those covered under the DRI Schemes for purchase of artificial limbs and aids subject to maximum of Rs. 2,500/- each case** | Same as given in in Col. 2 | Interest rate same as charged for production loan but not exceeding 15.00 | |

*Notes :*

* These rates of interest are effective from March 1, 1989.

@ For advance to professionals and self-employed persons and small business not specifically covered under items VIII and IX the rate should be, term loan - 15 per cent, and short term finance - 14.00 to 15.50 per cent.

(1) Effective March 1, 1989, made applicable to period beyond 180 days.

(2) In the case of advances through PACS/FSS/LAMPs, the rate to the ultimate borrowers should be the same as charged by co-operatives in the area and in any case not exceeding the rates indicated under item IVA. The rate to be charged by the banks to PACs/FSSs/LAMPS should be atleast 2.5 percentage points lower than the rate indicated under item IVA for the respective category.

(3) Also applicable in respect of credit limits sanctioned exclusively for the purpose of purchase and supply of inputs to artisans, village and cottage industries and/or marketing their output to agencies exclusively certified by Khadi & Village Industries Commission (KVIC)/State Khadi & Village Industries Boards (State KVIBS) as their implementing agencies.

(4) This rate of interest is applicable for new units set up in backward areas. For expansion/diversification of existing small scale units, the rate of 13.50 percent should be applied.

(5) These rates are also applicable to the loans to the ultimate borrowers where the loans are routed through PACS/LAMPS/FSS. The rates to be charged by the banks to the PACS/LAMPS/FSS should be lower than the rates to the ultimate borrowers by 1.5 percentage points.

| 1 | 2 | 3 | 4 |
|---|---|---|---|

(6) Small transport operators owning a fleet not exceeding 6 vehicles come within the purview of priority sector. The rate on short term finance should be within the range of 14.00 to 15.50 per cent. It should, however, be ensured that the rates should not be less than the rates prescribed for term loans as indicated under item VII(4).

(7) The expression 'professionals and self-employed persons' shall be understood on the lines clarified in paragraph 6 of Annexure I to the Reserve Bank of India's advice to commercial banks set out in RPCD circular No. PS.BC. 21/C. 682-83 dated February 7, 1983.

(8) Loans upto Rs. 35,000/- are allowed under the Scheme for Industrial ventures. The entire loan amount will carry the enhanced rate on such cases

(9) These rates of interest were revised on May 17, 1989 with retrospective effect since October 16, 1986.

## ANNEXURE - II

## SELECTIVE CREDIT CONTROL

## PROVISIONS OF DIRECTIVES APPLICABLE TO SCHEDULED COMMERCIAL BANKS ON ADVANCES AGAINST SELECTED COMMODITIES

(Position as on July 20, 1989)

### 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: 16.00% (minimum) 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**<br>(ii) 45% on advances against stocks of Paddy/Rice to processing units/mills.<br>(ii) 60% on advances against stocks of Paddy/Rice to parties other than processing units/mills.<br>(iii) 45% on advances against warehouse receipts covering stocks of Paddy/Rice.<br><br>**II. Wheat**<br>(i) 45% on advances against stocks of wheat to mills/processing units.<br>(ii) 60% on advances against stocks of Wheat to parties other than mills/processing units.<br>(iii) 45% on advances against warehouse receipts covering stocks of Wheat.<br><br>**III. Pulses**<br>(i) 45% on advances against stocks of Pulses to processing units/mills.<br>(ii) 60% on advances against stocks of Pulses to parties other than processing units/mills.<br>(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) 1984-85. 1985-86 and 1986-87 separately in respect of each of the following commodities:<br>i) Paddy/Rice<br>ii) Wheat<br>iii) Pulses<br>iv) 'Other foodgrains'.<br><br>**Exemption**<br>(i) Advances against 'other foodgrains' to foodgrains processing units.<br>(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. | **A. States**<br>Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Tripura and Sikkim.<br><br>**B. Public Procurement, Storage and Distribution Agencies.**<br>(i) Advances to the Food Corporation of India and State Governments.<br>(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.<br>(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. |

| 1 | 2 | 3 |
|---|---|---|
| **IV. 'Other foodgrains'** (viz, Jowar, Bajra, Maize, Barley, Ragi, Gram and all other foodgrains including coarse grains).<br>(i) 45% on advances against stocks of 'other foodgrains' to processing units/mills.<br>(ii) 60% on advances to parties other than processing units/mills.<br>(iii) 45% on advances against warehouse receipts covering stocks of 'other foodgrains'. | | (iv) Advances to Central and State Government/ Agencies entrusted with the procurement of pulses at support prices fixed by the Government of India.<br>(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**<br>(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 Government. | | **C. Others**<br>(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.<br>(ii) Advances against the security of, or by way of purchase of demand documentary bills drawn in connection with the movement of foodgrains.<br>(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.<br>(iv) Advances to Khadi and Village Industries Commission and its associate institutions.<br>(v) Advances granted to Wholesale Consumers' Co-operative Stores and State National Federations of Consumers' Co-operatives.<br>(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. |

| 1 | 2 | 3 |
|---|---|---|
| | | **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 Controls should not be discounted by banks. Banks should not open inland L Cs providing a clause therein which enables other banks to discount usance bills under the L Cs.

(ii) No bank shall advance against the security of any of the foodgrains where a ban on trading has been imposed in respect of that foodgrain except to wholesale or retail traders who are authorised by the State Government to deal in that foodgrain and to processing units to the extent to which and the manner in which such processing is allowed by the respective State Governments.

(iii) Warehouse receipts are those issued by Central/State Warehousing Corporations or rural godowns, set up under a Government Scheme and godowns set up by Regulated Market Yards.

(iv) States and categories of advances indicated in column 3 above, though exempted from rate of interest, minimum margin and level of credit prescribed, will continue to be governed by other instructions issued prohibiting bank 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: 16.00% (minimum) 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) 30% on advances to processing units/mills.

(ii) 45% on advances to parties other than processing units/mills.

(iii) 30% 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.

(iii) Advances against stocks of oilseeds procured from grower members and oils thereof to oilseeds processing units of State Co-operative Marketing Federations in Madhya Pradesh, Uttar Pradesh and Rajasthan set up under the aegis of National Co-operative Development Corporation (NCDC) under the European Economic Community Assisted Project.

In respect of each party, separate ceiling for each of (i) groundnut, (ii) cottonseed, (iii) linseed and castorseed together: 100% of the peak level of credit maintained by the party in any of the 3 years (November-October), viz, 1984-85, 1985-86 and 1986-87.

**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.

(iii) Advances against stocks of oilseeds procured from grower memberss and of oils thereof to oilseeds processing units of State Co-operative Marketing Federations in Madhya Pradesh, Uttar Pradesh and Rajasthan set up under the aegis of National Co-operative Development Corporation (NCDC) under the European Economic Community Assisted Project.

**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 distributing 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) Advances to 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. |

| 1 | 2 | 3 |
|---|---|---|

*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 banks 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 OIL/MUSTARD OIL, CASTOR OIL,LINSEED OIL, COTTONSEED OIL AND VANASPATI AND ALL IMPORTED OILS)

**Rate of interest: 16.00% (minimum) 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) 30% to registered oil mills and vanaspati manufacturers

(ii) 45% other than (I) above.

(iii) 30% against warehouse receipts representing stocks of oils.

**Exemptions**

(i) Advances to consumers' co-operatives in respect of stocks held under the Centrally Sponsored Scheme for the distribution of essential consumer articles.

(ii) Advances against all imported vegetable oils for a period not exceeding 4 weeks after arrival of the goods in India.

(iii) Advances granted to vanaspati manufacturers against the security of imported oils used as raw materials by them in the manufacture of vanaspati.

(iv) Advances to State level oilseeds growers' co-operative federations under the National Dairy Development Board's Oilseeds Project, against stocks of oils extracted from oilseeds purchased from grower members.

(v) Advances to vanaspati manufacturers against cottonseed oil.

In respect of each party, 100% of peak level of credit maintained by the party in any of the 3 years (November-October) viz., 1984-85, 1985-86 and 1986-87.

**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 and 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 the stocks of vegetable oils and vanaspati.

(ii) Wholesale and retail dealers appointed/licensed by Government and/or operating under statutory rationing/fair price distribution system in all the States and Union Territories to the extent of the quantum meant for public distribution.

**C. Exports**

(i) Packing credit advances to the exporters of deoiled and/or defatted cakes against the security of oilseeds and/or other raw material to the extent of the value of raw material required for producing cakes covered by the export order, even though the value of the raw material exceeds the value of the relative export order.

| 1 | 2 | 3 |
|---|---|---|
| | | **Provided**<br>(1) Such advances to the extent of the value of by-product oil shall be adjusted by the sale proceeds of the by-product oil or in cash as soon as the oil is extracted but within a period not exceeding 30 days from the date of advance and the balance in the packing credit account shall be adjusted by the proceeds of the relative export bills and advances, if any, against the by-product oil granted in a separate account are exempted for a period of 30 days from the date of such advances.<br><br>(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.<br><br>**D. Others**<br>(i) Advances by way of purchase of demand documentary bills drawn in connection with the movement of vegetable oils and vanaspati.<br><br>(ii) Advances to Khadi & Village Industries Commission and its associate institutions.<br><br>(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.<br><br>(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. | | (vi) 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 an 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 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: 16.00% (minimum) 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.<br>(ii) 30% for stocks covered by warehouse receipts.<br>**Exemption**<br>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 banks in any of the 3 years (November-October) viz., 1984-85, 1985-86 and 1986-87.<br>**Exemption**<br>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**<br>Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Tripura and Sikkim.<br>**B. Exports**<br>(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.<br>(ii) Advances against the security of, or by way of purchase or discount of export bills relating to export of cotton from India.<br>**C. Others**<br>(i) Advances granted by way of purchase of demand documentary bills drawn in connection with the movement of cotton and kapas.<br>(ii) Advances of Khadi and Village Industries Commission and its associate institutions.<br>(iii) 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.<br>(iv) National Textile Corporation (NTC) including its subsidiaries. |

*Notes:*

(i) Usance bills arising out of sale of commodities covered under selective credit controls 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 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 exempted from selective credit control measures.

## E. SUGAR, GUR AND KHANDSARI

**Rate of interest: 16.00% (minimum) for all loans/advances/cash credits/overdrafts**

| Minimum margin | Exemption from minimum margin and rate of interest |
|---|---|
| 1 | 2 |
| **(i) Advances against sugar**<br>(a) To sugar factories<br>(i) Nil against Buffer Stock stipulated by the Government.<br>(ii) 75% 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.<br>(iii) 25% on advances to parties manufacturing sugar other than those referred to 1 (a) and (ii) above.<br>(b) 75% on advances to parties other than sugar factories.<br>(c) 60% on advances against warehouse receipts covering stocks of sugar.<br>**(2) Advances against Gur and Khandsari**<br>(i) 45% on advances to manufacturing units.<br>(ii) 75% on advances to others.<br>(iii) 60% on advances against warehouse receipts covering stocks of gur and khandsari.<br>**Exemption**<br>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**<br>(i) Advances to Food Corporation of India.<br>(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.<br>**B. Exports**<br>Advances granted in respect of stocks of sugar pledged/hypothecated with banks which are intended for export out of India.<br>**C. Others**<br>(i) Advances granted by way of purchase of demand documentary bills drawn in connection with movement of commodities.<br>(ii) Advances granted to industrial users such as confectioneries, bakeries, biscuit manufacturers, etc., against stocks of sugar, gur and khandsari pledged/hypothecated with banks.<br>(iii) Advances to Khadi and Village Industries Commission and its associate institutions.<br>(iv) Advances upto an aggregate limit of Rs.1 lakh per borrower are exempt from all provisions of selective credit controls subject to the condition that the borrower deals with one bank only.<br>(v) Advances to Wholesale Consumers' Co-operative Stores or State and National Federations of Consumers' 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 controls 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 importer 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 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, 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 limits.

## 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 including public debt and other liabilities of the Government. Finances of Railways, Department of Posts and Department of Telecommunications are also reviewed in this Chapter.

### I. COMBINED BUDGETARY POSITION OF CENTRAL AND STATE GOVERNMENTS 1988-89 and 1989-90*

#### 1988-89

The main thrust of the fiscal management in 1988-89 was to revitalise the drought hit economy and accelerate the pace of economic growth through higher production, particularly in the agricultural sector and provide high priority to export growth to reduce the rising strain on balance of payments while keeping inflationary pressures in check. The broad policy-mix, thus, focussed on stepping-up Plan expenditure and raising resources in a non-inflationary manner, while keeping the budgetary deficit within prudent limits. According to data based on closure of accounts, the deficit of the Central Government turned out to be much lower at Rs. 5,810 crores as against the deficit of Rs. 7,940 crores estimated in the revised estimates for 1988-89 and deficit of Rs. 5,816 crores in 1987-88. The inflation rate, as measured by WPI on a point to point basis, was also significantly lower at 6.7 per cent in 1988-89 as compared with 10.6 per cent in 1987-88. The Central Budget for 1988-89 contained many concessions for agriculture and agro-based activities and duty reliefs to selected industries which were aimed at providing the necessary fillip to production, both in agricultural and industrial sectors. The Budget also contained many concessions for the export sector. It also provided a thrust to poverty alleviation programmes, particularly on creation of job opportunities in rural areas, social security for weaker and vulnerable sections of the society. The Budget gave a boost to the housing sector through the establishment of the National Housing Bank.

The combined budgetary deficit of the Centre and 25 States, according to the revised estimates for 1988-89, was placed higher at Rs. 8,802 crores as compared with Rs. 8,148 crores anticipated in the budget estimates and Rs. 5,582 crores in 1987-88 (Accounts)[1] (Table VIII-1). The Centre's revised deficit was estimated at Rs. 7,940 crores as against the budgeted deficit of Rs. 7,484 crores and actual deficit of Rs. 5,816 crores in 1987-88. The States also showed higher deficit of Rs. 862 crores in revised estimates as against the budgeted deficit of Rs. 664 crores and a surplus of Rs. 234 crores in 1987-88. The net RBI credit to Governments (Central and States) was placed at Rs. 6,928 crores as compared with Rs. 6,402 crores in 1987-88. The

* Figures in this Chapter relate to the fiscal year (April-March).

1 Budgetary deficit or surplus is measured (A) in the case of the 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 overdrafts (repayable within 7 working days), (ii) decline in/addition to cash balances and (iii) net sales/purchases of securities held by States in their Cash Balance Investment Account. According to the books of the RBI the combined deficits for 1988-89 amounted to Rs. 5,385 crores, comprising Rs. 5,810 crores on the Centre's account and Rs. 425 crores on account of surplus of 23 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 the Central and State Governments** *(Contd.)*

(Rs. crores)

| Items | 1985-86 (Accounts) | 1986-87 (Accounts) | | 1987-88 (Accounts) | | 1988-89 (Budget Estimates) | | 1988-89 (Revised Estimates) | | 1989-90 (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 | 12 |
| **I. Total Disbursements£** | **84,470** | **1,01,602** | **+20.3** | **1,11,161** | **+9.4** | **1,23,082** | **+10.7** | **1,29,231** | **+16.3** | **1,41,182** | **+9.2** |
| *Of which:* | | | | | | | | | | | |
| 1. Developmental (a+b+c) | 55,032 | 64,441 | +17.1 | 69,087 | +7.2 | 74,160 | +7.3 | 79,873 | +15.6 | 83,170 | +4.1 |
| a) Revenue | 32,621 | 38,639 | +18.4 | 45,131 | +16.8 | 47,706 | +5.7 | 52,231 | +15.7 | 54,834 | +5.0 |
| b) Capital | 12,310 | 13,625 | +10.7 | 12,479 | -8.4 | 13,743 | +10.1 | 13,953 | +11.8 | 14,533 | +4.2 |
| c) Loans | 10,101 | 12,177 | +20.6 | 11,477 | -5.7 | 12,711 | +10.8 | 13,689 | +19.3 | 13,803 | +0.8 |
| 2. Non-Developmental (a+b+c) | 27,332 | 33,682 | +23.2 | 39,460 | +17.2 | 46,967 | +19.0 | 46,586 | +18.1 | 55,069 | +18.2 |
| a) Revenue | 25,984 | 31,596 | +21.6 | 35,660 | +12.9 | 42,145 | +18.2 | 41,933 | +17.6 | 50,204 | +19.7 |
| b) Capital | 1,116 | 1,592 | +42.7 | 3,392 | +113.1 | 4,278 | +26.1 | 4,137 | +22.0 | 4,445 | +7.4 |
| c) Loans | 232 | 494 | +112.9 | 408 | -17.4 | 544 | +33.3 | 516 | +26.5 | 420 | -18.6 |
| **II. Total Receipts (A+B)** | **81,221** | **92,453** | **+13.8** | **1,05,579** | **+14.2** | **1,14,934** | **+8.9** | **1,20,429** | **+14.1** | **1,33,338** | **+10.7** |
| A. Revenue Receipts | 54,097 | 62,902 | +16.3 | 70,878 | +12.7 | 79,732 | +12.5 | 81,576 | +15.1 | 95,141 | +16.6 |
| *Of which:* | | | | | | | | | | | |
| i) Tax receipts (a+b+c) | 42,991 | 49,378 | +14.9 | 57,010 | +15.5 | 64,158 | +12.5 | 65,384 | +14.7 | 75,704 | +15.8 |
| a) Taxes on Commodities and Services | 35,412 | 40,941 | +15.6 | 47,634 | +16.3 | 53,460 | +12.2 | 54,244 | +13.9 | 63,112 | +16.3 |
| b) Taxes on Income and Property | 7,047 | 7,873 | +11.7 | 8,711 | +10.6 | 9,996 | +14.8 | 10,371 | +19.1 | 11,729 | +13.1 |
| c) Taxes on Union Territories (Without Legislature) | 532 | 564 | +6.0 | 665 | +17.9 | 702 | +5.6 | 768 | +15.5 | 863 | +12.4 |
| ii) Non-Tax Receipts | 11,106 | 13,524 | +21.8 | 13,867 | +2.5 | 15,575 | +12.3 | 16,192 | +16.8 | 19,437 | +20.0 |
| B. Capital Receipts | 27,124 | 29,551 | +8.9 | 34,701 | +17.4 | 35,202 | +1.4 | 38,853 | +12.0 | 38,197 | -1.7 |
| *Of which:* | | | | | | | | | | | |
| i) Market Borrowings (Gross) | 6,971 | 7,876 | +13.0 | 8,483 | +7.7 | 9,471 | +11.6 | 9,825 | +15.8 | 10,508 | +7.0 |
| ii) Market Borrowings (Net) | 5,894 | 6,570 | +11.5 | 7,397 | +12.6 | 8,701 | +17.6 | 9,057 | +22.4 | 9,553 | +5.5 |
| iii) Small Savings | 4,292 | 3,276 | -23.7 | 3,633 | +10.9 | 4,600 | +26.6 | 4,600 | +26.6 | 4,600 | — |
| iv) State Provident funds (Net) | 1,172 | 1,571 | +34.0 | 2,053 | +30.7 | 1,784 | -13.1 | 2,320 | +13.0 | 2,871 | +23.8 |

**Table VIII-1 : Combined Receipts and Disbursements of the Central and State Governments** *(Concld.)*

(Rs. crores)

| Items | 1985-86 (Accounts) | 1986-87 (Accounts) | | 1987-88 (Accounts) | | 1988-89 (Budget Estimates) | | 1988-89 (Revised Estimates) | | 1989-90 (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 | 12 |
| **III. Overall Surplus (+)/Deficit (-) (II-I)** | **-3,249** | **-9,149** | | **-5,582** | | **-8,148** | | **-8,802** | | **-7,844** | |
| Financing of Surplus(+)/ Deficit(-) | | | | | | | | | | | |
| i) Increase (+) or Decrease (-) in cash balances of the Centre and States | -457 | -125 | | -47 | | -671 | | -1,351 | | -494 | |
| ii) Increase (-) or Decrease (+) in Treasury Bills of the Centre | -4,934 | -8,862 | | -5,652 | | -7,484 | | -7,448 | | -7,337 | |
| iii) Withdrawals from (-) or Additions to (+) Cash Balance Investment Accounts of States (Net) | +989 | -272 | | +32 | | +7 | | -182 | | +30 | |
| (iv) Increase (-) or Decrease (+) in Ways and Means Advances and Overdrafts from the RBI to States (Net) | +1,153 | +110 | | +85 | | ... | | +179 | | -43 | |
| **IV. I as per cent of GDP** | **32.2** | **34.6** | | **33.6** | | **31.5** | | **33.1** | | **32.6** | |
| **V. II as per cent of GDP** | **30.9** | **31.5** | | **32.0** | | **29.4** | | **30.8** | | **30.8** | |
| **VI. II A as per cent of GDP** | **20.6** | **21.4** | | **21.4** | | **20.4** | | **20.9** | | **21.9** | |
| **VII. II A (i) as per cent of GDP** | **16.4** | **16.8** | | **17.3** | | **16.4** | | **16.7** | | **17.5** | |

*Note:* Data relate to 25 State Governments.

\+ Including effects of budget proposals and excluding post-budget tax concessions.

£ The sum of Developmental and Non-Developmental expenditures will not add up to Total Disbursements of the Central and State Governments, due to the inclusion of 'Other' disbursements in State disbursements which comprise discharge of internal and external debt, compensation and assignments to local bodies and Panchayati Raj Institutions, appropriation to contingency funds and net remittances and are adjusted for figures of repayments of loans by State Governments to the Central Government.

*Source:* Budgets of Central and State Governments.

net RBI credit to the Central Government at Rs. 6,503 crores was lower by Rs. 56 crores than that in 1987-88. RBI credit to State Governments in 1988-89 amounted to Rs. 425 crores as against a decline of Rs. 157 crores in 1987-88 (Table VIII-2).

During 1988-89, the combined aggregate receipts (revenue and capital) of the Centre and the States were placed at Rs. 1,20,429 crores showing an increase of Rs. 14,850 crores (14.1 per cent) over 1987-88 (Table VIII-1)[2]. Revenue receipts at Rs. 81,576 crores accounting for 67.7 per cent of total receipts increased by Rs. 10,698 crores(15.1 per cent) over those in 1987-88. Capital receipts on the other hand increased by Rs. 4,152 crores (12.0 per cent) to Rs. 38,853 crores. During 1988-89, the combined aggregate receipts as a proportion of GDP, at current market prices, was lower at 30.8 per cent as compared with 32.0 per cent in 1987-88.

**Table VIII-2: Trends in Budgetary Deficits and Net RBI Credit to Government**

(Rs. crores)

| Year | Budgetary Surplus( + ) or Deficit( − ) (a) | | | Net RBI Credit to Governments (b) | | |
|---|---|---|---|---|---|---|
| | Centre | States | Total | Centre | States | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1971-72 | −519 | −289 | −808 | 583 | 287 | 870 |
| 1972-73 | −869 | −7 | −876 | 1211 | −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 | −1162 | −260 | 142 | −118 |
| 1978-79 | −1506 | 1010 | −496 | 2191 | −419 | 1772 |
| 1979-80 | −2433 | −187 | −2620 | 2650 | 339 | 2989 |
| 1980-81 | −2577 | −897 | −3474 | 3551 | 487 | 4038 |
| 1981-82 | −1392 | −1020 | −2412 | 3207 | 789 | 3996 |
| 1982-83 | −1656 | −820 | −2476 | 3368 | −860* | 2508* |
| 1983-84 | −1417 | −551 | −1968 | 3949 | 38 | 3987 |
| 1984-85 | −3745 | −1438 | −5183 | 6055 | 1,485 | 7,540 |
| 1985-86 | −4937 | 1688 | −3249 | 6190 | −1,862 | 4,328 |
| 1986-87 | −8261 | −890 | −9151 | 7091 | 516 | 7607 |
| 1987-88 | −5816 | 234+ | −5582 | 6559 | −157 | 6402 |
| 1988-89 (R.E.) | −7940 | −862 | −8802 | 6503 | 425 | 6928 |

(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 versa. Data refer to full fiscal year (i.e., from April 1 to March 31) and take into account adjustments made at the time of final closure of Government Accounts.

\+ Figures for Nagaland relate to revised estimates.

* These disregard changes in components of sources on July 12, 1982, following the reclassification of aggregates necessitated by the establishement of NABARD.

*Sources:* Central and State Budget Documents for budgetary data.

The tax revenues estimated at Rs. 65,384 crores were higher by Rs. 8,374 crores (14.7 per cent) than those of 1987-88 and accounted for 80.2 per cent of total revenue receipts. A major portion of the increase in tax revenue, i.e., Rs. 6,610 crores (78.9 per cent) was accounted for by increase in taxes on commodities and services followed by Rs. 1,660 crores (19.8 per cent) in taxes on income and property. The share of indirect taxes in total tax receipts was placed at 84.1 per cent in 1988-89 as against

2. Please refer to Statement 82 in Volume II of the Report for a trend analysis of data in respect of combined aggregate receipts and disbursements.

84.7 per cent in 1987-88. During 1988-89 the tax-GDP ratio, however, came down to 16.7 per cent from 17.3 per cent in 1987-88. Non-tax receipts accounted for 19.8 per cent of revenue receipts and were estimated at Rs. 16,192 crores, which showed a rise of Rs. 2,325 crores (16.8 per cent) in 1988-89 as compared with those of Rs. 13,867 crores in 1987-88.

Capital receipts of the Centre and States together were placed at Rs. 38,853 crores during 1988-89 representing a step-up of Rs. 4,152 crores (12.0 per cent) over those in 1987-88. Market borrowings (net) at Rs. 9,057 crores were higher than those of Rs. 7,397 crores in 1987-88. Receipts from small savings were also higher at Rs. 4,600 crores than those of Rs. 3,633 crores in 1987-88.

The combined aggregate disbursements of the Central and State Governments estimated at Rs. 1,29,231 crores showed a rise of Rs. 18,070 crores (16.3 per cent) as compared with Rs. 1,11,161 crores in 1987-88. Of the total rise in aggregate disbursements during 1988-89, 59.7 per cent of the increase was on account of developmental expenditure and 39.4 per cent of the increase was due to non-developmental expenditure. Developmental expenditure at Rs. 79,873 crores in 1988-89 as a proportion of total disbursements was 61.8 per cent as compared with 62.2 per cent in 1987-88 while non-developmental expenditure at Rs. 46,586 crores accounted for 36.0 per cent of total disbursements in 1988-89 as compared with 35.5 per cent in 1987-88 (Table VIII-1).

**1989-90**

The Central Budget for 1989-90 was presented against the backdrop of a strong economic recovery in the post-drought year. The GDP in real terms was projected to show a rise of about 10 per cent in 1988-89. Foodgrains production was expected to exceed the target of 166 million tonnes. Industrial production was also expected to record a higher growth of over 8 per cent as compared with a growth of 7.5 per cent in 1987-88. The overall rate of inflation had slowed down to 6.7 per cent as compared with 10.6 per cent in 1987-88. The focus of the Central Budget for 1989-90 has been on the acceleration of the pace of economic growth and alleviation of poverty through the creation of additional employment opportunities in rural areas.

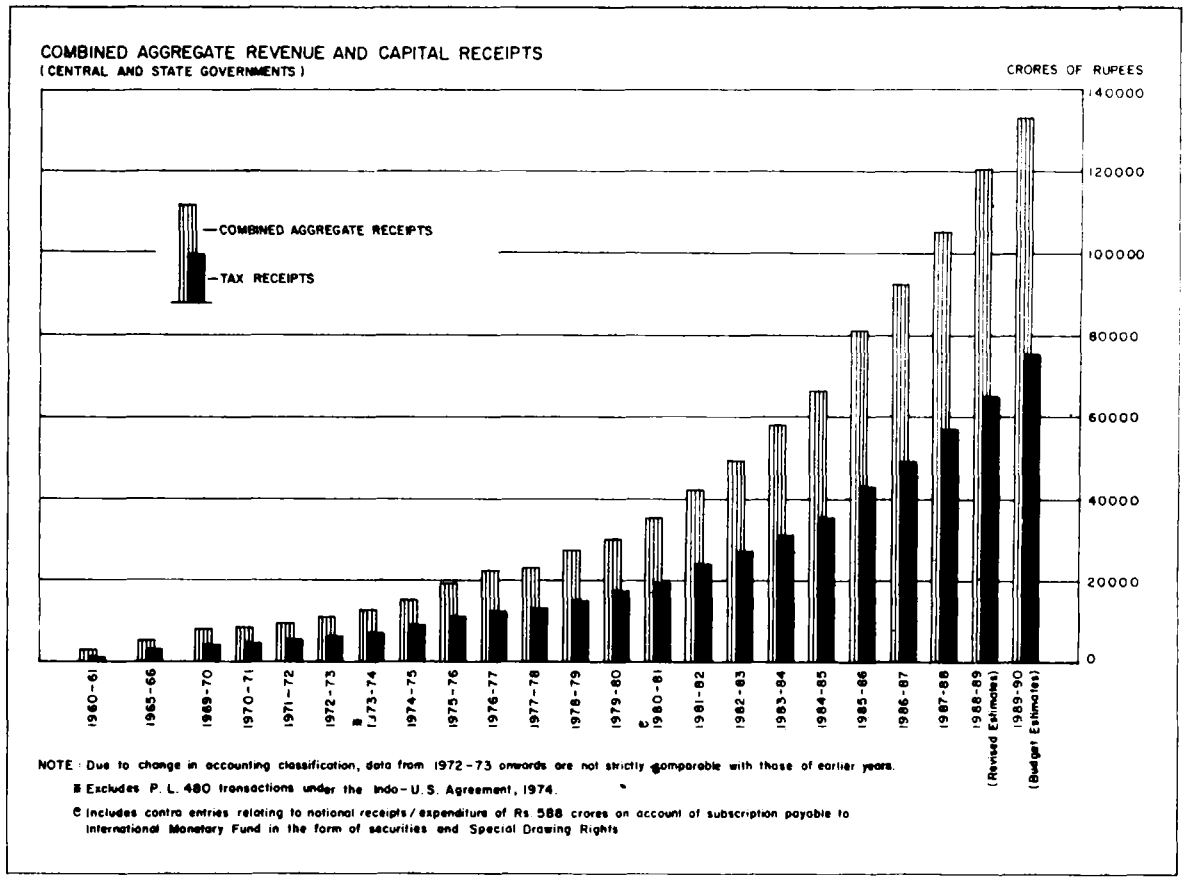
For the year 1989-90, the combined deficit of the Centre and States at revised rates of taxation, is placed lower at Rs. 7,844 crores as against Rs. 8,802 crores in 1988-89. The combined aggregate receipts of the Centre and States are anticipated higher at Rs. 1,33,338 crores showing an increase of Rs. 12,909 crores (10.7 per cent) over those of 1988-89. The ratio of combined aggregate receipts to GDP would remain unchanged at the last year's level of 30.8 per cent. Revenue receipts are placed at Rs. 95,141 crores showing an increase of Rs. 13,565 crores (16.6 per cent) as compared with Rs. 81,576 crores in 1988-89. Tax receipts at Rs. 75,704 crores are anticipated to increase by Rs. 10,320 crores (15.8 per cent) over 1988-89. The share of tax receipts in the revenue receipts is placed at 79.6 per cent as compared with 80.2 per cent in 1988-89. Capital receipts are expected to decline by Rs. 656 crores to Rs. 38,197 crores during 1989-90. The combined aggregate disbursements accounting for 32.6 per cent of GDP is to record a rise of Rs. 11,951 crores (9.2 per cent) to Rs. 1,41,182 crores in 1989-90. Developmental expenditure at Rs. 83,170 crores is budgeted to register a rise of Rs. 3,297 crores (4.1 per cent). However, it would constitute 58.9 per cent of total disbursements as against 61.8 per cent in 1988-89. Non-developmental expenditure, on the other hand, is anticipated to show a larger increase of Rs. 8,483 crores (18.2 per cent) to Rs. 55,069 crores in 1989-90 and would account for 39.0 per cent of total disbursements as against 36.0 per cent in 1988-89.

## BUDGETARY OPERATIONS OF THE CENTRAL GOVERNMENT

### Central Finances: 1988-89[3]

According to the revised estimates for 1988-89, the overall deficit of the Central Government was placed at Rs. 7,940 crores which was higher by Rs. 456 crores (6.1 per cent) than that of Rs. 7,484 crores anticipated in the budget estimates. During 1988-89, the Central Government was able to contain the increase in deficit by Rs. 456 crores over the budget estimates despite the rise in expenditure by Rs. 2,228 crores through buoyancy in revenues, higher capital receipts and economy in expenditure. The post-budgetary increase in expenditure was observed both under Plan and non-Plan heads. Under non-Plan heads, the rise in expenditure was mainly on account of interest payments (Rs. 50 crores), defence (Rs. 200 crores), indigenous fertiliser subsidy (Rs. 250 crores), export promotion and market development assistance (Rs. 300 crores) and defence pension (Rs. 497 crores). As a result of the post-budgetary rise in expenditure, the deficit on revenue account widened to Rs. 11,030 crores from Rs. 9,842 crores in the budget estimates. The

3. In this Section, all references to 1987-88 and 1988-89 relate to accounts and revised estimates, respectively, unless stated otherwise.




deterioration in revenue account was, however, partly offset by an improvement in capital account. The surplus under capital account improved from Rs. 2,358 crores envisaged in the budget estimates to Rs. 3,909 crores. The trend in deficit on revenue account is indicated in Table VIII-3.[4]

**Table VIII-3 : Budgetary Position of the Government of India**

(Rs. crores)

| Items | 1985-86 (Accounts) | 1986-87 (Accounts) | 1987-88 (Accounts) | 1988-89 (Budget Estimates) | 1988-89 (Revised Estimates) | 1989-90 (Budget Estimates) (a) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **I. Revenue Account** | | | | | | |
| A. Revenue | 28,884 | 34,768 | 38,992 | 44,994 | 45,336 | 54,994 |
| B. Expenditure | 34,772 | 42,544 | 48,129 | 54,836 | 56,366 | 62,006 |
| C. Surplus (+)/Deficit (−) | −5,888 | −7,776 | −9,137 | −9,842 | −11,030 | −7,012 |
| **II. Capital Account** | | | | | | |
| A. Receipts | 16,708 | 18,529 | 22,026 | 23,278 | 24,708 | 22,194 |
| B. Expenditure | 16,135. (b) | 19,014 | 18,705 | 20,920 | 21,618 | 22,519 |
| C. Surplus (+)/Deficit (−) | +573 (b) | −485 | +3,321 | +2,358 | +3,090 | −325 |
| **III. Overall Surplus (+)/Deficit (−)** | **−5,315(b)** | **−8,261** | **−5,816** | **−7,484** | **−7940** | **−7,337** |

(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.

4. Please also refer to Statement 84 in Volume II of the Report.

The total aggregate receipts for 1988-89 at Rs. 70,044 crores were higher by Rs. 9,026 crores (14.8 per cent) than those of Rs. 61,018 crores in 1987-88. Revenue receipts were placed at Rs. 15,336 crores showing an increase of 16.3 per cent over 1987-88. The entire increase in revenue receipts was contributed by tax receipts while non-tax receipts were lower than the budget estimates. Total tax revenue (net of States' share) was placed at Rs. 32,652 crores showing a rise of Rs. 762 crores (2.4 per cent) over the budget estimates and Rs. 4,637 crores (16.6 per cent) over the actuals of 1987-88[5]. Tax receipts in 1988-89 accounted for 72.0 per cent of total revenue receipts as compared with 71.8 per cent in 1987-88 and 69.9 per cent in 1986-87. The noteworthy feature of tax receipts in 1988-89 was that the share of direct taxes in total tax receipts showed an improvement; it improved to 16.4 per cent from 14.8 per cent in 1987-88. As a result, the share of indirect taxes declined from 85.2 per cent in 1987-88 to 83.6 per cent in 1988-89. The ratio of the Centre's tax receipts to GDP in 1988-89, however, declined marginally to 8.4 per cent from 8.5 per cent in 1987-88. These ratios were much lower than those of 8.7 per cent and 9.2 per cent for 1987-88 and 1988-89, respectively, envisaged in the Long Term Fiscal Policy (Table VIII-4).

**Table VIII-4 Tax Revenue Receipts of the Government of India**

(Rs. crores)

| | Items | 1985-86 (Accounts) | 1986-87 (Accounts) | 1987-88 (Accounts) | 1988-89 (Budget Estimates) | 1988-89 (Revised Estimates) | 1989-90 (Budget Estimates) |
|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| I. | Tax Receipts | 21,180 | 24,319 | 28,015 | 31,890 | 32,652 | 38,387 |
| | I as per cent of total receipts | 46.1 | 45.6 | 45.9 | 46.7 | 46.6 | 49.7 |
| | I as per cent of revenue receipts | 72.5 | 69.9 | 71.8 | 70.9 | 72.0 | 69.8 |
| | I as per cent of G D.P. | 8.1 | 8.3 | 8.5 | 8.4 | 8.6 | 9.1 |
| a) | **Direct Taxes** | 3,780 | 4,066 | 4,157 | 5,176 | 5,350 | 6,070 |
| | a) as per cent of tax receipts | 17.8 | 16.7 | 14.8 | 16.2 | 16.4 | 15.8 |
| b) | **Indirect Taxes*** | 17,400 | 20,253 | 23,858 | 26,714 | 27,302 | 32,317 |
| | b) as per cent of tax receipts | 82.2 | 83.3 | 85.2 | 83.8 | 83.6 | 84.2 |

* Includes taxes of Union Territories, net of assignment to local bodies.

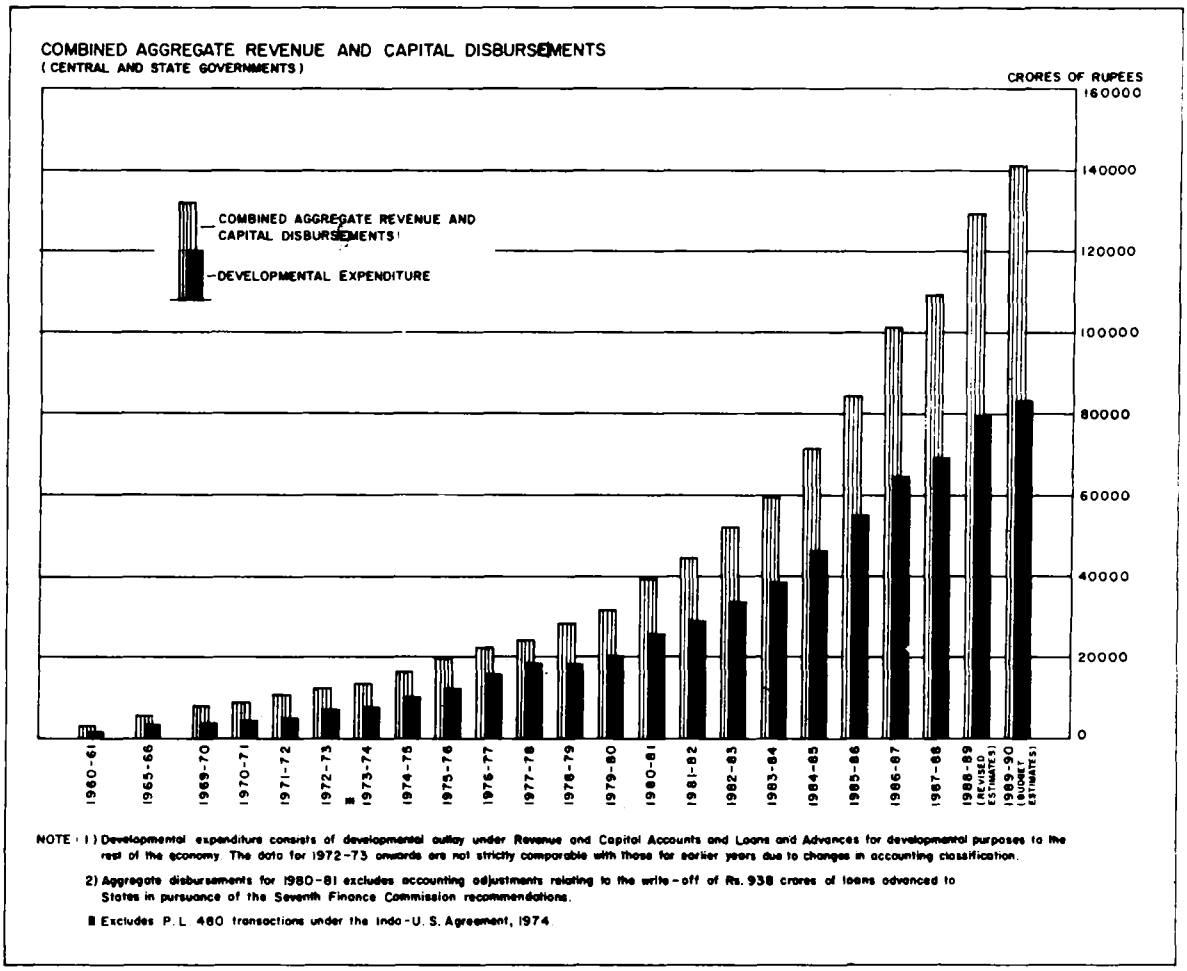
Capital receipts at Rs. 24,708 crores were higher by Rs. 2,682 crores (12.2 per cent) as compared with Rs. 22,026 crores in 1987-88. The major increases were observed under market borrowings (net) (Rs. 1,389 crores), Special Deposit Scheme (Rs. 792 crores), Recoveries of Loans and Advances (Rs. 481 crores) and Provident Funds (Rs. 41 crores). These were offset partly by a decline in external loans (net) (Rs.912 crores) and Small Savings (Rs. 37 crores)[6].

Total disbursements during 1988-89 increased by Rs. 11,150 crores (16.7 per cent) to Rs. 77,984 crores as compared with Rs. 66,834 crores during 1987-88. Revenue expenditure constituting 72.3 per cent of aggregate disbursements was placed at Rs. 56,366 crores showing a rise of Rs. 8,237 crores (17.1 per cent) over that in 1987-88. Capital expenditure at Rs. 21,618 crores was also higher by Rs. 2,913 crores (15.6 per cent) than in 1987-88. The rise in Plan expenditure was of the order of Rs. 2,707 crores and that of non-Plan expenditure Rs. 8,008 crores.

Developmental expenditure on revenue account was higher at Rs. 24,851 crores in 1988-89 showing an increase of Rs. 3,653 crores (17.2 per cent) over 1987-88. The main items accounting for the increase were: Economic Services (Rs. 2,590 crores), Grants-in-aid to States and Union Territories for developmental purposes (Rs.665 crores) and Social Services (Rs. 386 crores). The rise in Economic

5. Please refer to the article on 'Finances of the Government of India, 1989-90' for a detailed discussion published in August 1989 issue of the RBI Bulletin.

6. Please refer to Statements 85 and 86 of the Volume II of the Report on capital receipts and capital disbursements and revenue receipts and revenue expenditure, respectively.




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 for 1972-73 onwards are not strictly comparable with those for earlier years due to changes in accounting classification.

2) Aggregate disbursements for 1980-81 excludes accounting adjustments relating to the write-off of Rs. 938 crores of loans advanced to States in pursuance of the Seventh Finance Commission recommendations.

‖ Excludes P.L. 480 transactions under the Indo-U.S. Agreement, 1974

Services was primarily due to an increase in major subsidies by Rs. 1,471 crores over the level in 1987-88. Details of various subsidies are given below :

(Rs. crores)

| | 1987-88 Accounts | 1988-89 BE | 1988-89 RE | 1989-90 BE |
|---|---|---|---|---|
| **A. Major Subsidies** | **5,370** | **6,391** | **6,841** | **7,472** |
| 1. Food | 2,200 | 2,300 | 2,200 | 2,200 |
| 2. Fertilisers | 2,210 | 3,000 | 3,250 | 3,651 |
| 3. Export promotion and market development | 960 | 1,091 | 1,391 | 1,621 |
| **B. Other Subsidies** | **909** | **925** | **949** | **982** |
| *Of which:* | | | | |
| 1. Railways | 170 | 203 | 203 | 227 |
| 2. Interest Subsidies | 432 | 337 | 404 | 334 |
| **Total (A + B)** | **6,279** | **7,316** | **7,790** | **8,454** |

Non-developmental expenditure on revenue account estimated at Rs. 31,515 crores was higher by Rs. 4,584 crores (17.0 per cent) over the level of 1987-88. The rise was primarily on account of increase in interest payments (Rs. 2,914 crores) and defence expenditure (net) (Rs. 613 crores).

Under capital disbursements (including loans and advances), developmental capital outlay at Rs. 17,486 crores showed an increase of Rs. 2,111 crores (13.7 per cent) over 1987-88, while non-developmental capital outlay at Rs. 4,132 crores registered a rise of Rs. 802 crores (24.1 per cent). Within the developmental capital outlay, the main items accounting for the rise were: Loans and Advances (Rs. 1,419 crores), Economic Services (Rs. 742 crores) and Social Services ( Rs. 102 crores). The main item accounting for the rise in non-developmental capital outlay was defence outlay which increased by Rs. 620 crores to Rs. 3,728 crores in 1988-89 over 1987-88. Loans and advances to State Governments and UTs for developmental purposes at Rs. 5,563 crores were

higher by Rs. 532 crores, while other loans at Rs. 5,109 crores showed a rise of Rs. 887 crores over 1987-88.

## Pattern of Expenditure and Receipts—1989-90—Budget Estimates

In order to accelerate the pace of economic growth during 1989-90, the Central Plan outlay for 1989-90 is placed higher at Rs. 34,446 crores, showing an increase of Rs. 5,731 crores (20.0 per cent) over the budgeted outlay for 1988-89. As compared with the revised outlay of Rs. 30,166 crores for 1988-89, the increase works out to be 14.2 per cent. Including the proposed outlay for 1989-90, the total outlay in the Central Sector during the five years of the Seventh Five Year Plan would be 115 per cent of the original outlay envisaged in the Seventh Plan (in real terms, i.e, at 1984-85 prices). The improved performance for the Seventh Plan can be compared with the fact that the Plan outlay in the Sixth Plan was only 89 per cent of the original Plan outlay.

The Central Plan for 1989-90 places a great deal of emphasis on agriculture, rural development, particularly promotion of rural employment and expansion and modernisation of the infrastructural sector. The Budget provides for an outlay of Rs. 1,711 crores for rural employment programme. After the presentation of the Budget, the Central outlay on this programme was further raised to Rs. 2,100 crores.

The budgetary support for the Central Plan is placed lower at Rs. 16,964 crores or 49.2 per cent of Central Plan outlay as compared with Rs. 16,000 crores or 55.7 per cent of Central Plan outlay in the budget estimates and Rs. 16,771 crores or 55.6 per cent in the revised estimates for 1988-89. The internal and extra-budgetary resources of Public Sector Enterprises (PSEs) at Rs. 17,482 crores would finance 50.8 per cent of the total Central Plan outlay in 1989-90 as compared with 44.4 per cent in the revised estimates for 1988-89. The improvement in the resources of PSEs would be mainly on account of increase in the internal resources and provision for higher borrowings through the issue of bonds. The internal resources of PSEs are expected to go up by 57.4 per cent to Rs 11,299.4 crores. The PSEs are expected to raise Rs. 3,114.7 crores through issue of bonds in 1989-90 as compared with Rs. 2,475.9 crores in 1988-89. The details of internal and extra-budgetary resources of Central PSEs are indicated below:

(Rs. crores)

| | | 1988-89 (BE) | 1988-89 (RE) | 1989-90 (BE) |
|---|---|---|---|---|
| 1. | Internal resources | 8,311.3 | 7,180.8 | 11,299.4 |
| 2. | Bonds/Debentures | 2,039.3 | 2,475.9 | 3,114.7 |
| 3. | External commercial borrowings/suppliers' credit | 616.6 | 1,056.3 | 1,111.6 |
| 4. | Others | 1,747.3 | 2,682.2 | 1,956.7 |
| | **Total** | **12,714.5** | **13,395.2** | **17,482.4** |

Non-Plan expenditure of the Central Government for 1989-90 is estimated at Rs. 54,347 crores showing an increase of Rs. 5,470 (11.2 per cent) over 1988-89 while the Plan expenditure at Rs. 27,814 crores would show a rise of 3.4 per cent. Interest payments which alone account for 31.3 per cent or non-Plan expenditure are estimated at Rs. 17,000 crores. Defence expenditure is budgted at Rs. 13,000 crores as compared with Rs. 13,200 crores in 1988-89. Major subsidies (food, fertiliser and export promotion) are estimated at Rs. 7,472 crores against Rs. 6,841 crores in 1988-89. While the food subsidy has been maintained at the last year's level of Rs. 2,200 crores, fertiliser subsidies would go up to Rs. 3,651 crores from Rs. 3,250 crores in 1988-89. Subsidies on export promotion and market development would also increase from Rs. 1,391 crores in 1988-89 to Rs. 1,621 crores. These three major components of non-Plan expenditure would account for Rs. 37,472 crores or 68.9 per cent of the total non-Plan expenditure as compared with Rs. 34,191 crores or 70.0 per cent in 1988-89.

Aggregate disbursements of the Central Government in 1989-90 are anticipated to reach a level of Rs. 84,. 5 crores recording a rise of Rs. 6,541 crores (8.4 per cent) over 1988-89. Aggregate receipts, inclusive of net additional resource mobilisation of Rs. 903 crores, are placed at Rs. 77,188 crores, showing a rise of Rs. 7,144 crores (10.2 per cent)[7] over the previous year's level. Thus, there would be an uncovered gap of Rs. 7,337 crores as compared with an uncovered gap of Rs. Rs. 7,940 crores in 1988-89. The deficit of 1989-90

7. Excludes post-budgetary concessions aggregating Rs.123 crores by way of excise and customs duties relief. The revenue loss on account of these concessions are expected to be made good through better collection.

would further go up by Rs. 123 crores due to the post-budgetary concessions announced by the Government.

Revenue expenditure constituting 73.4 per cent of aggregate disbursements is expected to increase by Rs. 5,640 crores (10.0 per cent) to Rs. 62,006 crores as compared with Rs. 56,366 crores in 1988-89.

Of the total increase of Rs. 5,640 crores in revenue expenditure, a rise of Rs. 1,555 crores would be under developmental expenditure and the remaining Rs. 4,085 crores would be under non-developmental expenditure. The major items accounting for rise in developmental expenditure are Social Services (+Rs. 214 crores), Economic Services (+Rs. 805 crores) and Grants-in- aid (+Rs. 451 crores). The major items accounting for the rise in non-developmental expenditure are (i) Interest Payments(+Rs. 2,850 crores), (ii) Administrative Services(+Rs.1,114 crores), (iii) Grants-in-aid to States and UTs for non-developmental purposes (+Rs. 513 crores) and (iv) Postal Services (Net) (+Rs. 101 crores) which is partly offset by a decline in Defence expenditure (net) of Rs. 380 crores.

Total capital disbursements (including loans and advances) constituting 26.6 per cent of aggregate disbursements is budgeted to rise to Rs. 22,519 crores during 1989-90, a step-up of Rs. 901 crores (4.2 per cent) over those in 1988-89. Within capital disbursements,developmental capital outlays (including loans and advances) is estimated at Rs. 18,154 crores for 1989-90 as compared with Rs. 17,486 crores in 1988-89 showing a rise of Rs. 668 crores (3.8 per cent). The main items accounting for the rise in developmental capital outlay (including loans and advances) are (i) loans and advances to States and UTs for developmental purposes (+Rs. 611 crores) and General Services (+Rs. 71 crores). Non-developmental capital outlay (including loans and advances) is projected at Rs. 4,365 crores which would be higher by Rs. 233 crores (5.6 per cent) over the level of 1988-89. The rise in non-developmental capital outlay would be mainly on account of General Services (+Rs. 230 crores).

Developmental expenditure at Rs. 44,560 crores is expected to rise by Rs. 2,233 crores(5.2 per cent), while non-developmental expenditure at Rs. 39,965 crores would show a rise of Rs. 4,318 crores (12.1 per cent). As a result, the proportion of developmental expenditure in aggregate disbursements of the Central Government would come down from 54.3 per cent in 1988-89 to 52.7 per cent in 1989-90 and the share of non-developmental expenditure would go up to 47.3 per cent in 1989-90 from 45.7 per cent in 1988-89.

The aggregate receipts of the Centre, at revised rates of taxation, are expected to be Rs. 77,188 crores which would show a rise of Rs. 7,144 crores (10.2 per cent) over 1988-89. Revenue receipts would show a rise of Rs. 9,658 crores which would, however, be partly offset due ot a decline of Rs. 2,514 crores in capital receipts.

Revenue receipts inclusive of yield from new tax proposals, is estimated at Rs. 54,994 crores showing an increase of Rs. 9,658 crores (21.3 per cent) over the level of Rs. 45,336 crores for 1988-89. Tax receipts (net of States' share) are estimated at Rs. 38,387 crores representing a rise of Rs. 5,735 crores (17.6 per cent) over the 1988-89 level. The receipts would contribute 69.8 per cent of total revenue receipts during 1989-90 as compared with 72.0 per cent in 1988-89. Tax receipts as per cent of GDP would go upto 8.9 per cent in 1989-90 as compared with 8.4 per cent in 1988-89 and 8.5 per cent in 1987-88.

Under tax receipts, revenues from taxes on Income and Expenditure (net of States' share) are estimated at Rs. 5,938 crores in 1989-90 showing a rise of Rs. 721 crores (13.8 per cent) over those of Rs. 5,217 crores for 1988-89. A part of the increase under Corporation tax and Income tax would accrue from the 8 per cent surcharge imposed for meeting the expenditure on 'Jawaharlal Nehru Rojgar Yojana' which is expected to net Rs. 500 crores in 1989-90. Receipts from Corporation tax are expected to go up from Rs. 4,270 crores in 1988-89 to Rs. 4,755 crores in 1989-90,while those of Income tax would rise from Rs. 911 crores to Rs. 1,117 crores. Receipts from taxes on Commodities and Services (net of State's share in Excise duties) are expected to increase by Rs. 4,920 crores (18.5 per cent) to Rs. 31,454 crores. The revenue from Customs duties would go up from Rs.15,812 crores in 1988-89 to Rs. 17,880 crores while that of Union Excise duties would increase from Rs. 10,629 crores to Rs. 13,392 crores. Taxes of Union Territories would contribute Rs. 863 crores in 1989-90 as against Rs. 768 crores in 1988-89. Of the total tax revenue estimated for 1989-90,taxes on Income and Expenditure and taxes on Property and Capital Transactions would contribute 15.8 per cent as compared with 16.4 per cent in the preceding year. The share of taxes on Commodities and Services would increase from 81.3 per cent in 1988-89 to

81.9 per cent in 1989-90. The remaining 2.3 per cent would come from taxes of Union Territories.

Non-tax revenue, estimated at Rs. 16,607 crores in 1989-90, would be higher by Rs. 3,923 crores (30.9 per cent) over that in 1988-89. The sharp rise in non-tax receipts is partly due to the contribution of Rs. 2,300 crores from the Pool Account of Oil Co-ordination Committee lodged in Public Account.

Capital receipts are anticipated at Rs. 22,194 crores which would be lower by Rs. 2,514 crores (-10.2 per cent) than those of Rs. 24,708 crores in 1988-89. Market Borrowings (net) budgeted at Rs. 7,400 crores would be higher by Rs. 150 crores than those of Rs. 7,250 crores in 1988-89. Similarly, receipts from Special Deposit Schemes (+Rs. 677 crores) and External loans (net) (+ Rs. 482 crores) are also budgeted higher than those in 1988-89. On the other hand, other capital receipts show a decline of Rs. 4,031 crores over those in 1988-89.

## Economic and Functional Classification of the Central Government Budget

The Government of India brings out every year from 1967-68 onwards an economic and functional classification of its budgetary transactions for the proper appreciation and understanding of the economic impact of its transactions with a view to making the Budget a more useful tool for economic analysis. The methodology and concepts used in this analysis are those used in the national income accounting system.

In the following paragraphs, an analysis is made of the economic and functional classification of the Central Government expenditure during 1988-89 and the proposed expenditure for 1989-90.

### 1988-89 — Economic Classification

According to the revised estimates for 1988-89, the total expenditure of the Central Government during 1988-89 at Rs. 82,135 crores was higher by Rs. 11,831 crores (16.8 per cent) over the level of Rs. 70,304 crores in 1987-88 and Rs. 4,311 crores (5.5 per cent) over the budget estimates for 1988-89 (Table VIII-5). Final outlays representing the Centre's direct demand for goods and services for consumption and capital formation at Rs. 26,258 crores were higher by 16.6 per cent over the level of 1987-88. The final outlays accounted for 32.0 per cent of total expenditure, same as in 1987-88. Within the final outlays, the expenditure on consumption (i.e., expenditure on wages and salaries and commodities and services for current use) was estimated at Rs. 18,832 crores for 1988-89 as compared with Rs. 16,551 crores in 1987-88, showing a rise of 13.8 per cent over the year. The expenditure on gross capital formation at Rs. 7,426 crores was higher by 24.6 per cent over the level of 1987-88. Financial resources provided to the rest of the economy for capital formation and other purposes amounted to Rs. 55,877 crores showing a rise of 16.9 per cent over the level of Rs. 47,793 crores in 1987-88. The transfer of resources for capital formation showed a rise of 12.1 per cent, while those for purposes other than capital formation recorded a higher rise of 20.3 per cent over the levels in 1987-88. Total financial resources provided to States and Union Territories amounted to Rs. 19,786 crores which were 10.5 per cent higher than the level of Rs. 17,908 crores in 1987-88. These constituted 24.1 per cent of total expenditure as compared with 25.5 per cent in the previous year. Transfers to 'other' sectors (other than States and Union Territories) were Rs. 36,091 crores which showed a rise of 20.8 per cent over the level of Rs. 29,885 crores in 1987-88. The current transfers and capital transfers at Rs. 31,298 crores and Rs. 5,910 crores, were higher by Rs. 5,918 crores (23.3 per cent) and Rs. 436 crores (8.0 per cent) over those in 1987-88, respectively. Financial investments and loans to the rest of the economy at Rs. 18,669 crores were higher by Rs. 1,731 crores (10.2 per cent) over the level of Rs. 16,938 crores in 1987-88. Main items accounting for the rise in current transfers were (i) interest payments (Rs. 2,463 crores), grants (Rs. 1,214 crores), subsidies (Rs. 1,839 crores) and pensions (Rs. 356 crores). Within capital transfers, grants and loans for capital formation at Rs. 5,910 crores and Rs. 13,819 crores were higher by Rs. 436 crores (8.0 per cent) and Rs. 1,853 crores (15.5 per cent), respectively, over the levels of 1987-88. Other loans at Rs. 791 crores were, on the other hand, lower by Rs. 163 crores than the level of Rs. 954 crores in 1987-88. The decline under 'other loans' was largely due to decline in loans to States and Union Terriotories which came down to Rs. 68 crores from Rs. 290 crores in 1987-88; loans to non-departmental commercial undertakings were, however, marginally higher at Rs. 581 crores in 1988-89 than those of Rs. 570 crores in

**Table VIII-5 : Economic Classification of Total Budgetary Expenditure of the Central Government**

(Rs. crores)

| Items | 1985-86 (Accounts) | Percentage variation over the previous year | 1986-87 (Accounts) | Percentage variation over the previous year | 1987-88 (Accounts) | Percentage variation over the previous year | 1988-89 (Budget Estimates) | Percentage variation over the previous year | 1988-89 (Revised Estimates) | Percentage variation over the previous year | 1989-90 (Budget Estimates) | Percentage variation over the previous year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| **I. Total Expenditure (A+B)** | **53,112 (100.0)** | **+21.0** | **64,023 (100.0)** | **+20.5** | **70,304 (100.0)** | **+9.8** | **77,824 (100.0)** | **+10.7** | **82,135 (100.0)** | **+16.8** | **88,506 (100.0)** | **+7.8** |
| **A. Final Outlays (a+b)** | **15,768 (29.7)** | **+16.4** | **20,570 (32.1)** | **+30.5** | **22,511 (32.0)** | **+9.4** | **26,043 (33.5)** | **+15.7** | **26,258 (32.0)** | **+16.6** | **28,102 (31.8)** | **+7.0** |
| a) Consumption Expenditure | 11,210 (21.1) | +18.9 | 14,665 (22.9) | +30.8 | 16,551 (23.5) | +12.9 | 18,743 (24.1) | +13.2 | 18,832 (22.9) | +13.8 | 19,669 (22.2) | +4.4 |
| b) Gross Capital Formation | 4,558 (8.6) | +10.6 | 5,905 (9.2) | +29.6 | 5,961 (8.5) | +0.9 | 7,300 (9.4) | +22.5 | 7,426 (9.0) | +24.6 | 8,433 (9.5) | +13.6 |
| **B. Financial Resources Provided to the Rest of the Economy (a+b)** | **37,344 (70.3)** | **+23.1** | **43,453 (67.9)** | **+16.4** | **47,793 (68.0)** | **+10.0** | **51,781 (66.5)** | **+8.3** | **55,877 (68.0)** | **+16.9** | **60,404 (68.2)** | **+8.1** |
| a) For Capital Formation (i+ii) | 16,919 (31.8) | +26.0 | 18,415 (28.8) | +8.8 | 19,809 (28.2) | +7.6 | 20,352 (26.1) | +2.7 | 22,207 (27.0) | +12.1 | 22,301 (25.2) | +0.4 |
| i) To States and Union Terriotories | 10,054 (18.9) | +39.7 | 10,800 (16.9) | +7.4 | 12,723 (18.1) | +17.8 | 12,979 (16.7) | +2.0 | 14,119 (17.2) | +11.0 | 14,371 (16.2) | +1.8 |
| ii) To others* | 6,865 (12.9) | +10.1 | 7,615 (11.9) | +10.9 | 7,086 (10.1) | −6.9 | 7,373 (9.4) | +4.1 | 8,088 (9.8) | +14.1 | 7,930 (9.0) | −2.0 |
| b) For purposes other than Capital Formation (i+ii) | 20,425 (38.5) | +20.9 | 25,038 (39.1) | +22.6 | 27,984 (39.8) | +11.8 | 31,429 (40.4) | +12.3 | 33,670 (41.0) | +20.3 | 38,103 (43.1) | +13.2 |
| i) To States and Union Territories | 4,372 (8.2) | +26.0 | 4,213 (6.6) | −3.6 | 5,185 (7.4) | +23.1 | 5,695 (7.3) | +9.8 | 5,667 (6.9) | +9.3 | 6,990 (7.9) | +23.3 |
| ii) To others* | 16,053 (30.3) | +19.5 | 20,825 (32.5) | +29.7 | 22,799 (32.4) | +9.5 | 25,734 (33.1) | +12.9 | 28,003 (34.1) | +22.8 | 31,113 (35.2) | +11.1 |
| **II. Total Expenditure for Capital Formation** | **21,477 (40.4)** | **+22.4** | **24,320 (38.0)** | **+13.2** | **25,770 (36.7)** | **+6.0** | **27,652 (35.5)** | **+7.3** | **29,633 (36.1)** | **+15.0** | **30,734 (34.7)** | **+3.7** |
| **III. Total Expenditure for purposes other than Capital Formation** | **31,635 (59.6)** | **+20.2** | **39,703 (62.0)** | **+25.5** | **44,534 (63.3)** | **+12.2** | **50,172 (64.5)** | **+12.7** | **52,502 (63.9)** | **+17.9** | **57,772 (65.3)** | **+10.0** |

*Note :* Figures in brackets represent percentages to total expenditure.

* Comprises Non-departmental Commercial Undertakings, Local Authorities and Foreign Governments, etc.

*Source:* Economic and Functional Classification of the Central Government Budget, 1987-88, 1988-89 and 1989-90.

the preceding year.

Total expenditure on capital formation both direct and indirect in 1988-89 amounted to Rs. 29,633 crores, recording a rise of 15.0 per cent over the preceding year. The share of expenditure on capital formation in total expenditure, however, came down from 36.7 per cent in 1987-88 to 36.1 per cent in 1988-89. While the expenditure on direct capital formation by the Central Government showed a rise of 24.6 per cent over 1987-88, indirect capital formation, i.e., financial assistance for direct capital formation to the rest of the economy was higher by 12.1 per cent. Total expenditure other than capital formation at Rs. 52,502 crores in 1988-89 was higher by 17.9 per cent than the level of Rs. 44,534 crores in 1987-88. Its share in total expenditure also increased to 63.9 per cent from 63.3 per cent in 1987-88.

**Functional Classification**

Developmental expenditure of the Central Government at Rs. 45,017 crores recorded a growth of 18.6 per cent in 1988-89 over the level of 1987-88 which was much higher than the growth of 5.8 per cent observed in 1987-88 over 1986-87. As a result, the share of developmental expenditure in total expenditure increased to 54.8 per cent in 1988-89 from 54.0 per cent in 1987-88 (Table VIII-6). The expenditure on economic services which accounted for 83.5 per cent of total developmental expenditure in 1988-89, recorded a rise of 22.0 per cent over 1987-88 as against a nominal growth of 0.2 per cent in the preceding year. On the other hand, the growth rate in expenditure on social services, which was as high as 40.1 per cent in 1987-88, decelerated to 3.9 per cent in 1988-89. Within Economic Services, expenditure on agriculture was raised from Rs. 4,949 crores in 1987-88 to Rs. 6,227 crores in 1988-89. Expenditures on industry and transport and communications were also raised by Rs. 1,585 crores (17.2 per cent) and Rs. 1,510 crores (28.3 per cent), respectively, over the levels of 1987-88. Expenditure on other economic services was increased by 33.8 per cent over the level of 1987-88. Block grants and loans were higher by Rs. 1,055 crores (14.3 per cent) than the level of the preceding year. Within social services, while expenditures on education and medical and public health, rose by 30.1 per cent and 12.5 per cent, respectively, over those in 1987-88, expenditure on other social services registered a decline of 6.7 per cent over 1987-88.

Non-developmental expenditure of the Central Government at Rs. 37,118 crores registered a growth of 14.8 per cent over 1987-88 which was almost the same as observed in the preceding year. It constituted 45.2 per cent of total expenditure as compared with 46.0 per cent in 1987-88. The expenditure on 'general services' which accounted for 48.5 per cent of total non-developmental expenditure in 1988-89, registered a growth of 10.3 per cent, while the unallocable expenditure showed a higher growth of 19.4 per cent. In 1987-88, the expenditure on 'general services' and unallocable expenditure registered a growth of 10.2 per cent and 20.1 per cent, respectively, over those in 1986-87. Under 'general services', defence expenditure at Rs. 13,088 crores was higher by 10.2 per cent than that of Rs. 11,875 crores in 1987-88. The expenditure on services other than defence at Rs. 4,910 crores registered a rise of 10.5 per cent over 1987-88. The increase in unallocable expenditure was largely due to higher expenditure on interest payments (Rs. 2,463 crores), subsidies (Rs. 204 crores) and pensions (Rs. 356 crores).

The expenditure on capital formation in total developmental expenditure at Rs. 29,065 crores accounted for 64.6 per cent of total developmental expenditure as compared with Rs. 25,382 crores in the preceding year, accounting for 66.9 per cent. The provision for capital formation for non-developmental purposes comprising 'General Services' and 'Unallocable' at Rs. 568 crores was higher than Rs. 388 crores in 1987-88 (Table VIII-8).

**Savings, Investment and Income Generation:**

The steep rise in the Central Government expenditure unmatched by a commensurate rise in revenue receipts noticed in recent years continued in 1988-89 also. The current receipts of the Central Government at Rs. 41,528 crores showed a rise of 15.9 per cent over 1987-88, while current expenditure at Rs. 50,130 crores registered a rise of 19.6 per cent over the previous year. This caused further deterioration in savings of the Central Government. During 1988-89, dissavings of the Central Government administration (excess of current expenditure over revenue receipts) or negative savings amounted to Rs. 8,602 crores as compared with dissavings of Rs. 6,092 crores in 1987-88 (Table VIII-8).

**Table VIII-6 : Functional Classification of the Central Government's Total Expenditure**

(Rs. crores)

| | Items | 1985-86 (Accounts) | Percentage variation over the previous year | 1986-87 (Accounts) | Percentage variation over the previous year | 1987-88 (Accounts) | Percentage variation over the previous year | 1988-89 (Budget Estimates) | Percentage variation over the previous year | 1988-89 (Revised Estimates) | Percentage variation over the previous year | 1989-90 (Budget Estimates) | Percentage variation over the previous year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| | **Total Expenditure (A+B)** | **53,112 (100.0)** | **+21.0** | **64,023 (100.0)** | **+20.5** | **70,304 (100.0)** | **+9.8** | **77,824 (100.0)** | **+10.7** | **82,135 (100.0)** | **+16.8** | **88,506 (100.0)** | **+7.8** |
| A. | **Developmental Expenditure (i+ii)** | **30,852 (58.1)** | **+17.4** | **35,872 (56.0)** | **+16.3** | **37,968 (54.0)** | **+5.8** | **41,772 (53.7)** | **+10.0** | **45,017 (54.8)** | **+18.6** | **47,576 (53.8)** | **+5.7** |
| | i) Social Services | 3,882 (7.3) | +22.8 | 5,097 (8.0) | +31.3 | 7,140 (10.2) | +40.1 | 6,821 (8.8) | -4.5 | 7,421 (9.0) | +3.9 | 7,503 (8.5) | +1.1 |
| | ii) Economic Services* | 26,970 (50.8) | +16.7 | 30,775 (48.0) | +14.1 | 30,828 (43.8) | +0.2 | 34,951 (44.9) | +13.4 | 37,596 (45.8) | +22.0 | 40,073 (45.3) | +6.6 |
| B. | **Non-Developmental Expenditure (i+ii)** | **22,260 (41.9)** | **+26.5** | **28,151 (44.0)** | **+26.5** | **32,336 (46.0)** | **+14.9** | **36,052 (46.3)** | **+11.5** | **37,118 (45.2)** | **+14.8** | **40,930 (46.2)** | **+10.3** |
| | i) General Services | 10,773 (20.3) | +20.1 | 14,815 (23.2) | +37.5 | 16,319 (23.2) | +10.2 | 17,597 (22.6) | +7.8 | 17,998 (21.9) | +10.3 | 18,922 (21.4) | +5.1 |
| | ii) Unallocable | 11,487 (21.6) | +33.0 | 13,336 (20.8) | +16.1 | 16,017 (22.8) | +20.1 | 18,455 (23.7) | +15.2 | 19,120 (23.3) | +19.4 | 22,008 (24.8) | +15.1 |

*Note* : Figures in brackets are percentages to total expenditure.

* Includes block grants and loans.

*Source* : Economic and Functional Classification of the Central Government Budget, 1987-88, 1988-89 and 1989-90.

**Table VIII-7: Provision for Capital Formation**

(Rs. crores)

| | Items | 1985-86 (Accounts) | 1986-87 (Accounts) | 1987-88 (Accounts) | 1988-89 (Budget Estimates) | 1988-89 (Revised Estimates) | 1989-90 (Budget) Estimates) | Percentage variation Col. 3 over Col. 2 | Col. 4 over Col. 3 | Col. 6 over Col. 4 | Col. 7 over Col. 6 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| I. | **Total Provision for Capital Formation (A+B)** | **21,477** | **24,320** | **25,770** | **27,652** | **29,633** | **30,734** | **+13.2** | **+6.0** | **+15.0** | **+3.7** |
| | **A. Developmental (1 to 3)** | **21,302** | **23,893** | **25,382** | **27,016** | **29,065** | **29,947** | **+12.2** | **+6.2** | **+14.5** | **+3.0** |
| | 1. Social Services | 1,481 | 2,028 | 3,200 | 2,232 | 2,703 | 2,568 | +36.9 | +57.8 | −15.5 | −5.0 |
| | 2. Economic Services (a to d) | 14,959 | 16,739 | 16,330 | 18,322 | 19,686 | 20,064 | +11.9 | −2.4 | +20.6 | +1.9 |
| | a) Agriculture | 1,207 | 1,539 | 1,925 | 1,628 | 1,824 | 1,743 | +27.5 | +25.1 | −5.2 | −4.4 |
| | b) Industry | 6,691 | 7,233 | 6,247 | 6,795 | 7,109 | +6,909 | +8.1 | 13.6 | +13.8 | −2.8 |
| | c) Transport and Communications | 3,726 | 4,488 | 4,727 | 5,799 | 6,136 | 6,944 | +20.5 | +5.3 | +29.8 | +13.2 |
| | d) Other Economic Services | 3,335 | 3,479 | 3,431 | 4,100 | 4,617 | 4,468 | +4.3 | −1.4 | +34.6 | −3.2 |
| | 3. Block Grants and Loans | 4,862 | 5,126 | 5,852 | 6,462 | 6,676 | 7,315 | +5.4 | +14.2 | +14.1 | +9.6 |
| | **B. Non-Developmental (1 + 2)** | **175** | **427** | **388** | **636** | **568** | **787** | **+144.0** | **−9.1** | **+46.4** | **+38.6** |
| | 1. General Services | 175 | 427 | 377 | 636 | 543 | 787 | +144.0 | −11.7 | +44.0 | +44.9 |
| | 2. Unallocable | – | – | 11 | – | 25 | – | – | – | +127.3 | – |
| II. | **Total Developmental Expenditure** | **30,852** | **35,872** | **37,968** | **41,772** | **45,017** | **47,576** | **+16.3** | **+5.8** | **+18.6** | **+5.7** |
| III. | **Total Expenditure** | **53,112** | **64,023** | **70,304** | **77,824** | **82,135** | **88,506** | **+20.5** | **+9.8** | **+16.8** | **+7.8** |
| IV. | **IA as per cent of II** | **69.0** | **66.6** | **66.9** | **64.7** | **64.6** | **62.9** | | | | |
| V. | **I as per cent of III** | **40.4** | **38.0** | **36.7** | **35.5** | **36.1** | **34.7** | | | | |

*Source* : Economic and Functional Classification of the Central Government Budget, 1987-88, 1988-89 and 1989-90.

## Table VIII-8: Savings of the Central Government

(Rs. crores)

| Items | 1985-86 (Accounts) | 1986-87 (Accounts) | 1987-88 (Accounts) | 1988-89 (Budget Estimates) | 1988-89 (Revised Estimates) | 1989-90 (Budget Estimates)* | Percentage Variation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Col. 3 over Col. 2 | Col. 4 over Col. 3 | Col. 6 over Col. 4 | Col. 6 over Col. 5 | Col. 7 over Col. 6 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 1. Revenue Receipts of the Government Administration (i + ii) | 26,801 | 31,746 | 35,839 | 41,187 | 41,528 | 50,778 | +18.5 | +12.9 | +15.9 | +0.8 | +22.3 |
| i) Tax Revenue | 21,140 | 24,320 | 28,015 | 31,890 | 32,651 | 38,387 | +15.0 | +15.2 | +16.5 | +2.4 | +17.6 |
| ii) Non-Tax Revenue | 5,661 | 7,426 | 7,824 | 9,297 | 8,877 | 12,391 | +31.2 | +5.4 | +13.5 | −4.5 | +39.6 |
| 2. Current Expenditure | 29,558 | 35,908 | 41,931 | 48,701 | 50,130 | 55,101 | +21.5 | +16.8 | +19.6 | +2.9 | +9.9 |
| 3. Savings of the Government Administration (1 — 2) | −2,757 | −4,162 | −6,092 | −7,514 | −8,602 | −4,323 | — | — | — | — | — |
| 4. Depreciation Provision and Retained Profits of the Deparmental Commercial Undertakings (i + ii) | 1,316 | 1,310 | 1,798 | 1,914 | 2,509 | 3,625 | −0.5 | +37.3 | +39.5 | +31.1 | +44.5 |
| i) Depreciation Provision | 1,121 | 1,444 | 1,573 | 1,758 | 1,759 | 2,051 | +28.8 | +8.9 | +11.8 | +0.1 | +16.6 |
| ii) Retained Profits | 195 | −134 | 225 | 156 | 750 | 1,574 | — | — | +233.3 | +380.8 | +109.9 |
| 5. Gross Savings of the Central Government (3+4) | −1,441 | −2,852 | −4,294 | −5,600 | −6,093 | −698 | — | — | — | — | — |
| 6. Expenditure on Renewals and Replacements | 1,146 | 1,339 | 1,371 | 1,690 | 1,695 | 1,802 | +16.8 | +2.4 | +23.6 | +0.3 | +6.3 |
| 7. Net Savings (5—6) | −2,587 | −4,191 | −5,665 | −7,290 | −7,788 | −2,500 | — | — | — | — | — |
| 8. Net Direct Investments @ | 3,412 | 4,566 | 4,589 | 5,610 | 5,732 | 6,631 | +33.8 | +0.5 | +24.9 | +2.2 | +15.7 |
| 9. Excess(+) or shortfall(−) of Net Savings (7 — 8) | −5,999 | −8,757 | −10,254 | —12,900 | —13,520 | −9,131 | — | — | — | — | — |

* 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, 1987-88, 1988-89 and 1989-90.

Depreciation provision of departmental commercial undertakings of Central Government at Rs. 1,759 crores in 1988-89 was higher than the provision of Rs. 1,573 crores in the previous year. Owing to improved performance recorded by the departmental commercial undertakings in 1988-89, their retained profits increased to Rs. 750 crores from Rs. 225 crores in 1987-88. After taking into account the depreciation provision and retained profits of departmental commercial undertakings, the gross dissavings of Central Government amounted to Rs. 6,093 crores as compared with those of Rs. 4,294 crores in 1987-88. The departmental commercial undertakings incurred an expenditure of Rs. 1,695 crores on renewals and replacements in 1988-89 as compared with Rs. 1,371 crores in 1987-88. The net dissavings of Central Government in 1988-89 was Rs. 7,788 crores as compared with Rs. 5,665 crores in 1987-88 (Table VIII-8).

The net direct capital formation of the Central Government at Rs. 5,732 crores was higher than that of Rs. 4,590 crores in the preceding year. The major components of total net direct investment are indicated in Table VIII-9.

The expansionary impact of the Government's budgetary operations can be assessed 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. 13,520 crores was much larger than that of Rs. 10,254 crores in 1987-88.

The income generation out of the budgetary operations of the Central Government during 1988-89 was estimated higher at Rs. 17,899 crores as compared with Rs. 15,425 crores in 1987-88 (Table VIII-10). Of the total increase of Rs. 2,474 crores in income generation in 1988-89 over 1987-88, Rs. 927 crores was on account of wages and salaries paid by the Government Administration, Rs. 1,340 crores due to increase in net output of departmental commercial undertakings and Rs. 207 crores on account of wages and salaries component of Government outlays on construction.

**Table VIII-9 : Central Government's Net Direct Investment**

(Rs. crores)

| | 1987-88 (Accounts) | 1988-89 (Revised Estimates) | 1989-90 (Budget Estimates) |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. Construction Works | 3,043 | 3,644 | 4,192 |
| | (66.3) | (63.6) | (63.2) |
| 2. Machinery and Equipments | 1,269 | 1,864 | 2,103 |
| | (27.6) | (32.5) | (31.7) |
| 3. Increase in Works Stores | 278 | 224 | 336 |
| | (6.1) | (3.9) | (5.1) |
| **Total Net Direct Investment** | **4,590** | **5,732** | **6,631** |
| | **(100.0)** | **(100.0)** | **(100.0)** |

*Note:* Figures in brackets are percentage to total.

## Table VIII-10: Income Generation of the Budgetary Operations of the Central Government

(Rs. crores)

| Items | 1985-86 (Accounts) | 1986-87 (Accounts) | 1987-88 (Accounts) | 1988-89 (Budget Estimates) | 1988-89 (Revised Estimates) | 1989-90 (Budget Estimates) | Variations | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Col. 3 over Col. 2 | | Col. 4 over Col. 3 | | Col. 6 over Col. 4 | | Col. 6 over Col. 5 | | Col. 7 over Col. 6 | |
| | | | | | | | 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 | 17 |
| **1. Wages and salaries paid by Government Administration** | **5,094** | **6,436** | **7,496** | **8,256** | **8,423** | **8,772** | **+1,342** | **+26.3** | **+1,060** | **+16.5** | **+927** | **+12.4** | **+167** | **+2.0** | **+349** | **+4.1** |
| **2. Net Output of departmental commercial undertakings (a+b+c)** | **4,990** | **5,407** | **6,579** | **7,763** | **7,919** | **10,119** | **+417** | **+8.4** | **+1,172** | **+21.7** | **+1,340** | **+20.4** | **+156** | **+2.0** | **+2,200** | **+27.8** |
| a) Wages and salaries (including wages & salaries component of repairs and maintenance operations) | 3,993 | 4,602 | 5,403 | 6,304 | 5,864 | 6,956 | +609 | +15.3 | +801 | +17.4 | +461 | +8.5 | −440 | −7.0 | +1,092 | +18.6 |
| b) Interest | 806 | 926 | 834 | 1,260 | 1,123 | 1,287 | +120 | +14.9 | −92 | −9.9 | +289 | +34.7 | −137 | −10.9 | +164 | +14.6 |
| c) Profits (transferred to administration and retained plus excess of depreciation provision over renewals and replacements) | 191 | −121 | 342 | 199 | 932 | 1,876 | −312 | | +463 | | +590 | +172.5 | +733 | +368.3 | +944 | +101.3 |
| **3. Wages and salaries components of Government outlays on construction** | **908** | **1,181** | **1,350** | **1,544** | **1,557** | **1,787** | **+273** | **+30.1** | **+169** | **+14.3** | **+207** | **+15.3** | **+13** | **+0.8** | **+230** | **+14.8** |
| **4. Total (1+2+3)** | **10,992** | **13,024** | **15,425** | **17,563** | **17,899** | **20,678** | **+2,032** | **+18.5** | **+2,401** | **+18.4** | **+2,474** | **+16.0** | **+336** | **+1.9** | **+277.9** | **+15.5** |

*Source:* Economic and Functional Classification of the Central Government Budget, 1987-88, 1988-89 and 1989-90.

**Sources and Uses of Funds**

During 1988-89, 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 at Rs. 49,047 crores were higher than those of Rs. 42,076 crores in 1987-88 and Rs. 47,637 crores anticipated in the Budget Estimates for 1988-89 (Table VIII-11). Total expenditure which included consumption expenditure, expenditure on capital formation, increase in inventories, current transfers, etc., was estimated at Rs. 82,135 crores as compared with Rs. 70,304 crores in 1987-88 and Budget Estimates of Rs. 77,824 crores for 1988-89. Owing to a sharp rise in expenditure, the gap between expenditure and receipts further widened to Rs. 33,088 crores in 1988-89 from Rs. 28,228 crores in the preceding year. The gap, i.e., excess of expenditure over receipts formed 40.3 per cent of total expenditure in 1988-89 as compared with 40.2 per cent in 1987-88.

The gap between the total expenditure and total receipts was financed by (i) net domestic borrowings (Rs. 22,642 crores), (ii) net external assistance (Rs. 2,506 crores) and (iii) budgetary deficit (Rs. 7,940 crores). About 68.4 per cent of the gap was thus financed by net domestic borrowings as compared with 66.5 per cent in the previous year. The share of net external assistance in financing the gap, however, declined to 7.6 per cent from 11.6 per cent in 1987-88. The share of budgetary deficit in meeting the resource gap increased to 24.0 per cent in 1988-89 from 21.9 per cent in the last year. The total budgetary deficit of Rs. 7,940 crores in 1988-89 was financed to the extent of Rs. 492 crores through utilisation of cash balances and the remaining Rs. 7,448 crores by increase in the RBI's holding of Treasury Bills.

**1989-90 Economic Classification**

The total expenditure of the Central Government for 1989-90 is budgeted at Rs. 88,506 crores which shows a rise of Rs. 6,371 crores (7.8 per cent) over the level of Rs. 82,135

**Table VIII-11: Sources and Uses of Funds — Central Government**

(Rs. crores)

| Items | 1985-86 (Accounts) | 1986-87 (Accounts) | 1987-88 (Accounts) | 1988-89 (Budget Estimate) | 1988-89 (Revised Estimate) | 1989-90 (Budget Estimate) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **1. Current Receipts (a+b)** | **26,800** | **31,745** | **35,840** | **41,186*** | **41,528** | **50,778*** |
| a) Tax Receipts | 21,140 | 24,319 | 28,015 | 31,890 | 32,651 | 38,387 |
| b) Income from Property and Enterprises and Miscellaneous Receipts | 5,660 | 7,426 | 7,825 | 9,296 | 8,877 | 12,391 |
| **2. Capital Transfers** | **506** | **440** | **500** | **592** | **711** | **735** |
| **3. Internal Resources of Departmental Undertakings** | **1,316** | **1,309** | **1,798** | **1,915** | **2,509** | **3,625** |
| **4. Recovery of Loans** | **2,239** | **3,334** | **3,938** | **3,944** | **4,299** | **4,133** |
| **Total Receipts (1 to 4)** | **30,861** | **36,829** | **42,076** | **47,637** | **49,047** | **59,271** |
| **Excess of Total Expenditure over Total Receipts** | **22,251** | **27,194** | **28,228** | **30,187** | **33,088** | **29,235** |
| **Financed by :** | | | | | | |
| **1. Net Domestic Borrowings**** | **17,247** | **16,541** | **18,760** | **19,560** | **22,642** | **18,910** |
| *Of which :* | | | | | | |
| a) Net Market Borrowings | 4,884 | 5,556 | 5,861 | 7,000 | 7,250 | 7,400 |
| b) Special Borrowings from RBI against Compulsory Deposits | 125 | —320 | —190 | —190 | —190 | —145 |
| **2. Net External Borrowings@** | **1,365** | **1,942** | **3,273** | **3,143** | **2,506** | **2,988** |
| **3. Budgetary Deficit (a+b)+** | **3,639** | **8,711** | **6,194** | **7,484** | **7,940** | **7,337** |
| a) Net Holdings of Treasury Bills of RBI | 3,636 | 9,312 | 6,030 | 7,484 | 7,448 | 7,337 |
| b) Increase (+) Decrease(—) in Cash Balances | 3 | —601 | 164 | — | 492 | — |

**Table VIII-11: Sources and Uses of Funds — Central Government (Concld.)**

(Rs. crores)

| Items | 1985-86 (Accounts) | 1986-87 (Accounts) | 1987-88 (Accounts) | 1988-89 (Budget Estimates) | 1988-89 (Revised Estimates) | 1989-90 (Budget Estimates) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **1. Expenditure for Capital Formation (a+b)** | **21,477** | **24,320** | **25,770** | **27,652** | **29,633** | **30,734** |
| a) Gross Capital Formation | 21,371 | 24,232 | 25,492 | 27,503 | 29,409 | 30,398 |
| b) Increase in Inventories | 106 | 88 | 278 | 149 | 224 | 336 |
| **2. Expenditure for purposes other than Capital Formation (a + b)** | **31,635** | **39,703** | **44,534** | **50,172** | **52,502** | **57,772** |
| a) Current Expenditure (i + ii) | 29,557 | 35,908 | 41,931 | 48,701 | 50,130 | 55,101 |
| i) Consumption Expenditure | 11,210 | 14,665 | 16,551 | 18,743 | 18,832 | 19,669 |
| ii) Current Transfers | 18,347 | 21,243 | 25,380 | 29,958 | 31,298 | 35,432 |
| b) Other Expenditure | 2,078 | 3,795 | 2,603 | 1,471 | 2,372 | 2,671 |
| **Total Expenditure (1 + 2)** | **53,112** | **64,023** | **70,304** | **77,824** | **82,135** | **88,506** |

* 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.

+ 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.

*Source:* Economic and Functional Classification of the Central Government Budget, 1987-88, 1988-89 and 1989-90.

crores in 1988-89* (Table VIII—5). Final outlays are estimated at Rs. 28,102 crores which constitute 31.8 per cent of total expenditure as compared with the level of Rs. 26,258 crores which constituting 32.0 per cent of total expenditure in 1988-89. Within final outlays, consumption expenditure is budgeted at Rs. 19,669 crores showing a rise of 4.4 per cent over 1988-89. The share of consumption expenditure in total expenditure would, however, come down marginally to 22.2 per cent in 1989-90 from 22.9 per cent in 1988-89. The expenditure on gross capital formation estimated at Rs. 8,433 crores would show a rise of 13.6 per cent over 1988-89 and its share in total expenditure would go up to 9.5 per cent from 9.0 per cent in the preceding year. Of the total rise of Rs. 837 crores in consumption expenditure, Rs. 349 crores would be on account of wages and salaries and the remaining Rs. 488 crores on commodities and services. Of the total rise of Rs. 1,007 crores in gross capital formation, Rs. 895 crores would relate to gross fixed capital formation and the remaining Rs. 112 crores to increase in works stores.

Financial resources provided to the rest of the economy for 1989-90 are estimated at Rs. 60,404 crores showing a rise of Rs. 4,527 crores (8.1 per cent) over the level of Rs. 55,877 crores for 1988-89

Transfer of resources for capital formation at Rs. 22,301 crores would show a nominal rise of 0.4 per cent over the level of 1988-89, while for purposes other than capital formation at Rs. 38,103 crores would show a rise of 13.2 per cent over 1988-89. The transfer of resources to States and Union Territories for capital formation at Rs. 14,371 crores shows a marginal rise of 1.8 per cent over that in 1988-89. However, the share of such transfers in total expenditure would go down to 16.2 per cent from 17.2 per cent in the previous year. Transfer to 'Others' (non-departmental commercial undertakings, local authorities etc.) for capital formation at Rs. 7,930 crores would be lower than those of Rs. 8,088 crores in 1988-89. The transfer of resources to States and Union Territories for purposes other than capital formation are budgeted at Rs. 6,990 crores showing a rise of 23.3 per cent over the level of 1988-89. Transfer of resources to 'Others' for purposes other than capital formation would rise to Rs. 31,113 crores from the level of Rs. 28,003 crores recording a rise of 11.1 per cent. The increase in these transfers is largely due to increase in interest payments (Rs. 2,509 crores), grants (Rs. 268 crores) and subsidies (Rs. 457 crores).

The total provision for capital formation is budgeted at Rs. 30,734 crores with a rise of

Rs. 1,101 crores (3.7 per cent) over the level of 1988-89. The expenditure on capital formation would constitute 34.7 per cent of total expenditure in 1989-90 as against 36.1 per cent in 1988-89. Expenditure on purposes other than capital formation budgeted at Rs. 57,772 crores shows an increase of Rs. 5,270 crores (10.0 per cent) over 1988-89 and its share in total expenditure would be 65.3 per cent as compared with 63.9 per cent in 1988-89.

**Functional Classification**

Developmental expenditure comprising broadly Plan and non-Plan expenditure on Economic and Social Services at Rs. 47,576 crores shows a rise of Rs. 2,559 crores (5.7 per cent)over the level of Rs. 45,017 crores in 1988-89. Its share in total expenditure would, however, decline to 53.8 per cent from 54.8 per cent in the previous year. The share of developmental expenditure in total expenditure has steadily been going down in recent years. During 1984-85, its share in total expenditure was 59.9 per cent which declined to 54.0 per cent in 1987-88. Expenditure on Economic and Social Services at Rs. 40,073 crores and Rs. 7,503 crores is estimated to show a rise of Rs. 2,477 crores (6.6 per cent) and Rs. 82 crores (1.1 per cent), respectively, over the level of the previous year. Items accounting for rise in Economic Services are (i) Agriculture (Rs. 243 crores), (ii) Industry (Rs. 102 crores), (iii) Transport and Communications (Rs. 928 crores), (iv) Other Economic Services (Rs. 448 crores) and (v) Block Grants and Loans (Rs. 756 crores). Under Social Services, expenditure on education and medical and public health is estimated to rise by Rs. 32 crores and Rs. 51 crores, respectively, over 1988-89. The expenditure on Economic and Social Services would constitute 45.3 per cent and 8.5 per cent of the total expenditure as compared to 45.8 per cent and 9.0 per cent, respectively, in the previous year.

Non-developmental expenditure budgeted at Rs. 40,930 crores for 1989-90 shows a rise of Rs. 3,812 crores (10.3 per cent) over the level of Rs. 37,118 crores in the preceding year. Owing to a persistent steep rise in non-developmental expenditure, its share in total expenditure has steadily been increasing. During 1984-85, its share in total expenditure was 40 per cent which rose to 46.0 per cent in 1987-88. During 1989-90, it is estimated at 46.2 per cent. Of the total budgeted rise of Rs. 3,812 crores in non-developmental expenditure, expenditure on General Services which are budgeted at Rs. 18,922 crores shows a rise of Rs. 924 crores (5.1 per cent) over 1988-89, while 'Unallocable' expenditure estimated at Rs. 22,008 crores shows a rise of Rs. 2,888 crores (15.1 per cent). Within general Services, expenditure on defence services would show a marginal rise of Rs. 174 crores, while expenditure on services other than defence would show a rise of Rs. 750 crores over 1988-89. The increase in unallocable expenditure is largely on account of interest payments (Rs. 2,509 crores) and grants (Rs. 613 crores). Subsidies (food subsidy and subsidy on controlled cloth) has been kept at the level of 1988-89, while expenditure on pensions would go down from Rs. 1,513 crores in 1988-89 to Rs. 1,265 crores in 1989-90.

The provision for capital formation within developmental expenditure is estimated at Rs. 29,947 crores registering a rise of Rs. 882 crores (3.0 per cent) over the level of 1988-89. The proportion of expenditure on capital formation to total developmental expenditure would, however, come down to 62.9 per cent from 64.6 per cent in the preceding year. The expenditure on capital formation under social services is budgeted lower at Rs. 2,568 crores than in 1988-89, while that under Economic Services would show a marginal rise of 1.9 per cent over 1988-89. Within Economic Services, only transport and communications have been provided higher provision for capital formation than in 1988-89, while other sectors like agriculture, industry and other economic services would be spending lower amounts on capital formation than in the preceding year. Block grants and loans for capital formation are budgeted higher at Rs. 7,315 crores than those of Rs. 6,676 crores in 1988-89.

**Savings, Investments and Income Generation**

The efforts made in the Central Budget for 1989-90 to mobilise additional revenues and containment of expenditure are reflected in lower dissavings. The current receipts of the Central Government Administration for 1989-90 are estimated at Rs. 50,778 crores showing a rise of Rs. 9,250 crores (22.3 per cent) over the level of Rs. 41,528 crores in 1988-89. The total current expenditure of Government Administration is placed at Rs. 55,101 crores which is higher by Rs. 4,971 crores (9.9 per cent) than those of Rs. 50,130 crores in the previous year. As a result,

the dissavings of Government Administration would decline to Rs. 4,323 crores from Rs. 8,602 crores in 1988-89.

Departmental Commercial Undertakings are expected to show further improvement in their financial performance in 1989-90. Therefore, it is estimated that their retained profits would double from Rs. 750 crores in 1988-89 to Rs. 1,574 crores in 1989-90. Depreciation provision of these undertakings has been provided higher at Rs. 2,051 crores as compared with Rs. 1,759 crores last year. After taking into account the retained profits and depreciation provision of the departmental commercial undertakings, the gross dissavings of the Central Government would be much lower at Rs. 698 crores than that of Rs. 6,093 crores last year. Expenditure on renewals and replacements at Rs. 1,802 crores would be more by Rs. 107 crores than Rs. 1,695 crores in the preceding year. After taking into account the expenditure on renewals and replacements, the net dissavings for 1989-90 would decline to Rs. 2,500 crores from Rs. 7,788 crores in 1988-89.

The net direct investment of the Central Government is estimated higher at Rs. 6,631 crores as compared with Rs. 5,732 crores last year. However, owing to a reduction in dissavings, the income deficit (the excess of direct investment over net savings) in 1989-90 is expected to decline to Rs. 9,131 crores from Rs. 13,520 crores in the preceding year.

Income generation out of the budgetary transactions of the Central Government during 1989-90 is estimated at Rs. 20,678 crores showing a rise of Rs. 2,779 crores (15.5 per cent) over the level of Rs. 17,899 crores in 1988-89. Of the net rise of Rs. 2,779 crores in income generation, Rs. 349 crores would be on account of wages and salaries paid by Government Administration, Rs. 2,200 crores due to increase in net output of departmental commercial undertakings and the remaining Rs. 230 crores on account of wages and salaries component of Government outlays on construction.

**Sources and Uses of Funds**

The current receipts of the Central Government for 1989-90 are anticipated at Rs. 50,778 crores, showing an increase of Rs. 9,250 crores (22.3 per cent) over the level of Rs. 41,528 crores in the preceding year. Total expenditure, both current and capital expenditure, is budgeted at Rs. 88,506 crores as compared with Rs. 82,135 crores in 1988-89. After taking into account capital transfers (Rs. 735 crores), internal resources of the departmental commercial undertakings (Rs. 3,625 crores) and recovery of loans (Rs. 4,133 crores), the gap between expenditure and receipts would be lower at Rs. 29,235 crores as against Rs. 33,088 crores in the previous year. The gap between expenditure and receipts during 1989-90 would be 33.0 per cent of the total expenditure as compared with that of 40.3 per cent in 1988-89.

The shortfall between the total expenditure and total receipts would be financed by (i) net domestic borrowings (Rs. 18,910 crores), (ii) net external borrowings (Rs. 2,988 crores) and (iii) budgetary deficit (Rs. 7,337 crores). The net domestic borrowings would continue to be the main financing item to bridge the gap but its share in financing of gap will decline to 64.7 per cent from 68.4 per cent in the previous year. Net external assistance will finance 10.2 per cent of the shortfall as against 7.6 per cent in 1988-89. The share of budgetary deficit in financing the gap would be higher at 25.1 per cent than that of 24.0 per cent last year.

**Budget Proposals: 1989-90**

The budget proposals for 1989-90 are oriented to achieve certain socio-economic objectives. These include promoting productive employment, protecting the consumption standard of the poor, discouraging non-essential luxury consumption particularly when it is import intensive, providing some relief to middle income tax payers, maintaining the tempo of modernisation and growth and containing the budget deficit. The thrust of direct tax proposals, therefore, is to raise resources for the new employment programme. Further, the direct tax proposals also attempt to mobilise savings particularly for acquiring houses, investment in equity through the Equity Linked Insurance Scheme and a new deposit scheme for retiring Central and State Government employees which assures a good post-tax return to

them. In the sphere of indirect taxes, the primary objective behind the tax proposals is to raise additional resources and contain budgetary deficit. Items of mass consumption have been kept outside the purview of net levies. Most of the new levies have, however, been imposed on non-essential and luxury goods. In addition to raising of resources, the new tax proposals also aimed at curtailing the consumption of goods which are import-intensive like colour TVs, VCRs, VCPs, etc. The budget proposals also provided incentives for modernisation and upgradation of technology. The salient features of the modifications in direct and indirect taxes in the Budget are set out in the following paragraphs:

## Direct Taxes

(i) In order to mobilise resources for a new intensive rural employment programme called 'Jawaharlal Nehru Rojgar Yojana', a new surcharge at the rate of 8 per cent on resident tax payers (corporate and non-corporate) with incomes above Rs. 50,000 has been imposed from the assessment year 1990-91. The revenue effect of this surcharge will be Rs. 500 crores (Comprising Rs. 245 crores for income-tax and Rs. 255 crores for corporation tax).

It is also proposed to discontinue the drought surchage of 10 per cent on wealth tax and of 5 per cent on personal and corporate income exceeding Rs. 50,000 levied in 1987-88 with effect from the assessment year 1989-90 and 1990-91, respectively.

(ii) It is proposed to reduce the rate of tax for individuals in the entry slab of Rs. 18,000-Rs. 25,000 from the present rate of 25 per cent to 20 per cent. The reduction in rate of tax in the entry slab mentioned above on personal income-tax would provide tax relief varying from Rs. 50 to Rs. 350 to tax payers in different income groups.

(iii) With a view to curbing conspicuous consumption, the rate of expenditure tax under Expenditure-tax Act, 1987 has been raised from 10 per cent to 20 per cent. This would yield an additional revenue of Rs. 30 crores.

(iv) With a view to providing relief to the salaried tax-payers, it is proposed to amend Section 16 of the Income- tax Act, so as to provide for deduction for tax paid on employment, (levied by a State) under Article 276 of the Constitution, in computing their income under the head 'Salaries'.

(v) Under existing provision of Section 80CC of the Income-tax Act, a deduction of 50 per cent on a maximum investment of twenty thousand rupees is admissible, in respect of certain equity shares forming part of any eligible issue of capital as also in respect of investment in the Units of any Mutual Fund set up by public sector banks or other financial institutions, if such funds subscribe only to eligible issue of capital. With a view to bring the Unit Trust of India at par with mutual funds set up by other public financial institutions and public sector banks, the provision in respect of Section 80CC is to be amended, so as to extend its coverage to the investment in the units of any scheme of Unit Trust of India, if the funds of such schemes are invested in the eligible issue of capital. Further with a view to encouraging investment in hospitals in the corporate sector, companies issuing equity shares for setting up hospitals would be covered within the purview of deduction under Section 80CC.

(vi) With a view to removing the hardships faced by the persons engaged in poultry farming, it is proposed to provide a deduction at the rate of 33 ⅓ per cent of the income from that source.

## Welfare Measures

(i) It is proposed to formulate a new deposit schemes in which a Central or State Government retiring employee may invest the whole or part of his retirement benefits for a lock-in period of three years. The interest earned in respect of these deposits shall be exempt from income-tax. Further the deposit would be fully exempt from wealth tax. Under the Scheme, the investment can be made within three months of retirement or within three months of commencement of the Scheme for already retired persons. The Scheme carries a rate of interest of 9 per cent. The Scheme will apply to all Central and State Government employees.

(ii) It is proposed to extend the provision of standard deduction of 33 ⅓ per cent up to a maximum amount of Rs. 12,000 to the recipients of family pensions.

(iii) With a view to promoting savings for acquisition of a house and also to enable the National Housing Bank (NHB) to mobilise resources, in its nascent stage, deposits in the new 'Home Loan Account Scheme' (HLAS) of the NHB as well as the repayment of housing loan (up to a maximum of Rs. 10,000) taken from the bank would qualify for deduction from the gross income within the overall ceiling under Section 80C of the Income-tax Act

The investment made under HLAS would also be exempted from wealth tax subject to the overall ceiling of Rs. 5 lakhs. The scope of Section 54E is enlarged to include the bonds and debentures issued by the NHB as eligible assets for claiming exemption from capital gains tax arising out of sale of any asset if the sale proceeds are invested in bonds and debentures issued by the NHB.

(iv) Under the existing provisions of Section 80U of the Income-tax Act, permanently physically handicapped persons are entitled to a deduction of Rs. 15,000 from their gross total income. This tax concession is to be extended to mentally retarded persons also.

**Excise Duties**

(i) It is proposed to increase the excise duty by 5 per cent of current rates on a substantial number of commodities attracting specific rates of excise duty. However, items of mass consumption such as tea, coffee, sugar, kerosene, diesel and motor spirits, vegetable oil, vanaspati, etc., are kept outside the purview of this adjustment. The upward revision of specific rates of excise duties would yield an additional revenue of Rs. 220 crores.

(ii) Duties on pig-iron, products of iron ingots, semi-finished products, waste and scrap and hot rolled flat products of alloy steel and stainless steel have been increased. This would yield an additional excise revenue of Rs. 150 crores.

(iii) The excise duty on filter cigarettes above 70 mm has been increased and on pan masala has been revised upwards. These measures are to yield an additional revenue of Rs. 101 crores and Rs. 8 crores, respectively.

(iv) The excise duty on molasses used for the manufacture of liquor has been raised from Rs. 60 to Rs. 120 per tonne, yielding an additional revenue of Rs. 11 crores.

(v) It is proposed to levy a uniform rate of 35 per cent *ad valorem* on motor cars, vans and jeeps. The revenue gains from this measure would be Rs. 100 crores. It is also proposed to restructure the excise duty on two wheelers into a four tier regime. This measure is expected to yield an additional revenue of about Rs. 26 crores.

(vi) Excise duty on black and white TV sets with screens exceeding 36 cms. would go up from the present rate of Rs. 300 to Rs. 500 per set. TV sets with screen size exceeding 15 cms. up to 36 cms. attract Rs. 200 per tube. Excise duty on colour TV is increased. Radios, two-in-one cassette recorder and musical systems attract a uniform 20 per cent duty. Duty on computers is hiked by 5 per cent.

(vii) Duties on specific raw materials of electric components are increased. Total yield from this measure would be Rs. 158 crores.

(viii) It is proposed to increase the excise duty on aluminium ingots and wire rods from 18 per cent to 20 per cent *ad valorem* plus Rs. 2,500 per tonne. Since MODVAT credit in regard to primary aluminium would be available for dutiable products, it is proposed to increase the duty on most of such products by 10 percentage points. The net revenue yield from these measures would be Rs. 50 crores.

The increases in the excise duty structure outlined above along with some other revisions is likely to bring in a gross revenue of Rs. 863 crores. After taking into account the concessions and reliefs of Rs. 71 crores, the net additional revenue would be Rs. 792 crores.

**Customs Duties**

**Capital goods**

(i) The budget proposed to reduce the rate of import duty on general projects and machinery from 90 per cent to 80 per cent *ad valorem*. The rate of duty on components, which is 15 per cent below the rate applicable to the machinery would get correspondingly reduced.

(ii) It is proposed to rationalise the rate structure of concessional import duties on specified machinery which vary between 25 per cent to 35 per cent. This is now unified and fixed at 40 per cent *ad valorem*. There would, however, be no change in the case of fertiliser projects. In the case of power projects the increase would be by 5 percentage points.

(iii) It is proposed to introduce an intermediate level of duty of 60 per cent *ad valorem* on certain specified items of machinery which are manufactured indigenously.

(iv) It is proposed to extend the concession of concessional import duties given to specified thrust export sectors for upgrading their technology by

importing machinery to rubber and canvas footwear sectors and to expand the existing list for textile and sericulture sectors.

(v) Concessions in customs duty in electronics sector is extended to 35 more specified equipments.

(vi) Import duty on specified raw materials required for optical communication cables is reduced to 80 per cent.

(vii) With a view to encouraging production of high-tech items like large-scale intergrated circuits, microprocessors and other microelectronic items, 22 items of machinery have been given a concessional import duty of 15 per cent. The revenue loss will be Rs. 33 crores.

(viii) The rate of import duty on general projects and machinery is to be reduced by 10 per cent with corresponding reduction in the rate of duty on components.

The proposals for revision of customs duties are expected to yield Rs. 117 crores in 1989-90 However, the concessions and reliefs would cause a revenue loss of Rs. 237 crores. As a result,there is a net revenue loss of Rs. 120 crores.

## Travel Tax

### (1) Inland Air Travel Tax:

It is proposed to levy a new tax called 'Inland Air Travel Tax' at 10 per cent of the total fare (excluding fuel surcharge and passenger service fee). However, the passengers paying air fare in foreign currency are proposed to be exempted. The new tax is expected to yield an additional revenue to the tune of Rs. 40 crores during the financial year 1989-90.

### (2) Foreign Travel Tax:

It is proposed to increase the rates of Foreign Travel Tax per ticket for travel to neighbouring countries and other countries from Rs. 50 to Rs. 150 and Rs. 100 to Rs. 300, respectively. This would bring an additional revenue of Rs. 45 crores (Table VIII-12).

**Table VIII-12: Additional Resource Mobilisation by the Centre during 1989-90**

(Rs. crores)

| Items | Centre's share | States' share | Total |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| **I. Taxes (a+b)** | **903** | **384** | **1287*** |
| a) Direct Taxes (i+ii+iii) | 530 | - | 530 |
| i) Corporation Tax | 255 | - | 255 |
| ii) Income Tax | 245 | - | 245 |
| iii) Expenditure Tax | 30 | - | 30 |
| b) Indirect Taxes (i+ii+iii) | 373 | 384 | 757 |
| i) Customs Duties | −120 | - | −120 |
| ii) Union Excise Duties | 408 | 384 | 792 |
| iii) Other Taxes and Duties | 85 | - | 85 |
| **II. Revision in Railway Fares and Freight** | **876** | - | **876** |
| **III. Revision in Postal and Telecommunication Tariffs** | - | - | - |
| **IV. Total (I+II+III)** | **1779** | **384** | **2163** |

* Excludes post-budget concessions.

*Source:* i) Budget Documents, Government of India, 1989-90.
ii) Railway Budget, 1989-90.

## II. BUDGETARY OPERATIONS OF STATE GOVERNMENTS@

### Revised Estimates: 1988-89

The budget estimates for 1988-89, after adjusting for Additional Resource Mobilisation (ARM) measures had anticipated an overall deficit of Rs. 664.0 crores. According to the revised estimates, the year closed with a deficit of Rs. 862.1 crores as against a surplus of Rs. 234.4 crores in 1987-88†. The revenue account deficit widened from Rs. 800.6 crores to Rs. 2,069.1 crores. The deterioration in the revenue account was due to an increase of 6.0 per cent in revenue expenditure over the budgeted level, while revenue receipts recorded an increase of only 3.5 per cent over the budget estimates for 1988-89. The deterioration in the revenue account was, however, partly offset by an improvement under capital account which showed a surplus of Rs. 1,207.0 crores as compared with the budgeted surplus of Rs. 136.6 crores. (Table VIII-13)

### Receipts

Aggregate receipts at Rs. 67,087.0 crores in 1988-89 registered a rise of Rs. 6,854.0 crores or 11.4 per cent over 1987-88[8]. The improvement was observed under both revenue receipts (Rs. 5,936.0 crores) and capital receipts (Rs. 918.0 crores). Revenue receipts moved up from Rs. 44,160.3 crores in 1987-88 to Rs. 50,096.3 crores in 1988-89, showing a rise of 13.4 per cent. Capital receipts at Rs. 16,990.7 crores in 1988-89 also showed a rise of 5.7 per cent. The share of revenue receipts in aggregate receipts rose from 73.3 per cent in 1987-88 to 74.7 per cent in 1988-89. The rise in the revenue receipts was contributed by both tax and non-tax receipts. Tax receipts amounted to Rs. 32,731.7 crores in 1988-89, showing a rise of 12.9 per cent over 1987-88. Non-tax receipts at Rs. 17,364.6 crores in 1988-89 registered a rise of 14.5 per cent over those in 1987-88. The proportion of tax receipts to total revenue receipts declined marginally from 65.7 per cent in 1987-88 to 65.3 per cent in 1988-89, while that of non-tax receipts improved from 34.3 per cent to 34.7 per cent. Among tax receipts, States' own tax receipts at Rs. 22,026.4 crores in 1988-89 showed an increase of 14.3 per cent over those in 1987-88. States' share in Central taxes, on the other hand, increased by 10.1 per cent to Rs. 10,705.3 crores in 1988-89. The share of States' own tax receipts in aggregate receipts turned out to be marginally higher at 32.8 per cent in 1988-89 as against 32.0 per cent in 1987-88. Of the total rise of Rs. 2,756.5 crores in States' own tax receipts, sales tax contributed Rs. 1,742.3 crores or 63.2 per cent. The improvement in receipts from taxes on vehicles was Rs. 239.8 crores followed by state excise duties (+Rs. 165.8 crores), electricity duties (+Rs. 158.4 crores), stamps and registration fees (+ Rs. 138.9 crores), taxes on passengers and goods (+ Rs. 122.8 crores), land revenue (+ Rs. 92.4 crores), entertainment tax (+ Rs. 67.0 crores), taxes on professions, trades, callings and employment (+Rs. 22.2 crores), agricultural income tax (+Rs. 15.2 crores) and urban immovable property tax (+Rs. 6.3 crores). Other taxes and duties, however, showed a decline of Rs. 14.6 crores in 1988-89 over 1987-88. States' share in Central taxes increased by Rs. 978.9 crores to Rs. 10,705.3 crores in 1988-89. During 1988-89, States' share in Union excise duties at Rs. 7,944.7 crores showed a rise of Rs. 787.5 crores to Rs. 2,759.9 crores or 7.7 per cent. The proportion of States' share in Central taxes to States' total tax receipts declined from 33.5 per cent in 1987-88 to 32.7 per cent in 1988-89, while that of States' own tax receipts

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@ Data relates to 25 States.

† Figures given in the Report on Currency and Finance are not comparable with data published in the Article on Finances of State Governments, 1989-90 brought out in the December 1989 issue of the RBI Bulletin because (1) some of the information on post-budgetary developments relating to ARM have not been included here due to delay in receipt of information from State Governments, (2) the data relating to Bihar for 1987-88 refer to accounts figures while those included in the Article for the same year are from revised estimates due to non-availability of details of accounts data and (3) in the case of a few states the data included here are from the vote-on-account budgets.

8. The comparisons are between revised estimates of 1988-89 and the accounts figures of 1987-88, unless otherwise stated. Overall surplus or deficit for the year is computed by deducting aggregate disbursements from aggregate receipts. Aggregate receipts include (i) Revenue Receipts and (ii) Capital Receipts excluding Ways and Means Advances (WMA) and Overdrafts from Reserve Bank of India (RBI) and (iii) net receipts under Public Accounts excluding withdrawals from Cash Balance Investment Account and Cash Balances. Total disbursements include Revenue Expenditure and Capital Disbursements excluding repayments of WMA and overdrafts from RBI. Additions to Cash Balance Investment Account and Cash Balances are also excluded.

**Table VIII-13 : Overall Budgetary Position of State Governments**

(Rs. crores)

| Items | 1987-88 (Accounts)@ | 1988-89 (Budget Estimates) | 1988-89 (Revised Estimates) | Percentage variations over the budget estimates (Col. 4 over Col. 3) | Percentage variations over the previous year (Col. 4 over Col. 2) | 1989-90 (Budget Estimates) | Percentage variations over the previous year (Col. 7 over Col. 4) |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| **I. Aggregate Receipts (A+B)** | **60233.0** | **64491.1** | **67087.0** | **+4.0** | **+11.4** | **75208.8** | **+12.1** |
| | | **(63827.3)** | | **(+5.1)** | | **(74379.1)** | **(+10.9)** |
| **A. Revenue Receipts (1+2)** | **44160.3** | **48412.7** | **50096.3** | **+3.5** | **+13.4** | **55649.7** | **+11.1** |
| | | **(47748.9)** | | **(+4.9)** | | **(54820.0)** | **(+9.4)** |
| 1. Tax Receipts (a+b) | 28996.3 | 32267.3 | 32731.7 | +1.4 | +12.9 | 37316.6 | +14.0 |
| | | (31670.7) | | (+3.4) | | (36491.9) | (+11.5) |
| a) States' Taxes | 19269.9 | 21763.1 | 22026.4 | +1.2 | +14.3 | 25120.2 | +14.0 |
| | | (21194.7) | | (+3.9) | | (24679.5) | (+12.0) |
| b) Share in Central Taxes | 9726.4 | 10504.2 | 10705.3 | +1.9 | +10.1 | 12196.4 | +13.9 |
| | | (10476.0) | | (+2.2) | | (11812.4) | (+10.3) |
| 2. Non-Tax Receipts (c+d) | 15164.0 | 16145.4 | 17364.6 | +7.6 | +14.5 | 18333.1 | +5.6 |
| | | (16078.2) | | (+8.0) | | (18328.1) | (+5.5) |
| c) Grants from the Centre | 8376.8 | 8728.5 | 9968.4 | +14.2 | +19.0 | 10284.7 | +3.2 |
| d) Other Non-Tax Receipts | 6787.2 | 7416.9 | 7396.2 | -0.3 | +9.0 | 8048.4 | +8.8 |
| | | (7349.7) | | (+0.6) | | (8043.4) | (+8.8) |
| **B. Capital Receipts (1+2)** | **16072.7** | **16078.4** | **16990.7** | **+5.7** | **+5.7** | **19559.1** | **+15.1** |
| 1. States' Capital Receipts | 6779.6 | 6511.6 | 6952.3 | +6.8 | +2.5 | 8709.8 | +25.3 |
| *Of which:* | | | | | | | |
| a) Market Borrowings (Gross) | 1799.4 | 1995.8 | 2099.8 | +5.2 | +16.7 | 2468.6 | +17.6 |
| b) Recovery of Loans and Advances | 1028.6 | 1135.4 | 1363.6 | +20.1 | +32.6 | 986.1 | -27.7 |
| 2. Loans from the Centre | 9293.1 | 9566.8 | 10038.4 | +4.9 | +8.0 | 10849.3 | +8.1 |

**Table VIII-13 : Overall Budgetary Position of State Governments (Concld.)**

(Rs. crores)

| Items | 1987-88 (Accounts)@ | 1988-89 (Budget Estimates) | 1988-89 (Revised Estimates) | Percentage variations over the budget estimates (Col. 4 over Col. 3) | Percentage variations over the previous year (Col. 4 over Col. 2) | 1989-90 (Budget Estimates) | Percentage variations over the previous year (Col. 7 over Col. 4) |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| **II. Aggregate Disbursements (A to E)** | **59998.6** | **65155.1** | **67949.1** | **+4.3** | **+13.3** | **75715.9** | **+11.4** |
| **A. Developmental Expenditure† (1+2)** | **42141.0** | **43972.7** | **47342.8** | **+7.7** | **+12.3** | **49473.5** | **+4.5** |
| 1. Social Services | 19657.9 | 20308.2 | 22343.8 | +10.0 | +13.7 | 23495.8 | +5.2 |
| *Of which:* Expenditure on Natural Calamities | 884.3 | 233.6 | 844.4 | +261.5 | -4.5 | 348.9 | -58.7 |
| 2. Economic Services | 22483.1 | 23664.5 | 24999.0 | +5.6 | +11.2 | 25977.7 | +3.9 |
| **B. Non-Developmental Expenditure†** | **13754.5** | **16909.3** | **16422.7** | **-2.9** | **+19.4** | **21787.4** | **+32.7** |
| **C. Repayment of Loans to the Centre** | **3388.5** | **3351.8** | **3298.0** | **-1.6** | **-2.7** | **3453.7** | **+4.7** |
| **D. Discharge of Internal Debt** | **387.6** | **419.7** | **432.5** | **+3.0** | **+11.6** | **457.5** | **+5.8** |
| *Of which:* Market Loans | 262.7 | 294.5 | 292.9 | -0.5 | +11.5 | 315.8 | +7.8 |
| **E. Others*** | **327.0** | **501.6** | **453.1** | **-9.7** | **+38.6** | **543.8** | **+20.0** |
| **III. Overall Surplus (+)/Deficit(-) (I-II)** | **+234.4** | **-664.0 (-1327.8)** | **-862.1** | | | **-507.1 (-1336.8)** | |

* Comprise compensation and assignments to local bodies and remittances (net).

@ Figures for Nagaland relate to revised estimates.

† Comprise expenditure on revenue and capital accounts and loans and advances extended by States.

*Notes:* 1. Budget Estimates for 1989-90 include the estimated net yield of Rs. 445.7 crores from additional resource mobilisation measures proposed by the States and States' share of Rs. 384.0 crores in the Centre's additional taxation proposed in the Central Budget for 1989-90.

2. Budget Estimates for 1988-89 include the estimated net yield of Rs. 635.6 crores from additional resource mobilisation measures introduced through the State Budgets and the States' share of Rs. 28.2 crores in the Centre's additional taxation proposed in the Central Budget for 1988-89.

improved from 66.5 per cent to 67.3 per cent. Non-tax receipts at Rs. 17,364.6 crores in 1988-89 were up by Rs. 2,200.6 crores or 14.5 per cent over 1987-88. Under non-tax receipts, grants from the Centre in 1988-89 aggregated Rs. 9,968.4 crores or 19.0 per cent more than that in 1987-88. At this level, their share in total non-tax receipts improved to 57.4 per cent in 1988-89 from 55.2 per cent in 1987-88. Other non-tax receipts in 1988-89 were up by Rs. 609.0 crores (9.0 per cent) to Rs. 7,396.2 crores over that in 1987-88.

Tables VIII-14 and 15 indicate sources of revenue receipts and pattern of revenue expenditure (percentage distribution) during the years, 1984-85 to 1989-90.

**Table VIII-14: Sources of State Revenue Receipts-Percentage Distribution**

| Items | 1984-85 (Accounts) | 1985-86 (Accounts) | 1986-87 (Accounts) | 1987-88 (Accounts)* | 1988-89 (Revised Estimates) | 1989-90 (Budget Estimates) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **Total Revenue (I + II)** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| **I. Tax Revenue (A + B)** | **66.0** | **65.2** | **65.6** | **65.6** | **65.3** | **67.1** |
| **A. Revenue from States' Taxes (i to iii)** | **44.7** | **43.5** | **43.7** | **43.6** | **44.0** | **45.2** |
| i) Taxes on Income (a + b) | 0.8 | 0.8 | 0.7 | 0.6 | 0.6 | 0.8 |
| a) Agricultural Income Tax | 0.3 | 0.4 | 0.3 | 0.1 | 0.1 | 0.1 |
| b) Taxes on Professions, Trades, Callings and Employment | 0.5 | 0.4 | 0.4 | 0.5 | 0.5 | 0.7 |
| ii) Taxes on Property and Capital Transactions (a to c) | 3.6 | 3.6 | 3.7 | 3.9 | 3.9 | 4.0 |
| a) Stamps and Registration Fees | 2.6 | 2.6 | 2.7 | 2.9 | 2.8 | 2.8 |
| b) Land Revenue | 1.0 | 1.0 | 1.0 | 1.0 | 1.1 | 1.2 |
| c) Urban Immovable Property Tax | — | — | — | — | — | — |
| iii) Taxes on Commodities and Services (a to g) | 40.3 | 39.1 | 39.3 | 39.1 | 39.5 | 40.4 |
| a) Sales Tax | 25.7 | 25.2 | 25.2 | 25.3 | 25.8 | 26.2 |
| b) State Excise Duties | 6.7 | 6.1 | 6.3 | 6.5 | 6.1 | 6.3 |
| c) Taxes on Vehicles | 2.5 | 2.5 | 2.6 | 2.5 | 2.7 | 2.6 |
| d) Taxes on Passengers and Goods | 1.8 | 1.7 | 1.6 | 1.6 | 1.7 | 1.7 |
| e) Electricity Duties | 1.7 | 1.9 | 2.1 | 1.8 | 1.9 | 2.0 |
| f) Entertainment Tax | 1.5 | 0.9 | 1.1 | 0.9 | 0.9 | 0.9 |
| g) Other Taxes and Duties | 0.4 | 0.8 | 0.4 | 0.5 | 0.4 | 0.7 |
| **B. Share in Central Taxes (a to c)** | **21.3** | **21.7** | **21.9** | **22.0** | **21.3** | **21.9** |
| a) Income Tax | 4.6 | 5.2 | 5.7 | 5.8 | 5.5 | 5.4 |
| b) Estate Duty | 0.1 | 0.1 | — | — | — | — |
| c) Union Excise Duties | 16.6 | 16.4 | 16.2 | 16.2 | 15.8 | 16.5 |
| **II. Non-Tax Revenue (C + D)** | **34.0** | **34.8** | **34.4** | **34.4** | **34.7** | **32.9** |
| **C. Grants from the Centre** | **17.4** | **18.9** | **18.3** | **19.0** | **19.9** | **18.5** |
| **D. Other Non-Tax Revenue (a to e)** | **16.6** | **15.9** | **16.1** | **15.4** | **14.8** | **14.4** |
| a) Interest Receipts | 4.6 | 4.1 | 4.4 | 4.4 | 4.6 | 4.3 |
| b) Dividends | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| c) General Services | 2.1 | 2.0 | 1.9 | 1.8 | 1.7 | 1.8 |
| d) Social Services | 1.3 | 1.4 | 1.2 | 1.1 | 1.1 | 1.1 |
| e) Economic Services | 8.5 | 8.3 | 8.5 | 8.0 | 7.3 | 7.1 |

* Data in respect of Nagaland relates to revised estimates.

*Source*: State Government Budget Documents.

**Table VIII-15: Pattern of Revenue Expenditure-Percentage Distribution**

| Items | 1984-85 (Accounts) | 1985-86 (Accounts) | 1986-87 (Accounts) | 1987-88 (Accounts)* | 1988-89 (Revised Estimates) | 1989-90 (Budget Estimates) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **Total Expenditure (A to D)** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| **A. Developmental Expenditure (1 + 2)** | **70.5** | **70.4** | **70.6** | **69.7** | **68.5** | **63.0** |
| 1. Social Services (i to xi) | 40.2 | 40.6 | 39.9 | 39.5 | 39.1 | 36.5 |
| i) Education, Sports, Art and Culture | 20.6 | 20.8 | 20.4 | 20.4 | 20.8 | 20.5 |
| ii) Medical, Public Health and Family Welfare | 9.8 | 7.8 | 6.7 | 6.7 | 6.5 | 6.1 |
| iii) Water Supply and Sanitation | — | 2.1 | 3.1 | 2.9 | 2.6 | 2.2 |
| iv) Housing | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.4 |
| v) Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes | — | 2.6 | 2.4 | 2.6 | 2.5 | 2.5 |
| vi) Labour and Labour Welfare | 0.9 | 0.7 | 0.7 | 0.9 | 0.7 | 0.6 |
| vii) Social Security and Welfare | 5.3 | 2.3 | 2.4 | 1.8 | 2.0 | 1.9 |
| viii) Nutrition | — | 0.4 | 0.8 | 0.8 | 0.7 | 0.7 |
| ix) Relief on Account of Natural Calamities | 1.4 | 2.3 | 1.7 | 1.9 | 1.6 | 0.6 |
| x) Urban Development | — | 0.7 | 0.8 | 0.7 | 0.9 | 0.7 |
| xi) Others | 1.7 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| 2. Economic Services (i to ix) | 30.3 | 29.8 | 30.7 | 30.2 | 29.4 | 26.5 |
| i) Agriculture and Allied Activities | 17.8 | 9.5 | 8.7 | 8.6 | 8.3 | 7.7 |
| ii) Rural Development | — | 6.7 | 7.4 | 6.5 | 6.4 | 5.6 |
| iii) Special Areas Programmes | — | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 |
| iv) Irrigation and Flood Control | — | 5.8 | 6.3 | 6.1 | 6.1 | 5.3 |
| v) Energy | 5.1 | 0.7 | 1.1 | 2.0 | 1.7 | 1.4 |
| vi) Industry and Minerals | 1.7 | 1.8 | 1.7 | 1.6 | 1.8 | 1.7 |
| vii) Transport and Communications | 3.6 | 3.3 | 3.6 | 3.2 | 2.9 | 2.6 |
| viii) Science, Technology and Environment | — | 0.1 | 0.1 | 0.1 | Neg. | Neg. |
| ix) General Economic Services | 2.1 | 1.4 | 1.3 | 1.6 | 1.6 | 1.7 |
| **B. Non-Developmental Expenditure (1 to 5)** | **28.3** | **28.4** | **28.2** | **29.3** | **30.5** | **36.0** |
| 1. Organs of State | 1.3 | 1.0 | 0.9 | 1.0 | 1.0 | 1.2 |
| 2. Fiscal Services | 3.4 | 3.3 | 2.3 | 3.1 | 3.2 | 3.2 |
| 3. Interest Payments and Servicing of Debt | 10.2 | 10.3 | 11.6 | 11.5 | 12.3 | 13.0 |
| *Of which:* | | | | | | |
| i) Interest on Loans from the Centre | 5.5 | 5.2 | 7.2 | 5.9 | 7.0 | 7.1 |
| ii) Interest on Internal Debt | 2.0 | 1.9 | 1.9 | 1.7 | 1.9 | 2.2 |
| 4. Administrative Services | 9.9 | 10.1 | 9.8 | 9.7 | 9.5 | 13.3 |
| 5. Pensions and Miscellaneous General Services | 3.5 | 3.7 | 3.6 | 4.0 | 4.5 | 5.3 |
| **C. Compensation and Assignments to Local Bodies and Panchayati Raj Institutions** | **1.2** | **1.2** | **1.2** | **1.0** | **1.0** | **1.0** |
| **D. Reserve with Finance Department** | — | — | — | — | — | — |

* Figures for Nagaland relate to revised estimates.

*Source* : State Government Budget Documents.

## Capital Receipts

Total capital receipts of States increased from Rs. 16,072.7 crores in 1987-88 to Rs. 16,990.7 crores in 1988-89, showing a rise of 5.7 per cent as against a rise of 20.8 per cent in 1987-88. Of the total rise of Rs. 918.0 crores in capital receipts, loans from the Centre contributed to Rs. 745.3 crores or 81.2 per cent and the remaining Rs. 172.7 crores (18.8 per cent) was accounted for by the States' own capital receipts. Loans from the Centre (gross) at Rs. 10,038.4 crores in 1988-89 registered a rise of 8.0 per cent over that of Rs. 9,293.1 crores in 1987-88. After providing for repayments, loans on a net basis amounted to Rs. 6,740.5 crores in 1988-89 as against Rs. 5,904.6 crores in 1987-88. States' own

capital receipts increased by 2.5 per cent to Rs. 6,952.3 crores in 1988-89 from that of Rs. 6,779.6 crores in 1987-88. Market borrowings (gross) according to budget documents, amounted to Rs. 2,099.8 crores in 1988-89. i.e., 16.7 per cent higher than the amount of Rs. 1,799.4 crores in 1987-88. According to the Reserve Bank of India records, market borrowings (gross) were Rs. 2,284.9 crores for 23 States in 1988-89 as compared with Rs. 1,789.3 crores for 20 States in 1987-88. Net market borrowings, according to RBI records, aggregated Rs. 2,002.1 crores and Rs. 1,505.6 crores in 1988-89 and 1987-88, respectively. The States' share in total market borrowings (gross) of Centre and States increased from 18.6 per cent in 1987-88 to 22.8 per cent in 1988-89 and that in net combined market borrowings rose to 21.6 per cent in 1988-89 from 17.7 per cent in 1987-88. Recovery of loans and advances by States at Rs. 1,363.6 crores in 1988-89 showed an increase of 32.6 per cent over the previous year's level of Rs. 1,028.6 crores.

## Transfer of Resources from the Centre to 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 at Rs. 30,712.2 crores showed a rise of 12.1 per cent in 1988-89 over 1987-88. In 1987-88 they had recorded a rise of 18.7 per cent over 1986-87. The States' share in Central taxes amounted to Rs. 10,705.3 crores or 34.8 per cent of the gross transfers, followed by loans from the Centre, Rs. 10,038.4 crores (32.7 per cent) and grants from the Centre, Rs. 9,968.4 crores (32.5 per cent). Of the total increase of Rs. 3,315.9 crores in gross transfers in 1988-89, the increase on account of grants was Rs. 1,591.6 crores (48.0 per cent), States' share in Central taxes, Rs. 978.9 crores (29.5 per cent) and loans (gross) Rs. 745.4 crores (22.5 per cent). The proportion of gross transfers to States' aggregate receipts was 48.1 per cent in 1988-89 as compared with 48.2 per cent in 1987-88. Loans from the Centre on a net basis, i.e., after providing for the repayment of loan instalments (Rs. 3,298.0 crores) and interest payments (Rs. 3,641.0 crores) aggregated Rs. 3,099.5 crores, i.e., Rs. 106.3 crores (−3.3 per cent) less than that in 1987-88. After providing for interest payments on loans from the Centre and repayment of loan instalments, the net transfers from the Centre to States amounted to Rs. 23,773.2 crores in 1988-89, showing a rise of Rs. 2,464.2 crores (11.6 per cent) over 1987-88. At this level, the net transfers formed 37.3 per cent of aggregate receipts (including loans from the Centre on a net basis) as against 37.5 per cent in 1987-88. The share of net transfers in aggregate disbursements (excluding repayment of loan instalments and interest to the Centre) declined marginally from 39.5 per cent in 1987-88 to 39.0 per cent in 1988-89.

Loans from the Centre amounted to Rs. 10,038.4 crores in 1988-89, showing a rise of 8.0 per cent over 1987-88. Of these, Plan loans aggregated Rs. 4,975.5 crores in 1988-89 as compared with Rs. 4,729.8 crores in 1987-88. Under Plan loans, loans for State Plan Schemes, Central Plan Schemes and Centrally Sponsored Schemes were Rs. 4,678.2 crores, Rs. 112.4 crores and Rs. 184.9 crores, respectively, in 1988-89 as against Rs. 4,485.4 crores, Rs. 74.4 crores and Rs. 170.0 crores, respectively, in 1987-88. Non-Plan loans (including Ways and Means Advances) increased by 11.0 per cent to Rs. 5,062.9 crores in 1988-89 from Rs. 4,563.3 crores in 1987-88. Under non-Plan loans, the States' share in small savings collections increased from Rs. 3,504.9 crores in 1987-88 to Rs. 4,226.1 crores in 1988-89. Grants from the Centre to States at Rs. 9,968.4 crores in 1988-89 recorded a rise of 19.0 per cent over the previous year's level of Rs. 8,376.8 crores. Grants for Plan and non-Plan purposes increased from Rs. 6,868.3 crores and Rs. 1,508.5 crores, respectively, in 1987-88 to Rs. 7,922.6 crores and Rs. 2,045.8 crores, respectively, in 1988-89. Plan grants increased by only 15.4 per cent in 1988-89, as compared with 26.7 per cent in 1987-88, while the non-Plan grants increased by 35.6 per cent in 1988-89 as against a decline of 3.5 per cent recorded in 1987-88.

## Disbursements

Aggregate disbursements at Rs. 67,949.1 crores in 1988-89 increased by Rs. 7,950.5 crores or 13.3 per cent over the amount of Rs. 59,998.6 crores in 1987-88; last year these had increased by 14.9 per cent over 1986-87. Developmental expenditure accounted for 69.7 per cent of the aggregate disbursements, while non-developmental expenditure constituted 24.2 per cent and the balance of 6.1 per cent was on account of repayment of loans, discharge of internal debt and others. Developmental expenditure increased from Rs. 42,141.0 crores in 1987-88 to Rs. 47,342.8 crores in 1988-89, registering a rise of Rs. 5,201.8 crores or 12.3 per cent. In the previous year, it had increased by 14.4 per cent. Expenditure on social services at

Rs. 22,343.8 crores in 1988-89 showed an increase of Rs. 2,685.9 crores (13.7 per cent) as compared with an increase of Rs. 2,871.6 crores (17.1 per cent) in 1987-88 over 1986-87. Expenditure on economic services amounted to Rs. 24,999.0 crores in 1988-89 showing an increase of Rs. 2,519.9 crores (11.2 per cent) as against a rise of Rs. 2,442.1 crores (12.2 per cent) in 1987-88. Non-developmental expenditure increased by 19.4 per cent to Rs. 16,422.7 crores in 1988-89 from Rs. 13.754.5 crores in 1987-88. Under non-developmental expenditure, the expenditure on administrative services, interest payments, pensions and miscellaneous general services totalled Rs. 13,294.9 crores in 1989-90 registering a rise of 22.4 per cent over 1987-88. Among other disbursements repayment of loans to the Centre declined marginally (−2.7 per cent) to Rs. 3,298.0 crores in 1988-89, while discharge of internal debt and other expenditure at Rs. 432.5 crores and Rs. 453.1 crores,respectively, in 1988-89 registered increases of 11.6 per cent and 38.6 per cent, respectively, over 1987-88. The proportion of repayment of loans to the Centre to aggregate disbursements declined to 4.9 per cent in 1988-89 from 5.6 per cent in 1987-88. Repayment of market loans at Rs. 292.9 crores in 1988-89 was 11.5 per cent more than in 1987-88.

**Budget Estimates 1989-90**

The combined budgetary position of States, at 1988-89 rates of taxation, reveals a deficit of Rs. 1,336.8 crores as against Rs. 862.1 crores in 1988-89 (RE) and a surplus of Rs. 234.4 crores in 1987-88 (Accounts). During 1989-90, the States have proposed Additional Resource Mobilisation measures which are anticipated to yield Rs. 445.7 crores and they also expect to get Rs. 384.0 crores as their share in Centre's additional taxation. Taking into account ARM yield and States' share in Centre's additional taxation, the overall deficit of States is expected to come down to Rs. 507.1 crores (Table VIII-13).

**State-wise Position**

An analysis of the State-wise budgets show that, at 1988-89 rates of taxation, 18 States have presented deficit budgets, while 7 States, viz., Arunachal Pradesh, Himachal Pradesh, Maharashtra, Mizoram, Rajasthan, Tripura and West Bengal have surplus budgets (Table VIII-16). The overall deficit ranges from Rs. 11.6 crores for Manipur to Rs. 248.1 crores for Gujarat. Of the 18 States presenting deficit budgets, 9 States have presented new measures to cover their deficits while the remaining 9 States have left them uncovered. Among the surplus showing States, Maharashtra and West Bengal have also proposed ARM measures. After taking into account the impact of ARM measures and States' share in Centre's additional taxation in 1989-90, 16 States show deficits aggregating to Rs. 1,173.2 crores which is partly offset by the surpluses of 9 States amounting to Rs. 666.1 crores. The deficits of 6 States, viz., Gujarat (Rs. 196.2 crores), Karnataka (Rs. 156.3 crores), Andhra Pradesh (Rs. 157.0 crores), Assam Rs.156.8 crores),Bihar (Rs.101.4 crores) and Jammu and Kashmir (Rs. 94.4 crores) would account for 73.7 per cent of the total deficit of 16 States. The surplus showing States are West Bengal (Rs. 432.0 crores),Maharashtra (Rs. 103.2 crores), Rajasthan (Rs. 67.7 crores), Tripura (Rs. 17.4 crores), Mizoram (Rs. 14.0 crores), Arunachal Pradesh (Rs. 11.2 crores), Uttar Pradesh (Rs. 7.9 crores), Himachal Pradesh (Rs. 6.8 crores) and Punjab (Rs. 5.9 crores).Among these, Maharashtra, Rajasthan and West Bengal have not provided for in their budgets for committed outlays of Rs. 144.7 crores, Rs. 104.0 crores and Rs. 404.8 crores, respectively, for 1989-90. These States, are, therefore, expected to present supplementary demands for additional disbursements during the year. After taking into account these unbudgeted outlays, Maharashtra and Rajasthan would show deficits of Rs. 41.5 crores and Rs. 36.3 crores, respectively, while West Bengal would still have a surplus of Rs. 27.2 crores. States have proposed to cover the deficit of Rs. 507.1 crores through implementation of the proposed consignment tax, better tax collections, economy in non-Plan expenditure and larger resource transfers from the Centre.

**Transactions under Revenue Accounts**

The transactions under revenue accounts of State Governments, after taking into account ARM and their share in the Centre's additional taxation show a deficit of Rs. 3,454.4 crores in 1989-90 as compared with Rs. 2,069.1 crores in 1988-89. While 14 States show deficit in their revenue accounts aggregating Rs. 3,961.3 crores, 11 States have surplus amounting to Rs. 506.9 crores (Table VIII-17). The range of revenue deficit varies from Rs. 12.7 crores for Nagaland to Rs. 2,416.2 crores for Uttar Pradesh. The range of revenue surplus also varies from Rs. 11.0 crores for Tripura to Rs. 101.3 crores for Arunachal Pradesh.

**Receipts**

Aggregate receipts of States, after taking into account the ARM and States' share in Centre's addi-

**Table VIII-16 Aggregate Receipts/Disbursements and Overall Surplus (+)/Deficit(-) of State Governments - State-wise Details**

(Rs. crores)

| States | 1987-88 (Accounts) | | | 1988-89 (Budget Estimates) | | | 1988-89 (Revised Estimates) | | | 1989-90 (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 and States' share in Central additional taxation | Aggregate Disbursements | Overall Surplus(+)/ Deficit (-) | Overall Surplus (+)/ Deficit (-) adjusted by ARM and States' share in Central additional taxation |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| 1. Andhra Pradesh | 4401.5 | 4299.7 | +101.8 | 4992.1 | 5065.7 | -73.6 | 5169.7 | 5354.8 | -185.1 | 5497.8 | 5525.2 | 5682.2 | -184.4 | -157.0 |
| 2. Arunachal Pradesh | 295.0 | 337.4 | -42.4 | 380.5 | 321.4 | +59.1 | 342.7 | 327.9 | +14.8 | 369.3 | 372.1 | 360.9 | +8.4 | +11.2 |
| 3. Assam | 1766.2 | 1783.9 | -17.7 | 1970.1 | 2011.7 | -41.6 | 1944.8 | 1988.1 | -43.3 | 2176.9 | 2235.3 | 2392.1 | -215.2 | -156.8 |
| 4. Bihar | 4472.2 | 4261.5 | +210.7 | 4350.0 | 4356.4 | -6.4 | 4452.6 | 4527.2 | -74.6 | 5056.0 | 5100.2 | 5201.6 | -145.6 | -101.4 |
| 5. Goa | 342.6 | 240.3 | +102.3 | 286.5 | 316.0 | -29.5 | 298.3 | 346.0 | -47.7 | 324.3 | 327.4 | 367.4 | -43.1 | -40.0 |
| 6. Gujarat | 3963.4 | 4086.7 | -123.3 | 3887.5 | 4128.0 | -240.5 | 4268.6 | 4366.7 | -98.1 | 4340.2 | 4392.1 | 4588.3 | -248.1 | -196.2 |
| 7. Haryana | 1658.3 | 1664.4 | -6.1 | 1788.0 | 1821.1 | -33.1 | 1947.6 | 1959.9 | -12.3 | 2084.1 | 2088.6 | 2100.5 | -16.4 | -11.9 |
| 8. Himachal Pradesh | 822.3 | 807.6 | +14.7 | 805.1 | 805.7 | -0.6 | 1000.6 | 955.4 | +45.2 | 979.3 | 984.9 | 978.1 | +1.2 | +6.8 |
| 9. Jammu and Kashmir | 1202.5 | 1248.0 | -45.5 | 1315.8 | 1312.9 | +2.9 | 1404.4 | 1404.4 | — | 1421.9 | 1435.2 | 1529.6 | -107.7 | -94.4 |
| 10. Karnataka | 3521.6 | 3474.8 | +46.8 | 3816.6 | 4023.6 | -207.0 | 3750.1 | 3867.9 | -117.8 | 4331.5 | 4349.5 | 4507.8 | -176.3 | -158.3 |
| 11. Kerala | 2244.6 | 2246.2 | -1.6 | 2399.5 | 2419.9 | -20.4 | 2501.1 | 2491.8 | +9.3 | 2734.7 | 2755.6 | 2788.5 | -53.8 | -32.9 |
| 12. Madhya Pradesh | 4088.3 | 3952.1 | +136.2 | 4433.9 | 4487.1 | -53.2 | 4327.1 | 4503.2 | -176.1 | 4838.2 | 4857.6 | 4868.3 | -30.1 | -10.7 |
| 13. Maharashtra | 7005.9 | 6894.2 | +111.7 | 7984.0 | 7945.2 | +38.8 | 8131.8 | 8270.2 | -138.4 | 8823.0 | 8924.7 | 8821.5 | +1.5 (-143.2) | +103.2 (-41.5) |
| 14. Manipur | 308.8 | 311.1 | -2.3 | 356.0 | 339.8 | +16.2 | 394.3 | 379.7 | +14.6 | 377.4 | 380.5 | 389.0 | -11.6 | -8.5 |
| 15. Meghalaya | 279.2 | 274.0 | +5.2 | 333.1 | 342.0 | -8.9 | 358.2 | 357.6 | +0.6 | 349.1 | 353.0 | 384.7 | -35.6 | -31.7 |
| 16. Mizoram | 201.1 | 292.0 | -90.9 | 277.6 | 300.3 | -22.7 | 342.3 | 318.4 | +23.9 | 313.1 | 316.3 | 302.3 | +10.8 | +14.0 |
| 17. Nagaland | 404.2 | 435.6 | -31.4 | 411.4 | 409.4 | +2.0 | 455.2 | 447.5 | +7.7 | 378.5 | 381.7 | 442.6 | -64.1 | -60.9 |

**Table VIII-16 Aggregate Receipts/Disbursements and Overall Surplus (+)/Deficit(-) of State Governments - State-wise Details** *(Concld.)*

(Rs. crores)

| States | 1987-88 (Accounts) | | | 1988-89 (Budget Estimates) | | | 1988-89 (Revised Estimates) | | | 1989-90 (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 and States' share in Central additional taxation | Aggregate Disbursements | Overall Surplus (+)/ Deficit | Overall Surplus (+)/ Deficit (-) adjusted by ARM and States' share in Central additional taxation |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| 18. Orissa | 2003.9 | 1988.5 | +15.4 | 2288.7 | 2287.6 | +1.1 | 2483.6 | 2351.0 | +132.6 | 2629.7 | 2646.8 | 2672.7 | -43.0 | -25.9 |
| 19. Punjab | 2643.0 | 2614.6 | +28.4 | 2829.6 | 2879.9 | -50.3 | 2895.1 | 2819.0 | +76.1 | 2850.7 | 3006.6 | 3000.7 | -150.0 | +5.9 |
| 20. Rajasthan | 3196.7 | 3376.2 | -179.5 | 3006.8 | 3138.5 | -131.7 | 3356.1 | 3384.7 | -28.6 | 3419.1 | 3438.0 | 3370.3 | +48.8 (-55.2) | +67.7 (-36.3) |
| 21. Sikkim | 128.6 | 134.3 | -5.7 | 149.2 | 152.9 | -3.7 | 166.7 | 169.8 | -3.1 | 155.7 | 156.3 | 169.9 | -14.2 | -13.6 |
| 22. Tamil Nadu | 4129.0 | 4193.0 | -64.0 | 4041.0 | 4164.0 | -123.0 | 4272.0 | 4421.5 | -149.5 | 4751.9 | 4828.6 | 4901.6 | -149.7 | -73.0 |
| 23. Tripura | 372.9 | 394.6 | -21.7 | 429.8 | 459.4 | -29.6 | 486.2 | 488.3 | -2.1 | 547.0 | 551.0 | 533.6 | +13.4 | +17.4 |
| 24. Uttar Pradesh | 6846.3 | 6727.1 | +119.2 | 7614.9 | 7544.4 | +70.5 | 7947.9 | 8067.9 | -120.0 | 10407.3 | 10473.0 | 10465.1 | -57.8 | +7.9 |
| 25. West Bengal | 3934.9 | 3960.8 | -25.9 | 4343.4 | 4122.2 | +221.2 | 4390.0 | 4380.2 | +9.8 | 5222.4 | 5328.6 | 4896.6 | +325.8 (-78.9) | +432.0 (+27.2) |
| **Total** | **60233.0** | **59998.6** | **+234.4** | **64491.1** | **65155.1** | **-664.0** | **67087.0** | **67949.1** | **-862.1** | **74379.1** | **75208.8** | **75715.9** | **-1336.8 (-1990.3)** | **-507.1 (-1160.6)** |

*Notes:* 1. Aggregate Disbursements include remittances (net).

2. Figures for individual States for 1988-89 (Budget Estimates) include the estimated net yield of Rs. 635.6 crores from additional resource mobilisation measures introduced through the State Budgets and States' share of Rs. 28.2 crores in Centre's additional taxation announced in the Central Budget for 1988-89.

3. Figures for individual States for 1989-90 (Budget Estimates) include the estimated net yield of Rs. 445.7 crores from additional resource mobilisation measures introduced through the State Budgets and States' share of Rs. 384.0 crores in the Centre's additional taxation announced in the Central Budget for 1989-90.

4. Figures for 1987-88 (Accounts) in respect of Nagaland relate to revised estimates.

5. Figures in brackets under col. 14 and 15 indicate position after adjusting the additional committed outlay of Rs. 144.7 crores, Rs. 104.0 crores and Rs. 404.8 crores for Maharashtra, Rajasthan and West Bengal respectively during 1989-90. Provisions for these expenditures, have not been made in the Annual Financial statement of these states.

## Table VIII-17:Transactions on Revenue Account, 1984-85 to 1989-90

(Rs. crores)

| States | 1984-85(Accounts) | | | 1985-86 (Accounts) | | | 1986-87 (Accounts)+ | | | 1987-88 (Accounts)+ | | | 1988-89 (Revised Estimates) | | | 1989-90 (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 (−) | Revenue Receipts | Revenue Expenditure | Overall Surplus (+)/ Deficit (−) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| 1. Andhra Pradesh | 2293.8 | 2462.8 | −169.0 | 2773.2 | 2780.5 | −7.3 | 3056.1 | 3244.5 | −188.4 | 3478.1 | 3440.9 | +37.2 | 4271.9 | 4343.6 | −71.7 | 4539.2 | 4658.0 | −118.8 |
| 2. Arunachal Pradesh | .. | .. | .. | .. | .. | .. | 211.6 | 172.9 | +38.7 | 296.4 | 245.7 | +50.7 | 306.8 | 214.3 | +92.5 | 331.7 | 230.4 | +101.3 |
| 3. Assam | 699.0 | 834.9 | 135.9 | 937.6 | 943.2 | −5.6 | 1210.0 | 1149.4 | +60.6 | 1241.1 | 1325.5 | −84.4 | 1335.9 | 1411.1 | −75.2 | 1559.1 | 1779.2 | −220.1 |
| 4. Bihar | 1793.9 | 1687.2 | +106.7 | 2395.7 | 2098.1 | +297.6 | 2622.7 | 2277.2 | +345.5 | 2968.7 | 2932.6 | +36.1 | 3443.7 | 3180.7 | +263.0 | 3778.9 | 3757.5 | +21.4 |
| 5. Goa | .. | .. | .. | .. | .. | .. | 170.9 | 172.0 | −1.1 | 161.0 | 168.5 | −7.5 | 201.0 | 231.6 | −30.6 | 213.6 | 237.7 | −24.1 |
| 6. Gujarat | 1769.5 | 1701.2 | +68.3 | 1902.5 | 1972.4 | −69.9 | 2159.7 | 2469.2 | −309.5 | 2806.5 | 3093.1 | −286.6 | 3086.2 | 3374.1 | −287.9 | 3271.0 | 3499.7 | −228.7 |
| 7. Haryana | 790.5 | 760.9 | +29.6 | 960.3 | 854.2 | +106.1 | 1130.2 | 967.4 | +162.8 | 1303.9 | 1287.5 | +16.4 | 1458.9 | 1512.8 | −53.9 | 1670.0 | 1623.3 | +46.7 |
| 8. Himachal Pradesh | 381.7 | 344.2 | +37.5 | 519.2 | 411.4 | +107.8 | 533.8 | 464.1 | +69.7 | 649.8 | 608.8 | +41.0 | 790.4 | 739.0 | +51.4 | 823.4 | 757.2 | +66.2 |
| 9. Jammu and Kashmir+ | 438.4 | 509.3 | −70.9 | 601.9 | 595.4 | +6.5 | 694.7 | 653.4 | +41.3 | 754.0 | 860.7 | −106.7 | 901.8 | 965.7 | −63.9 | 995.1 | 977.0 | +18.1 |
| 10. Karnataka | 1739.9 | 1883.5 | −143.6 | 2013.1 | 2097.9 | −84.8 | 2284.1 | 2204.7 | +79.4 | 2556.9 | 2666.8 | −109.9 | 3000.8 | 3029.9 | −29.1 | 3447.3 | 3551.4 | −104.1 |
| 11. Kerala | 1125.0 | 1138.7 | −13.7 | 1371.2 | 1445.3 | −74.1 | 1502.5 | 1654.8 | −152.3 | 1586.1 | 1780.7 | −194.6 | 1887.5 | 2028.2 | −140.7 | 2097.6 | 2265.5 | −167.9 |
| 12. Madhya Pradesh | 1812.9 | 1733.8 | +79.1 | 2173.5 | 2103.1 | +70.4 | 2567.4 | 2531.7 | +35.7 | 2994.2 | 3053.1 | −58.9 | 3474.4 | 3503.4 | −29.0 | 3737.9 | 3678.8 | +59.1 |
| 13. Maharashtra | 3667.8 | 3879.8 | −212.0 | 4174.2 | 4490.8 | −316.6 | 4978.2 | 4978.8 | −0.6 | 5578.2 | 5504.4 | +73.8 | 6124.4 | 6626.4 | −502.0 | 6988.6 | 7079.7 | −91.1 |
| 14. Manipur | 171.4 | 133.8 | +37.6 | 226.3 | 155.8 | +70.5 | 248.3 | 198.1 | +50.2 | 287.0 | 214.6 | +72.4 | 343.3 | 278.3 | +65.0 | 343.5 | 261.8 | +81.7 |
| 15. Meghalaya | 148.0 | 116.8 | +31.2 | 183.0 | 135.0 | +48.0 | 214.7 | 156.4 | +58.3 | 256.4 | 189.6 | +66.8 | 304.6 | 248.5 | +56.1 | 316.6 | 277.1 | +39.5 |
| 16. Mizoram | .. | .. | .. | 129.9 | 131.5 | −1.6 | 67.9 | 46.3 | +21.6 | 193.8 | 246.1 | −52.3 | 298.3 | 250.4 | +47.9 | 270.5 | 233.6 | +36.9 |
| 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 | 395.1 | 342.5 | +52.6 | 331.7 | 344.4 | −12.7 |
| 18. Orissa | 822.8 | 896.9 | −74.1 | 940.8 | 1000.9 | −60.1 | 1228.2 | 1248.0 | −19.8 | 1333.1 | 1407.6 | −74.5 | 1763.5 | 1693.4 | +70.1 | 1841.4 | 2003.3 | −161.9 |
| 19. Punjab | 932.0 | 941.3 | −9.3 | 1170.2 | 1162.8 | +7.4 | 1292.5 | 1202.1 | +90.4 | 1404.5 | 1633.5 | −229.0 | 1714.0 | 1990.6 | −276.6 | 1986.7 | 2041.6 | −54.9 |
| 20. Rajasthan | 1227.2 | 1303.1 | −75.9 | 1505.7 | 1507.9 | −2.2 | 1806.5 | 1866.7 | −60.2 | 2183.1 | 2539.2 | −356.1 | 2340.2 | 2590.6 | −250.4 | 2542.7 | 2599.6 | −56.9 |
| 21. Sikkim | 77.3 | 58.6 | +18.7 | 91.6 | 77.6 | +14.0 | 113.4 | 81.3 | +32.1 | 126.4 | 98.5 | +27.9 | 146.9 | 117.0 | +29.9 | 139.4 | 114.4 | +25.0 |
| 22. Tamil Nadu | 2227.5 | 2210.3 | +17.2 | 2638.3 | 2449.7 | +188.6 | 2879.3 | 2775.7 | +103.6 | 3091.9 | 3374.8 | −282.9 | 3341.5 | 3650.5 | −309.0 | 3922.4 | 4134.2 | −211.8 |
| 23. Tripura | 182.7 | 146.2 | +36.5 | 231.3 | 189.9 | +41.4 | 274.5 | 232.0 | +42.5 | 314.2 | 294.3 | +19.9 | 382.8 | 384.5 | −1.7 | 435.4 | 424.4 | +11.0 |
| 24. Uttar Pradesh | 3144.9 | 3292.2 | −147.3 | 3876.8 | 3702.3 | +174.5 | 4171.6 | 4349.2 | −177.6 | 5331.9 | 5079.9 | +252.0 | 5475.5 | 5930.7 | −455.2 | 6225.7 | 8641.9 | −2416.2 |
| 25. West Bengal | 1778.6 | 2150.5 | −371.9 | 2343.2 | 2260.3 | +82.9 | 2510.2 | 2697.5 | −187.3 | 2912.2 | 3027.5 | −115.3 | 3306.9 | 3527.6 | −220.7 | 3840.3 | 3932.4 | −92.1 |
| **Total** | **27425.5** | **28349.0** | **−923.5** | **33424.1** | **32769.7** | **+654.4** | **38226.3** | **38056.6** | **+169.7** | **44160.3** | **45402.2** | **−1241.9** | **50096.3** | **52165.4** | **−2069.1** | **55649.7** | **59104.1** | **−3454.4** |

* Includes proposed ARM of States and States' share in Centre's additional taxation during 1989-90.

+Figures for Jammu and Kashmir and Nagaland relate to revised estimates for 1986-87 (Accounts) and figures for Nagaland relate to revised estimates for 1987-88 (Accounts).

tional taxation in 1989-90, would amount to Rs. 75,208.8 crores which would be 12.1 per cent more than the last year's level of Rs. 67,087.0 crores. Revenue receipts, at 1988-89 rates of taxation, are anticipated to rise from Rs. 50,096.3 crores in 1988-89 to Rs. 54,820.0 crores in 1989-90, recording a rise of 9.4 per cent. Taking into account the impact of ARM measures and States' share in Centre's additional taxation, the revenue receipts would increase to Rs. 55,649.7 crores or by 11.1 per cent over 1988-89. Last year, revenue receipts had recorded a rise of 13.4 per cent over 1987-88. Capital receipts placed at Rs. 19,559.1 crores in 1989-90 would show a sharp rise of 15.1 per cent as against a rise of 5.7 per cent in 1988-89. While the share of revenue receipts in aggregate receipts would decline from 74.7 per cent in 1988-89 to 74.0 per cent in 1989-90, there would be a rise in that of capital receipts from 25.3 per cent in 1988-89 to 26.0 per cent in 1989-90.

## Revenue Receipts

Under revenue receipts, tax receipts including ARM and States' share in Centre's additional taxation are estimated at Rs. 37,316.6 crores, showing a rise of Rs.4,584.9crores (14.0 per cent) in 1989-90 as compared with a rise of 12.9 per cent in 1988-89 over the preceding year. The increase is attributable to a rise in both States' own tax receipts (+ Rs. 3,093.8 crores) and States' share in Central taxes (+ Rs. 1,491.1 crores). States' own tax receipts, inclusive of ARM, would rise from Rs. 22,026.4 crores in 1988-89 to Rs. 25,120.2 crores in 1989-90, registering an increase of 14.0 per cent against an increase of 14.3 per cent in 1988-89. The States' share in Central taxes (including States' share in Centre's new tax proposals for 1989-90) is estimated to rise by 13.9 per cent to Rs. 12,194.4 crores form the previous year's level of Rs. 10,705.3 crores. In 1988-89, there was a rise of 10.1 per cent in these receipts and States' share in Central taxes in total tax receipts would, however, remain unchaged at last year's levels of 67.3 per cent and 32.7 per cent, respectively. The share of various State taxes in States' own tax receipts is indicated in Table VIII-18.

Non-tax receipts at Rs. 18,333.1 crores in 1989-90 are anticipated to rise by 5.6 per cent over that of Rs. 17,364.6 crores in 1988-89. In 1988-89, these receipts had recorded a rise of 14.5 per cent over 1987-88. Grants from the Centre at Rs. 10,284.7 crores are expected to show a rise of 3.2 per cent as compared with 19.0 per cent in 1988-89. Other non-tax receipts are palced at Rs. 8,048.4 crores, i.e., higher by 8.8 per cent as against a rise of 9.0 per cent last year.

**Table VIII-18: States' Own Tax Receipts**

(Rs. crores)

| Taxes | 1988-89 (Revised Estimates) | | 1989-90 (Budget Estimates) | |
|---|---|---|---|---|
| | Amount | Increase/Decrease over 87-88 (%) | Amount | Increase/Decrease over 88-89 (%) |
| 1 | 2 | 3 | 4 | 5 |
| 1. Sales Tax | 12925.6 | +15.6 | 14545.6 | +12.5 |
| 2. State Excise Duties | 3030.1 | +5.8 | 3510.0 | +15.8 |
| 3. Land Revenue | 539.3 | +20.7 | 631.8 | +17.2 |
| 4. Taxes on Vehicles | 1364.5 | +21.3 | 1467.1 | +7.5 |
| 5. Taxes on Passengers and Goods | 843.9 | +17.0 | 957.5 | +13.5 |
| 6. Taxes and Duties on Electricity | 965.1 | +19.6 | 1108.1 | +14.8 |
| 7. Stamps and Registration fees | 1394.5 | +11.1 | 1550.4 | +11.2 |
| 8. Agricultural Income Tax | 77.8 | +24.3 | 82.4 | +5.9 |
| 9. Entertainment tax | 449.2 | +17.5 | 473.2 | +5.3 |
| 10. Others* | 436.4 | +3.3 | 794.1 | +82.0 |
| **Total** | **22026.4** | **+14.3** | **25120.2** | **+14.0** |

* Includes taxes on Professions, Trades, Callings and Employment,Urban immovable property tax and other taxes.

## Capital Receipts

Total capital receipts of States are anticipated to rise from Rs. 16,990.7 crores in 1988-89 to Rs.19,559.1crores in1989-90 thereby showing an increase of 15.1 per cent as compared with 5.7 per cent in 1988-89. States' own capital receipts in 1989-90 at Rs. 8,709.9 crores would rise by Rs. 1,757.7 crores (25.3 per cent) as against an increase of only 2.5 per cent in 1988-89 and would account for 44.5 per cent of the total capital receipts in 1989-90 as against 40.9 per cent in 1988-89. The sharp rise in States' own capital receipts is largely due to a large increase under deposits and advances which are budgeted to rise to Rs. 1,678.0 crores in 1989-90 from Rs. 364.2 crores in 1988-89. States' market borrowings (gross) would rise by Rs 368.8 crores (17.6 per cent) to Rs. 2,468.6 crores in 1989-90. In 1988-89 they recoreded a rise of 16.7 per cent. Net market borrowings, i.e., after providing for repayments estimated at Rs. 315.8 crores, are budgeted to rise to Rs. 2,152.8 crores (19.1 per cent) in 1989-90 as against Rs. 1,806.9 crores (17.6 per cent) in 1988-89. Recovery of loans and advances by States, which had risen substantially by 32.6 per cent in 1988-89, is estimated to decline to Rs. 986.1 crores in 1989-90 from Rs. 1,363.7 crores in 1988-89 or by Rs. 377.6 crores (−27.7 per cent). Loans from the Centre budgeted at Rs. 10,849.3 crores in 1989-90 would show a rise of 8.1 per cent over the level of Rs. 10,038.4 crores in 1988-89 when they had risen by 8.0 per cent. After providing for the repayment of loan instalments, loans from the Centre (net) at Rs.7,395.6 crores in 1989-90 would show a rise of only 9.7 per cent over 1988-89 against a rise of 14.2 percent in1988-89 over1987-88.The share of loans from the Centre (gross) in total capital receipts would decline from 59.1 per cent in 1988-89 to 55.5 per cent in 1989-90 (Table VIII-19).

## Disbursements

Aggregate disbursements in 1989-90 estimated at Rs. 75,715.9 crores would show a rise of 11.4 per cent over the level of Rs. 67,949.1 crores in the previous year. In 1988-89, aggregate disbursements recorded a rise of 13.3 per cent over 1987-88. Revenue expenditure at Rs. 59,104.1 crores in 1989-90 is anticipated to rise by 13.3 per cent as compared with a rise of 14.9 per cent in 1988-89. Capital disbursements, on the other hand, are estimated to rise from Rs. 15,783.7 crores in 1988-89 to Rs. 16,611.8 crores in 1989-90, registering a rise of 5.2 per cent as against 8.1 per cent recorded in 1988-89. States' developmental expenditure would rise by 4.5 per cent to Rs. 49,473.5 crores in 1989-90 from Rs. 47,342.8 crores in 1988-89. In the previous year, the rate of increase in developmental expenditure was 12.3 per cent over 1987-88. Non-developmental expenditure of States would, however, show a steep rise of 32.7 per cent to Rs. 21,787.4 crores in 1989-90 as compared with Rs. 16,422.7 crores (+19.4 per cent) in 1988-89. Under non-developmental expenditure, four major items of expenditure,viz.,expenditure on administrative services, interest payments and pensions and miscellaneous general services would alone account for Rs. 4,971.5 crores or 92.7 per cent of the total rise in non-developmental expenditure. Expenditure on administrative services alone would rise by Rs. 2,925.6 crores (59.0 per cent) to Rs. 7,887.6 crores in 1989-90 from Rs. 4,962.0 crores in 1988-89.

As a result of the sharp rise in non-developmental expenditure, its share in aggregate disbursements would rise from 24.2 per cent in 1988-89 to 28.8 per cent in 1989-90. Correspondingly, the share of developmental expenditure would come down to 65.3 per cent in 1989-90 from 69.7 per cent in 1988-89. Under developmental expenditure, expenditure on social services and economic services would be Rs. 23,495.8 crores and Rs. 25,977.7 crores, respectively, in 1989-90, showing a rise 5.2 per cent and 3.9 per cent, respectively. In 1988-89, expenditure on social services had recorded a rise of 13.7 per cent and that on economic services by 11.2 per cent. Among other omponents of aggregate disburements, repayment of loans to the Centre which recorded a decline of 2.7 per cent of Rs. 3,453.7 crores in 1989-90; discharge of internal debt is anticipated to rise from Rs. 432.5 crores in 1988-89 to Rs. 457.4 crores in1989-90. The State-wise details ofpattern of aggregate disbursements are indicated inTable VIII-20. Developmental and non-developments expednditures which rose by 16.1 per cent and 19.2 per cent in the Sixth Plan period would show increases of 12.2 per cent and 21.3 per cent, respectively, in the Seventh Plan period. Developmental expenditure would form 69.0 per cent of the aggregate disbursements in the Seventh Plan as against 70.6 per cent in the Sixth Plan.

Net transfer of resources from the Centre to States by way of share in Central taxes, grants and loans (net of repayment of loans and interest) at Rs. 25,655.3 crores in 1989-90 would show an increase of 7.9 per cent as compared with an increase of 11.6

## Table VIII-19:Capital Transactions of States

(Rs. crores)

| States | 1984-85(Accounts) | | | 1985-86 (Accounts) | | | 1986-87 (Accounts)* | | | 1987-88 (Accounts)* | | | 1988-89 (Revised Estimates) | | | 1989-90 (Budget Estimates) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Receipts | Capital Disburse-ments | Overall Surplus (+)/ Deficit (−) | Capital Receipts | Capital Disburse-ments | Overall Surplus (+)/ Deficit (−) | Capital Receipts | Capital Disburse-ments | Overall Surplus (+)/ Deficit (−) | Capital Receipts | Capital Disburse-ments | Overall Surplus (+)/ Deficit (−) | Capital Receipts | Capital Disburse-ments | Overall Surplus (+)/ Deficit (−) | Capital Receipts | Capital Disburse-ments | Overall Surplus (+)/ Deficit (−) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| 1. Andhra Pradesh | 672.0 | 660.5 | +11.5 | 763.1 | 623.5 | +139.6 | 907.0 | 825.1 | +81.9 | 923.4 | 858.8 | +64.6 | 897.9 | 1011.3 | −113.4 | 985.9 | 1024.1 | −38.2 |
| 2. Arunachal Pradesh | — | — | — | — | — | — | 8.6 | 54.0 | −45.4 | −1.4 | 91.7 | −93.1 | 36.0 | 113.7 | −77.7 | 40.4 | 130.5 | −90.1 |
| 3. Assam | 322.9 | 300.0 | +22.9 | 344.1 | 283.8 | +60.3 | 364.3 | 487.5 | −123.2 | 525.1 | 458.4 | +66.7 | 608.9 | 577.0 | +31.9 | 676.2 | 612.9 | +63.3 |
| 4. Bihar | 739.8 | 750.1 | −10.3 | 939.3 | 889.0 | +50.3 | 816.2 | 1135.2 | −319.0 | 1503.5 | 1328.9 | +174.6 | 1008.9 | 1346.5 | −337.6 | 1321.3 | 1444.1 | −122.8 |
| 5. Goa | — | — | — | — | — | — | 87.3 | 82.1 | +5.2 | 181.6 | 71.8 | +109.8 | 97.3 | 114.4 | −17.1 | 113.8 | 129.7 | −15.9 |
| 6. Gujarat | 612.4 | 749.9 | −137.5 | 712.1 | 671.7 | +40.4 | 1230.4 | 815.9 | +414.5 | 1157.0 | 993.7 | +163.3 | 1182.3 | 992.5 | +189.8 | 1121.1 | 1088.6 | +32.5 |
| 7. Haryana | 251.9 | 366.2 | −114.3 | 361.0 | 430.7 | −69.7 | 388.1 | 554.4 | −166.3 | 354.4 | 376.9 | −22.5 | 488.7 | 447.1 | +41.6 | 418.6 | 477.2 | −58.6 |
| 8. Himachal Pradesh | 80.7 | 130.7 | −50.0 | 124.0 | 181.9 | −57.9 | 96.9 | 181.7 | −84.8 | 172.5 | 198.8 | −26.3 | 210.2 | 216.4 | −6.2 | 161.5 | 220.9 | −59.4 |
| 9. Jammu and Kashmir | 272.8 | 255.6 | +17.2 | 328.6 | 306.2 | +22.4 | 307.5 | 347.9 | −40.4 | 448.5 | 387.3 | +61.2 | 502.6 | 438.7 | +63.9 | 440.1 | 552.6 | −112.5 |
| 10. Karnataka | 693.7 | 730.9 | −37.2 | 967.5 | 801.3 | +166.2 | 657.8 | 853.6 | −195.8 | 964.7 | 808.0 | +156.7 | 749.3 | 838.0 | −88.7 | 902.3 | 956.5 | −54.2 |
| 11. Kerala | 369.6 | 480.0 | −110.4 | 718.1 | 514.0 | +204.1 | 488.1 | 528.8 | −40.7 | 658.5 | 465.5 | +193.0 | 613.6 | 463.6 | +150.0 | 658.0 | 523.0 | +135.0 |
| 12. Madhya Pradesh | 630.6 | 819.7 | −189.1 | 927.3 | 865.7 | +61.6 | 777.6 | 869.8 | −92.2 | 1094.1 | 899.0 | +195.1 | 852.7 | 999.8 | −147.1 | 1119.7 | 1189.5 | −69.8 |
| 13. Maharashtra | 1335.3 | 1152.6 | +182.7 | 1582.1 | 1264.2 | +317.9 | 1513.8 | 1473.3 | +40.5 | 1427.7 | 1389.8 | +37.9 | 2007.4 | 1643.8 | +363.6 | 1936.0 | 1741.7 | +194.3 |
| 14. Manipur | 53.5 | 91.7 | −38.2 | 59.6 | 92.3 | −32.7 | 35.7 | 97.8 | −62.1 | 21.8 | 96.5 | −74.7 | 51.0 | 101.4 | −50.4 | 37.0 | 127.2 | −90.2 |
| 15. Meghalaya | 28.7 | 50.8 | −22.1 | 14.4 | 47.3 | −32.9 | 23.4 | 82.3 | −58.9 | 22.8 | 84.4 | −61.6 | 53.6 | 109.1 | −55.5 | 36.5 | 107.7 | −71.2 |
| 16. Mizoram | — | — | — | 34.2 | 45.9 | −11.7 | 1.2 | 3.6 | −2.4 | 7.3 | 45.9 | −38.6 | 44.0 | 68.0 | −24.0 | 45.8 | 68.7 | −22.9 |
| 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 | 60.1 | 105.0 | −44.9 | 50.0 | 98.2 | −48.2 |
| 18. Orissa | 312.7 | 375.0 | −62.3 | 532.8 | 425.8 | +107.0 | 391.8 | 483.3 | −91.5 | 670.8 | 580.9 | +89.9 | 720.1 | 657.6 | +62.5 | 805.4 | 669.4 | +136.0 |
| 19. Punjab | 767.6 | 781.5 | −13.9 | 856.0 | 773.8 | +82.2 | 497.0 | 620.7 | −123.7 | 1238.4 | 981.0 | +257.4 | 1181.1 | 828.4 | +352.7 | 1019.9 | 959.1 | +60.8 |
| 20. Rajasthan | 586.5 | 524.3 | +62.2 | 680.1 | 651.7 | +28.4 | 735.6 | 698.4 | +37.2 | 1013.6 | 837.0 | +176.6 | 1015.9 | 794.1 | +221.8 | 895.3 | 770.7 | +124.6 |
| 21. Sikkim | 5.8 | 23.3 | −17.5 | 30.3 | 43.7 | −13.4 | 10.8 | 38.2 | −27.4 | 2.2 | 35.8 | −33.6 | 19.8 | 52.8 | −33.0 | 16.9 | 55.5 | −38.6 |
| 22. Tamil Nadu | 681.8 | 734.7 | −52.9 | 759.4 | 854.7 | −95.3 | 725.6 | 834.7 | −109.1 | 1037.1 | 818.2 | +218.9 | 930.5 | 771.0 | +159.5 | 906.2 | 767.4 | +138.8 |
| 23. Tripura | 53.4 | 64.2 | −10.8 | 53.6 | 76.3 | −22.7 | 40.1 | 76.5 | −36.4 | 58.7 | 100.3 | −41.6 | 103.4 | 103.8 | −0.4 | 115.6 | 109.2 | +6.4 |
| 24. Uttar Pradesh | 1512.1 | 1729.1 | −217.0 | 1525.3 | 1458.8 | +66.5 | 2204.2 | 2141.0 | +63.2 | 1514.3 | 1647.1 | −132.8 | 2472.3 | 2137.1 | +335.2 | 4247.3 | 1823.2 | +2424.1 |
| 25. West Bengal | 880.4 | 587.4 | +293.0 | 777.2 | 728.3 | +48.9 | 918.3 | 824.9 | +93.4 | 1022.8 | 933.4 | +89.4 | 1083.1 | 852.6 | +230.5 | 1488.3 | 964.2 | +524.1 |
| **Total** | **10882.4** | **11396.7** | **−514.3** | **13133.1** | **12099.2** | **+1033.9** | **13283.6** | **14191.8** | **−908.2** | **16072.7** | **14596.4** | **+1476.3** | **16990.7** | **15783.7** | **+1207.0** | **19559.1** | **16611.8** | **+2947.3** |

*Note:* Capital Disbursements include remittances (net).

* Figures for Jammu and Kashmir and Nagaland relate to revised estimates for 1986-87 (Accounts) and figures for Nagaland relate to revised estimates for 1987-88 (Accounts).

**Table VIII-20:Pattern of Aggregate Disbursements (Contd.)**

(Rs. crores)

| States | Developmental Expenditure | | | Social Services | | | Economic Services | | | Non-Developmental Expenditure | | | Others | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1987-88 (Accounts) | 1988-89 (Revised Esti-mates) | 1989-90 (Budget Esti-mates) | 1987-88 (Accounts) | 1988-89 (Revised Esti-mates) | 1989-90 (Budget Esti-mates) | 1987-88 (Accounts) | 1988-89 (Revised Esti-mates) | 1989-90 (Budget Esti-mates) | 1987-88 (Accounts) | 1988-89 (Revised Esti-mates) | 1989-90 (Budget Esti-mates) | 1987-88 (Accounts) | 1988-89 (Revised Esti-mates) | 1989-90 (Budget Esti-mates) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 1. Andhra Pradesh | 3161.4 | 4011.8 | 4127.8 | 1570.4 | 1774.9 | 2001.4 | 1591.0 | 2236.9 | 2126.4 | 878.1 | 1053.5 | 1246.5 | 260.2 | 289.5 | 307.9 |
| | (73.5) | (74.9) | (72.7) | | | | | | | (20.4) | (19.7) | (21.9) | (6.1) | (5.4) | (5.4) |
| 2. Arunachal Pradesh | 223.6 | 245.1 | 253.2 | 87.9 | 95.1 | 91.3 | 135.7 | 150.0 | 161.9 | 109.6 | 62.5 | 86.5 | 4.2 | 20.3 | 21.2 |
| | (66.3) | (74.7) | (70.1) | | | | | | | (32.5) | (19.1) | (24.0) | (1.2) | (6.2) | (5.9) |
| 3. Assam | 1251.5 | 1298.9 | 1414.9 | 623.9 | 631.4 | 663.9 | 627.6 | 667.5 | 751.0 | 408.7 | 465.0 | 722.5 | 123.7 | 224.2 | 254.7 |
| | (70.2) | (65.3) | (59.1) | | | | | | | (22.9) | (23.4) | (30.2) | (6.9) | (11.3) | (10.7) |
| 4. Bihar | 2780.6 | 3007.5 | 3480.9 | 1357.2 | 1322.7 | 1495.4 | 1423.4 | 1684.8 | 1985.5 | 974.6 | 1225.8 | 1405.7 | 506.3 | 293.9 | 315.0 |
| | (65.2) | (66.4) | (66.9) | | | | | | | (22.9) | (27.1) | (27.0) | (11.9) | (6.5) | (6.1) |
| 5. Goa | 169.2 | 232.9 | 249.9 | 84.6 | 116.8 | 115.7 | 84.6 | 116.1 | 134.2 | 64.8 | 77.0 | 76.8 | 6.3 | 36.1 | 40.7 |
| | (70.4) | (67.3) | (68.0) | | | | | | | (27.0) | (22.3) | (20.9) | (2.6) | (10.4) | (11.1) |
| 6. Gujarat | 3141.2 | 3226.7 | 3213.6 | 1351.2 | 1443.3 | 1465.2 | 1790.0 | 1783.4 | 1748.4 | 726.6 | 893.2 | 1114.0 | 218.9 | 246.8 | 260.7 |
| | (76.9) | (73.9) | (70.0) | | | | | | | (17.8) | (20.5) | (24.3) | (5.3) | (5.6) | (5.7) |
| 7. Haryana | 1179.2 | 1374.0 | 1514.6 | 474.5 | 581.8 | 609.2 | 704.7 | 792.2 | 905.4 | 366.7 | 458.7 | 476.9 | 118.5 | 127.2 | 109.0 |
| | (70.9) | (70.1) | (72.1) | | | | | | | (22.0) | (23.4) | (22.7) | (7.1) | (6.5) | (5.2) |
| 8. Himachal Pradesh | 614.1 | 715.5 | 698.6 | 283.2 | 365.1 | 311.8 | 330.9 | 350.4 | 386.8 | 167.8 | 210.1 | 248.4 | 25.7 | 29.8 | 31.1 |
| | (76.0) | (74.9) | (71.4) | | | | | | | (20.8) | (22.0) | (25.4) | (3.2) | (3.1) | (3.2) |
| 9. Jammu and Kashmir | 904.1 | 951.7 | 998.6 | 344.0 | 425.1 | 406.4 | 560.1 | 526.6 | 592.2 | 272.2 | 369.2 | 388.6 | 71.7 | 83.5 | 142.4 |
| | (72.4) | (67.8) | (65.3) | | | | | | | (21.8) | (26.3) | (25.4) | (5.8) | (5.9) | (9.3) |
| 10. Karnataka | 2434.1 | 2668.6 | 3111.7 | 1190.0 | 1340.5 | 1509.3 | 1244.1 | 1328.1 | 1602.4 | 747.0 | 911.9 | 1082.6 | 293.7 | 287.4 | 313.5 |
| | (70.0) | (69.0) | (69.0) | | | | | | | (21.5) | (23.6) | (24.0) | (8.5) | (7.4) | (7.0) |
| 11. Kerala | 1417.9 | 1544.8 | 1756.7 | 895.4 | 1002.1 | 1063.0 | 522.5 | 542.7 | 693.7 | 632.9 | 732.6 | 808.6 | 195.4 | 214.4 | 223.2 |
| | (63.1) | (62.0) | (63.0) | | | | | | | (28.2) | (29.4) | (29.0) | (8.7) | (8.6) | (8.0) |

are charged at a rate between Class 80 Special and Class 150 are raised by two steps except in the case of foodgrains, pulses and fertilisers where it is raised by one step only. There is no change in the classification of these commodities when moving as 'smalls'.

(iii) The rates for parcels and luggage traffic are increased by 11.0 per cent to yield an additional revenue of Rs. 15.0 crores.

**(B) Passenger Fares: Tariff Proposals**

The Budget did not propose any change in the passenger fares. However, some concessions were announced. These are:

1) The continuation of concessions being enjoyed for the last two years, by the deaf and dumb, kisans, teachers, children, sportspersons and the widows of policemen and IPKF personnel killed in action.

2) Due to the observance of the Nehru Centenary Year, the following concessions for travel in Second Class have been granted.

a) 50 per cent concession to all recipients of the Dronacharya Award.

b) 50 per cent concession to all recipients of the Vir Chakra and Ashok Chakra series gallantry awards and to the widows of posthumous awardees.

c) 50 per cent concession to all recipients of the President's Police Medal and the Indian Police Medal for gallantry, and

d) 25 per cent concession for every person of the age of 65 years and above for travel beyond 500 kms.

## IV. FINANCES OF DEPARTMENT OF POSTS AND DEPARTMENT OF TELECOMMUNICATIONS

The reviews of Finances of Department of Posts (DP) and Department of Telecommunications (DT) during 1988-89 and 1989-90 are presented in the following paragraphs.

### A. Department of Posts (DP)—Revised Estimates 1988-89

**Financial working of DP in 1988-89**

According to the revised estimates for 1988-89, the deficit in the operations of postal services was placed at Rs. 88.9 crores, the same as anticipated in the budget estimates.

The revenue receipts during 1988-89 at Rs. 774.2 crores remained at the budgeted level but were higher by Rs. 131.2 crores (20.4 per cent) over those in 1987-88. Total working expenses were placed at Rs. 1,091.2 crores in 1988-89—the same as the budgeted level but were higher by Rs. 59.6 crores (5.8 per cent) over the level of 1987-88. Under working expenses, operational expenses increased from Rs. 754.3 crores to Rs. 767.2 crores showing a rise of Rs. 12.9 crores (1.7 per cent) and its share in working expenses came down to 70.3 per cent in 1988-89 from 73.1 per cent in 1987-88. The other items of expenditure which showed sizable increases were Stationary and Printing—Rs. 21.9 crores (72.0 per cent) and General Administration—Rs. 5.5 crores (8.0 per cent).

After taking into account credit to working expenses of Rs. 228.1 crores, net working expenses during 1988-89 were placed at Rs. 863.1 crores as compared with Rs. 833.8 crores in 1987-88 (Table VIII-27). In the absence of surplus, the Department of Posts was neither able to pay dividend to General Revenues nor any contribution towards capital expenditure.

**Capital outlay of DP in 1988-89**

According to the revised estimates for 1988-89 capital outlay of DP at Rs. 37.7 crores was lower by Rs. 9.2 crores (19.6 per cent) than the budget estimates.

However, as compared with the previous year (i.e. 1987-88) it was higher by Rs. 7.2 crores (23.6 per cent). Of the total capital outlay of Rs. 37.7 crores during 1988-89 (RE), Plan expenditure was Rs. 34.7 crores and the balance of Rs. 3.0 crores was on account of non-Plan capital outlay. The capital outlay was financed to the extent of Rs. 32.8 crores or 87.0 per cent from capital advanced from the General Revenues and the balance of Rs. 4.9 crores or 13.0 per cent was from Depreciation on Historical Costs transferred from Revenue (Table VIII-28).

**Table VIII-27: Financial Working of Department of Posts***

(Rs. crores)

| Items | 1986-87 (Actuals) | 1987-88 (Actuals) | 1988-89 (Budget Estimates) | 1988-89 (Revised Estimates) | 1989-90 (Budget Estimates) |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| **1. Revenue Receipts** | **557.5** | **643.0** | **774.2@** | **774.2** | **800.0** |
| **2. Working Expenses** | **903.2** | **1031.6** | **1091.2** | **1091.2** | **1229.8** |
| *Of which:* | | | | | |
| i) Operation | 664.2 | 754.3 | 773.8 | 767.2 | 877.1 |
| ii) Agency Services | 27.6 | 32.8 | 34.1 | 35.9 | 39.5 |
| iii) General Administration | 60.3 | 68.7 | 72.9 | 74.2 | 80.3 |
| iv) Engineering | 12.2 | 13.0 | 16.4 | 16.1 | 17.4 |
| v) Pension | 62.0 | 96.3 | 100.3 | 100.3 | 115.5 |
| vi) Accounts and Audit | 19.6 | 23.1 | 27.8 | 27.7 | 32.0 |
| vii) Stationery & Printing | 44.4 | 30.4 | 51.0 | 52.3 | 50.0 |
| viii) Depreciation | 3.8 | 4.3 | 4.9 | 4.9 | 5.2 |
| ix) Others | 9.1 | 8.7 | 10.0 | 12.5 | 12.8 |
| 3. Credit to Working Expenses | 129.3 | 197.8 | 228.1 | 228.1 | 239.0 |
| 4. Net Working Expenses (2-3) | 773.9 | 833.8 | 863.1 | 863.1 | 990.8 |
| 5. Net Receipts (1-4) | −216.4 | −190.8 | −88.9 | −88.9 | −190.8 |
| 6. Dividend to General Revenues | — | — | — | — | — |
| **7. Surplus (+)/Deficit (−) before making contribution towards Capital Expenditure (5−6)** | **−216.4** | **−190.8** | **−88.9** | **−88.9** | **−190.8** |
| 8. Contribution towards Capital Expenditure | — | — | — | — | — |
| **9. Surplus (+)/Deficit (−) after making contributions towards Captial Expenditure (7−8)** | **−216.4** | **−190.8** | **−88.9** | **−88.9** | **−190.8** |
| 10. Appropriations to (+)/Withdrawals from (−)£ | — | — | — | — | — |
| a) Revenue Reserve Fund | — | — | — | — | — |
| b) Capital Reserve Fund | — | — | — | — | — |

*Note* : (i) The deficit in the working result of Department of Posts is borne by General Revenues of the Central Government from the year 1986-87.

(ii) The surplus transferred to P & T Revenue Reserve Fund and Capital Reserve Fund and withdrawals from Capital Reserve Fund from 1986-87 entirely relates.

@ Inclusive of yield of Rs. 49.2 crores from additional revenue mobilisation measures during 1988-89.

* The erstwhile combined Posts and Telegraphs Department was bifurcated into Department of Posts and Department of Telecommunications with effect from 31.12.84.

£ Consequent on the constitution of two distinct departments, viz., Department of Posts and Department of Telecommunications.

*Source*: Government of India, Detailed Demand for Grants of Department of Posts 1989-90.

## Budget Estimates—1989-90

### Financial working of DP 1989-90

The budget estimates for 1989-90 envisages a deficit of Rs. 190.8 crores as compared with a deficit of Rs. 88.9 crores in 1988-89.

The total revenue receipts of DP are placed at Rs. 800.0 crores showing an increase of Rs. 25.8 crores (3.3 per cent) over those of 1988-89. The total working expenses are expected to reach the level of Rs. 1,229.8 crores in 1989-90 recording an increase of Rs. 138.6 crores (12.7 per cent). Net working expenses (after providing for credits to working expenses) at Rs. 990.8 crores are higher by Rs. 127.7 crores (14.8 per cent) over those of 1988-89.

Under working expenses, operational expenses are anticipated to rise to the level of Rs. 877.1 crores from Rs. 767.2 crores in 1988-89, representing a

**Table VIII-28: Capital Outlay of Department of Posts ***

(Rs. crores)

| Items | 1986-87 (Actuals) | | | 1987-88 (Actuals) | | | 1988-89 (Budget Estimates) | | | 1988-89 (Revised Estimates) | | | 1989-90 (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** | **31.3** | — | **31.3** | **30.5** | — | **30.5** | **43.9** | **3.0** | **46.9** | **34.7** | **3.0** | **37.7** | **45.2** | **3.0** | **48.2** |
| **2. Financed from :** | | | | | | | | | | | | | | | |
| (i) Receipts & Recoveries on (a + b) | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| (a) Capital Account | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| (b) Under Stores Suspense | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| (ii) Capital Reserve Fund £ | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| (iii) Depreciation on Historical Costs transferred from Revenue | — | 3.8 | 3.8 | — | 4.4 | 4.4 | — | 4.9 | 4.9 | — | 4.9 | 4.9 | — | 5.2 | 5.2 |
| (iv) Contribution towards Capital Expenditure from Revenue | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| (v) Capital advanced from the General Revenues | 31.3 | −3.8 | 27.5 | 30.5 | −4.4 | 26.1 | 43.9 | −1.9 | 42.0 | 34.7 | −1.9 | 32.8 | 45.2 | −2.2 | 43.0 |
| **Total (i to v)** | **31.3** | — | **31.3** | **30.5** | — | **30.5** | **43.9** | **3.0** | **46.9** | **34.7** | **3.0** | **37.7** | **45.2** | **3.0** | **48.2** |

* 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 withdrawals from Capital Reserve Fund from 1986-87 entirely relate to Telecommunications.

*Source:* (1) Ministry of Communications, Government of India.

(2) Government of India-Detailed Demand for Grants of Department of Posts 1989-90.

step-up of Rs. 109.9 crores (14.3 per cent). The operational expenses account for 71.3 per cent of total working expenses as compared with 70.3 per cent in 1988-89.

### Capital outlay of DP in 1989-90

During 1989-90 the total capital outlay of DP is placed at Rs. 48.2 crores comprising Rs. 45.2 crores as Plan outlay and the balance of Rs. 3.0 crores as non-Plan outlay. The capital outlay to be financed from capital advanced from the General Revenues account for a larger share of Rs. 43.0 crores or 89.2 per cent in 1989-90 as against an equally large share of Rs. 32.8 crores or 87.0 per cent in 1988-89. The amount of Depreciation on Historical Costs transferred from Revenue is placed higher at Rs. 5.2 crores accounting for 10.8 per cent of the total finances as compared with Rs. 4.9 crores or 13.0 per cent in 1988-89.

## B. Department of Telecommunications (DT)—Revised Estimates 1988-89

### Financial working of DT in 1988-89

Financial performance of DT witnessed an improvement during 1988-89. The revised estimates for 1988-89 showed a surplus of Rs. 773.0 crores as compared with Rs. 474.0 crores envisaged in the budget estimates and Rs. 454.4 crores in 1987-88.

Total revenue receipts of DT at Rs. 2,493.0 crores in 1988-89 were higher by Rs. 187.0 crores (8.1 per cent) and Rs. 792.1 crores (46.6 per cent) as compared with the budget estimates and actuals of 1987-88, respectively. The sharp improvement was due to the larger amount of dividend payable by the Mahanagar Telephone Nigam Ltd. (MTNL) on sharing of revenue of network utilisation as per revised formula. On the other hand,the working expenses at Rs. 1,664.0 crores in 1988-89 were marginally lower by Rs. 15.0 crores (0.9 per cent) than the budget estimates but were higher by Rs. 307.3 crores (22.7 per cent) than 1987-88 level.

Of the total working expenses of Rs. 1,664.0 crores in 1988-89, a major portion of expenses was on account of engineering which rose by Rs. 121.2 crores (22.1 per cent) to Rs. 669.6 crores in 1988-89 from Rs. 548.4 crores in 1987-88. Operational expenses stood at Rs. 339.3 crores showing an increase of Rs. 39.0 crores (13.0 per cent) over those of 1987-88. These two major items of expenditure accounted for 60.6 per cent of the total working expenses in 1988-89 as against 62.6 per cent in 1987-88. The other important items accounting for rise in expenses in 1988-89 as over 1987-88 were: General Administration Rs. 124.4 crores (Rs. 18.4 crores), and Pension Rs. 101.0 crores (Rs. 8.5 crores). Depreciation provision was also raised to Rs. 235.3 crores in 1988-89 (Rs. 41.6 crores).

After making adjustments for credit to working expenses of Rs. 114.0 crores net working expenses were placed at Rs. 1,550.0 crores during 1988-89 as compared with those of Rs. 1,246.5 crores in 1987-88. Net receipts of DT (i.e. revenue receipts less net working expenses) amounted to Rs. 943.0 crores as compared with Rs. 741.0 crores in the budget estimates and Rs. 454.4 crores in 1987-88. After providing for dividend to the General Revenues amounting to Rs. 170.0 crores the surplus of DT was placed at Rs. 773.0 crores as compared with a surplus of Rs. 474.0 crores in the budget estimates and Rs. 454.4 crores in 1987-88. The dividend payable to General Revenues was placed lower at Rs. 170.0 crores in 1988-89 as compared with Rs. 267.0 crores in the budget estimates due to setting off the amount of accumulated postal deficits met out of Revenue Reserve Fund from the dividend bearing capital outlay of the DT.

Out of the total surplus of Rs. 773.0 crores, Rs. 772.9 crores was appropriated to Capital Reserve Fund while a marginal amount of Re. 0.1 crore was transferred to Revenue Reserve Fund (Table VIII-29).

### Capital outlay of DT in 1988-89

During 1988-89, the capital outlay of DT at Rs. 1,850.0 crores was higher by Rs. 476.0 crores (34.6 per cent) over the budget estimates and by Rs. 649.9 crores (54.2 per cent) over 1987-88. Of the total capital outlay of Rs. 1,850.0 crores, Rs. 1,695.0 crores or 91.6 per cent was allotted for Plan expenditure (under Telecommunication Services) and the balance of Rs. 155.0 crores for non-Plan expenditure (under Stores and Manufacture Suspense). The total capital outlay (Plan and non-Plan) was financed to the extent of Rs. 1,482.0 crores or 80.1 per cent from internal resources of the Department and the remaining Rs. 368.0 crores or 19.9 per cent from General Revenues (Table VIII-30).

**Table VIII-29: Financial Working of Department of Telecommunications***

(Rs. crores)

| Items | 1986-87 (Actuals) | 1987-88 (Actuals) | 1988-89 (Budget Estimates) | 1988-89 (Revised Estimates) | 1989-90 (Budget Estimates) |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| **1. Revenue Receipts** | **1229.7** | **1700.9** | **2306.0** | **2493.0** | **2980.0** |
| **2. Working Expenses** | **1082.0** | **1356.7** | **1679.0** | **1664.0** | **1954.0** |
| *Of which:* | | | | | |
| i) Operation | 261.4 | 300.3 | 343.6 | 339.3 | 377.2 |
| ii) General Administration | 93.0 | 106.0 | 128.6 | 124.4 | 157.8 |
| iii) Engineering | 455.8 | 548.4 | 681.8 | 669.6 | 759.5 |
| iv) Pension | 61.6 | 92.5 | 80.0 | 101.0 | 115.0 |
| v) Accounts & Audit | 9.8 | 11.5 | 13.6 | 13.3 | 14.4 |
| vi) Stationery and Printing | 7.5 | 5.6 | 14.0 | 14.9 | 17.0 |
| vii) Stores and Factories | 24.1 | 21.2 | 37.4 | 36.6 | 43.4 |
| viii) Depreciation | 157.5 | 193.7 | 236.1 | 235.3 | 310.3 |
| ix) Others | 11.3 | 77.5 | 143.9 | 129.6 | 159.4 |
| 3. Credits to Working Expenses | 76.7 | 110.2 | 114.0 | 114.0 | 150.0 |
| 4. Net Working Expenses (2−3) | 1005.3 | 1246.5 | 1565.0 | 1550.0 | 1804.0 |
| 5. Net Receipts (1−4) | 224.4 | 454.4 | 741.0 | 943.0 | 1176.0 |
| 6. Dividend to General Revenue | 212.7 | — | 267.0 | 170.0 | 198.0 |
| **7. Surplus (+)/Deficit (−) after making contributions towards Capital Expenditure (5−6)** | **+11.7** | **+454.4** | **+474.0** | **+773.0** | **+978.0** |
| 8. Contribution towards Capital Expenditure | — | — | — | — | — |
| **9. Surplus (+)/Deficit (−) after making contributions towards Capital Expenditure (7−8)** | **+11.7** | **+454.4** | **+474.0** | **+773.0** | **+978.0** |
| 10. Appropriations to (+)/Withdrawals from (−)£ | | | | | |
| a) Revenue Reserve Fund | +0.1 | +0.1 | +0.1 | +0.1 | +0.1 |
| b) Capital Reserve Fund | +11.6 | +454.3 | +473.9 | +772.9 | +977.9 |

* 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 1986-87 entirely relates to Telecommunications.

*Sources:* (1) Detailed Demand for Grants of Department of Telecommunications, 1989-90,Government of India.
(2) Receipts Budget, 1989-90,Government of India.

**Table VIII-30: Capital Outlay of Department of Telecommunications***

(Rs. crores)

| Items | 1986-87 (Actuals) | | | 1987-88 (Actuals) | | | 1988-89 (Budget Estimates) | | | 1988-89 (Revised Estimates) | | | 1989-90 (Budget Estimates) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Plan | Non-Plan | Total | Plan | Non-Plan | Total | Plan | Non-Plan | Total | Plan | Non-Plan | Total | Plan | Non-Plan | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| **1. Expenditure (a + b)** | **850.5** | **97.3** | **947.8** | **1062.2** | **137.9** | **1200.1** | **1219.0** | **155.0** | **1374.0** | **1695.0** | **155.0** | **1850.0** | **2012.5** | **175.0** | **2187.5** |
| a) Telecommunication Services | 850.5 | — | 850.5 | 1062.2 | — | 1062.2 | 1219.0 | — | 1219.0 | 1695.0 | — | 1695.0 | 2012.5 | — | 2012.5 |
| b) Under Stores and Manufacture Suspense | — | 97.3 | 97.3 | — | 137.9 | 137.9 | — | 155.0 | 155.0 | — | 155.0 | 155.0 | — | 175.0 | 175.0 |
| **2. Financed from:** | | | | | | | | | | | | | | | |
| i) Receipts and Recoveries on (a+b+c) | 0.5 | 82.0 | 82.5 | 440.0 | — | 440.0 | 226.0 | — | 226.0 | 400.0 | — | 400.0 | 500.0 | — | 500.0 |
| a) Capital Account | 0.5 | — | 0.5 | — | — | — | — | — | — | — | — | — | — | — | — |
| b) Under Stores Suspense | — | 82.0 | 82.0 | — | — | — | — | — | — | — | — | — | — | — | — |
| c) Deposits of Mahanagar Telephone Nigam Ltd. | — | — | — | 440.0 | — | 440.0 | 226.0 | — | 226.0 | 400.0 | — | 400.0 | 500.0 | — | 500.0 |
| ii) Advance Rentals received under Telex O.Y.T. Scheme | 42.6 | — | 42.6 | 25.6 | — | 25.6 | 30.0 | — | 30.0 | 30.0 | — | 30.0 | 33.0 | — | 33.0 |
| iii) Deposits received under Telex Deposit Scheme | 8.8 | — | 8.8 | 1.1 | — | 1.1 | 2.0 | — | 2.0 | 2.0 | — | 2.0 | 2.0 | — | 2.0 |
| iv) Capital Reserve Fund £ | 190.6 | 15.3 | 205.9 | 370.0 | — | 370.0 | 466.0 | 18.0 | 484.0 | 777.0 | 18.0 | 795.0 | 974.5 | 20.0 | 994.5 |
| v) Depreciation on Historical costs transferred from Revenue | 160.9 | — | 160.9 | 194.5 | — | 194.5 | 235.0 | — | 235.0 | 235.0 | — | 235.0 | 310.0 | — | 310.0 |
| vi) Contribution towards Capital Expenditure from Revenue | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| vii) Capital advanced from General Revenue | 447.1 | — | 447.1 | 11.0 | 137.9 | 148.9 | 240.0 | 137.0 | 377.0 | 231.0 | 137.0 | 368.0 | 173.0 | 155.0 | 328.0 |
| viii) Repayment of Loans by Mahanagar Telephone Nigam Ltd. | — | — | — | 20.0 | — | 20.0 | 20.0 | — | 20.0 | 20.0 | — | 20.0 | 20.0 | — | 20.0 |
| **Total (i to viii)** | **850.5** | **97.3** | **947.8** | **1062.2** | **137.9** | **1200.1** | **1219.0** | **155.0** | **1374.0** | **1695.0** | **155.0** | **1850.0** | **2012.5** | **175.0** | **2187.5** |

* 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 Telecomunnications, the surplus transferred to P & T Revenue Reserve Fund and Capital Reserve Fund from 1986-87 entirely relates to Telecommunications.

*Source*: (1) Budget documents, Government of India.

(2) Ministry of Communications, Government of India.

## Budget Estimates—1989-90

### Financial working of DT in 1989-90

During 1989-90 the financial working of DT are expected to show a surplus of Rs. 978.0 crores as compared with a surplus of Rs. 474.0 crores in 1988-89.

Total revenue receipts are budgeted to rise by Rs. 487.0 crores (19.5 per cent) to Rs. 2,980.0 crores. Total working expenses are estimated at Rs. 1,954.0 crores showing a rise of Rs. 290.0 crores (17.4 per cent) over those of 1988-89. The increase in working expenses is mainly on account of higher expenditure under the following heads: Engineering (+Rs. 89.9 crores or +13.4 per cent), Depreciation (+Rs. 75.0 crores or +31.9 per cent), Operation (+Rs. 37.9 crores or +11.2 per cent) and General Administration (+Rs. 33.4 crores or +26.8 per cent).

After providing for credits of Rs. 150.0 crores, the net working expenses are placed at Rs. 1,804.0 crores in 1989-90 showing an increase of Rs. 254.0 crores (16.4 per cent) over those of 1988-89. During 1989-90, net receipts of DT are expected to rise by Rs. 233.0 crores (24.7 per cent) to Rs. 1,176.0 crores. The payment of dividend to General Revenues is placed higher at Rs. 198.0 crores as compared with Rs. 170.0 crores in 1988-89. The higher dividend during 1989-90 is on account of dividend payable on fresh capital provided for that year as also further increase in the rate of dividend to 9.6 per cent from 9.3 per cent in 1988-89. After providing for dividend to General Revenues of Rs. 198.0 crores, the surplus of DT during 1989-90 would be Rs. 978.0 crores as compared with Rs. 773.0 crores in 1988-89. Out of the total surplus of Rs. 978.0 crores, Rs. 977.9 crores would be appropriated to Capital Reserve Fund and Rs. 0.1 crore to Revenue Reserve Fund.

### Capital outlay of DT in 1989-90

During 1989-90 the capital outlay of DT will be Rs. 2,187.5 crores as compared with Rs. 1,850.0 crores in 1988-89. Of the total capital outlay, Rs. 2,012.5 crores or 92.0 per cent would be spent on Plan schemes under Telecommunication Services and the remaining outlay of Rs. 175.0 crores or 8.0 per cent on non-Plan expenditure under Stores and Manufacture Suspense. The capital outlay would be financed to the extent of Rs. 1,859.5 crores (85.0 per cent) from internal resources and Rs. 328.0 crores (15.0 per cent) through budgetary support from General Revenues.

## V. PUBLIC DEBT AND OTHER LIABILITIES

### A. Central Government

The outstanding aggregate liabilities (including the amount of Rs. 300 crores due from Pakistan on account of pre-partition debt) of the Central Government comprising public debt and other liabilities amounted to Rs. 2,28,241 crores at end-March 1989 registering a rise of Rs. 32,680 crores (+ 16.7 per cent) as compared with an increase of Rs. 29,015 crores (+17.4 per cent) in the previous year (i.e. end-March 1988). These are estimated to reach a level of Rs. 2,59,729 crores at end-March 1990, recording a growth of Rs. 31,488 crores (+13.8 per cent) over end-March 1989 (Table VIII-31)*. As a proportion of Gross Domestic Product (GDP) (at current market prices) the aggregate outstanding liabilities constituted 58.4 per cent in 1988-89 as compared with 59.2 per cent in 1987-88. This ratio was only 49.2 per cent at the beginning of the Seventh Five Year Plan, i.e., at end-March 1985.

The share of public debt in the aggregate liabilities declined marginally from 62.3 per cent at end-March 1988 to 61.2 per cent at end-March 1989 and is anticipated to show a further decline to 61.1 per cent at end-March 1990. On the other hand, the proportion of 'Other' liabilities comprising mainly Small Savings, Provident Funds, Reserve Funds and Deposits in the agggregate liabilities recorded an increase from 37.7 per cent at end-March 1988 to 38.8 per cent at end-March 1989 and is expected to increase further to 38.9 per cent at end-March 1990. Internal debt as a proportion of public debt rose from 80.9 per cent at end-March 1988 to 81.9 per cent at end-March 1989. This is expected to rise further to 82.3 per cent at end-March 1990.

### Public Debt

The outstanding public debt comprising internal debt and external debt were placed at Rs. 1,39,692 crores registering a growth of Rs. 17,823 crores (14.6 per cent) in 1988-89 as against that of Rs. 15,258 crores (14.3 per cent) in 1987-88. It is

* The figure for 1989-90 relates to budget estimates and for 1988-89 to revised estimates unless stated otherwise.

**Table VIII-31 Public Debt and Other Liabilities of Government of India**
(As at the end of March)

(Rs. crores)

| Items | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 (Revised Estimates) | 1990 (Budget Estimates) |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| **A. Public Debt (1 + 2)** | **65,383** | **75,174** | **89,192** | **1,06,611** | **1,21,869** | **1,39,692** | **1,58,795** |
| | **(31.6)** | **(32.6)** | **(34.0)** | **(36.3)** | **(36.9)** | **(35.8)** | |
| 1. Internal Debt (i to vi) | 50,263 | 58,537 | 71,039 | 86,312 | 98,646 | 1,14,453 | 1,30,758 |
| i) Current Market Loans | 26,270 | 30,394 | 35,279 | 40,808 | 46,671 | 53,921 | 61,321 |
| ii) Others £ | 520 | 523 | 507 | 467 | 406 | 229 | 81 |
| iii) Special Bearer Bonds | 964 | 964 | 964 | 964 | 964 | 964 | 964 |
| iv) Treasury Bills | 15,756 | 19,452 | 26,014 | 19,876 | 8,028 | 15,963@ | 24,273@ |
| v) Special Floating and Other loans + | 2,183 | 2,554 | 3,088 | 4,330 | 5,400 | 6,199 | 6,942 |
| vi) Special Securities issued to RBI | 4,570 | 4,650 | 5,187 | 19,867 | 37,177 | 37,177 | 37,177 |
| 2. External Debt | 15,120 | 16,637 | 18,153 | 20,299 | 23,223 | 25,239 | 28,037 |
| *Of which:* | | | | | | | |
| *Loans from IMF Trust Fund* | 538 | 538 | 464 | 296 | N.A. | N.A. | N.A. |
| **B. Other Liabilities (a to d)** | **29,878** | **38,267** | **48,292** | **59,935** | **73,692** | **88,549** | **1,00,934** |
| | **(14.5)** | **(16.6)** | **(18.4)** | **(20.4)** | **(22.3)** | **(22.7)** | |
| a) Small Savings | 13,506 | 17,157 | 21,449 | 24,725 | 28,358 | 32,958 | 37,558 |
| b) Provident Funds (i + ii) | 3,747 | 4,158 | 4,629 | 5,505 | 6,644 | 7,774 | 9,004 |
| i) State Provident Fund | 3,260 | 3,606 | 4,001 | 4,743 | 5,603 | 6,383 | 7,213 |
| ii) Public Provident Fund | 487 | 552 | 628 | 762 | 1,041 | 1,391 | 1,791 |
| c) Other accounts* | 6,621 | 8,389 | 10,781 | 14,698 | 19,526 | 25,073 | 31,574 |
| d) Reserve Funds and Deposits (i + ii)** | 6,004 | 8,563 | 11,433 | 15,007 | 19,164 | 22,744 | 22,798 |
| i) Bearing Interest | 4,273 | 6,198 | 8,574 | 9,854 | 6,718 | 7,780 | 8,866 |
| ii) Non-Bearing Interest | 1,731 | 2,365 | 2,859 | 5,153 | 12,446 | 14,964 | 13,932 |
| **C. Aggregate Liabilities (A+B)** | **95,261** | **1,13,441** | **1,37,484$** | **1,66,546** | **1,95,561** | **2,28,241** | **2,59,729** |
| | **(46.0)** | **(49.2)** | **(52.4)** | **(56.8)** | **(59.2)** | **(58.4)** | |
| **D. Amount due from Pakistan on account of pre-partition debt** | **300** | **300** | **300** | **300** | **300** | **300** | **300** |
| **E. Aggregate Liabilities (C − D) (Net of pre-partition debt)** | **94,961** | **11,3141** | **1,37,184** | **1,66,246** | **1,95,261** | **2,27,941** | **2,59,429** |

£ 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, Borrowing against Compulsory Deposits and Income-tax Annuity Deposits, Special Deposits of Non-Government Provident Funds.

@ Includes 182-day Treasury Bills of Rs. 487 crores for 1988-89 and Rs. 557 crores for 1989-90.

** Includes Depreciation and Reserve Funds of Railways and Department of Posts and Department of Telecommunications,deposits of Local Funds, departmental and judicial deposits, civil deposits, etc.

$ Differs from last year's 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.

***Sources:*** i) Finance Accounts, Government of India.

ii) Receipts Budget, 1989-90, Government of India.

expected to increase by Rs. 19,103 crores (13.7 per cent) to Rs. 1,58,795 crores by end-March 1990. The outstanding public debt constituted 35.8 per cent of GDP at current market prices in 1988-89 as against 36.9 per cent a year ago.

**External Debt**

The external debt of the Government of India aggregated Rs. 25,239 crores as at end-March 1989, registering a rise of Rs. 2,016 crores (8.7 per cent) over end-March 1988. In the preceding year, external debt rose by Rs. 2,924 crores (14.4 per cent). The external debt according to the Union Budget of 1989-90 is estimated to rise to Rs. 28,037 crores at end-March 1990, recording a growth of Rs. 2,798 crores (11.1 per cent) over the year. The ratio of external debt to GDP at current market prices was 6.5 per cent at end-March 1989 compared to 7.0 per cent a year ago.

The Union Budget for 1989-90 has anticipated gross receipts of Rs. 4,808 crores from external loans as against Rs. 4,079 crores in 1988-89. After taking into account the repayments of Rs. 1,571 crores of loans falling due in 1989-90, the net receipts from external loans would amount to Rs. 3,237 crores in 1989-90 as compared with Rs. 2,769 crores in 1988-89. Net external loans, i.e., after providing for repayments and an amount of Rs. 1,447 crores for interest payments, are placed at Rs. 1,790 crores in 1989-90 as against Rs. 1,512 crores in 1988-89.

**Internal Debt**

Internal debt of the Government of India comprising mainly current market loans, treasury bills, special securities issued to RBI and special floating loans and other loans stood at Rs. 1,14,453 crores at end-March 1989, registering a rise of Rs. 15,807 crores (+16.0 per cent) over the level of Rs. 98,646 crores a year ago. According to the Central Budget for 1989-90, the internal debt would touch the level of Rs. 1,30,758 crores at end-March 1990, showing a rise of Rs. 16,305 crores (+14.2 per cent) over the level of end-March 1989. Internal debt as a ratio of the aggregate liabilities of the Central Government had come down to 50.1 per cent in 1988-89 from 50.4 per cent in 1987-88; this ratio is expected to rise again marginally to 50.3 per cent in 1989-90.

During 1988-89 all constituents of outstanding internal debt recorded increases except Special Bearer Bonds, Special Securities issued to RBI and 'Others'. The outstanding amount of Special Bearer Bonds remained unchanged at Rs. 964 crores as the sale of these bonds was discontinued from January 9, 1982. The outstanding amount of 'Others' mainly comprising of expired loans, Compensation Bonds, Capital Investment Bonds and National Rural Development Bonds declined due to the repayments of these bonds.

The increase in current market loans and treasury bills combined together account for 96.1 per cent of increase in outstanding internal debt at end-March 1989 and 96.4 per cent of outstanding internal debt at end-March 1990. As a proportion of GDP at current market prices, internal debt constituted 29.9 per cent and 29.3 per cent at end-March 1988 and end-March 1989, respectively.

**Market Borrowings: 1988-89**

The Central Government entered the market five times during 1988-89 and borrowed a gross amount of Rs. 7,725.4 crores which was higher by Rs. 250.4 crores than Rs. 7,475.0 crores envisaged in the Union Budget for 1988-89. After providing for repayments of Rs. 474.7 crores during the year 1988-89, net receipts from market borrowings amounted to Rs. 7,250.7 crores which was also higher by Rs. 250.4 crores than the budgeted amount for 1988-89 (Table VIII-32). Of the total gross market borrowings of Rs. 7,725.4 crores, Rs. 7,376.3 crores were received in the form of cash subscription and the balance of Rs. 349.1 crores by way of conversion.

The Central Government entered the market to raise loans for the first time during 1988-89 on May 23 and completed the market borrowing programme for the fiscal year 1988-89 on March 27, 1989. Out of five tranches of the market borrowing programme during 1988-89, the first tranche (on May 23) and the third tranche (on November 2) were on cash-cum-conversion basis while the remaining three tranches, i.e., second, fourth and fifth were entirely on cash basis. The details of the market borrowing programmes of Government of India during 1988-89 are set out in Table VIII-32.

The monthly average of gross redemption yield on Central Government securities was higher at 10.90 per cent during 1988-89 as against 10.19 per cent during 1987-88. (Reference : Statement 75 in Vol II of the Report).

**Table VIII-32 Market Borrowings of Government of India During 1988-89**

(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 |
| 23-5-1988 | 10.50% Loan 1998 | 1,000.00 | | 220.08 | 0.10 | 220.18 | | |
| | 11.00% Loan 2003 | 1,000.00 | 1,500.00 | 14.08 | 0.05 | 14.13 | 4.89 | 1,566.17 |
| | 11.50% Loan 2008 | 1,000.00 | | 1,336.90 | 79.60 | 1,416.50 | | |
| | | | | 1,571.06 | 79.75 | 1,650.81 | 4.89 | 1,566.17 |
| 20-7-1988 | 10.00% Loan 1993 | 1,000.00 | | 174.86 | — | 174.86 | | |
| | 11.00% Loan 2003 | 1,000.00 | 1,200.00 | 76.90 | — | 76.90 | — | 1,324.02 |
| | 11.50% Loan 2008 | 1,000.00 | | 1,072.26 | — | 1,072.26 | | |
| | | | | 1,324.02 | — | 1,324.02 | — | 1,324.02 |
| 2-11-1988 | 10.30% Loan 1998 | 1,000.00 | | 11.66 | 75.23 | 86.89 | | |
| | 11.00% Loan 2003 | 1,000.00 | 2,000.00 | 13.64 | 75.10 | 88.74 | 120.73 | 1,813.53 |
| | 11.50% Loan 2008 | 1,000.00 | | 1,908.96 | 119.04 | 2,028.00 | | |
| | | | | 1,934.26 | 269.37 | 2,203.63 | 120.73 | 1,813.53 |
| 9-1-1989 | 10.50% Loan 1998 | 1,000.00 | | 8.32 | — | 8.32 | | |
| | 11.00% Loan 2003 | 1,000.00 | 1,500.00 | 11.51 | — | 11.51 | — | 1,652.41 |
| | 11.50% Loan 2008 | 1,000.00 | | 1,632.58 | — | 1,632.58 | | |
| | | | | 1,652.41 | — | 1,652.41 | — | 1,652.41 |
| 27-3-1989 | 10.50% Loan 1998 | 1,000.00 | | 65.64 | — | 65.64 | | |
| | 11.00% Loan 2003 | 1,000.00 | 815.00 | 1.67 | — | 1.67 | — | 894.51 |
| | 11.50% Loan 2008 | 1,000.00 | | 827.20 | — | 827.20 | — | |
| | | | | 894.51 | — | 894.51 | — | 894.51 |
| **Total during 1988-89** | | | **7,015.00** | **7,376.26** | **349.12** | **7,725.38** | **125.62** | **7,250.64** |

*Source:* Reserve Bank of India Records.

### 1989-90

The Central Budget for 1989-90 has assumed gross market borrowings of Rs. 8,039.0 crores. After providing for maturing loans of Rs. 638.7 crores, net market borrowings in 1989-90 would amount to Rs. 7,400.3 crores which would be higher by Rs. 149.6 crores than Rs. 7,250.7 crores in 1988-89

During the current fiscal year upto July 21, 1989, the Central Government entered the market on May 15, 1989 and floated three loans, viz., 10.50 per cent loan, 1999, 11.00 per cent loan, 2004 and 11.50 per cent loan,2009 and raised a net amount of Rs. 1,040.8 crores after making repayments of maturing loans amounting to Rs. 459.2 crores.

### Coupon Rates on Central Government Loans

The interest rates structure on Central Government loans of varying maturities in 1988-89 was the same as that in 1987-88, i.e., the highest coupon rate of 11.50 per cent was offered on loans with a maturity period of 20 years, 11.00 per cent for 15 years and 10.50 per cent for 10 years. In addition to these maturities the Central Government also issued two new loans, viz., 10.30 per cent and 10.00 per cent loans for the maturities of 8 years and 5 years, respectively.

### Reserve Bank Support to Central Loans

The Reserve Bank's initial subscription to Central Government loans during 1988-89 amounted to

Rs. 2,513.0 crores or 32.5 per cent of the total loans floated during the year which was substantially higher than the initial support of Rs. 2,200.0 crores (28.1 per cent) in 1987-88. During 1988-89, the RBI sold through its open market operations a sizeable portion of securities initially acquired by it. The open market operations of RBI resulted in a net purchase of Central Government securities of Rs. 1,935.8 crores in 1988-89 which was much larger than that of Rs. 368.4 crores in 1987-88.

In addition to the Centre's own market borrowings, a few public sector undertakings have also been permitted to raise resources through the issue of bonds in the domestic market and commercial borrowings abroad for financing their developmental programmes. According to the Central Budget for 1989-90, the public sector undertakings would raise Rs. 3,115.0 crores through issue of bonds in the domestic market and Rs. 1,112.0 crores through external commercial borrowings as compared with Rs. 2,476.0 crores mobilised through domestic bond floatations and Rs. 617.0 crores through external borrowings in 1988-89.

Apart from the open market borrowings, the Centre also mobilises resources through other instruments. The trend in collections from various saving instruments are indicated in the table below.

(Rs. crores)

| Sr. No. | Name of the Saving Instruments | Outstanding as on March 31, 1988 | Outstanding as on March 31, 1989 |
|---|---|---|---|
| 1. | Indira Vikas Patra | 1,848 | 3,556 |
| 2. | Kisan Vikas Patra | N.A. | 1,939 |
| 3. | Post Office Monthly Income Scheme | 227 | 783 |
| 4. | 9 per cent Relief Bonds, 1988 | 84 | 212 |
| 5. | National Savings Scheme | 81 | 804 |

The salient features of new saving instruments/schemes proposed in the Central Budget for 1989-90 are discussed below :

### National Savings Certificates-VIII Issue

As part of the process of rationalisation of returns on various savings instruments, the existing National Savings Certificates (NSC)-VI and VII issues, which enjoyed tax concessions under Section 80C and 80L of the Income-tax Act, have been discontinued with effect from April 1, 1989. A new series of National Savings Certificates-VIII issue has been introduced from May 8, 1989. Investments in the new series of NSCs would enjoy tax concessions under Section 80C only and not under Section 80L of the Income-tax Act. Investments in the NSC VIII issue are open to individuals and also to institutions like companies, partnership firms, local authorities, trusts and corporations. The investments under this scheme carry an interest of 12 per cent (compounded). The investments would mature after six years.

### Home Loan Account Scheme

With a view to promoting savings for acquisition of a house and also to enable the National Housing Bank (NHB) to mobilise resources in its nascent stage, new scheme called Home Loan Account Scheme (HLAS) has been introduced by the National Housing Bank, in co-operation with scheduled banks. In order to make the scheme popular, some fiscal concessions have been given. The minimum contribution to the saving scheme is fixed at Rs. 30 per month or Rs. 360 per annum. The savings would earn interest at 10 per cent per annum. Any individual not owning a house anywhere in India would be eligible for a loan equal in amount to multiple of the accumulated savings including interest. Deposits in the Home Loan Account Scheme (HLAS) of the NHB as well as repayment of housing loan up to a maximum of Rs. 10,000 taken from the bank would qualify for deduction from the gross income within the overall ceiling under Section 80C of the Income-tax Act. The investment made under the HLAS would also be exempted from wealth tax subject to the overall ceiling of Rs. 5 lakhs.

### Equity-Linked Savings Scheme

The Equity-Linked Savings Scheme (ELSS) has been introduced to encourage investment in equity by households. The scheme would operate through closed-end-funds to be set up by UTI or other mutual funds. Investments would be eligible for full deduction from taxable income up to Rs. 10,000 in the year of investment. The amounts collected by the funds will be invested in equity of new and old

companies. The dividends realised on each closed-end-fund would also be fully distributed and are eligible for deduction under Section 80L of the Income-tax Act. According to the scheme, withdrawals would be permitted after a minimum lock-in period of three years at a repurchase price based on the net asset value of each fund. The part of the withdrawal that corresponds to the purchase value of the units are to be added to income and the part corresponding to the increase in the value of the unit as reflected in the repurchase price are to be added to the capital gains in the year of withdrawal.

### Savings Scheme for retiring employees

A new savings (deposit) scheme in which the retiring Central and State Governments employee may invest the whole or part of his retirement benefits for a lock-in-period of three years has been introduced. Under the scheme, the investments can be made within three months of retirement or within three months of the commencement of the scheme for persons already retired. Investments would be for a period of three years but deposit can be continued even thereafter. The deposits made would be fully exempt from wealth tax. The scheme carries a rate of interest of 9 per cent. The depositor will be paid interest on the balance in the account at half-yearly intervals. The interest earned in respect of deposits would be exempted from income-tax.

## Market Borrowings of Local Authorities and Institutions Sponsored by Central and State Governments.

During the fiscal year 1988-89, local authorities and institutions sponsored by Central and State Governments borrowed a net amount of Rs. 2,958.2 crores,registering a rise of Rs. 378.7 crores (+14.7 per cent) over 1987-88 (Table VIII-33). The net market borrowings of the institutions sponsored by the Central Government at Rs. 1,935.0 crores in 1988-89 were higher by Rs. 252.1 crores (+15.0 per cent) over 1987-88. The net market borrowings of institutions sponsored by State Governments at Rs. 985.5 crores during 1988-89 were higher by Rs. 129.3 crores (+15.1 per cent) over the previous year. The net borrowings of local authorities during 1988-89 declined marginally by Rs. 2.8 crores (−6.8 per cent) to Rs. 37.7 crores as compared with a rise of Rs. 8.0 crores (+24.6 per cent) in 1987-88. During 1988-89, in the case of institutions sponsored by the Central and State Governments, those engaged in providing long-term finance to industry and export promotion accounted for 67.4 per cent of the net aggregate borrowings of all the institutions and local authorities taken together as compared with 67.7 per cent in 1987-88.

## Treasury Bills.

### 91-Day Treasury Bills

The Government of India's outstanding 91-day treasury bills at end-March 1989 rose to Rs.15,476 crores compared to Rs. 8,0 28 crores at end-March 1988. The outstanding lerel of these treasury bills is estimated of Rs. 29,716 crores at end-March 1990.

### 182-Day Treasury Bills

Prior to July 1988, the auction for 182-day treasury bills was held every month. With effect from July 1988, the auction for 182-day treasury bills has been conducted on a fortnightly basis synchronising with the reporting Fridays for scheduled commercial banks. Accordingly, 22 auctions were held in 1988-89 (July-June) and the amount tendered against these was Rs. 2,141.10 crores. Of the 360 bids received, 203 bids aggregating Rs. 1,371.6 crores were accepted. The amount outstanding against the 182-day treasury bills stood at Rs. 382.9 crores at end-June 1989.

### Special Floating and Other Loans

Special floating and other loans are constituents of Internal debt of the Government of India. They represent mainly the contributions of the Government of India towards the capital of international financial institutions, viz., IMF, IBRD and IDA. Special floating and other loans rose by Rs. 799 crores (+14.8 per cent) to Rs. 6,199 crores at end-March 1989 from Rs. 5,400 crores at end-March 1988. These are estimated to rise to Rs.6,942 crores by end-March 1990.

### Special Securities Issued to Reserve Bank

Special securities issued to Reserve Bank, mainly against Compulsory Deposits and those in lieu of *ad-hoc* treasury bills had risen from Rs. 19,867 crores in 1986-87 to Rs. 37,177 crores due to conversion of *ad-hoc* treasury bills amounting to Rs.17,310 crores into special securities. These securities remained unchanged at Rs. 37,177 crores at end-March 1989. According to the Central Budget for 1989-90, special securities would remain at the same level of Rs. 37,177 crores at end-March 1990 also.

### Other Liabilities

The non-marketable debt liabilities of the Government of India comprising mainly Small Savings, Provident Funds, Reserve Funds and

**Table VIII-33: Net Market Borrowings of Local Authorities and Institutions Sponsored by Central and State Governments**

(Rs. crores)

| Institutions | 1987-88 | 1988-89 |
|---|---|---|
| 1 | 2 | 3 |
| **Local Authorities** | **40.48** | **37.73** |
| Municipal Corporations | 40.48 | 37.73 |
| **Institutions Sponsored by the Central Government** | **1,682.87** | **1,935.00** |
| Industrial Development Bank of India | 836.00 | 920.00 |
| Industrial Credit and Investment Corporation of India | 260.00 | 286.00 |
| Industrial Finance Corporation of India | 300.00 | 330.00 |
| Export Import Bank of India | 48.00 | 53.00 |
| Industrial Reconstruction Bank of India | 46.00 | 51.00 |
| National Bank for Agriculture and Rural Development | −8.13 | — |
| Rural Electrification Corporation | 44.00 | 48.50 |
| Housing and Urban Development Corporation | 55.00 | 60.50 |
| National Co-operative Development Corporation | 60.00 | 66.00 |
| Damodar Valley Corporation | 29.50 | 45.00 |
| Shipping Credit and Investment Company of India Ltd. | — | 20.00 |
| National Housing Bank | — | 20.00 |
| Delhi Co-operative. Housing Finance Society Ltd. | 12.50 | 15.00 |
| Power Finance Corporation | — | 20.00 |
| **Institutions Sponsored by State Governments** | **856.19** | **985.49** |
| State Electricity Boards | 527.34 | 623.30 |
| State Financial Corporation | 225.00 | 270.00 |
| Industrial Investment Corporations and Industrial Development Corporations. | 15.72 | 19.09 |
| Land Development Banks | 8.81 | −19.68 |
| Housing Boards | 9.95 | 11.14 |
| Other Institutions | 69.37 | 81.64 |
| **Grand Total** | **2.579.54** | **2.958.22** |

Source: R.B.I. Records.

Deposits increased by Rs. 14,857 crores (+20.2 per cent) to Rs. 88,549 crores at end-March 1989 as compared to a rise of Rs. 13,757 crores (+23.0 per cent) to Rs. 73,692 crores a year earlier. The Union Budget 1989-90, assumes a credit of Rs. 12,385 crores on 'other liabilties' and accordingly, the outstanding level would rise to Rs. 1,00,934 crores. The share of non-marketable liabilities in aggregate liabilities moved up from 37.7 per cent at end-march 1988 to 38.8 per cent at end-March 1989 and is estimated to go up to 38.9 per cent by end-March 1990. As a proportion of GDP (at current market prices) the non-marketable liabilities formed 22.7 per cent at end-march 1989 as compared with 22.3 per cent at end-March 1988.

## Small Savings*

The outstandings of small savings at the end of March 1989 amounted to Rs. 34,189 crores as compared with Rs. 29,621 crores at end-March 1988 registering an increase of Rs. 4,568 crores (15.4 per cent). The outstandings of deposits under different schemes of Post Offices taken together at Rs. 11,076 crores at end-March 1989 showed a decline of Rs. 414 crores (-3.6 per cent) from that of Rs. 11,490 crores at end-March 1988 largely due to a decline in 5—year Post Office Time Deposits. Outstandings of Post Office Savings Deposits and Post Office Recurring Deposits increased from Rs. 3,639 crores and

* Refer to statement No. 104 in volume II of the Report. Figures here relate to actuals of 1988-89.

Rs. 1,545 crores at end-March 1988 to Rs. 3,747 crores and Rs. 1,844 crores,respectively, at end-March 1989. The downward trend in savings under 5—year Post Office Time Deposits noticed since 1986-87 continued in the current financial year and outstandings of savings under the scheme declined further to Rs. 4,613 crores at end-March 1989 from Rs. 5,450 crores at end-March 1988. A decline was also noticed in savings under Post Office Cumulative Time Deposits which stood at Rs. 500 crores at end-March 1989 as against Rs. 560 crores at end-March 1988. On the other hand, the collection under the Post Office Monthly Income Scheme showed a considerable improvement in the year. The net collections under the scheme amounted to Rs. 783 crores in 1988-89 as compared with that of Rs. 227 crores in 1987-88. The mobilisation of small savings under Certificates (comprising 6-year and 7-year National Saving Certificates, Annuity Certificates, Indira Vikas Patras, Kisan Vikas Patras and Social Certificates) also registered an impressive growth, which rose to Rs. 21,358 crores at end-March 1989 from Rs. 16,802 crores at end-March 1988 recording a rise of Rs. 4,556 crores (27.1 per cent) over the year. The outstandings under Indira Vikas Patras increased by Rs. 1,708 crores to Rs. 3,556 crores at end-March 1989 from Rs. 1,848 crores at end-March 1988. Kisan Vikas Patras, which were introduced in 1988-89, mobilised Rs. 1,939 crores in 1988-89. Outstandings under 6-year National Savings Certificates (NSCs)-VI issue moved up from Rs. 13,235 crores at end-March 1988 to Rs. 14,490 crores at end-March 1989 but the growth rate decelerated to 9.5 from 23.6 per cent in 1987-88. The outstandings under 6-year NSCs-VII series declined to Rs. 1,170 crores at end-March 1989 from Rs. 1,192 crores at end-March 1988. The outstandings under 7-year NSCs at Rs. 179 crores at end-March 1989 were lower by 64.6 per cent than at that end-March 1988. After the announcement of more concessions and incentives in the Budget for 1988-89, the net collection under National Savings Scheme recorded a sharp improvement. The net collections increased to Rs. 804 crores in 1988-89 from Rs. 81 crores in 1987-88. During the current financial year, the Government of India has launched three new schemes, viz., Home Loan Account Scheme, Equity-Linked Savings Scheme and Deposit Scheme for retiring employees and replaced the existing NSCs-VI and VII issues by NSCs-VIII issue. Details of these schemes have been discussed earlier.

**B. State Governments****

During 1988-89, the outstanding debt liabilities of the State Governments at Rs. 79,602 crores showed a rise of Rs. 10,519 crores (or 15.2 per cent) over that of Rs. 69,083 crores at end-March 1988. In the previous financial year, these liabilities had risen by Rs. 9,250 crores (15.5 per cent) over 1986-87. The total outstanding debt liabiiities at end-March 1990 are budgeted to touch the level of Rs. 91,853 crores, i.e, recording a rise of Rs. 12,251 crores (15.4 per cent) over 1988-89.

**Loans and advances from the Centre**

Loans and advances from the Centre (comprising loans for Plan and Non-Plan Schemes including loans against Small Savings and Ways and Means Advances from the Centre) amounted to Rs. 55,863 crores at end-March 1989, showing a rise of Rs. 6,741 crores (13.7 per cent) over end-March 1988. The rise in the preceding year was Rs. 5,832 crores (13.5 per cent). These are expected to rise by Rs. 7,399 crores (13.2 per cent) to Rs. 63,262 crores at the end of March 1990. Loans and advances from the Centre formed 70.2 per cent of the total outstanding debt liabilities of States at end-March 1989 as compared with 71.1 per cent at end-March 1988 and would account for 68.9 per cent of the total outstanding debt of States at end-March 1990.

**Market Loans and Bonds**

The outstanding market loans and bonds of the State Governments (comprising market

** Refer to statement No. 101 in volume II of the Report-Debt Position of States and statement No. 102 of the Report-State-wise Composition of Outstanding Debt.

loans and compensation and other bonds) at Rs. 10,596 crores at end-March 1989 registered a rise of Rs. 1,804 crores (20.5 per cent) over that of Rs, 8,792 crores at end-March 1988. In 1987-88, these loans had recorded a rise of Rs. 1,145 crores (18.6 per cent) over 1986-87. The outstanding level of market loans and bonds is estimated to rise by Rs. 2,151 crores (20.3 per cent) to Rs. 12,747 crores by end-March 1990.

**Loans from Banks and Other Institutions**

Loans from banks and other institutions comprise loans and cash credit from State Bank of India and other commercial banks and loans from National Rural Credit Fund of the National Bank for Agriculture and Rural Development, National Co-operative Development Corporation and Life Insurance Corporation of India. The outstandings of loans from banks and other institutions at end-March 1989 amounted to Rs. 2,313 crores as compared with Rs. 2,035 crores at end-March 1988 and would rise by Rs. 239 crores (10.3 per cent) to Rs. 2,552 crores by end-March 1990.

**Provident Funds and Other Funds**

The outstandings under Provident Funds and Other Funds comprising mainly State Provident Funds, Insurance and Pension Funds, Trusts and Endowments, etc., increased by Rs. 1,875 crores (20.9 per cent) to Rs. 10,865 crores at end-March 1989 from Rs. 8,990 crores at end-March 1988. The outstandings of Provident Funds and Others are budgeted to rise by Rs. 2,419 crores (22.3 per cent) to Rs. 13,284 crores at the end of financial year 1989-90. The oustandings of State Provident Funds formed 82.9 per cent of the total Provident Funds at end-March 1989 as compared with 83.2 per cent at end-March, 1988. The share of State Provident Funds in the total Provident Funds at end-March 1990 is estimated at 83.2 per cent.

**Market Borrowing of State Governments : 1988-89@**

During 1988-89, twenty-three State Governments entered the market with a notified amount of Rs. 2,074.4 crores on a cash-cum conversion basis. The State Governments borrowed this amount in three instalments. The loans were issued at par with a maturity period of 20 years carrying an interest rate of 11.5 per cent. The gross market borrowings of States amounted to Rs. 2,284.9 crores, of which, Rs. 2,258.2 crores was received in cash and the remaining Rs. 26.7 crores by way of conversion of past loans. After adjusting for the repayment in cash of maturing loans amounting to Rs. 256.2 crores, the net market borrowings of States at Rs. 2,028.7 crores in 1988-89 registered a rise of 33.0 per cent over that of Rs. 1,505.6 crores in 1987-88. During 1988-89, the monthly gross redemption yield was 9.50 per cent as compared to 9.25 per cent in 1987-88 (Reference-Statement 71 in Volume II of the Report).

**Market Borrowings of State Governments : 1989-90 @**

Fourteen States entered the market on July 31, 1989 with a notified amount of Rs. 1,700 crores on a cash basis. The subscribed amount was also Rs. 1,700 crores. All these loans were issued at par with a maturity period of 20 years and carried an interest rate of 11.5 per cent; Twenty four States entered the market on September 6, 1989 with a notified amount of Rs. 842 crores on a cash-cum-conversion basis. The subscribed amount was also Rs. 842 crores. These loans were also issued at par with a maturity period of 20 years, carrying an interest rate of 11.5 per cent. The gross loans raised by State Governments in these two tranches amounted to Rs. 2,542 crores. After providing for maturing loans of Rs. 306 crores, net subscription amounted to Rs. 2,236 crores.

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@ Figures are Actuals and are compiled from RBI records.

## Chapter IX

# Capital Market

Developments in the Indian capital market during 1988-89 are covered in this Chapter. It is divided into nine Sections. The first Section presents an overview of the developments in the capital market. In Section 2, developments in policy are reviewed. The next three Sections outline trends in capital consents, capital issues and capital raised, respectively. Sections 6 to 8 present trends in industrial securities market, open market operations and gilt-edged market. In the last Section, the operations of term-lending and other financial institutions are discussed.

### Overview

During 1988-89 (July-June), the capital market remained buoyant. The continuation of pragmatic policy initiatives by the Government and encouraging corporate results coupled with institutional support improved the investment climate. Virtually all major indicators of capital market scaled new heights. New investment activity was substantial. Fresh capital issues by non-Government public limited companies increased by 75.7 per cent to Rs. 3,117.1 crores during 1988-89 (July-June) from Rs. 1,773.9 crores during 1987-88. Total value of approvals (consents/acknowledgements) granted by the Controller of Capital Issues (CCI) to non-Government public and private limited companies for the issue of fresh capital (including premium allowed on shares but excluding bonus issues) aggregated Rs. 4,888.9 crores in 1988-89 (April-March) which was more than twice as compared with that of Rs. 2,163.2 crores in 1987-88. The public sector enterprises (PSE) made 13 issues of bonds for an aggregate sum of Rs. 2,497.7 crores in 1988-89 (April-March) of which bonds of Rs. 100 crores were issued to the public and the rest were privately placed. In 1987-88, PSE bonds aggregating Rs. 2,738.9 crores had been issued-of which Rs. 1,678.9 crores were offered to the public and the balance were privately placed. Equity prices, which had been staging a recovery since May 1988, rose to higher levels during 1988-89 (July-June).

All-India and State level term-lending institutions sanctioned financial assistance aggregating Rs. 14,190.1 crores during 1988-89 (April-March) registering a rise of 54.4 per cent over that during the preceding year (Rs. 9,192.6 crores); during 1987-88 sanctions rose by 15.5 per cent as compared with 1986-87.

Disbursements by these institutions during 1988-89 (April-March) aggregated Rs. 9,045.0 crores, recording a rise of 33.5 per cent over the preceding year (Rs. 6,774.5 crores). During 1987-88 disbursements rose by 20.4 per cent over those during 1986-87. Investment agencies mobilised resources at unprecedented scales. Life Insurance Corporation of India and subsidiaries of public sector banks floated mutual funds.

### Developments in Policy and Institutional Structure

The overall thrust on liberalisation alongwith simplification of procedures so as to reduce the rigidities in the system and to improve investment climate continued during 1988-89 (July-June). Measures taken in this regard relating directly to the capital market are briefly stated in the following paragraphs.*

* Certain measures taken in respect of industrial policy also have an impact on capital market **albeit** indirectly. For details of these measures, see Chapter IV.

The ceilings on inter-corporate investments and loans were raised under Section 370 and 372 of the Companies Act in April 1989. A company is now entitled to invest in the shares of other companies upto 25.0 per cent of the share capital of investing companies i.e., subscribed equity share capital or aggregate of the paid-up equity and preference share capital whichever is less; earlier, the investment limit was restricted to 10.0 per cent of the subscribed capital of the other body-corporate. The ceiling on inter-corporate loans was raised from 10.0 per cent to 20.0 per cent of the aggregate subscribed capital and free reserves of the lending company.

The norms relating to foreign investments were relaxed in October 1988 to allow foreign equity participation even in the existing companies, subject to certain conditions. Such investments are allowed on a selective basis in high-tech areas subject to a ceiling of Rs. 10 crores, or 40 per cent of the paid-up share capital. Also, foreign companies are allowed to apply for the grant of industrial licences for establishing new undertakings in India.

During the year, three new instruments have been introduced for raising the resources from the capital market. In January 1989, the Controller of Capital Issues (CCI), Government of India, approved a new market instrument named partly convertible debenture (PCD). PCD has a shorter maturity period of 5 years and the issuing company provides buy-back facility relating to the residual non-convertible portion at the option of investors. Also, in pursuance of a decision announced in the Union Budget for 1988-89, the State Bank of India, in November 1988, issued its seven-year US dollar denominated non-repatriable NRI bonds and mobilised $ 97 million. Besides, with a view to facilitating investment in the Indian capital market by non-resident Indians, as also foreign individuals and institutions, the Unit Trust of India launched the India Growth Fund (IGF) in the USA and other countries in August 1988 for $ 60 million which was fully subscribed. IGF is listed on the New York Stock Exchange.

Various measures relating to secondary market were taken to widen and deepen the structure. Thus, to meet the rapid increase in investment activities, the Government granted recognition to three new stock exchanges, bringing the total number of stock exchanges in India to 18 by the end of June, 1989; in January 1989, the Jaipur Stock Exchange was recognised for one year and stock exchanges at Bhubaneshwar and Rajkot were granted recognition in June and July 1989, respectively. Further, the Madhya Pradesh Stock Exchange at Indore was given permanent recognition.

With a view to providing better and efficient services to investing public and to promote the development of capital market on healthy lines, the Government amended the Securities Contracts (Regulations) Rules 1957 in December 1988 to permit multiple membership of stock exchanges. Prior to this, a member of a recognised stock exchange in India was not permitted to be a member of any other stock exchange.

With a view to providing more liquidity to the investors, the Government removed the lock-in period of three years for the sale/transfer of shares allotted on a preferential basis to promotee shareholders of companies during the maiden public issue of any company.

Directives were issued to all stock exchanges in October 1988 by the Government to revert to the old system of trading in lots of 50 shares of Rs. 10 each and 5 shares of Rs. 100 each (earlier, it had been decided to raise the trading lots to a minimum of 100 shares of Rs. 10 each). The decision was taken in consultation with the chiefs of stock exchanges keeping in view the difficulties faced by the investors with the new system of trading in lots of 100 shares of Rs. 10 each.

Accepting the recommendations of Bansal Committee on share transfer procedures the Government directed stock exchanges in October 1988 to adhere to the 'pari passu' clause of treating old shares on par with new shares from rights issue or fresh capital issue for purpose of delivery subject to the adjustment of dividend.

The guideline regarding the minimum equity capital limit of a company for listing on the stock exchanges was revised and the minimum capital limit was raised from Rs. 1 crore to Rs. 3 crores and the minimum offer to the public for subscription from Rs. 0.6 crore to Rs. 1.80 crores effective February 13, 1989. On the one hand,this guideline is expected to improve liquidity after the listing and, on the other hand, pave the way for the emergence of a second tier security

market. The guideline, however, would not be applied to the consents granted earlier.

Another notable development was the introduction of the National Equity Index by the Bombay Stock Exchange. The BSE National Index is being compiled with 1983-84 as the base year and include 100 scrips, selected on an All-India basis, depending upon their importance and market activity. The coverage in respect of price quotations, however, is restricted to the major stock exchanges at Bombay, Calcutta, Delhi, Madras and Ahmedabad.

The year witnessed substantial fiscal reliefs for investments. The Union Budget for 1989-90 contained the following elements (i) raising of the exemption limit for the deduction of income-tax at source on interest income on debentures from Rs. 1,000 to Rs. 2,500,(ii) reduction in the rate of income tax from 25 per cent to 20 per cent on the income slab between Rs. 18,000 to Rs. 25,000, (iii) fiscal concessions in the form of preferential tax treatment to venture capital companies/venture capital funds (VCC/VCF) on capital gains at the rate applicable to non-corporate investors.

Important among other developments was announcement in the Union Budget for 1989-90 of an Equity Linked Saving Scheme through close end funds to be operated by the Unit Trust of India and other mutual funds, the objective of the scheme is to encourage investment in equity by households. Investment upto Rs. 10,000 in the funds floated under the scheme qualifies for full deduction from taxable income. The Budget also introduced a new saving instrument, National Savings Certificate (VIII Series) with tax benefit under Section 80 C of the Income Tax Act.

In conformity with the general trend towards encouraging small investors' participation in capital market, the Reserve Bank of India allowed the commercial banks to provide loans to employees for purchasing shares of their own companies upto 90 per cent of the purchase price subject to a ceiling of Rs. 20,000. Guidelines in respect of a new venture capital company/fund (VCC/VCF) were announced in November, 1988 so as to enable them to qualify for fiscal concessions. According to these guidelines, an approved VCC/VCF is eligible for preferential tax treatment on capital gains at the rate applicable to non-corporate investors provided that the VCC/VCF fulfils the stipulated conditions; important among the conditions are: (a) the VCC/VCF should have a minimum size of Rs. 10 crores and (b) the maximum total investment in a company should not exceed Rs. 10 crores.

During the year, the Securities and Exchange Board of India (SEBI), after a study of the existing legislations dealing with capital market, submitted a draft frame-work for comprehensive legislation in this regard. It has also set up a Standing Committee on Modernisation and Computerisation of Stock Exchanges to monitor, on a continuous basis, possible improvements in stock exchange infrastructure and procedures.

**Consents for Capital Issues**

During 1988-89 (April-March) approvals (consents/acknowledgements) granted by CCI to non-Government public and private limited companies for the issue of fresh captial, including premium allowed on shares but excluding bonus shares, aggregated Rs. 4,888.9 crores which was more than twice the amount of approvals granted during 1987-88 (Rs. 2,163.2 crores) (Table IX-1). Approvals for the issue of debentures more than tripled to Rs. 3,445.2 crores in 1988-89 from Rs. 723.6 crores in 1987-88 and accounted for almost the entire increase recorded in 1988-89. Approvals for the issues of equity and preference shares together (the latter constituting negligible proportion) showed a marginal increase to Rs. 1,443.7 crores in 1988-89 from Rs. 1,439.6 crores in 1987-88. Correspondingly, the share of debentures in the total approvals increased significantly to 70.5 per cent in 1988-89 from 33.5 per cent in 1987-88 and the share of equity and preference shares fell from 66.5 per cent in 1987-88 to 29.5 per cent in 1988-89. This trend was due mainly to a more than seven fold increase in the approvals for the issue of convertible debentures to Rs. 3,133.5 crores in 1988-89 from Rs. 377.0 crores in 1987-88. Consents to certain large issues by petrochemical and fertiliser companies and iron and steel companies contributed to this trend. Censents for the issue of non-convertible debentures, however, declined marginally from Rs. 346.6 crores in 1987-88 to Rs. 311.8 crores in 1988-89.

Approvals granted to the public sector enterprises for the issue of 13.0 per cent (taxable)

and 9.0 per cent (tax free) public sector bonds in 1988-89 amounted to Rs. 3,139.7 crores as compared with Rs. 1,921.8 crores in 1987-88, showing an increase of 63.4 per cent over the year.

**Capital Issues**

According to the data compiled by the Reserve Bank, the number of fresh capital issues (including premium but excluding bonus issues, miscellaneous issues and issues privately placed with financial institutions) by non-Government public limited companies rose to 337 during 1988-89 (April-March) from 224 during 1987-88. The amount offered by these issues during 1988-89 aggregated Rs. 3,135.2 crores showing an increase of 76.7 per cent over the previous year (Rs. 1,773.9 crores) (Table IX-2). Security-wise break-up indicates that debenture issues were more than three times at Rs. 2,124.9 crores during 1988-89 as compared with Rs. 664.2 crores during the preceding year. Issue of both convertible (CD) and non-convertible (NCD) debentures registered increases; the former more than tripled to Rs. 1,743.0 crores during 1988-89 from Rs. 525.7 crores during 1987-88 and the NCD more than doubled to Rs. 381.9 crores from Rs. 138.5 crores. Equity issues had, however, marginally declined to Rs. 1,007.0 crores during 1988-89 from Rs. 1,102.8 crores during1987-88. It would be worthwhile to note in this context that CDs also include element of equity issues.

In 1988-89 considerable increase was observed in the number of issues as well as amount issued by way of both prospectus and rights. The number of issues through prospectus increased to 191 in 1988-89 from 140 in 1987-88 (36.4 per cent) and the amount more than doubled to Rs. 1,543.7 crores from Rs. 706.8 crores in the preceding year. The number of rights issues increased to 146 in 1988-89 from 84 (73.8 per cent) in 1987-88 and the amount rose to Rs. 1,591.5 crores from Rs. 1,067.1 crores (49.1 per cent) in the preceding year (Table IX-3). Debenture issues accounted for four-fifths of the rights in 1988-89 as compared with 44.6 per cent in the preceding year. The number of capital issues by newly established companies i.e., companies which have made fresh issues but are

**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 | Grand Total (4+5) |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1983-84 | 319.5 | 609.3 | 928.8 | 94.7 | 1023.5 |
| | (34.4) | (65.6) | (100.0) | | |
| 1984-85 | 779.5 | 919.6 | 1699.1 | 88.3 | 1787.4 |
| | (45.9) | (54.1) | (100.0) | | |
| 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) | (100.0) | | |
| 1987-88 | 1439.6* | 723.6 | 2163.2* | 296.3 | 2459.5 |
| | (66.5) | (33.5) | (100.0) | | |
| 1988-89@ | 1443.7* | 3445.2 | 4888.9* | 195.5 | 5084.4 |
| | (29.5) | (70.5) | (100.0) | | |

@ Data are provisional.

+ The preference shares constitute a negligible portion.

* Includes premium allowed to be raised - Rs. 90 crores in 1986-87, Rs. 408.4 crores in 1987-88 and Rs. 110.7 crores in 1988-89.

*Note:* Figures in brackets in column 2 & 3 indicate percentage to totals in column no. 4

*Source:* The Controller of Capital Issues - Government of India.

**Table IX-2 : New Capital Issues during 1988-89 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 | 9 |
| 1986-87** | 425 | 1007.9 | 3 | 0.7 | 94 | 1556.3 | 522 | 2564.9 |
| 1987-88** | 173 | 1102.8 | 5 | 6.9 | 46 | 664.2 | 224 | 1773.9 |
| | | (9.4) | | | | (-57.3) | | (-30.8) |
| 1988-89** | 254 | 1007.0 | 6 | 3.3 | 77 | 2124.9 | 337 | 3135.2 |
| | | (-8.7) | | | | (219.9) | | (76.7) |
| **April-June** | | | | | | | | |
| 1988** | 36 | 153.8 | — | — | 9 | 129.1 | 45 | 282.9 |
| 1989** | 68 | 308.6 | 1 | 5.0 | 24 | 802.4 | 93 | 1116.0 |
| | | (100.6) | | | | (521.5) | | (294.5) |

* Other than term-lending institutions and exclude bonus issues.

** Provisional.

*Note:* Figures in brackets indicate percentage variation over the previous year period.

*Source:* 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.

yet to commence production business, increased to 131 in 1988-89 from 83 (57.8 per cent) in 1987-88. These issues mobilised Rs. 1,191.2 crores which was nearly four times that in the previous year (Rs. 316.6 crores). During 1988-89, capital issued by the leasing companies witnessed a steep decline to Rs. 2.0 crores from Rs. 7.2 crores during 1987-88.

Data on public response during 1988-89 are available in respect of 40 fresh capital issues by non-Government public limited companies; this showed that 30 issues were over-subscribed; 5 issues were fully-subscribed and another 5 were under-subscribed. Out of the 30 over-subscribed issues, 29 were equity issues and one was debenture issue.

According to the available data during 1988-89, public sector enterprises (PSE) made 13 issues of public sector bonds for Rs. 2,497.7 crores of which bonds of Rs. 100 crores were offered to the public and rest of the amount was privately placed with financial institutions, banks and their subsidiaries. Out of the aggregate bonds of PSEs in 1988-89, issues totalling Rs. 2,110.0 crores were tax-free interest bonds (at 9.0 per cent) and Rs. 387.7 crores were taxable interest bonds (at 13.0 per cent). During 1987-88, public sector enterprises had floated 13 bond issues for Rs. 2,738.9 crores of which Rs. 1,678.9 crores were through public subscription and Rs. 1,060.0 crores through private placement.

During the quarter April-June 1989, non-Government public limited companies floated 93 capital issues for Rs. 1,116.0 crores as compared with 45 issues for Rs. 282.9 crores issued during the corresponding period of 1988. Thus the former were more than two-fold in number and larger than three-fold in the amount issued. Security-wise classification shows that both debenture issues (24 for Rs. 802.4 crores as compared with 9 for Rs. 129.1 crores) and equity issues (68 issues for Rs. 308.6 crores as compared with 36 for Rs. 153.8 crores) were substantially higher. According to break-up into type of floatation, the available data for the period April-June 1989 show that there were 50 right issues for Rs. 481.9 crores and issues through prospectuses were 43 for Rs. 634.1 crores; the respective figures for the corresponding period of 1988 were 16 for Rs. 184.2 crores and 29 for Rs. 98.7 crores. During April-June 1989, 67 existing companies issued capital for Rs. 1,012.9 crores as compared with 21 issues for Rs. 196.9 crores in the corresponding period of 1988.

**Table IX-3 : Capital Issues during 1988-89 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 | Prefe-rence Shares | Deben-tures | Total (3+4+5) | Number of Issues | Equity Shares | Prefe-rence Shares | Deben-tures | Total (8+9+10) | Number of Issues (2+7) | Amount (6+11) | Number of Issues of new Cos. | Amount | Number of Issues of Exis-ting Cos. | Amount |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| 1986-87** | 414 | 891.4 | 0.2 | 482.3 | 1373.9 | 108 | 116.5 | 0.5 | 1074.0 | 1191.0 | 522 | 2564.9 | 246 | 734.3 | 276 | 1830.6 |
| | (30) | (17.8) | | | (17.8) | (10) | (17.6) | | | (17.6) | (40) | (35.4) | | | | |
| 1987-88** | 140 | 512.0 | 6.7 | 188.1 | 706.8 | 84 | 590.8 | 0.2 | 476.1 | 1067.1 | 224 | 1773.9 | 83 | 316.6 | 141 | 1457.3 |
| | (14) | (42.4) | | | (42.4) | (16) | (397.6) | | | (397.6) | (30) | (440.0) | | | | |
| 1988-89** | 191 | 687.4 | 1.8 | 854.5 | 1543.7 | 146 | 319.6 | 1.5 | 1270.4 | 1591.5 | 337 | 3135.2 | 131 | 1191.2 | 206 | 1944.0 |
| | (20) | (18.6) | | | (18.6) | (26) | (89.7) | | | (89.7) | (46) | (108.3) | | | | |
| **April-June** | | | | | | | | | | | | | | | | |
| 1988** | 29 | 96.3 | — | 2.4 | 98.7 | 16 | 57.5 | — | 126.7 | 184.2 | 45 | 282.9 | 24 | 86.0 | 21 | 196.9 |
| | (1) | (1.9) | | | (1.9) | (6) | (35.4) | | | (35.4) | (7) | (37.3) | | | | |
| 1989** | 43 | 162.2 | 5.0 | 466.9 | 634.1 | 50 | 146.4 | — | 335.5 | 481.9 | 93 | 1116.0 | 26 | 103.1 | 67 | 1012.9 |
| | (5) | (40.9) | | | (40.9) | (11) | (71.8) | | | (71.8) | (16) | (112.7) | | | | |

* Other than term-lending institutions and exclude bonus issues.

** Provisional.

*Note:* Figures in brackets indicate data in respect of premium on capital issues which are included in respective totals.

*Source:* 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.

**Capital Raised**

During 1988-89 capital raised (paid-up and excluding bonus shares) by non-Government companies against approvals (consents/acknowledgements) granted by CCI aggregated Rs.2,231.9 crores (provisional) which showed an increase of more than two and half times over that in 1987-88 (Rs. 602.7 crores) (Table IX-4). Security-wise break-up indicates that capital raised through equity and preference shares rose to Rs. 809.5 crores in 1988-89 from Rs. 242.3 crores in 1987-88; capital raised through debentures was also higher at Rs. 1,422.4 crores as compared to Rs. 360.4 crores in 1987-88.

**Industrial Security Market**

Equity prices on major stock exchanges moved generally sharply upwards during 1988-89 (July-June). Factors such as encouraging corporate results and investment climate, a remarkable growth in national income and continuation of liberalisation policy along with institutional support contributed to the general buoyancy. The Reserve Bank's All India Index Number of Ordinary Share Prices (base : 1980-81 = 100), which was 212.2 for the week ended June 25, 1988, improved to 215.1 at the end of July 1988. After recording a marginal decline during the earlier part of August 1988, the index recorded a continuous increase and reached 292.1 for the week ended December 17, 1988. Subsequently, the index fluctuated within a narrow range till the end of February 1989. Thereafter, it continued its uptrend to scale the peak level of 355.7 for the week ended April 29, 1989. The index fluctuated during May and June 1989 and stood at 347.5 for the week ended June 24, 1989. Similarly, the average index at 282.5 for the year 1988-89 (July-June) recorded a sizable increase of 37.6 per cent over that for 1987-88 (205.3) (Table IX-5). The short-period details during the year under review indicate that equity prices which recovered in May and the early part of June 1988, showed a slight decline in the remaining part of June until the first week of July 1988 due to general selling pressure. The easiness was checked by the sustained buying support extended by the financial institutions. The satisfactory progress of monsoon in various parts of the country and the Government's decision to hold in abeyance its earlier move to impose a levy on turnover of brokers and jobbers to finance the operations of the Securities and Exchange Board of India (SEBI) also cheered the market. The upswing was temporarily arrested in the second and third week of August due to profit taking at higher levels. With a view to improving the liquidity in the stock market, BSE authorities decided to increase a member-broker's overall limit for carryforward business from one settlement to the next from Rs. 50 lakhs to Rs. 1 crore with effect from August 25,1988. Towards the end of the month, equities recovered due to a sustained buying support from financial institutions and the flow of encouraging corporate news.

Equity prices firmed up in September 1988 and recorded a sharp rise in October 1988. They

**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) | 1986-87† | 1987-88† | 1988-89* |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| I. Equity and Preference Shares | 550.4 | 242.3 | 809.5 |
| a) Initial | 294.4 | 199.9 | 279.1 |
| b) Further | 256.0 | 42.4 | 530.4 |
| II. Debentures | 1467.7 | 360.4 | 1422.4 |
| **Total (I+II)** | **2018.1** | **602.7** | **2231.9** |

† Revised.

* Data are provisional and are likely to undergo significant revision in view of delays involved in receiving reports from some companies due to delays in finalisation of allotments and other reasons.

*Source:* Controller of Capital Issues, Government of India.

**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 |
| 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 |
| 1988-89 | 347.5 | 355.7 | 209.5 | 282.5 (+37.6) | 3.5 |

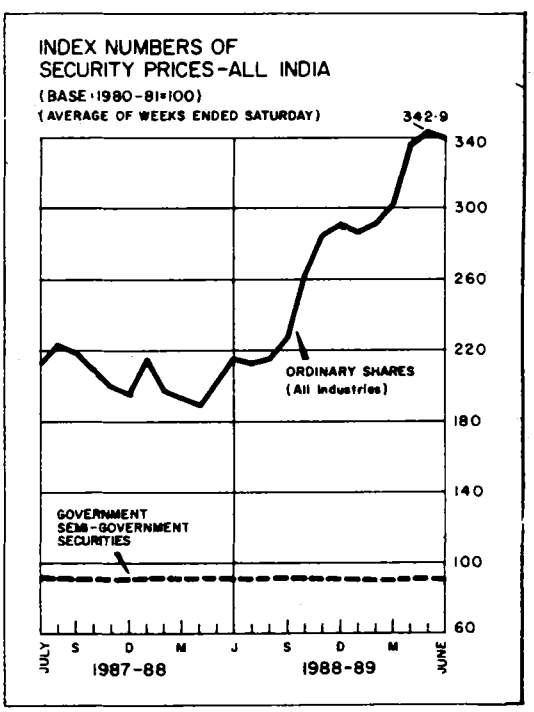
* Average of the index of last week (ended Saturday) of the months as the remaining weekly indices are not compiled.

*Note:* 1. Data on yield for 1983-84 relate to sample of companies covered in the series with base year (1970-71 = 100) and from 1984-85 onward relate to those with base year 1980-81.

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

gained further during November 1988 till the first half of December 1988 on institutional buying. The market sentiment was considerably aided by the announcement of a hike of Rs. 47 per tonne in the retention price of levy cement and a hike of 17.5 per cent in aluminium price. The continued investor support was another factor which helped the buoyancy.

In the second fortnight of December 1988, equity prices drifted downwards on account of lack of follow-up support and disinvestment selling. They continued to show weak tendency during January 1989 due partly to hesitancy shown by institutions to increase their investment in equities. Equities were subdued during February 1989 and moved in a narrow range following the presentation of Railway Budget which raised freight rates by around 11.0 per cent. Thereafter according to market reports, the proposals in the Union Budget for 1989-90 fell short of market expectations and the initial response was of a mild disappointment. With the realisation of the full implications of the proposals, there was a revival in the sentiment. As the Central Budget announced decontrol of cement and aluminium, scrips of companies



manufacturing these items showed improvement. Institutional buying support also encouraged the sentiment. Thus, the market recoverd gradually and began to respond positively to the sound economic fundamentals such as continued reports of good performance of the corporate sector, as also the encouraging budget proposals such as fiscal concessions granted to corporate income from exports and certain incentives provided for investment in equities.

The optimism witnessed in the second fortnight of March gained further strength throughout April. The buoyancy was due partly to the relaxation in inter-corporate investment policies mentioned earlier. Also the Union Finance Minister announced on April 27, 1989 excise and custom duty concessions to television industry, plastic goods manufacturers, small scale units, mini-cement plants, two wheelers, selected items of jute machinery, etc.

In contrast to the rising trend witnessed in April, equity prices drifted downward in May due to massive selling for profit taking with institutional support coming only in selected scrips and in a limited way. The other contributory factor was the book closure of most of the companies falling in the months from May to July due to the shift of accounting period. Equities recovered in the second fortnight of June following adequate fresh support on encouraging beginning of the monsoon.

*Yield on Industrial Securities*

The average gross yield on ordinary shares rose from 3.9 per cent in 1986-87 (July-June) to 4.3 per cent in 1987-88 but declined to 3.5 per cent in 1988-89; this implies that the buoyancy in the equity prices exceeded the increases in the rates of dividend declared by the companies.

**Open Market Operations**

During the fiscal year 1988-89, net sales of Central Government securities under the Reserve Bank's open market operations were marginally higher than those in 1987-88.

While purchases of securities increased by 39.9 per cent to Rs. 4,394.5 crores, sales of securities rose by 30.8 per cent to Rs. 5,645.6 crores in 1988-89. With the result, net sales of securities were marginally higher by Rs. 1,251.1 crores or 6.3 per cent in 1988-89. When purchases and sales of securities out of surplus funds of institutions like IDBI, EXIM Bank, NABARD etc., which have a buy-back arragement with the Reserve Bank are taken into account, net purchases amount to Rs. 136.5 crores in 1988-89 as against net sales of Rs. 848.7 crores in 1987-88 (Table IX-6).

During the first quarter of 1989-90, sales of securities amounted to Rs. 2,224.2 crores while purchases of securities amounted to Rs. 638.9 crores. As a result, there were net sales of Rs. 1,585.3 crores which were substantially higher than net sales of Rs. 399.8 crores in the first quarter of 1988-89.

Accounting for sale purchase transactions of IDBI, EXIM Bank, NABARD and other institutions, net sales in the first quarter of 1989-90 work out still higher at Rs. 1,794.3 crores.

**Gilt-edged Market**

The gilt-edged market remained generally steady during the financial year 1988-89. Among different groups of securities, prices of Central Government securities declined marginally by 0.5 percentage point while those of State Government securities increased fractionally by 0.1 percentage point. Prices of semi-Government securities remained unchanged throughout the year. Among Central Government securities, prices of a few medium-dated and long-dated securities recorded sizeable declines while those of short-dated securities ruled steady. There was no change in the coupon rates of Central Government securities during the year under review. The improvement in yields for the Central Government securities varied between 0.15 and 5.39 per cent during 1988-89 as compared with the range of 0.01 and 8.2 per cent in the previous year.

The all-India index number of Government and semi-Government security prices (base : 1980-81 = 100) fluctuated during 1988-89 within a narrow range of 90.1 and 90.6. At 90.1 at the end of March 1989, the index recorded a fall of 0.4 percentage point over the year as compared with a rise of 0.1 percentage point in the previous year.

The price index of Central Government securities fluctuated within a narrow range of 88.2 and 88.8 and registered a decline of 0.5 percentage point over the year in contrast to a

**Table IX-6 : Reserve Bank's Open Market Operation**

(Rupees crores)

| Year | Purchases | Sales | Net Sales |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 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) |
| 1988-89 | 4,394.5 | 5,645.6 | 1,251.1 |
| | (12,373.1) | (12,236.6) | (-136.5) |
| **April-June** | | | |
| 1988-89 | 1,600.0 | 1,999.8 | 399.8 |
| | (3,388.9) | (3,438.7) | (49.8) |
| 1989-90 | 638.9 | 2,224.2 | 1,585.3 |
| | (2,667.5) | (4,461.8) | (1,794.3) |

*Notes:* 1. Figures shown in brackets are inclusive of purchases and sales out of surplus funds of institutions like IDBI, EXIM Bank, NABARD, etc., which have a buy-back arrangement with RBI.
2. Figures are inclusive of purchases from and sales to State Governments.

rise of 0.3 percentage point in the previous year.

The index number of State Government securities moved during the year within a range of 97.8 and 98.7. At 98.0 at the end of March 1989, the index recorded a rise of 0.1 percentage point over the year 1988-89 in contrast to a decline of 0.2 percentage point in 1987-88. The index of semi-Government securities, which stood at 97.6 at end-March 1988, remained steady at that level throughout the financial year 1988-89 as against a decline of 1.1 percentage points in the previous year.

In Bombay, among Central Government securities which recorded price variation during 1988-89, prices of only two loans rose while those of other loans declined. The price of 6¼ per cent loan 1997 increased by Rs. 1.75 and that of 11½ per cent loan 2015 increased by Rs. 1.10; prices of other securities registered declines ranging between Re. 0.75 and Rs. 22.95, with consequent improvement in yields varying between 0.08 and 3.71 per cent (Table IX-7).

Prices of most State Governments loans remained steady. A few loans of Maharashtra, Andhra Pradesh, Gujarat, Tamil Nadu and Uttar Pradesh showed a mixed trend, some of them registering increases ranging between Re. 0.25 and Rs. 10.00 and some others registering declines ranging between Re. 1.00 and Rs. 12.00; among other State Government securities, the 6¾ per cent 1992 loan of Karnataka declined by Rs. 7.10.

During the first quarter of 1989-90 (April-June 1989), the all-India price index of Government and semi-Government securities moved narrowly between 90.1 and 90.6 (except for a sudden rise to 91.7 on May 27, 1989) recording a marginal increase of 0.5 percentage point over the quarter. The price index of Central Government securities moved within a range of 88.2 - 88.8 (except for a rise to 90.4 on May 27) registering a marginal rise of 0.6 percentage point over the quarter. The price index of State Government securities generally remained steady at around 98.0. The weekly index of semi-Government securities also fluctuated within a range of 98.4 and 97.6 during April-June 1989. In Bombay, prices of most of the Central Government securities remained steady in the first quarter of 1989-90. Prices of State Government securities also, by and large, remained steady during the quarter.

**Table IX-7 : Price and Yield Variations of Central Government Securities***

| Loans | | Prices as on (Rs.) | | | Variation | | Yield as on (Percent) | | | Variation | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 30.3.1988 | 31.3.1989 | 30.6.1989 | Col. 3 over Col. 2 | Col. 4 over Col. 3 | 30.3.1988 | 31.3.1989 | 30.6.1989 | Col. 8 over Col. 7 | Col. 9 over Col. 8 |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 6% | 1993 | — | — | 87.40 | — | — | — | — | 9.79 | — | — |
| 6¼% | 1997 | 81.75 | 83.50 | 83.50 | +1.75 | — | 9.14 | 9.04 | 9.10 | -0.10 | +0.06 |
| 7¼% | 1997 | 98.15 | 83.50 | 83.50 | -14.65 | — | 7.53 | 10.18 | 10.26 | +2.65 | +0.08 |
| 6% | 1998 | 72.90 | 67.00 | 67.00 | -5.90 | — | 10.06 | 11.56 | 11.68 | +1.50 | +0.12 |
| 6¼% | 1998 | 97.95 | 75.00 | 75.00 | -22.95 | — | 6.52 | 10.23 | 10.31 | +3.71 | +0.08 |
| 7% | 1998 | 85.05 | 76.00 | — | -9.05 | — | 9.31 | 11.03 | — | +1.72 | — |
| 7¾% | 2002 | 89.55 | 78.50 | 78.50 | -11.05 | — | 9.07 | 10.56 | 10.60 | +1.49 | +0.04 |
| 11% | 2002 | 101.75 | 100.25 | 100.25 | -1.50 | — | 10.78 | 10.97 | 10.97 | +0.19 | — |
| 6½% | 2005 | 64.00 | 57.00 | 57.00 | -7.00 | — | 10.50 | 11.70 | 11.75 | +1.20 | +0.05 |
| 8¼% | 2005 | 91.05 | 78.50 | 78.50 | -12.55 | — | 9.18 | 10.74 | 10.77 | +1.56 | +0.03 |
| 10½% | 2005 | 95.00 | 90.00 | — | -5.00 | — | 11.08 | 11.72 | — | +0.64 | — |
| 11½% | 2006 | 102.50 | 101.75 | 101.75 | -0.75 | — | 11.21 | 11.29 | 11.29 | +0.08 | — |
| 11½% | 2007 | 100.00@ | 101.40 | 101.40 | -1.40 | — | 11.50 | 11.34 | 11.34 | -0.16 | — |
| 8% | 2011 | 80.85 | 66.00 | 66.00 | -14.85 | — | 9.79 | 11.54 | 11.57 | +1.75 | +0.03 |
| 11½% | 2015 | 98.90 | 100.00 | 100.00 | +1.10 | — | 11.60 | 11.50 | 11.50 | -0.10 | — |

* Only those securities which have recorded price variation have been included in this table.
@ Issue Price.

### Term-lending and Other Financial Institutions

During 1988-89*, financial assistance sanctioned by all-India and State-level term lending institutions** as also investment institutions£ aggregated Rs. 14,190.1 crores recording a rise of 54.4 per cent over 1987-88 (Rs. 9,192.6 crores) (Table IX-8). Over the year disbursements by these institutions also increased by 33.5 per cent from Rs. 6,774.5 crores to Rs. 9,045.0 crores. During 1987-88, the growth rates in sanctions and disbursements were 15.5 per cent and 20.4 per cent, respectively.

**Table IX-8 : Institution-wise Financial Assistance**

(Year : April-March) (Rupees crores)

| Institutions | 1987-88 | | 1988-89† | | Percentage change in 1988-89 over 1987-88 | |
|---|---|---|---|---|---|---|
| | Sanctions | Disburse-ments | Sanctions | Disburse-ments | Sanctions | Disburse-ments |
| 1 | 2 | 3 | 4 | 5 | 6 | 7. |
| IDBI @ | 3,286.9 (35.8) | 2,673.2 (39.5) | 5,129.3 (36.2) | 3,611.2 (39.9) | +56.1 | +35.1 |
| IFCI @ | 1,046.0 (11.4) | 646.2 (9.5) | 1,892.0 (13.3) | 999.3 (11.0) | +80.9 | +54.6 |
| ICICI @ | 1,283.3 (14.0) | 771.2 (11.4) | 2,056.1 (14.5) | 1,085.6 (12.0) | +60.2 | +40.8 |
| IRBI | 186.5 (2.0) | 101.9 (1.5) | 212.1 (1.5) | 116.5 (1.3) | +13.7 | +14.3 |
| UTI | 1,024.8 (11.1) | 749.1 (11.1) | 1,970.8 (13.9) | 1,091.2 (12.1) | +92.3 | +45.7 |
| LIC | 362.7 (3.9) | 342.3 (5.1) | 660.2 (4.6) | 442.0 (4.9) | +82.0 | +29.1 |
| GIC and its subsidiaries | 98.3 (1.1) | 103.5 (1.5) | 122.6 (0.9) | 115.4 (1.3) | +24.7 | +11.5 |
| SFCs | 1,284.7 (14.0) | 938.0 (13.8) | 1,404.7 (9.9) | 1,053.1 (11.6) | +9.3 | +12.3 |
| SIDCs @ | 619.4 (6.7) | 449.1 (6.6) | 742.3 (5.2) | 530.7 (5.9) | +19.8 | +18.2 |
| **Total** | **9,192.6 (100.0)** | 6,774.5 **(100.0)** | 14,190.1 **(100.0)** | 9,045.0 **(100.0)** | +54.4 | +33.5 |

@ Includes guarantees † Provisional.

*Notes:* 1. The data include : a) deferred credit, leasing, venture capital and instalment sale by ICICI; b) equipment leasing by IFCI, c) 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 share of each institution in total.

*Source:* Respective financial institution.

Among the financial institutions, IDBI provided the largest share of assistance account-

* Unless otherwise stated, the data in the section relate to April-March.

** Industrial Development Bank of India, Industrial Finance Corporation of India, Industrial Credit and Investment Corporation of India Ltd., Industrial Reconstruction Bank of India, State Financial Corporations and State Industrial Development Corporations.

£ Unit Trust of India, Life Insurance Corporation of India, General Insurance Corporation of India and its subsidiaries.

ing for 36.2 per cent of sanctions and 39.9 per cent of disbursements by all-India and State-level term-lending institutions and investment institutions.

Another significant development was the emergence of a number of financial services institutions sponsored by the institutions in the public sector.

The performance of the financial institutions during 1988-89 are outlined below.

**(i) Industrial Development Bank of India (IDBI)**

Some of the policies initiated by the IDBI after March 1988, such as introduction of Energy Audit Subsidy (EAS) Scheme, Equipment Finance for Energy Conservation (EFEC) Scheme, Schemes for Bills discounting etc.,were reviewed in the last year's Report. Besides, the policy changes and new initiatives of IDBI during 1988-89 (April-March) included Exchange Risk Administration Scheme, procurement procedure for import of equipment, plant and machinery, relaxation in convertibility guidelines, relaxation in respect of modernisation assistance to sugar units, widening the scope of Textile Modernisation Fund Scheme and enlarging the scope and coverage of National Equity Fund Scheme. With the increasing importance of tourism in the country's economy, IDBI also decided to assist activities relating to tourism.

For extending a measure of protection to borrowers of foreign currency loans against exchange fluctuation risk, a scheme called Exchange Risk Administration Scheme was formulated by the three all-India financial institutions (IDBI, IFCI and ICICI) during the year. Loans for which agreements have been executed on or after April 1, 1989, are eligible under the scheme. A separate fund known as Exchange Risk Administration Fund (ERAF) has been set up in IDBI under the Development Assistance Fund with initial contribution of Rs. 5 crores each from the three institutions. The composite cost of foreign currency loan will consist of interest on loans, spread to financial institutions and exchange risk premium. The exchange premium element of the composite cost will be transferred to ERAF. The balance in ERAF (including interest earnings thereon) will be utilised for meeting exchange risk element of the foreign currency loans. The Government of India will extend support to the Fund in case of deficit and recoup the same in the event of a surplus.

With a view to ensuring that the procurement prices of imported equipment, plant and machinery are reasonable and competitive, IDBI along with other all-India financial institutions introduced a procedure similar to International Competitive Bidding to be followed by assisted concerns in respect of projects supported by institutional assistance and involving import of capital goods costing Rs. 25 crores or more.

On a review of the operation of convertibility guidelines, all-India institutions under the leadership of IDBI effected several relaxations in consultation with Government of India. Loans to hospital projects and 100 per cent export-oriented units (HEOUs) were exempted from convertibility stipulation. The exemption from conversion option available in respect of loan to new projects in category 'A' backward areas was extended to loans for diversification/ expansion projects in these areas. The institutions, however, reserve the right of conversion in case of defaults and further, in case of HEOUs, on losing their status of HEOUs.

The conditions for eligibility of sugar units under the scheme for modernisation were relaxed during the year to enable units which were in existence for 5 years (as against 10 years so far) to avail of the facility to attain the minimum economic size of 2,500 tcd. Furthermore, in the case of holding companies/State Corporations operating a number of sugar units as also for sugar mill companies in the public sector, a concessional component of limit upto Rs. 6 crores in loan assistance was made available to each unit going in for modernisation.

The scope of Textile Modernisation Fund Scheme was widened to cover powerlooms and independent process houses provided they are incorporated as public/private limited companies or industrial co-operatives. The special loan facility under the scheme meant for meeting part of the normal requirements of promoter's contribution, which was available only to weak but viable spinning and composite mills in the private sector, was extended to similar units in the co-operative sector.

The scope and coverage of National Equity

Fund Scheme was widened during the year. The scheme was extended to State Bank of India and its associate banks,thus covering the entire public sector banking network. The extent of refinance to banks in respect of term loans was also raised from 75 per cent to 100 per cent. Keeping in view the special characteristics of the North-Eastern States and the hilly States of Himachal Pradesh, Jammu and Kashmir and Sikkim, the State Financial Corporations and twin-function State Industrial Development Corporations in these States were also made eligible to operate the Scheme. To encourage rehabilitation of small-scale units, such units located in towns/cities having a population of 15 lakhs (as against 5 lakhs earlier) were made eligible for assistance under the scheme.

With a view to giving impetus to the tourism industry and render it eligible for assistance from the IDBI, the Government of India widened the scope of activity of the IDBI to include financing of setting up or development of tourism-related facilities like amusement parks, cultural centres, convention centres, restaurants, travel and transport (including those at airports), tourist service agencies and guidance and counselling service to tourists.

During 1988-89, financial assistance sanctioned and disbursed by IDBI (excluding loans to leasing companies and guarantees but including subscription to shares and bonds of financial institutions) amounted to Rs. 7,013.4 crores and Rs. 4,632.8 crores* respectively, showing an increase of 47.4 per cent and 28.2 per cent, respectively over that for 1987-88 (Rs. 4,759.1 crores and Rs. 3,613.6 crores,respectively) (Table IX-9). During 1987-88, the respective growth rates were 9.4 per cent and 17.4 per cent over 1986-87. The cumulative assistance sanctioned and disbursed as at end-March 1989 aggregated Rs. 33,880 crores and Rs. 24,700 crores, respectively. Direct assistance sanctioned by way of project loans, underwriting and direct subscription, and from Technical Development Fund aggregated Rs. 2,903.7 crores recording a rise of 87.4 per cent over that during the previous year (Rs. 1,549.2 crores). Disbursement of direct assistance at Rs. 1,798.5 crores during the year was also higher by 39.4 per cent over that during the previous year (Rs. 1,290.5 crores). Sanctions under project loans almost doubled from Rs. 1,424.2 crores in 1987-88 to Rs. 2,688.0 crores during 1988-89. Assistance by way of underwriting and direct subscriptions moved up significantly from Rs. 102.2 crores during 1987-88 to Rs. 172.0 crores during 1988-89.

During 1988-89 sanctions and disbursements of indirect assistance by way of refinance of industrial loans and bills financing aggregated Rs. 3,822.6 crores and Rs. 2,557.4 crores, respectively recording a rise of 26.2 per cent in sanctions and 18.4 per cent in disbursements over the preceding year. Sanctions of refinance assistance at Rs. 2,583.3 crores during the year 1988-89 recorded a rise of 31.0 per cent as compared with 1987-88 (Rs. 1,971.4 crores) and constituted 62.9 per cent of indirect assistance. Loans sanctioned and disbursed to leasing companies during the year 1988-89 amounted to Rs. 86.0 crores and Rs. 83.4 crores which were substantially higher than those in the last year.

Assistance sanctioned and disbursed by IDBI to backward areas amounted to Rs. 2,820.6 crores and Rs. 1,969.6 crores, respectively during the year 1988-89. As regards the small sector, the assistance sanctioned and disbursed during 1988-89 amounted to Rs. 1,925.7 crores and Rs. 1,319.2 crores, respectively, recording a rise of 27.5 per cent in sanctions and 22.8 per cent in disbursements than those in the previous year.

In order to be able to meet the foreign currency requirements of the industrial units, IDBI made several borrowings abroad during the year viz., a loan of Yen 10 billion from a Japanese Bank, a public bond issue of DM 250 million in the West German Capital Market, a line of credit of US $ 40 million equivalent from Nordiska Investeringbanken, a line of credit of Rs. 100 crores from the Bank for Foreign Economic Affairs of the USSR and a fixed rate loan of Yen 3 billion from a Japanese Bank. In the course of management of foreign currency liabilities, three swaps were concluded after which their dollar liabilities carry sub-LIBOR pricing and provide IDBI a better mix of currencies for onlending. A line of credit of Yen 19.5 billion contracted by the Government of India with the Japanese Overseas Economic Corporation Fund (OECF) is to be utilised for financing small-scale industries through the primary lending institutions under IDBI's refinance scheme. An amount equivalent to Rs. 78.5 crores was drawn from the OECF line of credit during the year.

* The accounting year has been changed to April-March.

**Table IX-9 : Scheme-wise Assistance Sanctioned and Disbursed by IDBI**

(Year : April-March) (Rupees crores)

| Scheme | Sanctions | | | Disbursements | | |
|---|---|---|---|---|---|---|
| | 1987-88 | 1988-89* | Cumulative sanctions upto end-March 1989* | 1987-88 | 1988-89* | Cumulative disbursements upto end-March 1989* |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **I. Direct Assistance** | **1,549.2** | **2,903.7** | **11,929.7** | **1,290.5** | **1,798.5** | **8,008.4** |
| 1. Project Finance | | | | | | |
| a) Project loans | 1,424.2 | 2,688.0 | 10,767.9 | 1,231.3 | 1,726.5 | 7,570.4 |
| b) Underwriting and direct subscription | 102.2 | 172.0 | 939.6 | 34.5 | 41.5 | 260.0 |
| 2. Technical Development Fund | 22.8 | 43.7 | 222.2 | 24.7 | 30.5 | 178.0 |
| **II. Indirect Assistance** | **3,209.9** | **4,109.7** | **21,949.9** | **2,323.1** | **2,834.3** | **16,691.6** |
| 3. Refinance of industrial loans | 1,971.4 | 2,583.3 | 13,102.3 | 1,364.7 | 1,627.0 | 9,798.1 |
| 4. Bills financing | 1,058.8 | 1,239.3 | 7,512.2 | 794.4 | 930.4 | 5,664.8 |
| 5. Loans to/investment in shares and bonds of other financial institutions | 169.2 | 282.6 | 1,252.0 | 152.4 | 269.4 | 1,160.3 |
| 6. Seed capital assistance | 10.5 | 4.5 | 83.4 | 11.6 | 7.5 | 68.4 |
| **Sub-Total (I+II)** | **4,759.1** | **7,013.4** | **33,879.6** | **3,613.6** | **4,632.8** | **24,700.0** |
| III. 7. Loans to leasing companies | 14.0 | 86.0 | 100.0 | — | 83.4 | 83.4 |
| 8. Guarantees for loans/deferred payments | 18.2 | 18.2 | 396.8 | — | 29.5 | 304.8 |
| 9. Other guarantees | — | — | 24.0 | — | — | 24.0 |
| **Grand Total** | **4,791.3** | **7,117.6** | **34,400.4** | **3,613.6** | **4,745.7** | **25,112.2** |

* Provisional.

*Note:* 1. In case of bills financing, sanctions mean face value of bills discounted/rediscounted while disbursements mean net cash outgo after deducting the discount/rediscount charges.

2. Direct finance excludes sanctions and disbursements relating to guarantees. These are shown in item III.

*Source:* Industrial Development Bank of India.

### (ii) Industrial Finance Corporation of India (IFCI)

The Industrial Finance Corporation of India (IFCI) usually provides for project financing and related financial services. In recent years, it has extended its scope of activities to promotional services which include funds support for technical consultancy, risk capital, venture capital,technology development, tourism and tourism related activities, housing, development of securities market and investor protection, upgradation of managerial skills, entrepreneurship development, science and technology, entrepreneurs' park, research,etc.

Financial assistance sanctioned and disbursed by IFCI under its project financing and equipment leasing schemes during 1988-89 aggregated Rs. 1,892.0 crores and Rs. 999.3 crores, respectively, recording a rise of 80.9 per cent in sanctions and 54.6 per cent in disbursements over those during the preceding year (Table IX—10). During 1987-88, sanctions and disbursements recorded a rise of 31.1 per cent and 40.7 per cent, respectively, over those in 1986-87. The assistance extended during 1988-89 was in respect of 844 projects as against 733 during 1987-88.

**Table IX-10 : Financial Assistance Sanctioned and Disbursed by IFCI**

(Year : April-March) (Rupees crores)

| Type of Assistance | 1987-88 | | 1988-89 | | Cumulative Assistance as at the end of March, 1989 | |
|---|---|---|---|---|---|---|
| | Sanctions | Disburse-ments | Sanctions | Disburse-ments | Sanctions | Disburse-ments |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Rupee loans | 823.5 | 505.4 | 1,244.4 | 783.1 | 4,654.3 | 3,418.3 |
| 2. Foreign currency loans | 140.8 | 119.3 | 458.6 | 121.2 | 1,247.7 | 673.4 |
| 3. Underwriting and direct subscriptions (i+ii) | 67.1 | 20.3 | 90.2 | 19.0 | 421.6 | 117.6 |
| i) Ordinary and Preference shares | 66.4 | 18.9 | 85.4 | 15.9 | 384.1 | 97.6 |
| ii) Debentures | 0.7 | 1.4 | 4.8 | 3.1 | 37.5 | 20.0 |
| 4. Guarantees | 14.6 | 1.2 | 8.3 | 10.1 | 132.7 | 76.9 |
| 5. Equipment leasing | — | — | 90.5 | 65.9 | 90.5 | 65.9 |
| **Total (1 to 4)** | **1,046.0** | **646.2** | **1,892.0** | **999.3** | **6,546.8** | **4,352.1** |

*Source:* Industrial Finance Corporation of India.

Facility-wise, classification indicates that sanctions and disbursements of rupee loans by IFCI during 1988-89 at Rs. 1,244.4 crores and Rs. 783.1 crores, respectively, were higher by 51.1 per cent and 54.9 per cent, respectively, over 1987-88. In the case of foreign currency loans, the amount sanctioned during the year at Rs. 458.6 crores was significantly higher by 225.7 per cent than in 1987-88, but disbursements at Rs. 121.2 crores rose merely by 1.6 per cent. While sanctions by way of underwriting and direct subscriptions rose from Rs. 67.1 crores in 1987-88 to Rs. 90.2 crores in 1988-89, disbursements under this head declined from Rs. 20.3 crores in 1987-88 to Rs. 19.0 crores during the year. Guarantees approved and issued by IFCI during the year aggregated Rs. 8.3 crores and Rs. 10.1 crores, respectively. Assistance sanctioned and disbursed under the Equipment Leasing Scheme, introduced during 1988-89, aggregated Rs. 90.5 crores and Rs. 65.9 crores, respectively.

Total direct loans (both rupee and foreign currency), sanctioned by IFCI during the year 1988-89, amounted to Rs. 1,624.0 crores, which was higher by 57.4 per cent over that for 1987-88 (Rs. 1,031.7 crores). Of these, sanctions during 1988-89 to newly established companies accounted for Rs. 955.6 crores (58.8 per cent) and to existing companies for Rs. 668.4 crores (41.2 per cent); corresponding figures for 1987-88 were Rs. 481.7 crores (46.7 per cent) and Rs. 550.0 crores (53.3 per cent). This shows a rise in the share of newly established companies in direct loans in 1988-89. Of the loans sanctioned to existing companies during 1988-89, Rs. 168.8 crores were for new projects and Rs. 499.6 crores for expansion of existing capacity, modernisation, etc.

A classification of financial assistance sanctioned by IFCI according to the type of projects showed that during 1988-89, it sanctioned Rs. 1,049.4 crores to 227 new projects as compared with Rs. 504.0 crores to 219 projects in the previous year.

For the development of backward areas, assistance of Rs. 940.7 crores (49.7 per cent of total assistance) was sanctioned to 408 projects in notified backward districts : the corresponding figures for 1987-88 were Rs. 508.3 crores (48.6 per cent) and 370 projects. For the purpose of modernisation, financial assistance of Rs. 341.0 crores was approved for 297 projects as compared with Rs. 197.1 crores for 205 projects during 1987-88; these sanctions included Rs. 142.3 crores to 84 projects under the Soft Loan Scheme for Modernisation (Rs. 70.7 crores to 67 projects during 1987-88), Rs. 38.8 crores for 72 projects under the Textile Modernisation Fund Scheme (Rs. 55.7 crores for 72 projects during the

previous year) and Rs. 8.6 crores for 6 projects under Jute Modernisation Scheme (Rs. 11.3 crores for 6 projects in 1987-88). As on March 31, 1989, cumulative assistance sanctioned by IFCI totalled Rs. 589.7 crores for 673 projects under Soft Loan Scheme for Modernisation. During the year, IFCI introduced two new schemes of financial assistance, viz., Scheme of Equipment Leasing, introduced on June 1, 1988, and 'Equipment Procurement Scheme', introduced on November 1, 1988. Under the Equipment Leasing Scheme, IFCI provides equipment-indigenous and/or imported to the existing industrial concerns by way of financial lease including master lease, syndicated lease and sale and lease back arrangement. The equipments provided on lease have generally been industrial equipment/machinery, EPABX systems, computers etc., for industrial units. Primary lease period is fixed for five to eight years and the secondary lease period is allowed to be renewed at the option of the lessee. Under this scheme, IFCI approved assistance of Rs. 90.5 crores to 28 concerns during the year.

Under the Equipment Procurement Scheme, IFCI agrees to procure equipment and then resell the same by endorsement of documents to the eligible existing industrial concerns in corporate or co-operative sectors. The invoice value of the equipment with standing charges is recovered from the buyer concern in monthly instalments spread over period of 3 to 5 years. The scheme offers the benefits of depreciation and investment allowance to the beneficiary concerns. During the five-month period ended March 1989, IFCI sanctioned Rs. 4.6 crores to 8 concerns under this scheme.

IFCI is diversifying its activities in the field of merchant banking to encompass other financial services, particularly project counselling, syndication of loans, formulation of rehabilitation programmes/packages, assignments relating to amalgamation and mergers, etc., and trusteeship assignments. Since inception upto March 31, 1989, the Merchant Banking Department of IFCI has managed 77 assignments which included 59 public issues mobilising funds of the order of Rs. 538.4 crores. Further, following the amendments made in the Securities Contracts (Regulation) Rules, 1957, IFCI was admitted as a member of Delhi Stock Exchange with effect from March 8, 1989.

In its promotional role, IFCI has introduced for the first time, two entrepreneurship development schemes viz., (i) Scheme for encouraging entrepreneurship development in tourism and tourism-related activities and (ii) Scheme for encouraging self-employment amongst persons rendered jobless due to retrenchment or rationalisation in sick industrial units in the organised sector undergoing a process of rehabilitation/revival. To begin with, the first scheme was made applicable to the State of Goa and second was introduced on an experimental basis, in the State of Madhya Pradesh.

In all, IFCI has fourteen promotional schemes of which eight are consultancy fee subsidy schemes, four are interest subsidy schemes and two are entrepreneurial development schemes.

During the year under review, in August 1988, IFCI raised a Euro-dollar loan of US $ 100 million in two tranches of US $ 50 million each from Swiss Bank Corporation Investment Banking Ltd.(SBCI). The second tranche of loan is convertible into Swiss Franc in August 1990 at the option of the arranger viz. SBCI. Further, in December 1988, IFCI raised a Euro-Yen loan of Japanese Yen 20 billion from a syndicate of Foreign banks with Security Pacific Hoare Govett Asia Ltd as agents with interest swap in US $ through Merrill Lynch Capital Services Inc. The cumulative commercial borrowings in foreign currency as on March 31, 1989 of IFCI aggregated US $ 270 million, Japanese Yen 40 billion and DM 15 million.

### (iii) Industrial Credit and Investment Corporation of India Limited (ICICI)

During 1988-89, the Industrial Credit and Investment Corporation of India Ltd. (ICICI) sanctioned and disbursed financial assistance totalling Rs. 2,056.0 crores and Rs. 1,085.6 crores, respectively, under its various schemes as compared with Rs. 1,283.3 crores and Rs. 771.2 crores, respectively, during 1987-88 (Table IX-11). The substantial increases in sanction of assistance during the year (60.2 per cent) and disbursements (40.8 per cent) were due mainly to the assistance extended to the large gas-based fertiliser projects. The respective growth rates in the sanctions and disbursements during 1987-88 were 14.8 per cent and 10.9 per cent over 1986-87.

Sanctions of rupee loans recorded a rise of

**Table IX-11 : Financial Assistance Sanctioned and Disbursed by ICICI**

(Year : April-March) (Rupees crores)

| Type of Assistance | 1987-88 | | 1988-89 | | Cumulative Assistance as at the end of March, 1989 | |
|---|---|---|---|---|---|---|
| | Sanctions | Disburse-ments | Sanctions | Disburse-ments | Sanctions | Disburse-ments |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Rupee loans | 700.1 | 408.6 | 940.3 | 631.3 | 3,659.9 | 2,654.9 |
| 2. Foreign currency loans | 195.6 | 195.4 | 538.8 | 172.1 | 3,486.0 | 2,791.4 |
| 3. Underwriting and direct subscriptions (a+b) | 72.9 | 28.8 | 109.0 | 36.6 | 574.3 | 241.2 |
| a) Ordinary and Preference shares | 67.5 | 22.7 | 80.4 | 22.3 | 434.3 | 147.8 |
| b) Debentures | 5.4 | 6.1 | 28.6 | 14.3 | 140.0 | 93.4 |
| **Total** | **968.6** | **632.8** | **1,588.1** | **840.0** | **7,720.2** | **5,687.5** |
| 4. Guarantees | 26.1 | 1.6 | 7.8 | 2.2 | 203.7 | 5.8 |
| 5. Deferred credit | 163.4 | 69.8 | 266.0 | 146.8 | 887.4 | 504.3 |
| 6. Leasing | 121.3 | 64.0 | 152.5 | 86.2 | 455.6 | 233.9 |
| 7. Instalment Sale | — | — | 41.4 | 10.2 | 41.4 | 10.2 |
| 8. Venture capital | 3.9 | 3.0 | 0.2 | 0.2 | 5.0 | 3.4 |
| **Total (1 to 8)** | **1,283.3** | **771.2** | **2,056.0** | **1,085.6** | **9,313.3** | **6,445.1** |

*Source:* Industrial Credit and Investment Corporation of India Ltd.

34.3 per cent over the year to Rs. 940.3 crores in 1988-89 from Rs. 700.1 crores in 1987-88. Disbursements of rupee loans also rose by 54.5 per cent over the year to Rs. 631.3 crores in 1988-89 from Rs. 408.6 crores in 1987-88. While sanctions of foreign currency loans during the year rose nearly more than two and a half times to Rs. 538.8 crores from Rs. 195.6 crores in 1987-88, disbursements of foreign currency loans declined to Rs. 172.1 crores in 1988-89 from Rs. 195.4 crores in 1987-88.

Approvals and disbursements by way of underwriting and direct subscriptions rose from Rs. 72.9 crores and Rs. 28.8 crores, respectively, in 1987-88 to Rs. 109.0 crores and Rs. 36.6 crores, respectively, in 1988-89. Sanctions and disbursements by way of deferred credit also registered a rise from Rs. 163.4 crores and Rs. 69.8 crores, respectively, in 1987-88 to Rs. 266.0 crores and Rs. 146.8 crores, respectively, in 1988-89. Assistance sanctioned and disbursed in respect of leasing rose from Rs. 121.3 crores and Rs. 64.0 crores in 1987-88 to Rs. 152.5 crores and Rs. 86.2 crores respectively, during 1988-89. On the other hand, assistance approved under Venture Capital Scheme declined during the year from Rs. 3.9 crores in 1987-88 to Rs. 0.2 crore in 1988-89 and disbursements also declined from Rs. 3.0 crores in 1987-88 to Rs. 0.2 crore in 1988-89. A new instrument of credit instalment sale was introduced during the year for the benefit of clients seeking capital allowances concomitant with equipment ownership. Sanctions and disbursements under the Instalment Sale Scheme during the year were Rs. 41.4 crores and Rs. 10.2 crores, respectively.

Assistance sanctioned during the year to projects in areas classified as backward amounted to Rs. 881.9 crores which recorded a significant rise of 85.4 per cent over that in 1987-88 (Rs. 475.7 crores). Disbursements of assistance to backward areas during the year rose by 26.3 per cent to Rs. 442.2 crores in 1988-89 from Rs. 350.0 crores in 1987-88. Sanctions to projects in backward areas constituted 55.3 per cent of total direct loans sanctioned in 1988-89; the proportion was 47.8 per cent in 1987-88.

Direct loans sanctioned to newly established companies more than doubled from Rs. 298.3 crores in 1987-88 to Rs. 674.5 crores in 1988-89

and accounted for 42.3 per cent of total direct loans (Rs. 1,596.0 crores) sanctioned during the year. Sanctions of direct loans to new projects as also for expansion of existing capacity, modernisation, etc., rose from Rs. 87.8 crores and Rs. 509.6 crores, respectively, in 1987-88 to Rs. 132.9 crores and Rs. 788.6 crores, respectively, in 1988-89.

During the year, the Merchant Banking Division of ICICI completed 117 assignments and helped its clients raise Rs. 2,033.0 crores including Rs. 1,418.0 crores from the capital market. The Merchant Banking Division commenced advisory services on foreign currency management and resources, overseas company floatation and management/organisational restructuring.

During 1988-89, financial assistance of Rs. 5.9 crores was sanctioned to 9 projects for the development of innovative products and processes in areas like biotechnology, computer software and pharmaceuticals under the Program for the Advancement of Commercial Technolgy (PACT). Each of the assisted projects is jointly undertaken by an Indian and a U.S. Company. Till the end of March 1989, financial assistance of Rs. 9 crores was sanctioned to 20 projects under PACT.

Under the Program for Acceleration of Commercial Energy Research (PACER) assistance of Rs. 87 lakhs was provided to two consortium R & D projects and three research projects in the area of energy conservation and renewable energy sources.

ICICI provided assistance of Rs. 79 lakhs in the form of loans and grants for setting up three Science & Technology Enterpreneurs' Parks (STEPs) in Tamil Nadu, Bihar and Karnataka. The STEPs aim at providing opportunities for experimentation to prospective entrepreneurs.

ICICI has contributed Rs. 5 crores to the Exchange Risk Administration Fund (ERAF) set up in IDBI. In order to further diversify the investor base and reduce the cost of Euro-Currency Paper (ECP) borrowings, ICICI undertook an exercise to secure international credit rating from Moody's Investors Service, New York. In September 1988, ICICI was awarded a rating of Prime 1 (P-1) which is the highest possible rating for a short term instrument like ECP.

To meet the foreign currency components of its clients ICICI had raised loans abroad. It signed with World Bank a loan agreement for US $ 105 million, for the Industrial Financial and Technical Assistance project, with DEG for DM 25 million for financing Indo-German Joint Ventures, and with Swedish Export Credit Corporation for US $ 10 million for financing import of goods and services from Sweden.

In addition, ICICI mobilised by way of commercial borrowings, foreign currency resources equivalent to US $ 165 million from international commercial markets.

In August 1988, ICICI made its third bond issue of SF 80 million in Swiss capital market. In addition, a variable rate loan of $ 90 million equivalent was transacted in October 1988.

As for rupee resources, ICICI raised Rs. 523 crores during 1988-89. This comprised three bond issue for Rs. 286 crores and the balance was at commercial rates from other sources.

### (iv) Industrial Reconstruction Bank of India (IRBI)*

An important development relating to IRBI during the year under review was the raising of the paid up capital by Rs. 14.5 crores to Rs. 112.5 crores. Secondly, in February 1989, IRBI introduced an Equipment Finance Scheme (EFS) under which finance is extended to industrial concerns having a satisfactory record of performance and sound financial position for acquiring machinery/equipment.

During 1988-89 (April-March), IRBI sanctioned and disbursed total assistance amounting to Rs. 212.1 crores and Rs. 116.5 crores, respectively, recording a rise of 13.7 per cent and 14.3 per cent, respectively, over the previous year (Rs. 186.5 crores and Rs. 101.9 crores, respectively) (Table IX-12). During 1987-88, sanctions and disbursements rose by 25.3 per cent and 7.7 per cent, respectively, over those in 1986-87.

* The accounting year of the Industrial Reconstruction Bank of India has been changed from July-June to April-March from 1988-89.

**Table IX-12 : Financial Assistance Sanctioned and Disbursed by Industrial Reconstruction Bank of India**
(Year : April-March) (Rupees crores)

| Type of Assistance | 1987-88 | | 1988-89 | |
|---|---|---|---|---|
| | Sanctioned | Disbursed | Sanctioned | Disbursed |
| 1 | 2 | 3 | 4 | 5 |
| 1. Term loans | 180.3 (127) | 100.1 | 209.4 (159) | 114.5 |
| 2. Textile Processing Corporation of India Ltd. (TPCI) | 0.4 | 0.2 | 0.8 | 0.5 |
| 3. Equipment leasing scheme | 2.2 | 0.1 | 0.1 | 0.1 |
| 4. Hire-purchase | 1.6 | 0.4 | 0.9 | 1.1 |
| 5. Lines of credit scheme for assisting sick small-scale units through various state level agencies | 2.0 | 1.1 | 0.5 | 0.1 |
| 6. Equipment finance scheme # | — | — | 0.4 | 0.2 |
| **Total** | **186.5** | **101.9** | **212.1** | **116.5** |

# Introduced in February 1989.
*Note:* Figures in brackets indicate number of fresh cases sanctioned during the year.
*Source:* Industrial Reconstruction Bank of India.

Term loan assistance (gross) sanctioned during the year by IRBI aggregated Rs. 209.4 crores to 159 units during the year as against Rs. 180.3 crores to 127 units during 1987-88. Disbursements of term loans during 1988-89 totalled Rs. 114.5 crores which was higher by 14 per cent against Rs. 100.1 crores in the preceding year. Among the units which received assistance from IRBI during the year, the private sector units including those whose management was taken over by Government accounted for the largest share of term loans sanctioned (Rs. 166.8 crores or 79 per cent) followed by public sector units (Rs. 27.5 crores or 13 per cent), the co-operative and joint sectors accounted for the residual.

While extending financial assistance, IRBI emphasises the need for continuing modernisation, improving productive capacity and upgrading of technology of industrial units for their survival. All types of units (sick/weak/non-sick) are extended such assistance through loans for capital expenditure, addition of balancing equipment, etc. Cumulatively, as at the end of March 1989, IRBI had sanctioned term loans of Rs. 643.4 crores (73 per cent) and disbursed Rs. 395.9 crores (66 per cent) for this purpose. Term loan assistance sanctioned and disbursed to projects in notified backward areas amounted to Rs. 78.7 crores and Rs. 33.8 crores, respectively.

Under the Equipment Finance Scheme (EFS) during February-March 1989, Rs. 0.5 crore was sanctioned to two units and Rs. 0.2 crore was disbursed to one of them.

The value of industrial output reported by 263 assisted units of IRBI during 1988-89 was Rs. 9,500 crores and these units accounted for employment of about 3,95,000 persons. The value added by these units was estimated at Rs. 2,078 crores. Addition to fixed assets amounted to Rs. 940 crores. The contribution of these units to the Government revenue by way of payment of excise duty, sales tax, income tax, etc., amounted to Rs. 1,173 crores.

During the year, IRBI received a loan of Rs. 0.5 crore from the Central Government, taking the total of such borrowings to Rs. 175.8 crores by the end of March 1989. It also borrowed from Reserve Bank of India's NIC (LTO) Fund a sum of Rs. 45.0 crores; the total of such borrowings by IRBI at the end of March 1989 from this Fund stood at Rs. 70.0 crores. Besides, IRBI raised Rs. 53.7 crores through issue of bonds. Total net market borrowings through bonds stood at Rs. 222.7 crores as at the end of March 1989.

**(v) Unit Trust of India (UTI)**

During the year under review (July 1988-June 1989), UTI introduced the following new schemes: (a) India Growth Fund, (b) Monthly Income Unit Scheme with Extra Bonus Plus Growth (11) 1988, (c) Growing Income Unit Scheme, 1989 and (d) Monthly Income Unit Scheme with Extra Bonus Plus Growth (12) 1989.

UTI launched its second off-shore scheme viz., India Growth Fund (IGF) in August 1988 to cater to the needs of investors in USA, Canada, UK and Japan and offering them a chance to participate in the Indian capital market. The issue of S 60 million was fully subscribed and its net proceeds are being invested in corporate securities in India. The shares of IGF are listed on the New York Stock Exchange.

The 11th series of Monthly Income Unit Scheme was reintroduced in November 1988 and was on tap during November 1, 1988 to December 31, 1988. Since the scheme is socially oriented, sales under the scheme were kept open to individuals, physically and mentally handicapped persons and charitable and religious trusts which are engaged in the activities benefitting a social cause. As in the previous series, the rate of dividend and minimum capital appreciation were kept at 12 per cent per annum and 2 per cent per annum, respectively. Also, the bonus dividend, payable in the fourth year, is retained. Sales under the scheme aggregated Rs. 343.4 crores.

The Growing Income Unit Scheme, 1989 (GIUS - 89) was launched on January 1,1989. GIUS-89 provided a progressive dividend ranging between 12.5 per cent to 14 per cent per annum. The scheme was open for the resident individuals and eligible institutions. Investors under this scheme were given the option either to receive dividend at half-yearly rests or cumulation of the dividend on half-yearly basis. The option for cumulation assures doubling of original amount invested in five years and six months. Sales under the scheme were on tap for two months and a sum of Rs. 197.5 crores was mobilised under this scheme.

On May 1 1989,UTI launched the Monthly Income Unit Scheme with Extra Bonus Plus Growth (12) 1989 which assured payment of dividend at the rate of 12 per cent per annum, capital appreciation of 2 per cent at the end of fifth year and payment of bonus dividend in the fourth year. The scheme mobilised a net amount of Rs. 175.0 crores during its one-month of operation.

Though fresh sales were kept open under Monthly Income Scheme(MIS) (10) 1988 during April-May 1988, the unit-holders of MIS (1) 83 and GIUS-83 were allowed to convert their unit-holdings and invest in MIS (10)-88 on maturity of their holdings on July 1, 1988.

During March and April 1989, a rights issue of Mastershare was made in the ratio of 1:2 at a premium of Rs. 2 per share of the face value of Rs. 10. The issue was more than fully subscribed and a sum of Rs. 98.98 crores (including premium) was mobilised. The Trust has decided to retain the additional subscription within the 15 per cent excess limit of the rights issue.

UTI recorded an impressive all round growth in its operations during 1988-89 (July-June). Gross sales of units under all the schemes during the year aggregated Rs. 3,701.3 crores registering a rise of 79.7 per cent over the sales during 1987-88 (Rs. 2,059.4 crores) (Table IX-13). Over 9.21 lakh new unit-holding accounts were added during the year taking the total to about 50 lakhs and the total investible funds moved up significantly by 61.1 per cent from Rs. 6,738.8 crores in 1987-88 to Rs. 10,858.5 crores in 1988-89.

Sale of units under the main scheme, Unit Scheme 1964, rose significantly from Rs. 859.3 crores in 1987-88 to Rs. 2,316.0 crores in 1988-89 and the unit capital under this scheme more than doubled from Rs. 2,222.1 crores as on June 30, 1988 to Rs. 4,468.4 crores as on June 30, 1989. The sales under the Unit-Linked Insurance Plan, 1971 also rose from Rs. 89.8 crores in 1987-88 to Rs. 128.4 crores during 1988-89. Sales under the Capital Gains Unit Scheme (CGS 1983) rose to Rs. 259.7 crores in 1988-89 from Rs. 247.6 crores in the previous year.

The factors contributing to such impressive growth in the sales of units are : (i) stepping-up of dividend rates under various schemes, (ii) launching of certain new schemes, (iii) strengthening of the existing marketing net-work and (iv) introduction of new and innovative strategies adopted to further penetrate into the hitherto

**Table IX-13 : 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) |
|---|---|---|---|---|---|---|---|
| | 1987-88 | 1988-89* | 1987-88 | 1988-89* | 1988 | 1989* | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1. Unit Scheme 1964 | 859.3(a) | 2,316.0 | 43.8 | 69.7 | 2,222.1(b) | 4468.4 | 18.00 |
| 2. Unit Scheme 1971 (ULIP) | 89.8(c) | 128.4 | 21.4 | 42.6 | 259.2 | 345.1 | 13.75 |
| 3. CRTS 1981 | 23.2 | 24.2 | 1.3 | 0.5 | 71.3 | 95.0 | 15.00 |
| 4. Income Unit Scheme 1982 | — | — | 21.1(d) | — | — | — | — |
| 5. Monthly Income Unit Schemes (1,2,3,4 & 5) £ | — | — | 4.7† | 16.1 | 38.3 | 22.2 | 12.00(p) |
| 6. Growth and Income Unit Scheme 1983 | — | — | 0.1 | 12.6 | 12.6 | — | — |
| 7. Capital Gains Unit Scheme 1983 | 247.6(e) | 259.7 | 194.6 | 234.6 | 875.0 | 900.0 | 9.70 |
| 8. Income Unit Scheme 1985 | 3.6(f) | 4.0(f) | 1.7 | 2.3 | 62.6 | 64.3 | 13.00 |
| 9. Monthly Income Unit Scheme with Growth (6) - 1986 | — | — | 0.6(g) | 0.5 | 74.3 | 73.8 | 12.00 |
| 10. Growing Income Unit Scheme - 1986 | 10.7(f) | 12.3(f) | 0.3(g) | 2.9 | 125.5 | 134.9 | 13.00 |
| 11. Children's Gift Growth Fund Unit Scheme - 1986 | 71.7(h) | 77.7(h) | .. | — | 128.9 | 206.6 | 12.50 |
| 12. India Fund Unit Scheme - 1986 | — | — | — | — | 139.5 | 139.5 | 6.00 |
| 13. Mutual Fund (Subsidiary) Unit Scheme - 1986 | — | 75.2 | — | — | 150.4 | 225.7 | 18.00 |
| 14. Monthly Income Unit Scheme with Extra Growth (7) 1986 | — | — | 0.6(g) | 0.6 | 76.9 | 76.3 | 12.00 |
| 15. Growing Income Unit Scheme - 1987 | 8.7(i) | 9.4(f) | 0.1(g) | 0.2 | 113.9 | 123.1 | 12.50 |
| 16. Monthly Income Unit Scheme with Extra Bonus and Growth (8) -1987 | 4.1(j) | .. | 1.1(g) | 1.5 | 358.9 | 357.5 | 12.00 |
| 17. Growing Income Unit Scheme II - 1987 | 45.3(k) | 2.2(f) | ..(g) | 0.1 | 45.2 | 47.4 | 12.50 |
| 18. Growing Income Unit Scheme III-1987 | 164.7(l) | 13.3(f) | 0.1(g) | 0.3 | 164.6 | 177.5 | 12.00 |
| 19. Monthly Income Unit Scheme with Extra Bonus Plus Growth (9) - 1987 | 249.3 | .. | 0.3(g) | 0.7 | 249.0 | 248.3 | 12.00 |
| 20. Parents'Gift and Growth Fund Unit Scheme 1987 | 10.0 | 6.0(m) | — | — | 10.0 | 16.0 | 12.50 |
| 21. Monthly Income Unit Scheme with Extra Bonus Plus Growth (10) - 1988 | 271.4 | 15.1 | — | 0.6 | 271.4 | 285.9 | 12.00 |
| 22. India Growth Fund | — | 41.9 | — | — | — | 41.9 | (n) |
| 23. Monthly Income Unit Scheme with Extra Bonus Plus Growth (11) - 1988 | — | 343.4 | — | — | — | 343.4 | 12.00 |
| 24. Growing Income Unit Scheme - 1989 | — | 197.5 | — | — | — | 197.5 | 12.50 |
| 25. Monthly Income Unit Scheme with Extra Bonus Plus Growth (12) - 1989 | — | 175.0 | — | — | — | 175.0 | 12.00 |
| **Total** | **2,059.4** | **3,701.3** | **291.8(d)** | **385.8** | **5,449.6** | **8,765.3** | |

† Includes premature withdrawals amounting to Rs. 53 lakhs. * Provisional.

£ Monthly Income Unit Schemes 1 and 2 relate to 1983, 3 to 1984 and 4 and 5 to 1985.

Negligible.

(a) Includes sales of Rs. 0.43 lakh pertaining to 1986-87.

(b) After adjustments due to inter plan transactions.

(c) Includes sales from re-investment of dividend, initial contribution from new entrants and renewal contribution from existing members.

(d) Excludes conversions to GIUS-II amounting to Rs. 4,419.73 lakhs.

(e) Includes Rs. 22.54 lakhs pertaining to 1986-87 effected as sales on clearance of objections during 1987-88.

(f) Sales on account of dividend re-investment.

(g) Premature withdrawals.

(h) Includes re-investment of dividend amounting to Rs. 561.30 lakhs for 1987-88.

(i) Represents sales on clearance of objections (Rs. 3.33 lakhs) and re-investment of dividend under the cumulative scheme (Rs. 869.62 lakhs).

(j) Sales on clearance of objections.

(k) Represents conversions from IUS-82 scheme on its maturity on July 1, 1987 and re-investment under the cumulative scheme.

(l) Includes sales from re-investment of dividend under the cumulative scheme (Rs. 345.75 lakhs).

Scheme-wise break-up of figures may not add up to the aggregate due to rounding off of certain figures.

(m) Includes re-investment of dividend.

(n) Interim Dividend. (30 cents per share which was issued at US $ 12 per share). A final dividend of $ 1.10 per share has since been declared for the period ended December 31, 1989.

untapped savings sources.

Repurchases under the various schemes amounted to Rs. 385.8 crores during the year as against Rs. 291.8 crores in the previous year. Dividends declared by the Trust during 1988-89 showed improvement over the previous year. For the main Unit Scheme 1964, the dividend rate was raised from 16.5 per cent in 1987-88 to 18 per cent including a one-time Silver Jubilee dividend of 1 per cent in 1988-89; for Unit Scheme 1971 (ULIP), the rate of dividend was raised from 13.50 per cent to 13.75 per cent; for Unit Scheme for Charitable Religious Trusts and Registered Societies (CRTS) 1981, from 14.75 per cent to 15.00 per cent; for Capital Gains Unit Scheme, 1983 from 9.60 per cent to 9.70 per cent; and for Mastershares from 13 per cent to 18 per cent.

Financial assistance sanctioned and disbursed during 1988-89 (April-March) by UTI through subscriptions to (a) privately placed debentures/special deposits/loans, and (b) public issues of ordinary and preference shares and (c) debentures/bonds aggregated Rs. 1,970.8 crores and Rs. 1,091.2 crores, respectively, showing an increase of 92.3 per cent in sanctions and 45.7 per cent in disbursements from Rs. 1,024.8 crores and Rs. 749.1 crores, respectively, in 1987-88 (Table IX-14).

Outstanding unit capital under all the schemes as on June 30, 1989 aggregated Rs. 8,765.3 crores as compared with Rs. 5,449.6 crores a year ago registering an increase of 60.8 per cent. Total investible funds of UTI also rose further to Rs. 10,858.5 crores as on June 30, 1989 from Rs. 6,738.8 crores as on June 30, 1988 (61.1 per cent) (Table IX-15). UTI invested Rs. 7,904.8 crores (72.8 per cent) in the corporate sector and Rs. 2,953.7 crores (27.2 per cent) in banks and Government securities. The investment in the corporate sector included Rs. 2,139.8 crores (19.7 per cent) in equity shares, Rs. 14.3 crores (0.1 per cent) in preference shares, Rs. 3,068.2 crores (28.2 per cent) in debentures, Rs. 42.6 crores (0.4 per cent) as advance deposits against investment commitments, Rs. 220.0 crores (2.0 per cent) as unsecured short-term deposits, Rs. 17.8 crores (0.2 per cent) as bridge finance, Rs. 20.2 crores (0.2 per cent) as application money, Rs. 743.9 crores (6.9 per cent) as term-loans, and Rs. 1,637.9 crores (15.1 per cent) as special deposits.

### (vi) Life Insurance Corporation of India (LIC)

A salient feature pertinent to activity of LIC during the year was the establishment of a mutual fund by it. With a view to providing management of investment portfolio even to small investors in rural and semi-urban areas, it has set up the LIC Mutual Fund as a separate

**Table IX-14 : Financial Assistance Sanctioned and Disbursed by Unit Trust of India**

(Year : April-March) (Rupees crores)

| Type of Assistance | 1987-88 | | 1988-89 | | Cumulative Assistance as at the end of March, 1989 | |
|---|---|---|---|---|---|---|
| | Sanctions | Disbursements | Sanctions | Disbursements | Sanctions | Disbursements |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Subscriptions to privately placed debentures/special deposits/loans | 584.5 | 420.2 | 1,211.4 | 608.6 | 2,589.5 | 1,543.0 |
| 2. Underwriting and direct subscriptions (a+b) | 440.3 | 328.9 | 759.4 | 482.6 | 2,611.1 | 1,991.6 |
| a) Ordinary and Preference shares | 77.8 | 56.9 | 106.8 | 86.5 | 316.6 | 217.4 |
| b) Debentures/Bonds | 362.5 | 272.0 | 652.6 | 396.1 | 2,294.5 | 1,774.2 |
| **Total** | **1,024.8** | **749.1** | **1,970.8** | **1,091.2** | **5,200.6** | **3,534.6** |

*Source:* Unit Trust of India.

**Table IX-15 : Investments by Unit Trust of India**

(Rupees crores)

| Type of Investment | As on June 30, 1988 | As on June 30, 1989* |
|---|---|---|
| 1 | 2 | 3 |
| A. Total Investment in Corporate Sector (1 to 10) | 4,905.6 | 7,904.8 |
| | (72.8) | (72.8) |
| *Of which:* | | |
| 1. Equity shares | 1,138.9 | 2,139.8 |
| | (16.9) | (19.7) |
| 2. Preference shares | 12.7 | 14.3 |
| | (0.2) | (0.1) |
| 3. Debentures | 2,786.3 | 3,068.2 |
| | (41.3) | (28.2) |
| 4. Advance deposits against investment commitment | 43.9 | 42.6 |
| | (0.6) | (0.4) |
| 5. Unsecured short-term deposits | 159.1 | 220.0 |
| | (2.4) | (2.0) |
| 6. Bridge finance | 27.4 | 17.8 |
| | (0.4) | (0.2) |
| 7. Application money | 4.0 | 20.2 |
| | (0.1) | (0.2) |
| 8. Advance call | 0.1 | 0.1 |
| | (**) | (**) |
| 9. Term loans | 384.6 | 743.9 |
| | (5.7) | (6.9) |
| 10. Special deposits | 348.6 | 1,637.9 |
| | (5.2) | (15.1) |
| B. Other investments (11 and 12) | 1,833.2 | 2,953.7 |
| | (27.2) | (27.2) |
| *Of which:* | | |
| 11. Deposits and other investments with banks | 1,296.3 | 1,680.2 |
| | (19.2) | (15.5) |
| 12. Government securities | 536.9 | 1,273.5 |
| | (8.0) | (11.7) |
| **C. Total investible funds (A+B)** | **6,738.8** | **10,858.5** |
| | **(100.0)** | **(100.0)** |

* Provisional.
** Negligible.
*Note:* Figures in brackets indicate percentage to total.
*Source:* Unit Trust of India.

trust. In June 1989, the LIC Mutual Fund launched three schemes, viz., Dhanashree-1989, Dhanaraksha-1989 and Dhanavriddhi - 1989.

Dhanashree - 1989 was a close-ended scheme which was kept open for subscription from June 19 to October 31, 1989. The face value of Dhanashree units is Rs. 10 each and the minimum number of units to be purchased was 100. The scheme guaranteed a minimum dividend of 12.0 per cent per annum and is entitled for tax relief under section 80 L of Income-Tax Act. Investments are eligible for exemption under section 5 (1) of the Wealth Tax Act. The duration of the scheme would be six to seven years. The units could be encashed after a lock-in period of one year.

Dhanaraksha - 1989 is an open-ended recurring investment scheme with life and accident cover. The face value of the units is Rs. 10 each. Minimum annual instalment amount is Rs. 1,000 and the maximum is Rs. 6,000 per year for the 10-year Plan and

Rs. 4,000 per year for the 15-year Plan. Dividend declared for every year will be reinvested in the units at the rate prevailing for the issue of new units. The scheme provides for life insurance cover equal to the contributions yet to be made for the unexpired period of the scheme and accident cover equal to the amount of life cover subject to an aggregate ceiling of Rs. 30,000. On maturity, the investor is paid an additional amount of 10 per cent and 15 per cent, respectively, for the target amount. The units can be encashed after a lock-in period of three years but are not transferable. The subscription and returns under the scheme are eligible for fiscal concessions under sections 80 C and 80 L of Income Tax Act and section 5 (1) of Wealth Tax Act.

Dhanavriddhi - 1989 is an open-ended fixed investment scheme with increasing life cover and accident cover. The face value of the units is Rs. 10 each and the minimum number to be purchased is 100. There is no maximum limit but available life insurance cover is limited to a maximum of Rs. 40,000. Investments in the scheme have to be retained for a fixed period of seven years or ten years. The scheme guarantees a minimum dividend of 12 per cent per annum and this would be converted into units at the prevailing price and reinvested in the scheme. The life cover increases every year by 10 percentage points of the contribution amount from the second to the sixth year and remains fixed at 150 percentage points of the contribution thereafter. The units which are not transferable can be encashed after a lock-in period of three years. While returns are eligible for tax relief under section 80 L of Income Tax Act, investments are eligible for tax concessions under section 5 (1) of the Wealth Tax Act.

During the year 1988-89, LIC sanctioned and disbursed financial assistance† aggregating Rs. 660.2 crores and Rs. 442.0 crores, respectively (Table IX-16). Both sanctions and disbursements recorded a rise of 82.0 per cent and 29.1 per cent as compared with that in the preceding year. Assistance sanctioned and disbursed by way of term loans nearly doubled to Rs. 325.7 crores and Rs. 243.8 crores, respec-

**Table IX-16 : Assistance Sanctioned and Disbursed by LIC**

(Year : April-March) (Rupees crores)

| Type of Assistance | 1987-88 | | 1988-89 | | Amount outstanding as on March 31, 1989 |
|---|---|---|---|---|---|
| | Sanctions | Disbursements | Sanctions | Disbursements | |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1. Term loans (a+b+c) | 127.2 | 128.6 | 325.7 | 243.8 | 678.8* |
| a) Public Sector | 41.0 | 37.5 | 177.0 | 168.2 | |
| b) Private Sector (including Joint Sector) | 79.2 | 85.5 | 146.7 | 72.6 | |
| c) Co-operative Sector | 7.0 | 5.6 | 2.0 | 3.0 | |
| 2. Underwriting and direct subscriptions (i+ii) | 235.5 | 213.7 | 334.5 | 198.2 | 1,682.3@ |
| i) Ordinary and Preference shares | 46.7 | 27.6 | 38.3 | 42.7 | 512.7 |
| ii) Debentures | 188.8 | 186.1 | 296.2 | 155.5 | 1,169.6 |
| **Total (1+2)** | **362.7** | **342.3** | **660.2** | **442.0** | **2,361.1** |

@ This includes market purchases also.
* Sector-wise break-up is not available.
*Source:* Life Insurance Corporation of India.

† Relates to term loans (excluding short and medium term loans) to companies, industrial co-operatives, sugar co-operatives and underwriting of and direct subscriptions (including subscription to right issues) to shares and debentures of companies.

tively, in 1988-89 from Rs. 127.2 crores and Rs. 128.6 crores, respectively, in 1987-88. Sanctions by way of underwriting and direct subscriptions increased to Rs. 334.5 crores from Rs. 235.5 crores in the previous year, but disbursements declined to Rs. 198.2 crores from Rs. 213.7 crores in 1987-88.

As at the end of March 1989, investments of LIC stood at Rs. 17,342.7 crores which was higher by 17.9 per cent as compared with that at the end of March 1988 (Rs. 14,712.2 crores) (Table IX-17). According to the sector-wise classification, investments in the public sector accounted for Rs. 14,032.4 crores (80.9 per cent), followed by the private sector with Rs. 1,973.1 crores (11.4 per cent), the co-operative sector with Rs. 1,240.1 crores (7.1 per cent), and joint sector with Rs. 97.1 crores (0.6 per cent) as at the end of March 1989.

respectively, recording a rise of 24.7 per cent in sanctions and 11.5 per cent in disbursements as compared with those in the preceding year (Rs. 98.3 crores and Rs. 103.5 crores, respectively) (Table IX-18).

Sanctions by way of loans rose from Rs. 25.2 crores in 1987-88 to Rs. 36.1 crores in 1988-89 (43.3 per cent) and those by way of underwriting and direct subscription to shares and debentures from Rs. 73.1 crores to Rs. 86.5 crores (18.3 per cent).

The bulk of the total sanctions (72.6 per cent) were for projects in the private sector, followed by joint sector (24.5 per cent) and public sector (2.9 per cent) during 1988-89; during 1987-88 private sector accounted for 74.5 per cent of total sanctions, public sector for 23.1 per cent and joint sector for 2.4 per cent.

**Table IX-17 : Investments by LIC**

(Rupees crores)

| Sector | As at the end of March | | Net during April-March | |
|---|---|---|---|---|
| | 1988 | 1989 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 |
| 1. Public Sector | 11,837.3 | 14,032.4 | 1,578.0 | 2,195.1 |
| 2. Private Sector | 1,624.8 | 1,973.1 | 216.7 | 348.3 |
| 3. Joint Sector | 88.4 | 97.1 | 1.6 | 8.7 |
| 4. Co-operative Sector | 1,161.7 | 1,240.1 | 103.0 | 78.4 |
| **Total (1 to 4)** | **14,712.2** | **17,342.7** | **1,899.3** | **2,630.5** |

*Source:* Life Insurance Corporation of India.

There was no change in the rates of interest charged by LIC to industrial co-operatives and companies during the year.

### (vii) General Insurance Corporation of India (GIC)

Financial assistance sanctioned and disbursed by the General Insurance Corporation of India (GIC) and its subsidiaries@ during 1988-89 aggregated Rs. 122.6 crores and Rs. 115.4 crores,

Assistance sanctioned to projects in areas classified as backward rose significantly to Rs. 2.2 crores during the year from Rs. 0.1 crore in 1987-88, while disbursements to projects in backward areas declined to Rs. 4.8 crores in 1988-89 from Rs. 5.6 crores in the preceding year.

Investments by GIC and its Subsidiaries

Investments by GIC and its subsidiaries as at the end of March 1989* rose to Rs. 3,444.3 crores from Rs. 2,855.5 crores as at the end of

@ National Insurance Co. Ltd., The New India Assurance Co. Ltd., The Oriental Insurance Co. Ltd. and United India Insurance Co. Ltd.

* The accounting year has been changed from January-December to April-March, from 1988-89.

**Table IX-18 : Financial Assistance Sanctioned and Disbursed by GIC and its Subsidiaries**

(Year : April-March) (Rupees crores)

| | 1987-88 | | 1988-89 | |
|---|---|---|---|---|
| | Sanctions | Disburse-ments | Sanctions | Disburse-ments |
| 1 | 2 | 3 | 4 | 5 |
| **A. Type of Assistance** | | | | |
| 1. Loans | 25.2 | 25.7 | 36.1 | 20.1 |
| 2. Underwriting and direct subscriptions (i+ii) | 73.1 | 77.8 | 86.5 | 95.3 |
| i) Ordinary & Preference shares | 3.2 | 22.0 | 9.3 | 29.6 |
| ii) Debentures | 69.9 | 55.8 | 77.2 | 65.7 |
| **Total** | **98.3** | **103.5** | **122.6** | **115.4** |
| **B. Sector-wise Assistance** | | | | |
| 1. Public Sector | 22.7 | 3.7 | 3.5 | 2.9 |
| 2. Private Sector | 73.2 | 95.4 | 89.0 | 101.2 |
| 3. Joint Sector | 2.4 | 2.0 | 30.1 | 11.3 |
| 4. Co-operative Sector | — | 2.4 | — | — |
| **Total** | **98.3** | **103.5** | **122.6** | **115.4** |
| *Of which:* for Projects in Backward Areas | 0.1 | 5.6 | 2.2 | 4.8 |

*Source:* General Insurance Corporation of India.

December 1987 (Table IX-19). Sector-wise, investments in the public sector accounted for Rs. 2,248.7 crores (65.3 per cent) of the total investment, while the private sector investment was of Rs. 1,145.2 crores (33.2 per cent), the joint sector investment was of Rs. 49.1 crores (1.4 per cent) and co-operative sector investment was of Rs. 1.3 crores (0.1 per cent) as at the end of March 1989.

### (viii) Export-Import Bank of India (Exim Bank)

An important development relating to the Export-Import Bank of India (Exim Bank) during the period January 1988 to March 1989@ was the enhancement of its paid-up capital by Rs. 26.0 crores to Rs. 220.5 crores; the paid-up capital of the Bank is wholly contributed by the Government of India.

During 1988-89, Exim Bank introduced two new lending programmes. The Export Product Development Programme provides for loans for the purpose of R & D, export product development and quality assurance activities which form part of a firm's export programme. Sanctions under this programme aggregated Rs. 3.7 crores. The second new lending programme, called, Bulk Import Finance, is meant for extending assistance to commercial banks. Under this scheme, commercial banks avail of finance by discounting promissory notes drawn in their favour by importer borrowers. Commercial banks in India on lending to firms engaged in the import of eligible industrial inputs can avail of this facility. Outstandings under this scheme, at the close of the year, stood at Rs. 100.0 crores, the maximum limit authorised by the Reserve Bank of India.

During the period January 1988 - March 1989, the inter-institutional Working Group, consist-

@ Following the change in the accounting year of Exim Bank from the calendar to financial year, the operations reviewed here pertain to the period January 1988-March 1989.

**Table IX-19 : Investments by GIC and its Subsidiaries**

(Rupees crores)

| Sector | As at the end of | | | Net during | | |
|---|---|---|---|---|---|---|
| | December 1986 | December 1987 | March 1989* | January-December 1986 | January-December 1987 | January 1988 to March 1989* |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Public Sector | 1,624.2 (64.7) | 1,843.9 (64.6) | 2,248.7 (65.3) | 243.9 | 219.7 | 404.8 |
| 2. Private Sector | 856.4 (34.1) | 975.6 (34.2) | 1,145.2 (33.2) | 122.8 | 119.2 | 169.6 |
| i) Equity shares | 301.9 | 351.6 | 431.7 | 20.9 | 49.6 | 80.1 |
| ii) Preference shares | 44.3 | 45.3 | 48.3 | -2.0 | 1.1 | 3.0 |
| iii) Debentures | 330.1 | 371.2 | 400.9 | 83.4 | 41.1 | 29.7 |
| iv) Loans | 160.1 | 175.4 | 218.5 | 16.6 | 15.3 | 43.1 |
| v) Others | 20.0 | 32.1 | 45.8 | 3.9 | 12.1 | 13.7 |
| 3. Joint Sector | 31.3 (1.2) | 35.9 (1.2) | 49.1 (1.4) | 8.5 | 4.6 | 13.2 |
| i) Shares & Debentures | 14.8 | 17.7 | 33.2 | 3.0 | 2.9 | 15.5 |
| ii) Loans | 16.0 | 18.2 | 15.9 | 5.0 | 2.2 | -2.3 |
| iii) Others | 0.5 | — | — | 0.5 | -0.5 | — |
| 4. Co-operative Sector | 0.1 | 0.1 | 1.3 | -1.1 | — | 1.2 |
| **Total** | **2,512.0** | **2,855.5** | **3,444.3** | **374.1** | **343.5** | **588.8** |

*Note :* Figures in brackets indicate percentage to total.

* The accounting year of GIC and its subsidiaries has been changed from January - December to April - March from 1988-89.

*Source :* General Insurance Corporation of India.

ing of the Exim Bank, Reserve Bank of India, Export Credit Guarantee Corporation of India Limited, Government of India and exporter's bankers, which functions under auspices of the Exim Bank, approved 232 export bids valued at Rs. 5,387.0 crores for products, construction, turnkey and consultancy projects. The Group considers, for approval, export bids involving deferred payment and/or issue of guarantees where value of a bid is beyond Rs. 20.0 crores. Bids valued between Rs. 5.0 crores and Rs. 20.0 crores are cleared by Exim Bank and bids up to Rs. 5.0 crores by commercial banks, if they are in conformity with the RBI guidelines. However, all projects for consultancy and technology services are considered by the Working Group regardless of value, if they require any financial assistance from the Indian banking sector.

During 1988-89, the Exim Bank made commitments-in-principle** amounting to Rs. 569.7 crores of funded assistance and Rs. 407.0 crores of non-funded assistance for export bids and for enlarged scope of work on on-going projects. Of the export bids approved by Working Group/Exim Bank till the end of March 1989, the Indian exporters secured 109 contracts worth Rs. 570.0 crores. These contracts consisted of construction projects (Rs. 180.0 crores), turnkey projects (Rs. 160.0 crores), supply contracts (Rs. 150.0 crores), and consultancy contracts (Rs. 77.3 crores). While the value of construction projects, turnkey projects and supply contracts secured increased by 22.0 per cent, 10.0 per cent and 9.0 per cent,

** Commitments-in-principle refer to the extent of financial assistance committed by Exim Bank at the bid submission stage. Such commitments are converted into sanctions when bids materialise as contracts.

respectively, as compared# with that in the last year, the value of consultancy projects, however, declined by 72.9 per cent.

During January 1988-March 1989, Exim Bank sanctioned assistance totalling Rs. 1,062.5 crores under its various programmes of funded assistance of which utilisation aggregated Rs. 913.0 crores; sanctions recorded a rise of 23.1 per cent and utilisations 22.0 per cent (Table IX-20). Exim Bank sanctioned non-funded assistance in the form of guarantees worth Rs. 48.8 crores and issued guarantees valued at Rs. 69.8 crores during the period under review. Outstandings under funded and non-funded programmes as at the end of March 1989 stood at Rs. 934.7 crores and Rs. 537.3 crores, respectively, compared with Rs. 723.1 crores and Rs. 484.4 crores, respectively, as at the end of December 1987. Of the funded sanctions, construction and consultancy services£ accounted for 29 per cent and half of utilisations of credit (Table IX-21). Other industries in respect of which funded assistance was sanctioned and utilised were railway rolling stock, textile machinery, commercial vehicles, computer software, pharmaceuticals, power

**Table IX-20 : Operations of Export-Import Bank of India**

(Rupees crores)

| Lending Programmes | 1987* | | | 1988-89** | | |
|---|---|---|---|---|---|---|
| | Sanctions | Utilisations | Outstandings | Sanctions | Utilisations | Outstandings |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **A. Funded** | | | | | | |
| Direct Financial Assistance | 132.2 | 56.9 | 225.8 | 128.2 | 111.8 | 265.6 |
| Lines of Credit | 20.7 | 25.5 | 141.2 | 87.4 | 9.1 | 140.6 |
| Pre-shipment Credit | 90.3 | 98.5 | 94.4 | 112.6 | 95.9 | 134.1 |
| Export Credit Refinance | 45.1 | 26.3 | 82.4 | 51.9 | 32.3 | 74.0 |
| Buyer's Credit | — | 3.6 | 64.5 | 4.6 | 13.3 | 72.0 |
| Export Bills Rediscounting | 200.0 | 200.0 | 50.0 | 252.4 | 252.4 | 50.0 |
| Small Scale Industry Export Bills Rediscounting | 179.5 | 179.5 | 50.0 | 250.0 | 250.0 | 50.0 |
| Finance for Export Oriented Units | 11.1 | 7.8 | 10.7 | 43.7 | 26.6 | 34.1 |
| Agency Credit Line | 1.5 | 0.2 | 0.2 | 6.3 | 4.3 | 4.2 |
| Finance for Computer Software Exports | 9.8 | — | — | 14.9 | 9.8 | 6.3 |
| Bulk Import Finance | — | — | — | 106.8 | 106.8 | 100.0 |
| Other funded assistance | 0.3 | 0.6 | 3.9 | 3.7 | 0.7 | 3.8 |
| **Total** | **690.5** | **598.9** | **723.1** | **1,062.5** | **913.0** | **934.7** |
| **B. Non-Funded@** | **51.7** | **54.7@@** | **484.4** | **48.8** | **69.8@@** | **537.3** |

* 1987 refers to calendar year.

** 1988-89 refers to the period January 1988 to March 1989 due to change in accounting year.

@ 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 or utilisation and in the case of outstandings, at the end of the year.

*Source:* Export-Import Bank of India.

# For comparison purpose, January 1988 to March 1989 figures have been annualised for 12 months on proportionate basis and compared with January 1987 to December 1987 figures.

£ In the industry-wise analysis, pre-shipment credit, export bills rediscounting scheme, small scale industry bills rediscounting scheme and bulk import finance are excluded from sanctions and utilisations while lines of credit are excluded from sanctions because of conceptual and data related reasons.

**Table IX-21 : Operations of Exim Bank — Industry-wise***
**(January 1988 - March 1989)**

(Rupees crores)

| Lending Programmes | Construction goods and services | | Commercial vehicles | | Textile Machinery | | Bicycle and bicycle parts | | Consultancy services | | Railway rolling stock | | Computer software | | 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** | **65.98** | **74.65** | **13.79** | **5.03** | **17.26** | **19.23** | **14.17** | **1.91** | **4.94** | **20.07** | **21.60** | **1.15** | **17.26** | **9.82** | **94.67** | **77.32** |
| Direct Financial Assistance | 45.40 | 53.11 | 13.79 | 4.44 | 4.02 | 8.05 | 9.00 | 0.19 | 4.94 | 13.61 | 21.00 | 0.37 | — | — | 30.08 | 34.06 |
| Lines of Credit | — | — | — | 0.59 | — | 0.51 | — | 0.53 | — | — | — | — | — | — | — | 7.46 |
| Export Credit Refinance | 20.58 | 15.54 | — | — | 8.64 | 3.41 | 5.17 | 1.19 | — | 6.46 | 0.60 | 0.78 | — | — | 16.95 | 4.88 |
| Buyer's Credit | — | 6.00 | — | — | 4.60 | 7.26 | — | — | — | — | — | — | — | — | — | 0.04 |
| Finance for Export Oriented Units | — | — | — | — | — | — | — | — | — | — | — | — | 2.37 | — | 41.32 | 26.57 |
| Agency Credit Line. | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 6.32 | 4.31 |
| Finance for Computer Software Exports | — | — | — | — | — | — | — | — | — | — | — | — | 14.89 | 9.82 | — | — |
| **Non-funded Programmes†** | **27.34** | **37.59** | **—** | **—** | **—** | **—** | **—** | **—** | **3.04** | **3.32** | **—** | **—** | **—** | **—** | **18.37** | **28.91** |

S : Sanctions. U : Utilisations.

† Comprises guarantees sanctioned and guarantees disbursed.

@ : Others include electronic components, steel pipes, stationery items, fabrics, jewellery, granite tiles, paper mill machinery, glass machinery & spares, air compressors, earth moving equipment, leather and leather goods, chemicals, machinery & equipments, miscellaneous industrial machinery exports, auto ancillaries and spares, cement plant machinery, sugar plant industry, machine tools, diesel engines and pumps, power generation and distribution equipment, pharmaceuticals, surgical instruments and telecommunications. This classification also includes units set up for export of granite slabs and tombs, sports goods, garments and leather goods.

* Because of conceptual and data-related reasons, this table excludes sanctions and utilisations under Export Bills Rediscounting, SSI Export Bills Rediscounting and Pre-shipment Credit and sanctions under Lines of Credit.

*Source:* Export-Import Bank of India.

generation and distribution equipment, leather and leather goods and paper mill machinery. In the case of non-funded assistance, construction projects accounted for 54 per cent of sanctions and 50 per cent of issues.

Region-wise, the largest share of funded assistance* sanctioned were for exports to West Asia (35 per cent) followed by Sub-Saharan Africa (30 per cent), Americas (14 per cent) and South East Asia/Far East and Pacific (13 per cent) (Table IX-22).

Funded assistance was utilised mainly in respect of exports to West Asia (65 per cent) followed by the Americas (12 per cent), Sub-saharan Africa (8 per cent) and South East Asia/Far East & Pacific (7 per cent). Major part of non-funded assistance was for projects in South-East Asia, Far East and Pacific followed by West Asia.

The sources of finance for the Exim Bank have also undergone certain changes. Of the four sources currently providing finance for the Bank, the share of long term loans from the Government of India has declined and the Bank has increasingly relied on the domestic bond market, besides long term loans from the Reserve Bank of India. Also, it has resorted to the international markets for term funds five times, in seven years.

**Table IX-22 : Operations of Exim Bank - Regionwise (January 1988 - March 1989)**

(Rupees crores)

| Lending Programmes | West Asia | | Africa* | | Americas | | South East Asia/Far East & Pacific | | South Asia | |
|---|---|---|---|---|---|---|---|---|---|---|
| | S | U | S | U | S | U | S | U | S | U |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| **Funded Programmes** | **96.31** | **115.52** | **85.66** | **18.45** | **36.98** | **17.56** | **35.78** | **10.23** | **17.49** | **6.72** |
| Buyer's Credit | — | 6.00 | — | 0.04 | 4.60 | 7.26 | — | — | — | — |
| Direct Financial Assistance | 62.16 | 87.25 | 40.59 | 9.41 | 5.61 | 8.42 | 4.96 | 4.62 | 14.91 | 4.13 |
| Export Credit Refinance | 34.15 | 22.27 | 12.07 | 5.04 | 0.77 | 1.88 | 2.38 | 2.38 | 2.58 | 0.69 |
| Lines of Credit | — | — | 33.00 | 3.96 | 26.00 | — | 28.44 | 3.23 | — | 1.90 |
| **Non-Funded Programmes†** | **18.27** | **25.95** | **5.88** | **27.21** | **—** | **—** | **23.10** | **13.60** | **1.50** | **3.06** |

S : Sanctions U : Utilisations.

† Comprises guarantees sanctioned and guarantees issued.

* Includes North Africa and Sub-Saharan Africa.

*Note:* Because of conceptual and data-related reasons, this table excludes Export Bills Rediscounting, Small-scale Industry Export Bills Rediscounting, Pre-shipment Credit, Agency Credit Line and Finance for Computer Software Exports.

*Source:* Export-Import Bank of India.

* In the region-wise analysis, pre-shipment credit, export bills rediscounting scheme, small scale industry bills rediscounting scheme, agency credit line, finance for computer software exports and bulk import finance are excluded because of conceptual and data related reasons.

### (ix) Housing Development Finance Corporation Limited (HDFC)

During 1988-89, Housing Development Finance Corporation Ltd., (HDFC) sanctioned housing loans amounting to Rs. 425.8 crores in respect of over 67,000 dwelling units recording a rise of 43 per cent over Rs. 297.1 crores sanctioned during the preceding year. Disbursements during 1988-89 at Rs. 320.7 crores also recorded a rise of 45 per cent from Rs. 220.7 crores in 1987-88. Cumulative loans sanctioned as at the end of March 31, 1989 totalled Rs. 1,486.3 crores in respect of more than 3,02,000 units while cumulative disbursements aggregated Rs. 1,088.9 crores. Loans sanctioned by HDFC covered 315 additional towns during 1988-89, raising the total number of towns and cities covered by it to over 1,600.

During the year, HDFC raised Rs. 34.6 crores by way of term loans from commercial banks under the RBI guidelines, besides mobilising Rs. 106.8 crores through various deposit schemes. As at the end of March 31, 1989 the outstanding term loans and deposits aggregated Rs. 408.8 crores and Rs. 483.2 crores, respectively. There were no changes in the lending rates charged by HDFC during 1988-89. HDFC signed an agreement in January 1988 for a proposed borrowing of US $ 35 million under the Housing Guarantee Program of the United States Agency for International Development. The borrowing was availed of in March 1989. HDFC entered into a swap transaction with Bank of India for counter part rupee funds amounting to Rs. 49 crores in India. These funds would be drawn by HDFC during April 1989 - March 1990. HDFC signed agreement with International Bank for Reconstruction and Development (IBRD) on April 25, 1988 for a loan of US $ 250 million equivalent for HDFC's Housing Mortgage Loan Programme, guaranteed by Government of India. Till March 31, 1989, HDFC had drawn cumulative amount of US $ 84 million equivalent (Rs. 125 crores).

**(x) Infrastructure Leasing and Financial Services Ltd. (IL & FS)**

Infrastructure Leasing and Financial Services Limited (IL & FS), a joint venture promoted by Central Bank of India, Unit Trust of India and Housing Development Finance Corporation Limited was incorporated in the last quarter of 1987 and became fully operational in May 1988.

IL & FS has been promoted to provide services in four broad fields. They are (i) financing of large infrastructure projects like highways, bridges and power plants through the formulation of commercially viable schemes of financing; (ii) equipment leasing, with a focus on the leasing of equipment needed for infrastructure development including pollution control systems, transportation and telecommunication networks, etc; (iii) a range of investment banking services including financial advisory services related to corporate finance, the extension of venture capital and promotion of mutual funds, and (iv) participation as a member of stock exchange with a focus on the development of secondary markets.

The company has been appointed a financial advisor to three major infrastructure projects in power, telecom and transportation sectors.

In the field of lease financing, the company has focused on full pay-out financial leases with specialisation in the leasing of infrastructure related equipments. The lease portfolio of IL & FS includes effluent treatment plants, fire-fighting systems, material handling equipment and power generation equipment. The company has also extended lease financing in respect of a major low income housing development project. The volume of gross leased assets of the company as on March 31,1989 stood at Rs. 21.9 crores.

The investment banking services rendered by the company include the extension of financial assistance through direct subscription in the equity of new companies in bought-out transactions. This assistance is notably in the form of providing Venture Capital. The company also plans to enter into commercial paper market. In an attempt to focus on urban requirements of infrastructure, IL &FS has also initiated dialogue with municipal corporations and local authorities in order to cater to this hitherto neglected sector of financing. During the financial year 1988-89, the company has set up a target of at least two major projects in the municipal sector working in co-operation with the concerned State Government and Ministry of Urban Development.

The company has been admitted as a member of Delhi Stock Exchange and has applied for membership of the Bombay Stock Exchange.

**(xi) Technology Development and Information Company of India Ltd.(TDICI)**

Technology Development and Information Company of India Limited (TDICI) promoted by ICICI and the UTI, was incorporated on January 5, 1988 and became operational on August 3, 1988. The main aims of TDICI are: (i) indigenous technology development, (ii) development of technologist entrepreneurship (iii) support for R & D and technological innovations and (iv) technology information diffusion to industry and other institutions. TDICI invests in new market oriented and indigenous technology based projects by way of equity support and conditional loans. Further, TDICI provides techno-managerial guidance and support services to the assisted ventures.

including support from its Technology Information Service.

The TDICI manages a Rs. 20 crore Venture Fund subscribed equally by ICICI and UTI under the 'New Venture Capital Units Scheme' (VECAUS) of UTI. Under this scheme, TDICI has sanctioned financial assistance to 40 projects so far mostly to small and medium companies, involving TDICI financial support. These 40 projects cover extensive diverse technology areas. TDICI is appraising nearly 60 more projects for participation. All these projects have been drawn from enquiries and profiles/project reports numbering over 250 from different parts of the country.

TDICI is accessing the on line data base of Science and Technology information viz., DIALOG. TDICI is also tying up arrangements with the National Technology Information Service (NTIS), USA,for on-line and off-line access of the wide range of NTIS data-bases. Hardware for providing the service and necessary search manuals/aids have been positioned in TDICI. TDICI's Technology Information Service is part of its plan to graduate quickly into value-added technology and techno commercial consultancy support to interested industries and institutions in India.

### (xii) Tourism Finance Corporation of India Ltd. (TFCI )

The Tourism Finance Corporation of India Ltd.(TFCI) was promoted by IFCI along with other all-India financial institutions and banks, as a public limited company under the Companies Act 1956. TFCI was incorporated on January 27, 1989 and became operational with effect from February 1, 1989. The authorised share capital of TFCI is Rs. 100 crores, paid-up capital being Rs. 50 crores.

TFCI provides all forms of financial assistance viz., rupee loans, foreign currency loans, underwriting or/direct subscription to share capital and debentures, deferred payment/foreign loan guarantees, assistance under supplier's credit scheme, equipment leasing and assistance under Equipment Procurement Scheme to enterprises for setting up and/or development of tourism and/or tourism related activities, facilites and services which, *inter-alia*, include hotels, restaurants, holiday resorts, amusement parks and complexes for entertainment, education and sports, safari parks, ropeways, cultural centres, convention halls, transport, travel and tour operating agencies, tourist emporia etc. TFCI is also expected to provide merchant banking and advisory services. Further, TFCI would be co-ordinating and formulating guidelines and policies relating to the financing of tourism projects and would play a developmental role within the overall policies of Government.

The minimum size of the capital cost of a project to be eligible for assistance from TFCI has been placed at Rs. 1 crore. However, unique projects from the point of view of tourism for which assistance from State level institutions/banks is not available could be assisted by TFCI even below that limit. TFCI would provide assistance jointly with State financial institutions in respect of projects with capital cost between Rs. 1 crore and Rs. 3 crores and on a consortium basis with all-India financial institutions for projects with capital cost above Rs. 3 crores.

### (xiii) Risk Capital and Technology Finance Corporation Ltd. (RCTC)

During 1988-89, Risk Capital and Technology Finance Corporation Ltd. (RCTC) introduced a new scheme, viz., Scheme of Technology Finance and Development for funding specifically the following activities : (a) proving substantially innovative technologies, products, processes, quality markets, services, technological upgradation, energy conservation and control of environmental pollution that are developed through In-house Research and Development (R & D) in recognised research laboratories and Universities to the commercial stage entailing customer acceptance and/or acceptable production economies : assistance for these would include financing of the setting up pilot plants,demonstration scale plants and studies, R & D activities, training, prototype manufacture and evaluation, etc., as also supporting infrastructure for advance or complex technology, (b) meeting the expenditure of national and international consultants/institutions for substantial product/process/technology improvement and innovation, (c) sponsored commercial

R & D programmes and (d) all activities connected with or incidental to the above.

RCTC, under its scheme of Technology Finance and Development, has so far sanctioned an assistance of Rs. 1.2 crores to 5 innovative technology oriented projects. During 1988-89 (April-March), RCTC sanctioned aggregate amount of Rs. 6.9 crores under its Risk Capital Assistance Scheme to 59 promoters of 39 projects as against the assistance of Rs. 3.9 crores to 44 promoters of 28 projects during the previous year.

### (xiv) Credit Rating Information Services of India Ltd. (CRISIL)

The Industrial Credit and Investment Corporation of India Ltd., in association with the Unit Trust of India, has promoted the Credit Rating Information Services of India Ltd. (CRISIL) which became operational from January 1988. The shareholding of CRISIL is broad based with a large number of banks and financial institutions participating in its share capital.

The primary objective of CRISIL is to provide credit rating services to the corporate sector. This involves the ranking of the debt instruments of companies depending on their ability to service the obligations.

The rating, a numeric and alphabetical symbol, would convey CRISIL's opinion as to the future risks of a particular debt obligation. Focus of the rating is on credit quality, i.e., borrower's obligation and expected ability as also inclination to pay interest/ principal in a timely manner. The rating would not be a recommendation to invest in a particular obligation. CRISIL assigns such ratings after an assessment of all factors that could affect the creditworthiness of the issuers. The ratings are based on current information provided to CRISIL by the borrowing company or obtained from sources it considers reliable. The rating process includes an evaluation and appraisal of the industry in which the company operates, the borrowing company's position in the industry, the management of the company, the track record of the company as well as the adequacy of future cash flows for meeting the interest and principal payments. After ratings are assigned, CRISIL will continually monitor such rating and these ratings may be changed, withdrawn or suspended at any point of time as a result of new information or other circumstances that CRISIL considers having a material effect on the degree of safety of the particular debt obligation.

During the financial year 1988-89, CRISIL completed twenty-four rating assignments. In the first quarter of its operation (January-March 1988) it had completed one rating. Of the twenty five ratings assigned so far covering a total debt volume of around Rs. 875 crores, fourteen ratings involving a debt volume of around Rs. 500 crores are currently being used by companies concerned. Till May 1989, rating assignments completed by CRISIL and prevailing till then stood at thirty three (including a provisional rating for commercial paper for a company in the corporate sector), covering a total debt volume of around Rs. 1,000 crores; of these, twenty ratings are being used by companies concerned (involving a total debt volume of Rs. 600 crores).

CRISIL has published CRISIL-IDBI Bond Yield Tables, to provide handy reference to investors for determining yield-to-maturity on a debenture given the price of debenture, its coupon rate and its maturity period.

In view of the recent relaxation in the administered interest rate regime, including the proposed introduction of commercial paper, CRISIL is expected to play a vital role in the mobilisation of funds through the capital markets.

### (xv) Stock Holding Corporation of India Ltd. (SHCIL)

The Stock Holding Corporation of India Ltd. (SHCIL) sponsored by the seven all-India financial institutions (viz., IDBI, IFCI, ICICI, UTI, LIC, GIC and IRBI) has been set up to introduce a book entry system for the transfer of shares and other types of scrips replacing the present system that involves voluminous paper work. The book entry system would not only quicken and smoothen the transfer of instruments but would also reduce the possibilities of errors and frauds. The new system would help in improving the marketability of instruments

thereby attracting larger number of relatively smaller as well as non-resident investors who are presently handicapped due to inadequate post-trading servicing of their investments.

The full-fledged book entry system of share-transfers in India cannot be implemented within the existing legal provisions. Draft legislation for necessary changes is under the Government's consideration. Pending changes in the existing legal provisions, the SHCIL has taken up post-trading servicing operations for its sponsoring institutions within the existing framework and made a beginning with transactions on the Bombay Stock Exchange.

The SHCIL commenced its operations in August 1988. Till end-March 1989, it had handled purchases valued at Rs. 110 crores involving 1,86,838 scrips and 1,69,853 transfers.

## Chapter X

# Developments in India's Foreign Trade

### I. INDIA'S FOREIGN TRADE DURING 1988-89

#### Overall Trends

The merchandise trade deficit which narrowed down in 1986-87 and 1987-88 after a sharp rise in 1985-86, rose once again in 1988-89, despite an impressive performance of exports. According to the provisional data released by the Directorate General of Commercial Intelligence and Statistics (DGCI & S), exports showed an increase of 29.0 percent, on top of an increase of 25.3 precent and 20.4 percent in the preceding two years. The strong growth in exports, for the third year in succession,reflects the impact of the various fiscal and other incentives provided to exporters, liberal access to imported inputs and a supportive exchange rate policy. However, imports also went up significantly by 23.9 per cent during the year as against a rise of 11.4 percent in the preceding year. The sharp rise in imports during the year is attributable to the spill-over of drought-related imports, higher prices of certain essential commodities like edible oils, chemicals and metals. Further, larger requirements due to buoyancy in economic activity and freer access to capital goods and essential raw materials to assist export efforts also resulted in the higher import bill. Thus, notwithstanding a strong growth in exports, because of a larger increase in imports (by Rs. 5,350 crores),which more than offset the increase in exports (of Rs.4,562 crores),the trade deficit widened during the year by Rs. 788 crores to Rs. 7 412 crores.

In SDR terms too, exports during 1988-89 were higher by 14.7 per cent as compared with an increase of 13.0 per cent in the preceding year. At the same time, import growth was substantially higher at 10.2 per cent in contrast to a marginal increase of 0.5 per cent in the previous year.

In US dollar terms however, exports registered a lower growth of 15.5 per cent during the year as compared with that of 23.4 per cent in the previous year. Imports rose by 11.0 per cent as compared with 9.8 per cent during the previous year (Table X-1).

Thus, during the first four years of the Seventh Plan, exports grew at an annual average of 16.7 per cent in rupee terms, and 11.0 per cent in U.S. dollar terms. During the same period, the annual average growth in imports was 14.0 per cent in rupee terms and 8.4 per cent in dollar terms. Thus in U.S. dollar terms, while the annual average growth in exports during 1985-89 was significantly higher than during the Sixth Plan period, the growth in imports was only marginally higher (Table X-2).

#### Exports

The strong growth in exports noticed in 1986-87 and 1987-88 continued during 1988-89. According to DGCI & S statistics, exports (including re-exports) went up sharply by 29.0 per cent to Rs. 20,281 crores in 1988-89, compared with a rise of 25.3 per cent at Rs. 15,719 crores in the previous year. Exports of petroleum products at Rs. 505 crores during the year were lower by Rs. 128 crores. Non-oil exports (i.e. excluding exports of POL products) at Rs. 19,776 crores rose by 31.1 per cent during 1988-89 as compared with an increase of 24.3 per cent in the previous year. Due to a sharp and sustained growth in exports in the past three years, the proportion of exports to imports went up markedly from 55.4 per cent in 1985-86 to 73.2 per cent in 1988-89.

**Table X-1 : India's Trade Balance**

| Year | Rs. crores | | | Million U.S. dollars | | | Million SDRs | | |
|---|---|---|---|---|---|---|---|---|---|
| | Exports | Imports | Trade Balance | Exports | Imports | Trade Balance | Exports | Imports | Trade Balance |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 1988-89 (P) | 20,281 | 27,693 | -7,412 | 14,005 | 19,123 | -5,118 | 10,529 | 14,377 | -3,848 |
| | (+29.0) | (+23.9) | | (+15.5) | (+11.0) | | (+14.7) | (+10.2) | |
| 1987-88 (P) | 15,719 | 22,343 | -6,624 | 12,123 | 17,232 | -5,109 | 9,181 | 13,050 | -3,869 |
| | (+25.3) | (+11.4) | | (+23.4) | (+9.8) | | (+13.0) | (+0.5) | |
| 1986-87 (P) | 12,550 | 20,063 | -7,513 | 9,821 | 15,701 | -5,880 | 8,124 | 12,988 | -4,864 |
| 1987-88 (PR) | 15,741 | 22,399 | -6,658 | 12,140 | 17,275 | -5,135 | 9,194 | 13,083 | -3,889 |
| | (+26.4) | (+11.5) | | (+24.6) | (+9.8) | | (+14.1) | (+0.6) | |
| 1986-87 | 12,452 | 20,096 | -7,644 | 9,745 | 15,727 | -5,982 | 8,061 | 13,009 | -4,948 |
| | (+14.3) | (+2.2) | | (+9.4) | (-2.1) | | (-4.4) | (-14.5) | |
| 1985-86 | 10,895 | 19,658 | -8,763 | 8,905 | 16,067 | -7,162 | 8,431 | 15,211 | -6,780 |

*Note:* Figures in brackets indicate percentage variations over the previous year.
P: Provisional.
PR: Partially revised.
*Source:* DGCI&S

**Table X-2 : Growth Rates in Exports and Imports**

(Per cent)

| Period | In Rupees | | In U.S. dollars | |
|---|---|---|---|---|
| | Exports | Imports | Exports | Imports |
| 1 | 2 | 3 | 4 | 5 |
| Sixth Plan Average | 13.0 | 13.9 | 4.5 | 6.3 |
| Seventh Plan | | | | |
| 1985-86 (P) | -7.8 | 11.4 | -10.4 | 8.3 |
| 1986-87 (P) | 20.4 | 9.2 | 15.3 | 4.6 |
| 1987-88 (P) | 25.3 | 11.4 | 23.4 | 9.8 |
| 1988-89 (P) | 29.0 | 23.9 | 15.5 | 11.0 |
| Average for 1985-86 to 1988-89 | 16.7 | 14.0 | 11.0 | 8.4 |

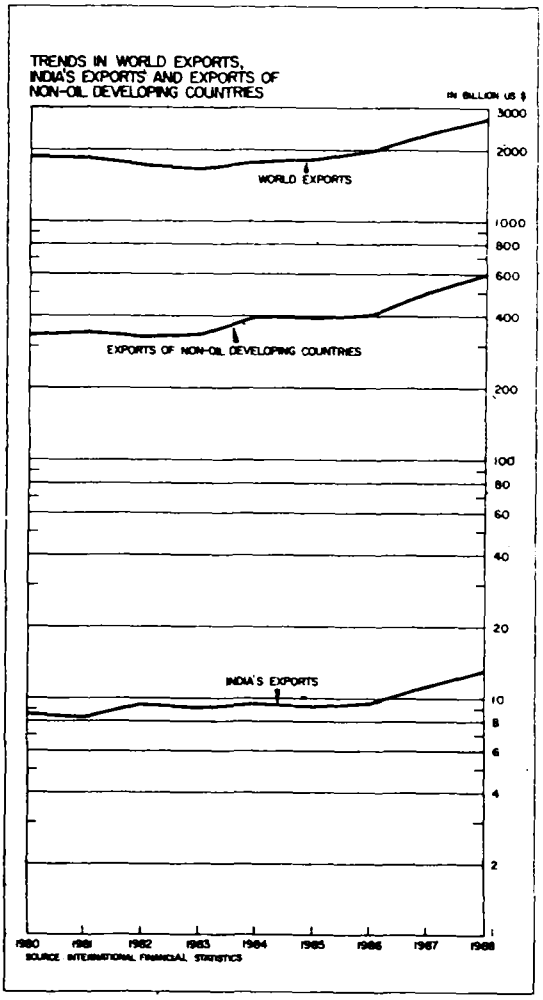
P : Provisional.

Data on volume growth in exports are now available only upto 1986-87. During 1985-86, the volume of exports declined by 8.3 per cent, due to the virtual cessation of crude oil exports. In 1986-87, the volume growth in exports was 9.0 per cent. During 1987-88 and 1988-89, taking into account the movements in international prices of commodities and exchange rates, the volume growth in exports would have averaged to a little over 10 per cent. Thus during the three-year period 1986-87 to 1988-89, annual volume growth in exports would have been nearly 10 per cent, exceeding the growth rate of 7 per cent assumed in the Seventh Plan document.

Although India's export performance during 1988-89 has been impressive, it is still significantly lower than the growth rates experienced by China, Korea, Hongkong and Singapore. Moreover, the share of India in world exports

continues to be negligible.

The robust growth in India's exports during 1988-89 drew strength from the buoyancy in international trade in 1988. In volume terms, the growth in world trade accelerated from 6.1 per cent in 1987 to 9.2 per cent in 1988 recording the strongest performance during the present decade so far, and was over 3 percentage points above the average rate of growth of trade volume in the seventies. The growth of the exports of industrial countries, in SDR terms, strengthened from 5.9 per cent in 1987 to 10.2 per cent in 1988. The developing countries as a group benefited from the sustained strength of real output growth in industrial countries and the resultant surge in imports in the industrial world as also from some firming up of non-oil commodity prices. This is evident from the fact that the exports of non-oil developing countries which were depressed up to 1986, went up by 12.1 per cent in 1987 and further by 14.5 per cent in 1988, measured in SDR terms.




Viewed against the background of the preceding decade, India's export structure presents a changing profile, indicative of the structural transformation that has been taking place in the economy. The share of agro-based products which dominated India's exports in the past three decades progressively came down while the share of processed and manufactured goods increased substantially. Thus the share of manufactures in India's exports which went up from 52.9 per cent in 1970-71 to 58.9 per cent in 1980-81 rose sharply to 72.1 per cent by 1988-89

The strong export performance in recent years of manufactured goods testifies to the improved competitiveness of these products abroad. The buoyancy in these exports was particularly evident since 1986-87 when the policy for export promotion adopted a measure of selectivity towards products whose export potential could be easily identifiable. During the first four years of the Seventh Plan, the annual average compound growth rate of exports of manufactures was 23.9 per cent, substantially higher than the annual average compound growth rate of 10.2 per cent during the Sixth Plan period and 17.3 per cent during 1970s. It may be significant to note that while the growth of exports of manufactures was subdued (2.6 per cent) in 1985-86, it accelerated thereafter to 22.5 per cent, 29.0 per cent and 45.2 per cent in the following three years. Even within the manufacturing sector, there have been shifts in the commodity composition. The dominance of traditional agro-based manufactured items such as jute and cotton manufactures has given way to new and dynamic products where value addition through processing and manufacturing is substantially higher.

Among the manufactured goods, the main items which showed increases during 1988-89 were gems and jewellery (Rs. 1,784 crores), engineering goods (Rs. 927 crores), chemicals and allied products (Rs. 708 crores), leather and leather manufactures (Rs. 339 crores) and readymade garments (Rs. 305 crores). These five commodities accounted for an increase of Rs. 4,063 crores or 89.5 per cent of the total

**Table X-3 : India's Exports by Main Sub-Groups**

(Rs. crores) (Per cent)

| Commodity Groups | 1960-61 | 1970-71 | 1980-81 | 1984-85 | 1988-89 (P) | Compound Annual Average Growth Rates | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1960-61 to 1969-70 | 1970-71 to 1979-80 | 1980-81 to 1988-89 | 1980-81 to 1984-85 | 1985-86 to 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 1. Agricultural and allied products | 283.8 (44.1) | 539.6 (35.1) | 2248.2 (33.5) | 2996.5 (25.5) | 3347.3 (16.5) | 4.6 | 16.3 | 5.1 | 6.9 | 2.8 |
| *of which :* | | | | | | | | | | |
| i) Agro-based products | 278.3 | 506.0 | 1980.0 | 2518.0 | 2620.6 | 4.1 | 15.4 | 3.9 | 6.3 | 1.0 |
| ii) Fish and fish preparations | 4.6 | 30.5 | 212.9 | 396.0 | 632.2 | 18.2 | 23.3 | 10.9 | 9.7 | 12.4 |
| iii) Meat and meat preparations | 0.9 | 3.1 | 55.5 | 82.5 | 94.5 | 5.8 | 40.3 | 9.6 | 14.8 | 3.5 |
| 2. Ores and Minerals | 52.0 (8.1) | 164.4 (10.7) | 412.6 (6.1) | 642.0 (5.5) | 1027.1 (5.1) | 11.4 | 10.9 | 11.2 | 10.3 | 12.5 |
| 3. Petroleum and petroleum products | 4.1 (0.6) | 8.6 (0.6) | 24.9 (0.4) | 1818.2 (15.5) | 505.0 (2.5) | 8.1 | 9.8 | 44 1 | 149.5 | -27.4 |
| 4. Manufactures | 271.0 (42.2) | 811.8 (52.9) | 3952.0 (58.9) | 6210.1 (52.9) | 14631.0 (72.1) | 11.4 | 17.3 | 16.1 | 10.2 | 23.9 |
| 5. Others | 32.0 (5.0) | 10.8 (0.7) | 72.8 (1.1) | 76.9 (0.6) | 770.5 (3.8) | -5.5 | 10.0 | 51.3 | 32.8 | 77.9 |
| **Total** | **642.9** | **1535.2** | **6710.7** | **11743.7** | **20280.9** | **8.4** | **16.3** | **13.7** | **12.9** | **14.6** |

P: Provisional.

*Note:* Figures in brackets represent percentages to total.

increase of Rs. 4,540 crores during 1988-89.

Exports of *gems and jewellery* rank first in India's exports accounting for 21.7 per cent of total exports, their share having more than doubled from 10.5 per cent in 1984-85. These exports rose substantially by 68.2 per cent (Rs. 1,784 crores) during 1988-89 as against a modest increase of 26.0 per cent (Rs. 540 crores) in the previous year. Net foreign exchange earned (that is excess of exports over imports) by this export sector more than doubled from Rs. 620 crores in 1987-88 to Rs. 1,532 crores during the year under review. The noteworthy performance of exports of gems and jewellery stems from the substantial and widespread incentives given to encourage these exports. As diamonds constitute the bulk of these exports, several incentives have been provided under the Import-Export Policy 1988-91 to allow liberal access to imports. The Actual User condition has been removed with respect to Diamond Trading Corporation/Diamond Imprest Licences. Further, 132 items of machinery and tools for cutting and polishing have been placed under OGL with reduced rate of duty.

The potential for exports of gold and silver jewellery has been emerging in recent years with the USA, Japan, Hong Kong, the UAE, Kuwait, Dubai, Belgium and Switzerland having been identified as major markets. The exports of gold and silver jewellery are covered under five special incentive schemes under the Import-Export Policy 1988-91 and special replenishment facilities have been provided. Wastage norms on a graded scale have been evolved in a more rational manner. The Reserve Bank of India has also liberalised lending norms for exporters. Banks are now allowed to lend upto five months of inventory holdings and three months of sales. Earlier, advances against raw materials were limited to three and a half months of requirements. Gems and jewellery is one of the 'thrust' sectors identified for intensive export efforts.

Exports of *carpets* have been performing well in recent years particularly since 1986-87. During 1988-89, exports of carpets amounted to Rs. 470 crores, showing a rise of 20.2 per cent. The principal increase was in respect of woollen carpets and druggets. A new market development assistance scheme was introduced with effect from April 1, 1989 to provide assistance towards interest subsidy or discount on capital and margin money, setting up of show-rooms, etc.

Exports of other *handicrafts* such as works of art, metalware, woodware,etc., rose by 31 per cent to Rs. 325 crores in 1988-89. These are exported to more than a hundred countries among which the major markets are the USA West Germany, the UK, France, the USSR, Saudi Arabia and Italy. The Handicraft Export Promotion Council has taken several steps emphasising quality, finish and product development.

Exports of *engineering goods* registered a substantial increase in 1988-89 continuing the rising trend in these exports which began since 1986-87. Exports of engineering goods rose by 64.7 per cent to Rs.2,360 crores during 1988-89 on top of an increase of 26.5 per cent in 1987-88. Consequently, the share of engineering goods in total exports went up from 8.8 per cent in 1985-86 to 11.6 per cent by 1988-89. Significant increases were recorded in the exports of capital goods followed by consumer durables and pig-iron and steel-based items. The sustained buoyancy in these exports was attributable to several policy initiatives undertaken to render exports profitable in relation to domestic sales. These included measures to liberalise access to import licences, addition of various items of machinery required by manufacturers of engineering goods at reduced rates of duty to the list of OGL, reduction in rates of interest on pre-shipment and post-shipment credit and on term loans for units exporting more than 25 per cent of their sales. Under the International Price Reimbursement Scheme which reimburses exporters of engineering goods the difference between international and domestic prices of steel, a simplified procedure for reimbursement was introduced under which exporters with a consistent track record would be paid 75 per cent of their claims within seven days of submission of claims and the balance after scrutiny and auditing.

*Chemicals and allied products* have been one of the growing non-traditional items of exports. These increased sharply by 86.0 per cent to Rs. 1,531 crores during the year, as against an increase of 41.2 per cent in 1987-88. The sharp growth in exports of these goods reflects the impact of the various promotional measures undertaken by the government to promote their

**Table X-4 : India's Exports of Principal Commodities**

(Rs. crores)

| Commodities | Unit of Quantity | 1984-85 | | 1985-86 | | 1986-87 | | 1987-88 (PR) | | Increase (+)/Decrease(-) absolute (10) over (8) | 1988-89 (P) | | Increase (+)/Decrease(-) absolute (13) over (10) | Percentage variation (13) over (10) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Quantity | Value | Quantity | Value | Quantity | Value | Quantity | Value | | Quantity | Value | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| **I. Primary Products** | | | **3,639** | | **3,813** | | **4,145** | | **3,857** | **-288** | | **4,374** | **+517** | **+13.4** |
| **A. Agricultural & allied products** | | | **2,997** | | **3,018** | | **3,422** | | **3,147** | **-275** | | **3,347** | **+200** | **+6.4** |
| *Of which:* | | | | | | | | | | | | | | |
| 1. Tea and mate | Mill. kgs. | 213.9 | 767 | 205.6 | 626 | 192.4 | 577 | 197.3 | 592 | +15 | 193.5 | 599 | +7 | +1.2 |
| 2. Coffee and coffee substitutes | ,, | 67.5 | 210 | 98.9 | 265 | 73.4 | 297 | 88.7 | 263 | -34 | 82.4 | 279 | +16 | +6.1 |
| 3. Rice | '000 tonnes | 247.7 | 169 | 245.0 | 196 | 248.3 | 197 | 371.6 | 325 | +128 | 375.6 | 331 | +6 | +1.8 |
| 4. Cotton raw | ,, | 40.7 | 60 | 35.7 | 68 | 202.3 | 205 | 73.0 | 96 | -109 | 13.6 | 28 | -68 | -70.8 |
| 5. Tobacco (unmanufactured and manufactured) | Mill. kgs. | 93.7 | 178 | 80.5 | 170 | 89.3 | 185 | 76.4 | 135 | -50 | 56.1 | 128 | -7 | -5.2 |
| 6. Cashew Kernels | '000 tonnes | 32.4 | 180 | 37.1 | 225 | 43.0 | 328 | 36.1 | 307 | -21 | 37.7 | 277 | -30 | -9.8 |
| 7. Spices | ,, | 103.0 | 207 | 89.0 | 278 | 97.0 | 279 | 83.1 | 309 | +30 | 93.7 | 251 | -58 | -18.8 |
| 8. Oil cakes | ,, | 828.9 | 137 | 806.9 | 134 | 1,044.6 | 190 | 684.2 | 173 | -17 | 1,242.6 | 370 | +197 | +113.9 |
| 9. Fruits and vegetables | | | 138 | | 124 | | 156 | | 151 | -5 | | 164 | +13 | +8.6 |
| 10. Processed fruits & juices and miscellaneous processed items | | | 77 | | 82 | | 76 | | 66 | -10 | | 121 | +55 | +83.3 |
| 11. Marine products | ,, | 96.0 | 396 | 90.6 | 420 | 113.4 | 538 | 97.9 | 525 | -13 | 158.5 | 632 | +107 | +20.4 |
| 12. Sugar and sugar preparations | ,, | 279 | 36 | 39.0 | 17 | 3.6 | 2 | 2.3 | 1 | +1 | 52.5 | 7 | +6 | +600.0 |
| 13. Meat and meat preparations | | | 83 | | 74 | | 76 | | 86 | +10 | | 94 | +8 | +9.3 |
| **B. Ores and Minerals** | | | **642** | | **795** | | **723** | | **711** | **-12** | | **1,027** | **+316** | **+44.4** |
| 1. Iron ore | Mill. tonnes | 25.5 | 459 | 30.1 | 579 | 28.7 | 547 | 28.3 | 543 | -4 | 33.0 | 673 | +130 | +23.9 |
| 2. Mica, Coal and other ores & minerals | | | 183 | | 216 | | 176 | | 168 | -8 | | 354 | +186 | +110.7 |

**Table X-4 : India's Exports of Principal Commodities (Concld.)**

(Rs. crores)

| Commodities | Unit of Quantity | 1984-85 | | 1985-86 | | 1986-87 | | 1987-88 (PR) | | Increase (+)/Decrease(-) absolute (10) over (8) | 1988-89 (P) | | Increase (+)/Decrease(-) absolute (13) over (10) | Percentage variation (13) over (10) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Quantity | Value | Quantity | Value | Quantity | Value | Quantity | Value | | Quantity | Value | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| **II. Manufactures** | | | **6,210** | | **6,374** | | **7,808** | | **10,076** | **+2,268** | | **14,631** | **+4,555** | **+45.2** |
| *Of which:* | | | | | | | | | | | | | | |
| 1. Leather and manufactures | | | 724 | | 770 | | 922 | | 1,149 | +227 | | 1,488 | +339 | +29.5 |
| 2. Basic chemicals & allied products | | | 483 | | 498 | | 583 | | 823 | +240 | | 1,531 | +708 | +86.0 |
| 3. Engineering goods | | | 956 | | 954 | | 1,133 | | 1,433 | +300 | | 2,360* | +927 | +64.7 |
| 4. Natural silk textiles | | | 56 | | 72 | | 85 | | 124 | +39 | | 186 | +62 | +50.0 |
| 5. Readymade garments | | | 953 | | 1,067 | | 1,331 | | 1,792 | +461 | | +2,097 | +305 | +17.0 |
| 6. Cotton yarn, fabrics,, made-ups, etc. | | | 620 | | 574 | | 637 | | 1,064 | +427 | | 1,131 | +67 | +6.3 |
| 7. Jute manufactures | Lakh tonnes | 3.0 | 341 | 2.5 | 262 | 2.9 | 244 | 2.4 | 243 | -1 | 2.9 | 250 | +7 | +2.9 |
| 8. Coir and coir manufactures | | | 28 | | 34 | | 34 | | 29 | -5 | | 31 | +2 | +6.9 |
| 9. Handicrafts | | | 1,781 | | 1,881 | | 2,548 | | 3,253 | +705 | | 5,194 | +1,941 | +59.7 |
| *Of which:* | | | | | | | | | | | | | | |
| (a) Gems and jewellery | | | 1,237 | | 1,503 | | 2,074 | | 2,614 | +540 | | 4,398 | +1,784 | +68.2 |
| (b) Carpets handmade | | | 259 | | 233 | | 283 | | 391 | +108 | | 470 | +79 | +20.2 |
| (c) Works of art | | | 255 | | 145 | | 191 | | 248 | +57 | | 326 | +78 | +31.5 |
| **III. Petroleum products** | | | **255** | | **510** | | **411** | | **633** | **+222** | | **505** | **-128** | **-20.2** |
| **IV. Others** | | | **1,640**** | | **198**** | | **88** | | **1,175** | **+1,087** | | **771** | **-404** | **-34.4** |
| **Total** | | | **11,744** | | **10,895** | | **12,452** | | **15,741** | **+3,289** | | **20,281** | **+4,540** | **+28.8** |

(P): Provisional.
(PR): Partially revised.
* Includes exports of project goods of Rs. 42 crores. Data on project exports for the preceding years are not available.
** Includes exports of crude petroleum amounting to Rs. 1,563 crores in 1984-85 and Rs. 135 crores in 1985-86. There were no exports of crude oil in subsequent years.

*Source:* DGCI&S.

exports and the emerging production capabilities of the industry. The export growth was impressive in respect of drugs and pharmaceuticals, plastics and linoleum products, dyes and basic chemicals. Recognising the considerable potential of these items, the strategy evolved for this thrust sector covered consolidation of existing markets, diversification into new areas and enlargement of product range.

Exports of *leather and leather manufactures* which have been showing a rising trend since 1982-83 rose by 29.5 per cent to Rs. 1,488 crores during 1988-89, surpassing the target of Rs. 1,400 crores for the year. Leather and leather manufactures have been identified as a 'thrust' sector. The policy for allowing duty free imports of hides and skins under OGL and concessional duties on imports of machinery, raw materials and consumables required by the industry has been continued. In June 1988, the leather licensing policy was further relaxed to provide a boost to exports. All restrictions on setting up capacity for converting semi-finished items into finished products were removed. These liberalised measures were applicable to all units including MRTP companies, subject to an export obligation.

Exports of *readymade garments* recorded an increase of 17.0 per cent to Rs. 2,097 crores during 1988-89. In terms of net foreign exchange earnings, readymade garments emerged as the largest item in India's export basket as inputs for these exports are mostly indigenous raw materials. As in the past, the quota countries continued to account for a major share of India's exports of readymade garments. However, exports to non-quota countries have also been growing supported by policy incentives such as additional cash compensatory support for exports to non-quota markets. Readymade garments were brought under the purview of the Blanket Import-Export Pass Book Scheme and rates of drawback were increased under the Revised Duty Drawback Schedule. During the year, higher upset prices were fixed for garment exports to quota countries. Further, under the Air Freight Subsidy Scheme, it was decided to allow air freight subsidy at the rate of 25 per cent of freight costs of garment exports to Latin American countries.

The exports of *cotton yarn, fabrics and made-ups* rose by 6.3 per cent to Rs. 1,131 crores during 1988-89, but the growth rate was significantly lower than that of 67.0 per cent recorded in 1987-88. While exports of cotton made-ups continued to increase, exports of yarn suffered a setback, particularly to the EEC. The strategy for cotton yarn, fabrics and made-ups has acquired an orientation towards non-quota countries. This involved special emphasis on non-quota countries such as Japan and Australia and incentives such as additional cash compensatory support for exports to non-quota countries and for non-quota items to quota countries. Textile exporters were made eligible for facilities under the Blanket Exchange Permit Scheme. In view of the acute shortage of cotton following the drought of 1987, the Cotton Corporation of India launched the Godown Delivery Facility to make available quality cotton to mills for export production. A Textile Export Promotion Fund was also set up during the year under which parameters were fixed for assistance for innovative product development, entry into new markets, research and development, training with special emphasis on non-quota items and markets.

Exports of *silk textiles* have been growing in recent years. Exports of silk textiles rose by 50 per cent to Rs. 186 crores in 1988-89 over and above a growth of 45.9 per cent in 1987-88. The objective of policy measures undertaken in recent years has been to provide congenial conditions for export expansion. During 1988-89, exports of silk textiles became eligible for duty drawback at the rate of 3 per cent. The Import-Export Pass Book Scheme was expanded to cover exports of silk garments. The rates of cash compensatory support on natural silk fibres was raised from 8 to 10 per cent and that on flax yarn from 5 to 8 per cent.

Exports of *jute and jute manufactures* have suffered a steady decline since 1984-85 due to competition from synthetic substitutes. In addition, prices of jute goods have been adversely affected by inadequate demand and cost disparities arising out of production shortages due to closure of several mills. During 1988-89, exports registered a marginal increase of 2.9 per cent and rose to Rs. 250 crores. A number of measures were taken during 1988-89 to boost the exports of jute goods. The implementation of the Jute Packaging Reservation Order provided support to jute prices. The Export Price Stabilisation Scheme was modified so that non-traditional jute items with 50 per cent

jute content (instead of 70 per cent earlier) would be eligible for subsidy at 12 per cent for the first year, 10 per cent for the second year and 8 per cent for the third year. An External Market Assistance Scheme was announced to allow jute exporters to explore emerging markets for non-traditional items. The scheme would be in operation upto March 1992. Cash compensatory support was also provided for merchant exporters.

*Farm exports* have been declining over the past several years. The share of 11 important agricultural based commodities (tea, coffee, rice, raw cotton, tobacco, cashew kernels, spices, oilcakes, fruits and vegetables, processed fruits and juices and sugar) taken together declined steadily from 20.1 per cent in 1985-86 to 12.6 per cent in 1988-89. These exports, however, recovered somewhat by Rs. 137 crores (by 5.7 per cent) during 1988-89 which more than offset the fall of Rs. 74 crores (by 3.0 per cent) in the previous year. However, the improvement in exports during the year was mainly due to a substantial increase in the exports of oilcakes. In regard to other agro-based items, either they showed declines (raw cotton, tobacco, cashew kernels and spices) or marginal increases (tea, coffee, sugar, rice, fruits and vegetables and processed fruits). In volume terms, the exports of tea, coffee, raw cotton and tobacco fell, the declines being substantial in respect of the latter two items. There were marginal increases in the quantity of exports of rice, cashew kernels and spices. On the other hand, there was a significant increase in the volume of exports of oilcakes. As a result, the value of these exports, which declined by 8.9 per cent mainly due to a drought in 1987-88, increased by 113.9 per cent to Rs. 370 crores during 1988-89. Exports of marine products, a non-traditional item in the primary goods category which declined marginally by Rs. 13 crores during 1987-88 registered a substantial increase of Rs. 107 crores (20.4 per cent) to Rs. 632 crores during the year. Even so, their share in total exports dwindled to 3.1 per cent from 4.3 per cent in 1986-87.

Exports of *tea* have been stagnating since 1985-86. Exports of tea which declined by Rs. 141 crores in 1985-86, and by Rs. 49 crores in 1986-87 rose only marginally by Rs. 15 crores in 1987-88 and by Rs. 7 crores in 1988-89. As a result, the share of tea, an important traditional foreign exchange earner, in total exports, declined steeply from 6.5 per cent in 1984-85 to 3.0 per cent in 1988-89. The quantity of exports of tea has been steadily declining from 214 million kgs. in 1984-85 to 194 million kgs. in 1988-89 (as against an export target of 230 million kgs. fixed for the year). The rising domestic consumption of tea and severe competition from Sri Lanka, China and Kenya were the main factors responsible for the poor performance of tea exports. Tea has been identified as a 'thrust' item for special export promotion. The emphasis has been on the export of value added forms of tea and to non-traditional markets. Imports of tea packaging and processing machinery have been placed under OGL and for the first time, import replenishment at the rate of 4 per cent has been provided for tea under the Import-Export policy, 1988-91. Other incentives include full rebate of excise duty on exportable teas and permission to domestic tea units to import tea samples from foreign countries. In August 1988, a new incentive scheme was introduced providing monetary incentives on incremental exports of South Indian tea. Unless tea production improves through better yields and rising domestic consumption is curbed, no significant improvement in tea exports is likely to come about.

Exports of *coffee and coffee substitutes* which had declined in 1987-88 increased somewhat in 1988-89. The increase of Rs. 16 crores (6.1 per cent) to Rs. 279 crores in these exports was due to a rise in unit value realisation from Rs. 29.65 per kg. in 1987-88 to Rs. 33.86 per kg. in 1988-89 whereas volume of exports, in fact, declined by 7.1 per cent. In 1988-89, steps taken to boost exports of coffee included exemption from export duty in August 1988 and introduction of a revised procedure for fixing minimum release prices in October 1988. Cash compensatory support and import replenishment are also provided for exports of coffee. For the coffee year, 1988-89 (October-September), India was allotted a quota of 51596 tonnes which represented an increase of 4814 tonnes over the quota allotted in 1987-88.

Exports of *rice* have been performing well in recent years. These exports, in 1988-89, were maintained at the level of the preceding year. Exports of rice rose by Rs. 6 crores to Rs. 331 crores in 1988-89 due to an increase of 4000 tonnes in the quantity of exports as well as a rise

in the unit value realisation from Rs. 8746 per tonne in 1987-88 to Rs. 8813 per tonne in 1988-89. A major portion of exports of rice comprised basmati rice. During the year, the procedure for grant of exemption from levy for basmati rice exported was simplified. The minimum export price of basmati rice was raised from Rs. 7500 per tonne to Rs. 8000 per tonne.

Exports of *raw cotton* which declined by Rs. 109 crores in 1987-88, fell further by Rs. 68 crores during the year owing to a substantial decline in the quantity. The poor performance of cotton production in 1987-88 led to a substantial fall in exportable surpluses in 1988-89. With a bumper crop of cotton during 1988-89, exports of raw cotton in 1989-90 are expected to improve significantly. The Government have recently announced the release of higher quotas of deshi and extra long staple cotton for exports, based on highest unit value realisation for the year 1989-90.

During 1988-89, the declining trend in the exports of *tobacco (manufactured and unmanufactured)* continued. Exports declined to Rs. 128 crores from Rs. 135 crores though there was better unit value realisation during the year.

For the second year in succession, exports of *cashew kernels* declined, despite a marginal improvement in the quantity exported during 1988-89. As a result, net foreign exchange earned from exports of cashew kernels was reduced from Rs. 307 crores in 1987-88 to Rs. 277 crores in 1988-89. The fall in the unit value realisation from Rs. 85 per kg. to Rs. 73 per kg. reflected the sharp fall in international prices of cashew during the year. The re-entry of Brazil into the cashew market has affected India's exports, particularly to the USA. Further, purchases by other important buyers like the USSR, the UK, Canada and New Zealand were also lower.

Exports of *spices,* which in value terms registered a moderate rising trend in the last three years declined by Rs. 58 crores (or by 18.8 per cent) to Rs. 251 crores in 1988-89. The increase in the quantity of exports from 83.1 thousand tonnes to 93.7 thousand tonnes was counterbalanced by a fall in the unit value realisation. Lower unit export prices of important spices such as turmeric, black pepper, cardamom and spice seeds accounted for the poor export performance of the group.

Exports of *fruits and vegetables* recovered from the setback suffered during the drought of 1987, and registered a modest increase of Rs. 13 crores to Rs. 164 crores druing 1988-89. Exports of processed items also benefited from the higher production of fruits and vegetables. During 1988-89, exports of processed fruits and juices (including miscellaneous processed items) rose by Rs. 55 crores (83.3 per cent) to Rs. 121 crores.

Exports of *oilcakes* at Rs. 370 crores in 1988-89 were the highest recorded so far, with a growth of 113.9 per cent over those in the preceding year. In terms of quantity too, exports of oilcakes at 1242.6 thousand tonnes was noteworthy, with a rise of 81.6 per cent over the quantum in 1987-88 and over 10 per cent higher than the previous peak level of 1120.3 thousand tonnes achieved in 1982-83. Unit value realisation also improved from Rs. 2529 per tonne in 1987-88 to Rs. 2978 per tonne in 1988-89. The significant increase in production of oilseeds during 1988-89 contributed to the better performance of oilcake exports.

The rising trend in the exports of *marine products* noticed upto 1986-87 reasserted itself in 1988-89 after a small decline of 2.4 per cent in the previous year. These exports rose by 20.4 per cent to Rs. 632 crores in 1988-89. In volume terms, exports of marine products rose by 62 per cent to a level of 159 thousand tonnes. However, unit value realisation fell sharply from Rs. 53.63 per kg. in 1987-88 to Rs. 39.80 per kg. in 1988-89, reflecting mainly unfavourable market conditions in Japan, the principal buyer of Indian marine products. India's share in Japan's shrimp imports has remained stagnant while those of Taiwan, Phillipines, Indonesia and Thailand have increased considerably. On the domestic front, lack of adequate production continued to be the major constraint on exports. In order to augment production and exports, commercial prawn hatcheries have been set up in Orissa and Andhra Pradesh and another hatchery is underway in West Bengal. The Marine Products Export Development Authority which began operating promotional scheme for deep-sea fishing in 1987-88, intensified its effort to promote brackish water shrimp farming. In August 1988, customs duty on import of prawn feed was reduced in order to promote prawn farming for exports.

The stagnancy in exports of *ores and minerals* noticed in the previous two years was reversed during 1988-89, as these exports rose by Rs. 317 crores to Rs. 1027 crores. This uptrend was particularly evident in respect of *iron ore*, the most important item in the category. Exports of iron ore have been depressed, particularly during 1986-87 to 1987-88, both in terms of quantity and value. This was attributable mainly to sluggish world demand for iron ore, lower purchases by Japan, the major importer, lower prices in that country and high freight costs which reduced earnings from iron ore exports. During 1988-89, with the strengthening of demand for iron ore in international markets, three major buyers, Japan, Romania and South Korea, increased their purchases of iron ore. As a result, exports of iron ore rose to Rs. 673 crores during 1988-89 from Rs. 543 crores in 1987-88. India could also secure higher prices on exports of iron ore, as reflected in the rise in unit value realisation from Rs. 192 per tonne in 1987-88 to Rs. 204 per tonne in 1988-89. China also emerged as an important buyer of iron ore during 1988-89.

Exports of other *ores and minerals* such as coal, mica, manganese ore, chrome ore and bauxite also performed well. These exports more than doubled from Rs. 168 crores in 1987-88 to Rs. 354 crores during the year.

There have been no exports of *crude petroleum* since 1986-87. However, exports of petroleum products at Rs. 505 crores during 1988-89 were lower by Rs. 128 crores compared with Rs. 633 crores in the previous year.

**Imports**

According to provisional data published by DGCI&S, imports during 1988-89 shot-up by Rs. 5,350 crores (or by 23.9 per cent) to Rs. 27,693 crores, as against an increase of 11.4 per cent in the preceding year. India's imports have been rising since the second oil shock of 1979-80, and particularly during the Seventh Plan period following the pursuance of a liberal import policy. However the growth rate in imports during 1988-89 was not only higher than in the previous year, but the highest on record since 1980-81. In U.S. dollar terms, the growth rate during the year at 11.0 per cent was higher than that of 9.8 per cent recorded in the previous year. In SDR terms, the growth rate during 1988-89 worked out to 10.2 per cent as against a nominal rise of 0.5 per cent in 1987-88 (Table X-1)

The substantial increase in imports during the year was mainly brought about by non-POL items. POL imports recorded a modest growth of Rs. 162 crores (or 4.0 per cent) to Rs. 4,245 crores, but this occured on top of a sharp rise of Rs. 1,272 crores (45.2 per cent) in 1987-88. On the other hand, non-POL imports, whose growth was held down to 5.8 per cent in 1987-88, soared by Rs. 5,188 crores (or 28.4 per cent) during the year. The surge in non-POL imports during 1988-89 was the combined result of a number of factors such as spill-over of imports of essential commodities necessitated by the drought of 1987, rise in prices of certain essential commodities like edible oils and metals, a spurt in demand for capital goods and metals associated with the remarkable recovery of the economy and larger imports for processing and manufacture of goods for exports.

Table-X-5 presents commodity composition of imports under broad groups, viz., bulk goods, capital goods, pearls, precious and semi-precious stones and other miscellaneous items for the last five years. Bulk imports (comprising foodgrains, mineral oils, edible oils, fertilizers, sugar, metal scrap, crude rubber, paper and newsprint, iron and steel and non-ferrous metals) constitute the largest component of India's imports, although their share in total imports has been declining over the past few years. The share of bulk imports taken together declined sharply from 58.6 per cent in 1984-85 to 37.8 per cent by 1988-89. During the same period, the share of capital goods jumped up from 18.5 per cent to 24.9 per cent reflecting larger imports of these goods for modernisation of industries and upgradation of technology. The share of pearls, precious and semi-percious stones (inputs for gem and jewellery exports) and chemicals (partly export related) went up from 11.0 per cent to 17.3 per cent during this period. The share of other miscellaneous items, not covered above, also went up somewhat from 11.9 per cent to 19.9 per cent over the same period.

*Bulk imports* increased by Rs. 1,914 crores (or by 22.4 per cent) during 1988-89 as compared with an increase of Rs. 772 crores (or 9.9 per cent) in 1987-88. *Non-oil* bulk imports had, in fact, declined by Rs. 500 crores (or by 10.0 per cent) in 1987-88, but they rose substantially by

**Table X-5 : India's Principal Imports**

(Rs. crores)

| Sr. No. | Commodities | Unit of Quantity | 1984-85 | | 1985-86 | | 1986-87 | | 1987-88 (Partially revised) | | Increase (+) or Decrease (-) in 1987-88 over 1986-87 (in value) | | 1988-89 (Provisional) | | Increase (+) or Decrease (-) in 1988-89 over 1987-88 (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 |
| **I. BULK IMPORTS** | | | | **10039** | | **10574** | | **7789** | | **8561** | **+772** | **+9.9** | | **10475** | **+1914** | **+22.4** |
| i) Cereals & cereal preparations | | '000 tonnes | 954.0 | 242 | 297.2 | 110 | 212.3 | 87 | 67.8 | 33 | -54 | -62.1 | 2371.0 | 631 | +598 | +1812.1 |
| *Of which:* i)wheat | | -do- | 554.2 | 130 | 175.9 | 61 | 114.7 | 44 | 10.0 | 4 | -40 | -90.9 | 1567.2 | 378 | +374 | +9350.0 |
| ii)Rice | | -do- | 348.6 | 90 | 43.7 | 14 | 6.9 | 2 | 5.7 | 2 | — | — | 614.5 | 193 | +191 | +9550.0 |
| ii) Fertilizers i) Crude | | -do- | 1605.9 | 137 | 1904.2 | 163 | 2123.3 | 145 | 1773.3 | 138 | -7 | -4.8 | 2008.9 | 185 | +47 | +34.1 |
| ii) Sulphur and unroasted iron pyrites | | -do- | 1153.1 | 202 | 989.9 | 220 | 1067.1 | 200 | 978.5 | 176 | -24 | -12.0 | 1234.6 | 250 | +74 | +42.0 |
| iii) Manufactured | | -do- | 4893.9 | 1007 | 5171.9 | 1053 | 3768.4 | 576 | 1229.6 | 172 | -404 | -70.1 | 2071.2 | 493 | +321 | +186.6 |
| iii) Vegetable oils, fixed (edible oils) | | -do- | 1173.9 | 950 | 1048.3 | 749 | 1483.1 | 634 | 1800.6 | 920 | +286 | +45.1 | 985.3 | 726 | -194 | -21.1 |
| iv) Paper, paper boards & manufactures thereof | | -do- | 271.2 | 195 | 237.2 | 226 | 270.6 | 217 | 283.8 | 258 | +41 | +18.9 | 256.7 | 306 | +48 | +18.6 |
| v) Metalliferrous ores, Metal Scrap etc. | | Value | — | 185 | — | 363 | — | 472 | — | 422 | -50 | -10.6 | — | 677 | +255 | +60.4 |
| vi) Petroleum, petroleum products and related materials | | Millon tonnes | 19.7 | 5409 | 19.0 | 4989 | 18.5 | 2811 | 22.4 | 4083 | +1272 | +45.2 | — | 4245 | +162 | +4.0 |
| vii) Pulp and waste paper | | '000 tonnes | 402.9 | 176 | 551.2 | 245 | 569.7 | 243 | 431.0 | 228 | -15 | -6.2 | 394.1 | 252 | +24 | +10.3 |
| viii) Iron and Steel | | '000 tonnes | 1875.4 | 941 | 2360.8 | 1395 | 3136.5 | 1556 | 2253.6 | 1273 | -283 | -18.2 | 3049.2 | 1751 | +478 | +37.6 |
| ix) Sugar | | -do- | 403.1 | 96 | 1811.8 | 418 | 814.1 | 224 | 571.4 | 174 | -50 | -22.3 | — | — | -174 | -100.0 |
| x) Non-ferrous metals | | Value | — | 412 | — | 542 | — | 517 | — | 576 | +59 | +11.4 | — | 786 | +210 | +36.5 |
| xi) Crude rubber (including synthetic and reclaimed) | | '000 tonnes | 60.2 | 87 | 76.0 | 101 | 80.2 | 107 | 69.0 | 108 | +1 | +0.9 | 88.3 | 173 | +65 | +60.2 |
| **II. CAPITAL GOODS** | | | | **3168** | | **4286** | | **6488** | | **6285** | **-203** | **-3.1** | | **6906** | **+621** | **+9.9** |
| i) Machinery other than electric | | Value | — | 1995 | — | 2705 | — | 4263 | — | 2889 | -1374 | -32.2 | — | 2919 | +30 | +1.0 |
| ii) Electrical machinery | | Value | — | 663 | — | 811 | — | 1212 | — | 1115 | -97 | -8.0 | — | 1598 | +483 | +43.3 |
| iii) Transport equipment | | Value | — | 369 | — | 569 | — | 804 | — | 740 | -64 | -8.0 | — | 766 | +26 | +3.5 |
| iv) Manufacture of metals | | Value | — | 141 | — | 201 | — | 209 | — | 149 | -60 | -28.7 | — | 193 | +44 | +29.5 |
| v) Project goods | | Value | — | — | — | — | — | — | — | 1392 | +1392 | — | — | 1430 | +38 | +2.7 |

**Table X-5 : India's Principal Imports (Concld.)**

(Rs. crores)

| Sr. No. | Commodities | Unit of Quantity | 1984-85 | | 1985-86 | | 1986-87 | | 1987-88 (Partially revised) | | Increase (+) or Decrease (-) in 1987-88 over 1986-87 (in value) | | 1988-89 (Provisional) | | Increase (+) or Decrease (-) in 1988-89 over 1987-88 (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 |
| **III.** | **PEARLS, PRECIOUS, AND SEMI PRECIOUS STONES** | Value | — | **1032** | — | **1100** | — | **1489** | — | **1994** | **+505** | **+33.9** | — | **2866** | **+872** | **+43.7** |
| **IV.** | **OTHERS (Specified)** | | | **1894** | | **2435** | | **2796** | | **2703** | **-93** | **-3.3** | | **4320** | **+1617** | **+59.8** |
| | i) Organic & inorganic chemicals | Value | — | 857 | — | 1089 | — | 1145 | — | 1051 | -94 | -8.2 | — | 1932 | +881 | +83.8 |
| | ii) Professional, scientific controlling instruments, Photographic optical goods | -do- | — | 287 | — | 379 | — | 512 | — | 491 | -21 | -4.1 | — | 689 | +198 | +40.3 |
| | iii) Artificial resins & Plastic materials etc. | -do- | — | 223 | — | 322 | — | 434 | — | 548 | +114 | +26.3 | — | 810 | +262 | +47.8 |
| | iv) Textile yarn, fabrics, made up articles etc. | -do- | — | 113 | — | 153 | — | 151 | — | 188 | +37 | +24.5 | — | 287 | +99 | +52.7 |
| | v) Medicinal and pharmaceutical products | -do- | — | 137 | — | 177 | — | 214 | — | 137 | -77 | -36.0 | — | 195 | +58 | +42.3 |
| | vi) Non-metallic mineral manufactures | -do- | — | 82 | — | 102 | — | 129 | — | 86 | -43 | -33.3 | — | 166 | +80 | +93.0 |
| | vii) Chemical materials and products | -do- | — | 135 | — | 144 | — | 152 | — | 174 | +22 | +14.5 | — | 204 | +30 | +17.2 |
| | viii) Synthetic and regenerated fibre | '000 tonnes | 39.2 | 60 | 43.3 | 69 | 37.8 | 59 | 17.1 | 28 | -31 | -52.5 | 20.5 | 37 | +9 | +32.1 |
| | **Total of the above** | | | **16133** | | **18395** | | **18562** | | **19543** | **+981** | **+5.3** | | **24567** | **+5024** | **+25.7** |
| | **Others (Not included above)** | | | **1001** | | **1263** | | **1534** | | **2856** | **+1322** | **+86.2** | | **3126** | **+270** | **+9.5** |
| | **Grand Total** | | | **17134** | | **19658** | | **20096** | | **22399** | **+2303** | **+11.5** | | **27693** | **+5294** | **+23.6** |

*Note :* Imports of project goods for the years prior to 1987-88 were merged under machinery.

Rs. 1,752 crores (or by 39.1 per cent) during 1988-89. The sharp rise in *non-oil* bulk imports during the year was mainly accounted for by *foodgrains* (by Rs. 598 crores) *iron and Steel* (by Rs. 478 crores), *fertilizers, crude and manufactured* (by Rs. 442 crores), *metalliferrous ores and metal scrap* (by Rs. 255 crores) and *non-ferrous metals* (by Rs. 210 crores). Imports of *edible oils* were lower by Rs. 194 crores and there were no imports of sugar during the year.

Imports of *petroleum, oil and lubricants (POL),* which increased by 45.2 per cent in 1987-88 rose by 4.0 per cent (by Rs. 162 crores) to Rs. 4,245 crores in 1988-89. POL imports during 1988-89 contstituted 15.3 per cent of overall imports as against 18.2 per cent in the previous year.

Among *non-oil bulk imports,* the largest increase was under food imports which was resorted in order to replenish the foodgrain stocks which had declined by 12.0 million tonnes to 9.4 million tonnes by the end of March 1988. During 1988-89, 1.6 million tonnes of wheat valued at Rs. 378 crores and 0.6 million tonnes of rice valued at Rs. 193 crores were imported. Besides, pulses amounting to Rs. 383 crores (as against Rs. 254 crores in the previous year) were imported to augment domestic availibility.

Imports of *fertilizers (crude and manufactured)* at Rs. 928 crores during the year under review were higher by Rs. 442 crores (90.9 per cent) due both to an increase in the quantity imported and rise in prices. Imports of fertilizers, crude and manufactured taken together amounted to 5.3 million tonnes in 1988-89 as against 4.0 million tonnes in the preceding year, due to higher demand from the farm sector. It may be mentioned that imports of fertilizers have steadily declined from 8.1 million tonnes in 1985-86 to 4.0 million tonnes in 1987-88, rising moderately to 5.3 million tonnes in 1988-89. The containment of imports of fertilizers not withstanding an increase in domestic consumption reflects the improved capacity utilisation of fertilizer plants.

Imports of *iron and steel* and *metalliferrous ores* and *metal scrap* which declined during 1987-88 increased significantly during 1988-89. Imports of *non-ferrous metals* also rose substantially during the year.

Despite a rise in prices, imports of *edible oils* declined by Rs. 194 crores to Rs. 726 crores in 1988-89 due to a substantial decline in the quantity from 1.8 million tonnes in the previous year to 1.0 million tonnes. The reduction in imports of edible oils was mainly due to a sharp fall in purchases during the second half of 1988-89 because of improved domestic production of oilseeds.

Imports of *sugar* have been steadily declining from 1.8 million tonnes in 1985-86 to 0.6 million tonnes by 1987-88. There were no imports of sugar during the year.

Imports of *capital goods (including project goods)* increased by Rs. 621 crores (or by 9.9 per cent) to Rs. 6,906 crores during 1988-89 as against a decline of Rs. 203 crores (or by 3.1 per cent) in the preceding year. The larger imports of capital goods during the year was mainly under electrical goods and appliances (by Rs. 483 crores) which accounted for 77.8 per cent of the total increase in capital goods imports.

During 1988-89, imports of *pearls, precious and semi-precious stones* went up sharply by Rs. 872 crores (or by 43.7 per cent) over and above the increase of Rs. 505 crores (or by 33.9 per cent) in the preceding year. The rise in import of these items reflects the increasing demand for diamond and processed jewellery, whose exports increased *pari passu* by Rs. 1,784 crores to Rs. 4,398 crores.

The largest increase in imports during 1988-89 occured under *chemicals (organic and inorganic)* which went up substantially by Rs. 881 crores to Rs. 1,932 crores; these had declined marginally by Rs. 94 crores in 1987-88. Part of these imports were utilised for export as reflected in the strong rising trend in the exports of chemicals and allied products which increased by Rs. 708 crores to Rs. 1,531 crores during the year under review.

Among other imports, major items registering high growth rates were *artificial resins and plastic materials* (by Rs. 262 crores), *professional, scientific and controlling instruments and photographic optical goods* (by Rs. 198 crores) and *textile yarn, fabrics and made-up articles* etc. (by Rs. 99 crores).

**Direction of India's Foreign Trade**

Region-wise data on India's foreign trade for 1988-89 are given in Table X-6 along with the

**Table X-6 : Direction of Trade**

(Rs. crores)

| Region | 1980-81 | | | 1984-85 | | | 1985-86 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Exports | Imports | Balance | Exports | Imports | Balance | Exports | Imports | Balance |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| **I. OECD Countries** | **3126** | **5747** | **-2621** | **5273** | **8345** | **-3072** | **5532** | **10528** | **-4996** |
| | **(46.6)** | **(45.8)** | | **(44.9)** | **(48.7)** | | **(50.8)** | **(53.6)** | |
| *a)* EEC | 1447 | 2639 | -1192 | 2002 | 4222 | -2220 | 1929 | 5234 | -3305 |
| | (21.6) | (21.0) | | (17.0) | (24.7) | | (17.7) | (26.6) | |
| *b)* North America | 806 | 1851 | -1045 | 1897 | 2200 | -303 | 2106 | 2515 | -409 |
| | (12.0) | (14.7) | | (16.2) | (12.8) | | (19.3) | (12.8) | |
| *c)* Asia and Oceania | 708 | 932 | -224 | 1190 | 1471 | -281 | 1304 | 2257 | -953 |
| | (10.5) | (7.4) | | (10.1) | (8.6) | | (12.0) | (11.5) | |
| *d)* Other OECD Countries | 165 | 325 | -160 | 184 | 452 | -268 | 193 | 522 | -329 |
| | (2.5) | (2.6) | | (1.6) | (2.6) | | (1.8) | (2.7) | |
| **II. OPEC Countries** | **745** | **3490** | **-2745** | **944** | **3327** | **-2383** | **835** | **3422** | **-2587** |
| | **(11.1)** | **(27.8)** | | **(8.0)** | **(19.4)** | | **(7.7)** | **(17.4)** | |
| **III. Eastern Europe** | **1521** | **1341** | **180** | **2264** | **2211** | **53** | **2416** | **2243** | **173** |
| | **(22.6)** | **(10.7)** | | **(19.3)** | **(12.9)** | | **(22.2)** | **(11.4)** | |
| **IV. Developing Countries** | **1266** | **1971** | **-705** | **1439** | **3251** | **-1812** | **1462** | **3465** | **-2003** |
| | **(18.9)** | **(15.7)** | | **(12.3)** | **(19.0)** | | **(13.4)** | **(17.6)** | |
| *a)* Asia | 880 | 1428 | -548 | 1115 | 2397 | -1282 | 1155 | 2343 | -1188 |
| | (13.1) | (11.4) | | (9.5) | (14.0) | | (10.6) | (11.9) | |
| *i)* SAARC Countries | 236 | 140 | 96 | 355 | 133 | 222 | 328 | 98 | 230 |
| | (3.5) | (1.1) | | (3.0) | (0.8) | | (3.0) | (0.5) | |
| *ii)* Others | 644 | 1288 | -644 | 760 | 2264 | -1504 | 827 | 2245 | -1418 |
| | (9.6) | (10.3) | | (6.5) | (13.2) | | (7.6) | (11.4) | |
| *b)* Africa | 345 | 204 | 141 | 300 | 388 | -88 | 287 | 592 | -305 |
| | (5.2) | (1.6) | | (2.6) | (2.3) | | (2.6) | (3.0) | |
| *c)* Latin American Countries | 32 | 303 | -271 | 17 | 450 | -433 | 15 | 507 | -492 |
| | (0.5) | (2.4) | | (0.1) | (2.6) | | (0.1) | (2.6) | |
| *d)* Other Developing Countries | 9 | 36 | -27 | 7 | 16 | -9 | 5 | 23 | -18 |
| | (0.1) | (0.3) | | (0.1) | (0.1) | | (0.1) | (0.1) | |
| **V. Others** | **53** | **—** | **53** | **1824** | **—** | **1824** | **650** | **—** | **650** |
| | **(0.8)** | **(—)** | | **(15.5)** | **(—)** | | **(5.9)** | **(-)** | |
| **Grand Total** | **6711** | **12549** | **-5838** | **11744** | **17134** | **-5390** | **10895** | **19658** | **-8763** |

**Table X-6 : Direction of Trade (Concld.)**

(Rs. crores)

| Region | 1986-87 | | | 1987-88 (P) | | | 1988-89 (P) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Exports | Imports | Balance | Exports | Imports | Balance | Exports | Imports | Balance |
| | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| **I. OECD Countries** | **7004** | **12903** | **-5899** | **9253** | **13337** | **-4084** | **11806** | **16769** | **-4963** |
| | **(56.3)** | **(64.2)** | | **(58.8)** | **(59.5)** | | **(58.2)** | **(60.6)** | |
| *a)* EEC | 2736 | 6549 | -3813 | 3955 | 7412 | -3457 | 4942 | 8706 | -3764 |
| | (22.0) | (32.6) | | (25.1) | (33.1) | | (24.4) | (31.5) | |
| *b)* North America | 2468 | 2258 | 210 | 3077 | 2317 | 760 | 3932 | 3608 | 324 |
| | (19.8) | (11.2) | | (19.6) | (10.3) | | (19.4) | (13.0) | |
| *c)* Asia and Oceania | 1502 | 3041 | -1539 | 1823 | 2663 | -840 | 2458 | 3371 | -913 |
| | (12.1) | (15.1) | | (11.6) | (11.9) | | (12.1) | (12.2) | |
| *d)* Other OECD Countries | 299 | 1055 | -756 | 398 | 945 | -547 | 474 | 1084 | -610 |
| | (2.4) | (5.3) | | (2.5) | (4.2) | | (2.3) | (3.9) | |
| **II. OPEC Countries** | **774** | **1958** | **-1184** | **980** | **3319** | **-2339** | **1207** | **3681** | **-2474** |
| | **(6.2)** | **(9.7)** | | **(6.2)** | **(14.8)** | | **(6.0)** | **(13.3)** | |
| **III. Eastern Europe** | **2390** | **1537** | **853** | **2593** | **1796** | **797** | **3353** | **1947** | **1406** |
| | **(19.2)** | **(7.7)** | | **(16.5)** | **(8.0)** | | **(16.5)** | **(7.0)** | |
| **IV. Developing Countries** | **1869** | **3698** | **-1829** | **2208** | **3786** | **-1578** | **3401** | **5271** | **-1870** |
| | **(15.0)** | **(18.4)** | | **(14.0)** | **(16.9)** | | **(16.8)** | **(19.0)** | |
| *a)* Asia | 1561 | 2409 | -848 | 1869 | 2683 | -814 | 2832 | 3691 | -859 |
| | (12.5) | (12.0) | | (11.9) | (12.0) | | (14.0) | (13.3) | |
| *i)* SAARC Countries | 371 | 113 | 258 | 402 | 102 | 300 | 548 | 149 | 399 |
| | (3.0) | (0.6) | | (2.6) | (0.5) | | (2.7) | (0.5) | |
| *ii)* Others | 1190 | 2296 | -1106 | 1467 | 2581 | -1114 | 2284 | 3542 | -1258 |
| | (9.5) | (11.4) | | (9.3) | (11.5) | | (11.3) | (12.8) | |
| *b)* Africa | 275 | 881 | -606 | 297 | 609 | -312 | 402 | 981 | -579 |
| | (2.2) | (4.4) | | (1.9) | (2.7) | | (2.0) | (3.5) | |
| *c)* Latin American Countries | 27 | 406 | -379 | 32 | 493 | -461 | 111 | 594 | -483 |
| | (0.2) | (2.0) | | (0.2) | (2.2) | | (0.5) | (2.1) | |
| *d)* Other Developing Countries | 6 | 2 | 4 | 10 | 1 | 9 | 56 | 5 | 51 |
| | (0.1) | (0.0) | | (0.1) | (0.0) | | (0.3) | (0.1) | |
| **V. Others** | **415** | **—** | **415** | **707** | **161** | **546** | **514** | **25** | **489** |
| | **(3.3)** | **(—)** | | **(4.5)** | **(0.7)** | | **(2.5)** | **(0.1)** | |
| **Grand Total** | **12452** | **20096** | **-7644** | **15741** | **22399** | **-6658** | **20281** | **27693** | **-7412** |

*Notes:* (a) Exports of Crude Oil from Bombay High for the years 1984-85 and 1985-86 amounting to Rs. 1563 crores and Rs. 135 crores respectively, are taken into account in Grand Total and Others group. But these are not included in the country-wise details. There were no crude oil exports from Bombay High in subsequent years.

(b) Exports of Petroleum products amounting to Rs. 255 crores in 1984-85, Rs. 510 crores in 1985-86, Rs. 411 crores in 1986-87, Rs. 633 crores in 1987-88 and Rs. 505 crores in 1988-89 are taken into account in Grand Total and Others group but these are not included in country-wise details.

(c) Figures in the brackets indicate percentages to Grand Total.

d) The total figures for 1987-88 are partially revised.

*Source:* D.G.C.I.&S.

P = Provisional.

data for the preceding five years. Data for 1988-89 and 1987-88 are provisional. The countries have been broadly classified into the following regions :

(a) Organisation for Economic Cooperation and Development (OECD),
(b) Organisation of Petroleum Exporting Countries (OPEC),
(c) Eastern Europe and
(d) Developing countries.

During 1988-89, except with Eastern Europe where the trade surplus increased over the year, with the other three regions, the trade deficit widened over the year. The trade deficit with OECD countries which had declined by Rs. 1,815 crores (or 30.8 per cent) in 1987-88 increased by Rs. 879 crores (or 21.5 per cent) during 1988-89 to Rs. 4,963 crores, accounting for 66.9 per cent of the global trade deficit. The OECD group of countries accounted for 58.2 per cent of India's total exports and 60.6 per cent of imports during 1988-89.

The higher trade deficit with OECD Group was mainly accounted for by larger deficit with EEC countries (Rs. 307 crores), Australia (Rs. 118 crores) and Canada (Rs. 99 crores) and lower trade surplus with the U.S.A. (Rs. 337 crores). The widening of the trade deficit with EEC countries was accounted for by the UK, with which trade deficit widened (Rs. 324 crores) followed by West Germany (Rs. 117 crores) and Belgium (Rs. 78 crores); trade deficit with France contracted over the year.

The widening of the trade deficit with OECD countries (Rs. 879 crores) was due to a larger rise in imports (Rs. 3,432 crores), which more than offset the increase in exports (Rs. 2,553 crores). As a result, the share of OECD countries in exports came down from 58.8 per cent in 1987-88 to 58.2 per cent during 1988-89, whereas their share in imports went up over the same period from 59.5 per cent to 60.6 per cent. With most countries in the OECD Group, both exports and imports went up but the increase in imports was significant in the case of the U.S.A (57.9 per cent), the U.K. (25.3 per cent), Japan (24.0 per cent) and West Germany (13.4 per cent). Under exports, the major increases were recorded with Belgium (83.1 per cent), Japan (33.9 per cent),the U.S.A. (28.5 per cent) and West Germany (16.4 per cent).

The trade deficit with OPEC countries widened marginally by Rs. 135 crores to Rs. 2,474 crores during 1988-89 due mainly to larger trade deficit with Saudi Arabia (Rs. 424 crores), which mostly offset the reduction in the adverse balance of trade with Iraq (Rs. 215 crores), UAE (Rs. 39 crores) and Kuwait (Rs. 28 crores). Exports to OPEC countries increased during the year by Rs. 227 crores (23.2 per cent), while imports went up by Rs. 362 crores (10.9 per cent). Saudi Arabia and UAE accounted for 62.3 per cent of India's exports to OPEC countries and 73.3 per cent of India's imports from these countries during 1988-89.

India has a trade surplus with East European countries. The trade surplus with this group of countries which declined marginally by Rs. 56 crores to Rs. 797 crores in 1987-88, nearly doubled to Rs. 1,406 crores during 1988-89. The substantial increase in the trade surplus during the year was due to a sharp rise in exports of Rs. 760 crores (29.3 per cent) which more than offset the modest increase in imports of Rs. 151 crores (8.4 per cent). The U.S.S.R. which constituted bulk of the trade with East Europe, accounted for an increase of Rs. 635 crores in exports.

With developing countries, the trade deficit widened by Rs. 292 crores, due mainly to larger trade deficit with African countries (Rs. 267 crores). With SAARC group of countries, the trade surplus was higher by Rs. 99 crores due to a larger rise in exports than in imports. With other Asian countries (non-SAARC countries), exports increased by Rs. 817 crores, but imports went up by Rs. 961 crores, as a result of which trade deficit widened by Rs. 144 crores. With African countries, the widening of the trade deficit was due to a larger increase in imports (Rs. 372 crores which more than offset the rise in exports (Rs. 105 crores). With Latin American countries, despite an increase in exports (Rs. 79 crores) the trade deficit widened by Rs. 22 crores due to a rise in imports (Rs. 101 crores). With developing countries taken together, while their share in India's exports went up from 12.3 per cent in 1984-85 to 16.8 per cent by 1988-89, their share in imports remained the same at 19.0 per cent.

**Import Licences :**

Data on the import licences issued to eight

categories of importers are presented in Table X-7. The interpretation of these data, as in the past, is subject to the following limitations :

(a) the validity of different categories of licences ranges between 1 to 2 years,
(b) extension is granted in some cases in the period of validity or revision is effected in the value of licences and
(c) there is sometimes revalidation of licences issued earlier.

It is not possible to correlate the data on actual imports in a given period with import licences issued. However, a broad trend of the relative importance of licensing in the import trade of the country is revealed by the data. The ratio of value of licences issued to overall imports rose marginally from 46.5 per cent in 1987-88 to 49.8 per cent during 1988-89. Since the lag between the issue of licences and utilisation of licences is not uniform, the ratio has to be interpreted with caution.

Value of import licences has spurted over the years consistent with the import needs of development. The value of licences issued has increased from Rs. 8,417 crores in 1985-86 to Rs. 10,415 crores in 1987-88 and further to Rs. 13,797 crores in 1988-89. The sharp rise of Rs. 3,382 crores in 1988-89 over the value of licences issued in the preceding year was mainly due to a significant rise of Rs. 3,036 crores (42.1 per cent) in licences issued to the private sector.

Among the different categories of licences issued, a substantial increase in the licences issued was to Registered Exporters (by Rs. 3,517 crores), followed by State Trading Agencies (by Rs. 327 crores); other categories of licences showed either a marginal increase or a decline over the preceding year. The share of Registered

**Table X-7 : Value of Import Licences Issued : Classified by Major Categories and Sectors — 1987-88 and 1988-89**

(Rs. crores)

| Category | Government Sector | | Private Sector | | Total | |
|---|---|---|---|---|---|---|
| | 1987-88 | 1988-89 | 1987-88 | 1988-89 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Actual Users (Industrial) | 84 | 69 | 22 | 21 | 106 | 90 |
| | (2.6) | (1.9) | (0.3) | (0.2) | (1.0) | (0.7) |
| 2. Actual Users (Non-industrial) | 132 | 31 | 13 | 13 | 145 | 44 |
| | (4.1) | (0.9) | (0.2) | (0.1) | (1.4) | (0.3) |
| 3. Raw Materials for Scheduled Industries | 794 | 746 | 857 | 936 | 1,651 | 1,682 |
| (DGTD Units) | (24.8) | (21.0) | (11.9) | (9.1) | (15.9) | (12.2) |
| 4. Small Scale Industries | — | — | 310 | 83 | 310 | 83 |
| | | | (4.3) | (0.8) | (3.0) | (0.6) |
| 5. Registered Exporters | 332 | 715 | 4,620 | 7,754 | 4,952 | 8,469 |
| | (10.4) | (20.2) | (64.1) | (75.7) | (47.5) | (61.4) |
| 6. Capital Goods/ Heavy Electrical Plants | 1,317 | 1,420 | 1,166 | 1,136 | 2,483 | 2,556 |
| | (41.1) | (40.0) | (16.1) | (11.1) | (23.8) | (18.5) |
| 7. State Trading Agencies | 99 | 426 | — | — | 99 | 426 |
| | (3.1) | (12.0) | | | (1.0) | (3.1) |
| 8. Others* | 445 | 142 | 224 | 305 | 669 | 447 |
| | (13.9) | (4.0) | (3.1) | (3.0) | (6.4) | (3.2) |
| **Total** | **3,203** | **3,549** | **7,212** | **10,248** | **10,415** | **13,797** |

* 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.

Exporters in total value of licences issued went up from 47.5 per cent in 1987-88 to 61.4 per cent in 1988-89, reflecting the pursuance of a liberal import policy for increasing production for exports.

Licences issued to exporters comprise replenishment licences (REP), licences under the Duty Exemption Scheme (advance licences, intermediate advance licences and special imprest licences), imprest licences, import-export passbook scheme, additional licences and licences against deemed exports. Replenishment licences predominated, constituting 35 per cent of all the licences issued. Imprest licences and licences issued under duty exemption scheme were equally important, accounting for about 30 per cent each of the total value of licences issued. The other categories of licences covered the balance. While replenishment licences are showing a declining trend in recent years, the other two major types of licences, namely, imprest licences and licences under duty exemption secheme are showing an increasing trend. Among the licences issued under duty exemption scheme, advance licencing has proved to be popular, constituting more than two-thirds of the licences under this category.

More than half of the REP licences were accounted for by exporters of gems and jewellery followed by exporters of engineering goods, readymade garments, textiles, fish and fish preparations and leather manufactures. Almost the entire category of imprest licences was accounted for by gems and jewellery exporters. Among the licences issued under the duty exemption scheme, more than 50 per cent was on account of engineering goods and about one-fourth on account of chemicals and allied products. Textiles also accounted for sizeable portion of these licences. Additional licences mainly figured in the exports of engineering goods, leather and leather manufactures, ready-made garments, textiles, gems and jewellery,etc.

Consistent with import liberalisation in recent years, the list of import items which could be brought in under OGL has been expanded and now exceeds one thousand items, mostly in the nature of capital goods,spares, raw materials and intermediates. Similarly, imports under OGL routed through authorised dealers show a consistent uptrend and now constitute about three-fourth of imports covered by licences.

## II. DEVELOPMENTS IN FOREIGN TRADE POLICY

### Export Promotion Measures

Over the past few years, a wide spectrum of measures have been taken to secure expansion of production capacities and upgradation of technology in the export sector, and in general, to make exports more competitive in the world markets. These export promotion measures have contributed significantly towards sustaining the momentum of export growth since 1986-87. While these are now considered broadly adequate in relation to the requirements of the exporting community, several initiatives were undertaken during 1988-89 to simplify and rationalise existing policy and procedures to further improve the export environment (Appendix I-A).

Subsequent to the announcement of the Import-Export Policy, 1988-91 in March 1988, certain changes were introduced to permit greater flexibility for exporters to obtain their requirements of imported raw materials, capital goods, components and spares. These were as follows :

1. The list of imports under OGL has been substantially expanded to include items of machinery required by industries which have shown promising export potential.

2. The advance licensing scheme has been further simplified by removing the constraints in regard to the joint bond, bank guarantee or legal undertaking to be given for the fulfilment of export obligation by the ultimate exporter and the intermediate manufacturer. The Bond and Bank Guarantee/ Legal Undertaking would now be executed separately.

3. Export and Trading Houses were permitted to obtain licences for duty-free imports without a specific export order under the advance licensing scheme. REP and additional licences issued to these Houses were made valid for the import of samples. Moreover, the facility of free transferability without Actual User condition available for additional licences issued to Export and Trading Houses for 1988-89 onwards was also made available for licences issued earlier.

4. Besides the 149 export products covered in

Appendix 13C of the Import-Export Policy, 1988-91, standard input-output norms were evolved for 394 more export products which are eligible for duty-free imports under the advance licensing scheme. Thus the total number of export products for which input-output norms have been defined increased to 543.

5. The scope of the Import-Export Pass Book Scheme has been expanded to include ready-made garments, equipment, spares and consumables for scientific research, silk and woollen fabrics. Further, supplies made to import-export pass book scheme licence holders would be treated as deemed exports for import replenishment benefits (as in the case of advance licence holders).

6. Higher levels of flexibility have been granted for licences issued under the REP Scheme and the Duty Exemption Scheme in respect of the export of automobiles.

7. Duty exempt materials imported against licences issued under the Duty Exemption Scheme could be used for execution of one or more export orders or for transfer to another advance licence holder subject to Actual User condition.

Besides, the changes effected in the Import-Export Policy 1988-91 referred to above, various measures were initiated during the year to provide improved monetary, fiscal and institutional support to exporters.

The Cash Compensatory Support Scheme (CCS), which provides for reimbursement of unrebated indirect taxes on inputs required for manufacture of export goods, has been under continuous review. During 1988-89, a number of additional products were made eligible for CCS, while higher rates of CCS were granted for certain items already covered under the scheme. By 1988-89, approximately 260 items under different product groups such as engineering goods, chemicals and allied products, plastics, agricultural and allied products, leather goods, sports goods, textiles and handicrafts were made eligible for CCS. During 1988-89, according to revised estimates, disbursals under the scheme amounted to Rs. 1,271 crores as against Rs. 900 crores in 1987-88, representing an increase of 41.2 per cent. The Union Budget for 1989-90 has made a provision of Rs. 1,500 crores for CCS disbursements under export promotion market development assistance. The CCS Scheme is also applicable to "deemed exports". A new three year CCS Scheme (1989-92) has been announced effective from April 1, 1989, under which 48 new items have been made eligible for grant of CCS.

Following a review of Duty Drawback Schedule under which remission of excise duties and domestic taxes on export products is allowed, a revised Drawback Schedule came into effect from June 1, 1988. Under the new schedule, significant improvement in rates of the order of more than 10 per cent over earlier rates were effected in respect of products of thrust industries such as food processing, engineering, electronics, paints and pigments, woollen manufactures, sports goods, etc. All-industry rates of Drawback were fixed for the first time for exports of specified electronic items. Special provision in the schedule of drawback rate was made for exporters availing of Advance Licence/Import-Export Pass Book Scheme benefits, in order to obviate the need for fixing brand rates. A simplified brand rate fixation scheme for duty drawback was introduced in October, 1988 and was initially available for manufacturer exporters of engineering goods, electronic goods and chemicals. In order to cut down delays in receiving drawback due to pre-verification of exporters' claims on import and duties by the customs and excise department, brand rate benefits would now be based on the data furnished by manufacturer-exporters, provided these are certified by an independent chartered engineer, cost accountant or chartered accountant. A revised Duty Drawback Schedule has been announced in June, 1989, which extends the coverage of the Scheme by including 16 more items and fixing all-Industry rates for them.

A scheme for the supply of diesel oil at international prices to exporting units was announced, applicable with effect from April 1, 1988. The scheme would apply to units exporting over 25 per cent of their production and which have installed captive power generating sets. The difference between the market price of diesel and its international price is reimbursed to the exporting units on a proportionate basis, after reckoning the export performance.

In recognition of the strategic role of exports, the Reserve Bank of India has accorded high

priority to the requirements of the export sector. In order to provide a supportive financial framework for a vigorous export effort, the structure of scheduled commercial banks' lending rates for export credit has been under continuous review and a reduction in these rates has been effected from time to time to improve exporters' access to working capital on concessional terms.

Latest reductions in interest rates on export credit were announced with effect from March 1, 1989. The interest rate on pre-shipment credit upto 180 days was lowered to 7.5 per cent (from 9.5 per cent earlier) while the interest rate on pre-shipment credit beyond 180 days was reduced from 11.5 per cent to 9.5 per cent. The interest rate on all categories of advances under post-shipment credit was brought down from 9.5 per cent to 8.65 per cent.

In order to support the need of exporters to seek out buyers and markets and assess their potential, a broad based and flexible Blanket Exchange Permit Scheme was introduced in June 1987, mention of which was made in the last year's report. During 1988-89, the Scheme was expanded to cover new units operating in the Export Processing Zones, even if such units do not have to their credit the required minimum export performance during the first two years. Further, the number of approved purposes for which exchange can be drawn against blanket permits has been considerably enlarged to cover many more items of expenditure in connection with export promotion activities.

The policy to effect speedier implementation of export incentives by delegating more powers to authorised dealers continued to be followed. The monetary ceiling for disposal of applications by authorised dealers in respect of remittances towards quality claims of exporters was enhanced from Rs. 30,000 to Rs. 1 lakh. The monetary ceiling for disposing applications by authorised dealers in respect of reduction in invoice value of exports was enhanced from Rs. 10,000 to Rs. 20,000.

The RBI has allowed liaision offices of foreign trading companies in India to place export orders with Indian companies on behalf of their parent organisations abroad. These liaision offices have also been permitted to procure samples against payment in rupees out of foreign exchange received and to send them abroad subject to customs regulations.

In respect of exports of readymade garments, silk fabrics, piece goods and made-ups, banks have been allowed to waive the requirement of lodgement of letter of credit or firm export order at the time of providing packing credit advances for exporters with a good track record. This relaxation has been provided up to March, 1990. In general, there has been a significant relaxation in regard to the conditions laid down for banks while granting concessive packing credit.

The Exim Bank has been playing a pioneering role in export promotion through its lending programmes and by disseminating information on export opportunities and other advisory services. In recent years, it has effected substantial reductions in its lending rates on suppliers' and buyers' credits. In March 1988, the interest rate for suppliers' credits was reduced from 8.5 per cent to 7.5 per cent. The new rate for buyers' credits was fixed at 7.5 per cent with an annual service charges of 0.5 per cent per annum and a commitment fee of 0.5 per cent per annum. During January 1988 to March 1989, commitments by the Exim Bank to support export bids aggregated to Rs. 5,400 crores. Its sanctions under the Export Marketing Fund aggregated Rs. 11.45 crores, with actual disbursements of Rs. 4.29 crores. During 1988-89, the Exim Bank introduced a new lending programme under which it provides export development loans for R & D, export product development and quality assurance activites.

Financial institutions such as the IDBI, IFC, ICICI and IRBI have been operating an Export Incentive Scheme whereby a rebate of 1.5 per cent is extended to 100 per cent Export Oriented Units (EOUs) on the applicable rate of interest on rupee loan assistance for the first five years of operation from the date of commercial production, depending on their actual performance in meeting export obligations in each year. The incentive has also been extended to corporate entities exporting more than 25 per cent of their total sales, besides the 100 per cent EOUs. The export incentive scheme is to be in operation upto March 1990.

Exporters of engineering goods benefit from the International Price Reimbursement Scheme (IPRS), under which they are reimbursed the

difference between domestic and international price of steel used in the manufacture of export items. Commercial banks have been permitted to grant advances against such receivables at concessional rates of interest. Schemes for supply of indigenous aluminium for value-added export, and levy cement for export production of cement based products have also been introduced.

Various other measures have also been undertaken to provide a supportive institutional framework for boosting exports. The Government of India constituted a Board of Trade in May 1989 under the Chairmanship of the Union Minister of Commerce. Five sub-committes have been set up to deal with the following subjects : International Trade Policy, Export Promotion Policy, Infrastructure, Finance, Procedural and Other Matters. A high level committee of Non-resident Indians abroad has been constituted under the chairmanship of the Union Minister of Commerce for promoting India's exports. Similarly, a Committee of Secretaries and a Cabinet Committee on exports has been set up to facilitate decision making and their implementation.

A Leather Designing and Training Institute was established and a Council for promoting exports of Handicrafts and an Electronics Export Promotion Council have been set up. With the successful completion of export processing zones at Madras, Falta, Noida and Cochin, a proposal for an export processing zone at Vishakapatnam is under consideration. The proposals for establishment of technology parks at Bangalore, Nilgiri, Hyderabad and Pune have been approved. These parks would be given the status of mini export processing zones where an entrepreneur can undertake software development on an 100 per cent export basis. Imports into technology parks would be exempt from customs duty.

**Changes in Export Duties**

Export duties are altered from time to time with a view to impounding 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 movement in factors such as domestic production, international demand for products, variation in prices prevailing in international markets and in exchange rates. During 1988-89, due to a further decline in coffee prices in international markets, coffee was exempted from the export duty leviable thereon, effective from August 26, 1988. A week prior to this notification, export duty had been reduced to Rs. 100 per quintal from Rs. 170 per quintal leviable since May 1987. Likewise, black pepper was also exempted from the export duty leviable thereon, effective from September 20, 1988. Prior to this change, an export duty of Rs. 5 per kg. had been in force since November 1987 (Appendix I-B).

**Other measures**

The Export (Control) Order, 1977 regulates the export of commodities subject to export licensing. In recognition of the strategic role of exports, there has been progressive deregulation of export licensing. Most items are decontrolled and are freely exportable. However, a few commodities continue to be subject to export control in view of domestic requirements, conservation of national resources and environmental protection. Under the Export Policy 1988-91, export licensing has been completely revamped and restructured in order to secure simplification and rationalisation of policy and procedures.

The few controls that exist comprise of stipulations in respect of minimum export prices, quality control, canalisation, restriction or banning, etc. Important notifications on export control issued during the period April 1988 to March 1989 are covered in Appendix I-A. During the year 1988-89, export of meat of buffalo, semi-processed hides and skins, pure ghee and non-basmati rice were allowed within a specified ceiling, while export of basmati rice, iron ore of Goa origin, HPS groundnut, Buffalo Offals, sesame seeds, Niger seeds, Polyester staple fibre/yarn and hand-knotted/woven woollen carpets were allowed under Open General Licence subject to conditions like, minimum export price, registration of contract with appropriate authority or on fulfilment of required financial/administrative conditions. Exports of colour picture tubes and sub-assemblies of colour TV containing colour picture tube were canalised through the Electronic Trade and Technology Development Corporation. The minimum export price for exporting basmati rice was raised from

Rs. 7,500/- to Rs. 8,000/-per MT (f.o.b.), while that for meat of Indian sheep and goat was fixed at Rs. 26/- per kg. (f.o.b.).Exports of meat of Indian sheep and goat were also subject to necessary clearance from the office of State Directorate of Animal Husbandry or any other veterinarian authorised on their behalf. Exports of bajra and jowar were allowed on 'first-come, first-served' basis against contracts backed by 100 per cent Irrevocable Letters of Credit. In case of non-Basmati rice, exports were allowed with a period of shipment upto six months or till the end of licensing year i.e. March 31, 1989, whichever being earlier from the date of registration of contracts with Agricultural and Processed Food Product Export Development Authority.

## III. SPECIALISED FOREIGN TRADE AGENCIES

*State Trading Corporation of India (STC)*

The 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. During 1988-89, exports by the Corporation declined by 8.6 per cent to Rs. 531 crores from Rs. 581 crores in 1987-88., mainly due to de-canalisation of semi-processed leather, footwear and lemongrass oil. Imports similarly declined by 33.0 per cent to Rs. 2,036 crores from Rs. 3,037 crores in the previous year, primarily due to reduced imports of edible oils, fatty acids, sugar, chemicals/drugs, etc.

*Exports :*

Detailed commodity-wise data are not yet available. During 1988-89, exports of canalised items declined by 52.8 per cent to Rs. 84 crores from Rs. 178 crores in the previous year, mainly due to de-canalisation of semi-processed leather. Canalised items constituted only 15.8 per cent of total exports as against 30.6 per cent in the previous year. However, non-canalised exports at Rs. 442 crores in 1988-89 increased by 10 per cent from Rs. 402 crores in 1987-88.

*Imports :*

During 1988-89, imports of canalised items declined by 33.8 per cent to Rs. 1,985 crores from Rs. 2,998 crores in 1987-88. Imports of edible oils at Rs. 1,560 crores were lower by 29.8 per cent during 1988-89 and accounted for 65 per cent of the decline in total imports of canalised items. Similarly, there were no imports of sugar and natural rubber during the year 1988-89 as against imports of Rs. 308 crores and Rs. 71 crores, respectively, during the previous year. A major item that showed substantial decline was import of chemicals which declined by Rs. 74 crores during the year.

*Minerals and Metals Trading Corporation (MMTC)*

The Minerals and Metals Trading Corporation (MMTC) is the main canalising agency for exports of major minerals and imports of non-ferrous metals, industrial raw materials, steel, crude and finished fertilizers. The total turnover of the Corporation increased by 30.9 per cent to Rs. 3,788 crores in 1988-89 from Rs. 2,894 crores in the previous year, mainly due to higher imports during the year. The total turnover surpassed the target of Rs. 2,750 crores for the year by almost 38 per cent.

During the year, exports at Rs. 806 crores were higher by 11 per cent over those in the previous year. Canalised exports at Rs. 473 crores were up by 42 per cent while the non-canalised exports declined by 16 per cent to reach Rs. 333 crores. Imports by MMTC during 1988-89 at Rs. 2,944 crores increased by 39 per cent as compared with the previous year. Canalised imports were higher by 41 per cent to reach Rs. 2,908 crores in 1988-89, while non-canalised imports were lower by 32 per cent to reach a level of Rs. 36 crores as compared to Rs. 53 crores during the previous year. Domestic turnover declined from Rs. 47 crores to Rs. 37 crores in 1988-89.

The main commodities under canalised exports were iron ore, manganese ore, chrome ore, coal and bauxite. The principal item of export among these was iron ore which increased by 28 per cent over that in the previous year and constituted 46.8 per cent of the total exports. Chrome ore at Rs. 61 crores was also a major item of export. Among the non-canalised items, iron ore concentrates and diamonds were the main commodities.

Countertrade, which constituted an important segment in non-canalised exports, amounted to Rs. 214 crores and accounted for 26.6 per cent of the total exports. Exports of diamonds

**Table X-8 : Exports and Imports by STC-Major Items**

(Rs. crores)

| Items | 1987-88 | 1988-89 (P) |
|---|---|---|
| 1 | 2 | 3 |
| **A. Exports** | | |
| **I. Canalised** | | |
| Sugar | 14 | 20 |
| Semi-processed leather | 68 | —* |
| Castor oil | 51 | 41 |
| Opium | 7 | .. |
| Salt | 4 | 3 |
| Others (including SBO re-exports) | 34 | 20 |
| **Total I** | **178** | **84** |
| **II. Non-Canalised** | | |
| Coffee and instant coffee | 56 | .. |
| Tobacco | 11 | .. |
| Tea | 17 | 14 |
| Foodgrains (excl. rice) | 36 | .. |
| Rice | 47 | .. |
| Footwear components | 66 | 51 |
| Leather goods and garments | 7 | 11 |
| Jute goods | 29 | 10 |
| Finished leather | 6 | 10 |
| Semi-processed leather | — | 2* |
| Engineering products and construction materials | 12 | 14 |
| Drugs and Chemicals | 18 | .. |
| Fresh and processed foods | 29 | 3 |
| Meat and Marine products (incl. dry & frozen fish) | 8 | .. |
| Extractions | 29 | 45 |
| Consumer products | 4 | 12 |
| Others | 27 | 270 |
| **Total II** | **402** | **442** |
| **Total (I + II)** | **580** | **526** |
| **Special Trading Arrangement (off-shore Trading)** | **1** | **5** |
| **Grand Total** | **581** | **531** |
| **B. Imports (Sales Value)** | | |
| **I. Canalised** | | |
| Edible oils | 2223 | 1560 |
| Sugar | 308 | — |
| Natural Rubber | 71 | .. |
| Newsprint | 168 | 200 |
| Fatty Acids | 101 | 87 |
| Chemicals | 100 | 26 |
| Drugs and pharmaceuticals | 7 | 2 |
| Others | 20 | 110 |
| **Total I** | **2998** | **1985** |
| **II. Total Non-Canalised** | **39** | **51** |
| **Total (I + II)** | **3037** | **2036** |

* Exports of semi-processed leather was decanalised during 1988-89.
P- Provisional.

**Table X-9 : Exports and Imports by MMTC-Major Items**

(Rs. crores)

| | 1987-88 (Actuals) | 1988-89 (P) |
|---|---|---|
| *1* | *2* | *3* |
| **A. Exports** | | |
| **I. Canalised** | | |
| Iron ore | 294 | 377 |
| Manganese Ore | 9 | 14 |
| Chrome Ore | 15 | 61 |
| Coal | 13 | 17 |
| Others | 2 | 4 |
| **Total - I** | **333** | **473** |
| **II. Non-Canalised** | | |
| Iron Ore concentrates | 44 | 38 |
| Diamonds | 38 | 49 |
| Off-shore Trade | 30 | 17 |
| Counter Trade | 197 | 214 |
| Others | 86 | 15 |
| **Total - II** | **395** | **333** |
| **Total (I + II)** | **728** | **806** |
| **B. Imports** | | |
| **I. Canalised** | | |
| Non-ferrous metals | 969 | 1047 |
| Steel | 497 | 730 |
| IRM | 49 | 80 |
| Fertilisers | 551 | 1051 |
| **Total - I** | **2066** | **2908** |
| **II. Non-Canalised** | | |
| Diamonds | 33 | 26 |
| Mercury (flasks) | 2 | 4 |
| Antimony Metal | 4 | 3 |
| Others | 14 | 3 |
| **Total - II** | **53** | **36** |
| **Total (I + II)** | **2119** | **2944** |

P — Provisional.

amounted to Rs. 49 crores showing a rise of 29 per cent over the previous year. The off-shore trading exports amounted to Rs. 17 crores during the year 1988-89 and showed a decline of about 43 per cent over the previous year.

Regarding imports, the main items were non-ferrous metals, steel, fertilisers and other miscellaneous items. The non-ferrous metals such as copper, zinc, lead, tin, nickel, aluminium,etc. amounted to Rs. 1,047 crores and were higher by 8 per cent than those during the last year. Imports of steel rose from Rs. 497 crores during 1987-88 to Rs. 730 crores during the year, showing a sharp rise of 47.0 per cent. Imports of fertilisers also showed a significant rise of 91 per cent and amounted to Rs. 1,051 crores as compared with Rs. 551 crores in the previous year. Among the commodities constituting domestic trade, rock phosphate accounted for the major share at Rs. 37 crores as compared with Rs. 22 crores in the previous year.

*Handicrafts and Handlooms Export Corporation (HHEC)*

The Handicrafts and Handlooms Export Corporation of India (HHEC) was set up in 1962 as a wholly owned subsidiary of the State Trading Corporation of India (STC) with the

twin objectives of export promotion and trade development of handicrafts and handloom products. The HHEC's exports included handicrafts (including hand-knotted woollen carpets), handloom fabrics, readymade garments, gold jewellery and silver jewellery/articles. The products handled by HHEC are generally not made by small scale industries, but by artisans in their homes or in cottage industry. The HHEC does not handle import trade.

The HHEC's exports rose by 17 per cent in 1988-89 to Rs. 75.8 crores from Rs. 64.7 crores in 1987-88. Gold and silver jewellery exports which accounted for 60 per cent of its total exports in 1988-89, rose by 8.4 per cent to reach Rs. 45.5 crores. Other commodities showing rise in exports were carpets (35 per cent), handicrafts (63 per cent), handlooms (27 per cent) and readymade garments (25 per cent), which together amounted to Rs. 30.3 crores as against Rs. 22.7 crores during 1987-88.

The HHEC has set a modest target of Rs. 75.3 crores for 1989-90 which is marginally lower than the performance of 1988-89.

*Trade Development Authority (TDA)*

The Trade Development Authority (TDA) was established in 1970 as an export promotion institution under the Ministry of Commerce. The objectives of the organisation are to 1) Identify and nurture specific products with long range export growth prospects; 2) Locate and cultivate specific buyers in select overseas markets which show trade potential; 3) Bring about durable merchandising contacts between select Indian suppliers and overseas buyers; 4) Provide package of services including uptodate trade intelligence services to promote exports. The 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.

During 1988-89, the TDA successfully organised four India Promotion Programmes in association with (i) J.C.Penny store,USA; (ii)Magasin Du Nord Department store, Denmark; (iii) El Corte Ingles Department store, Spain and (iv) La Rinascente Department store, Italy. Indian merchandise worth Rs. 41.3 crores was purchased by these stores. The TDA also organised buyer - seller meets for consumer goods in UK and for garments and accessories in Japan which generated export orders worth Rs. 7.10 crores and serious enquiries amounting to Rs. 17.20 crores.

To promote specific products in foreign markets which offer export potential, TDA organised five Contact Promotion Programmes (CPP) viz., (i) Processed food in Kuwait and Saudi Arabia, (ii)Electronic components and instruments in Spain, Portugal and Greece, (iii) Readymade garments in Kuwait and Saudi Arabia, (iv) Drugs and Pharmaceuticals in Kenya, Tanzania, Madagascar and Mauritius, and (v) Industrial Fasteners in FRG, the UK and France. TDA continued to assist a large number of Indian manufacturers and exporters in publicising their products through specialised overseas trade fairs and exhibitions. During 1988-89, it participated in (i) Made in India Fair, Kobe (Japan), (ii) Automechanika '88, Frankfurt (West Germany), (iii) Kobe Import Fair, Kobe (Japan), (iv) WESCON show '88, Anaheim, California (USA) and (v) Singapore Informatics '88. These programmes generated export orders worth Rs. 13.38 crores and export enquiries of Rs. 63.17 crores besides spot retail sale worth Rs. 0.29 crores.

Another important assignment entrusted to TDA is preparation of Action Plans for exports from vartious states. Accordingly, plans for promoting exports from the states of Orissa, Bihar, West Bengal and North Eastern States were prepared. TDA has been awarded a consultancy project by ITC/UNDP for establishing modern trade information centres in seven Export Promotion Organisation (EPOs), viz., UP Export Corporation, Council for Leather Exports, Wool and Woollen Export Promotion Council, Coir Board, Spices Board, Indian Silk EPC and Bihar State Export Corporation.

In the field of dissemination of information on exports, the TDA organised displays of foreign product catalogues/samples at nine business centres in India with a view to acquaint the business community about the types of products in demand abroad. Its Trade Information Centre continued to cater to a large number of trade enquiries. TDA also publishes a Weekly Trade Intelligence Bulletin besides periodical handbooks and Market Intelligence Bulletins which have been found to be quite useful to exporters.

In order to increase awareness of the exporting co.nmunity on various aspects of trade, the TDA organised four workshops and seminars viz. (i) Seminar on Trade Information System in Export Promotion, (ii) Programme on Trade Information Systems and Services, (iii) Workshop on Export of Computer software: Opportunities and Challenges in the 90s' and (iv) A National Seminar on International Market Information for Indian Construction and Turnkey Project Exports.

In order to project supply capabilities of Indian manufacturers/exporters abroad, TDA undertakes supply studies on selected products having good export potential. During 1988-89, a supply study report on automobile components was undertaken and completed. It also published an incountry study on Toys and Dolls, which discusses trends in production of various kinds of toys and dolls, their export performance and prospects.

Overseas market surveys are another specialised area of TDA. The market surveys/studies conducted by TDA during the year were (i) Market surveys for readymade garments, cotton fabrics, handicrafts, semi-precious and precious stones, leather and leather goods, handtools and floor covering in Cyprus (ii) market survey for granite and dimensional stones in Belgium, Luxembourg and the Netherlands and (iii) Market survey for industrial garments in UAE, Kuwait, Saudi Arabia, Bahrain, Dubai and Qatar.

*Cashew Corporation of India (CCI)*

The Cashew Corporation of India (CCI) was set up in 1970 as a fully owned subsidiary of STC with the objective of serving as a canalising agency for imports 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 then, the Corporation concentrated its attention on export activities.

During 1988-89, exports of cashew kernel by the Corporation doubled to reach a level of Rs. 8.5 crores from Rs. 4.2 crores in 1987-88. The Corporation has improved its share in total exports of cashew kernel from India from 1.3 per cent in 1987-88 to 3.1 per cent in 1988-89. Japan, Hongkong, Kuwait and Singapore were major markets accounting for 86 per cent of Corporation's total cashew kernel exports. During 1989-90,the Corporation plans to export Rs. 12 crores worth of cashew kernels.

**Free Trade Zones**

Export performance of the six Export Processing Zones (EPZs) reflected the buoyancy experienced in India's total exports during 1988-89. Exports from these zones rose by 55.6 per cent to Rs. 515.8 crores during the year as against Rs. 331.6 crores in 1987-88. The share of exports from EPZs in India's total exports rose from 1.5 per cent in 1987-88 to 2.5 per cent in 1988-89. Besides, the export target of Rs. 428 crores set for these EPZs for 1988-89 was exceeded by 20.5 per cent. However, the share of exports from Kandla Free Trade Zone and Santacruz Electronic Export Processing Zone together accounted for 88.4 per cent of the total exports from these zones, reflecting the slow progress of other zones.

*Kandla Free Trade Zone (KAFTZ)*

Kandla Free Trade Zone (KAFTZ), the premier multi-product Free Trade Zone of India was established in 1965. Exports from KAFTZ during 1988-89 rose by 47 per cent to Rs. 271 crores as against a decline of 21.6 per cent at Rs. 185 crores in 1987-88. The performance surpassed the target by 36 per cent.

The items exported from the zone included light engineering goods, stainless steel utensils, pharmaceuticals, spectacle frames, garments, knitwears,PVC hoses and pipes, pesticides, sports goods, transformer oil, industrial garments, coke oven equipment, perfumes, cosmetics and toiletries, woollen pullovers, soaps and detergents, castor oil, compressors, carpets,high pressure hydraulic jetting equipment, etc. Though exports from the zone were spread over about 60 countries, the Soviet Union continued to be its largest buyer with a share of 86 per cent in 1988-89.

The total number of operating units in the zone increased from 129 to 133 during the year. Approval for 17 more units was given during the year.

**Table X-10 : Performance of Free Trade Zones**

(Rs. crores)

| Zones | Exports | | | No. of units operating as on March 31, 1989 |
|---|---|---|---|---|
| | 1986-87 | 1987-88 | 1988-89 | |
| 1 | 2 | 3 | 4 | 5 |
| 1. Kandla Free Trade Zone | 236.00 | 185.00 | 271.00 | 133 |
| | (65.4) | (55.8) | (52.5) | |
| 2. SEEPZ | 103.26 | 108.34 | 185.19 | 87 |
| | (28.6) | (32.7) | (35.9) | |
| 3. Madras EPZ | 10.00 | 16.42 | 24.04 | 62 |
| | (2.8) | (4.9) | (4.7) | |
| 4. Falta EPZ | 3.18 | 1.86 | 8.11 | 4 |
| | (0.9) | (0.6) | (1.6) | |
| 5. Noida EPZ | 7.00 | 16.00 | 21.26 | 15 |
| | (1.9) | (4.8) | (4.1) | |
| 6. Cochin EPZ | 1.50 | 3.94 | 6.24 | 8 |
| | (0.4) | (1.2) | (1.2) | |
| **Total** | **360.94** | **331.56** | **515.84** | **309** |
| | **(100.0)** | **(100.0)** | **(100.0)** | |
| Variation over previous year | .. | -8.14 | +55.58 | |

*Note:* Figures in brackets represent percentages to the total

*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. During 1987-88, however, a gems and jewellery complex was also established in the zone. The number of operating units in the zone increased from 74 in 1987-88 to 87 during the year with 79 units in electronics sector and 8 units in gems and jewellery sector. Further, 26 new projects were approved during the year of which 9 were in the gems and jewellery sector.

Electronics exports at Rs. 171.6 crores constituted about 93 per cent of the zone's total exports leaving the balance of 7 per cent for gems and jewellery. The rise in electronics exports was of the order of 58 per cent compared with last year when the exports amounted to Rs. 108.4 crores. Exports of gems and jewellery commenced during the year and amounted to Rs. 13.6 crores and are expected to grow considerably with 9 more units proposed to be established in the zone.

As regards direction of exports, the share of East Europe and the USSR in total electronics exports rose from 16 per cent in 1987-88 to 39 per cent in 1988-89 amounting to Rs. 66.9 crores. The share of Far East countries declined from 49 per cent to 28 per cent and amounted to Rs. 48 crores during the current year. Exports to the USA, Canada, West Europe and the U.K. rose from Rs. 35.7 crores to Rs. 54.9 crores in 1988-89. Exports of gems and jewellery were mainly absorbed by the USA, Belgium and Japan to the extent of 93 per cent. Thailand, West Germany and Singapore also figured as major purchasers.

The SEEPZ has set an export target of Rs. 240 crores for electronics sector and Rs. 50 crores for gems and jewellery sector for the year 1989-90.

*Madras Export Processing Zone (MEPZ)*

Madras Export Processing Zone (MEPZ), established in 1984, is a multi-product zone exporting engineering goods, garments, perfumery, electronics, leather products, plastics and rubber, toys, musical instruments, etc. Total exports from the zone during the year 1988-89 rose to Rs. 24.0 crores from Rs. 16.4 crores in the previous year. However, exports were still short of the targeted amount of Rs. 30.0 crores for the

year. Commoditywise, engineering goods, garments and perfumery accounted for about 90 per cent of the total exports of the zone in 1988-89. Exports of engineering goods at Rs. 9.8 crores declined marginally from the previous year's level of Rs. 9.9 crores. However, exports of garments doubled to Rs. 8.9 crores from Rs. 4.5 crores in 1987-88. Exports of perfumery products at Rs. 3.0 crores increased almost by three times.

The number of operating units in the zone increased from 28 to 62 during the year.

*NOIDA Export Processing Zone (NEPZ)*

NOIDA Export Processing Zone (NEPZ) was established in 1984 and by now the work on the first phase of infrastructural developments has been completed with an investment of Rs. 16.2 crores. In the second phase, an additional development of 200 acres of land has been taken up. Principal exports from the zone include computer-cum-electronics, readymade garments, light engineering goods, etc. During 1988-89, exports from the zone increased by 33 per cent to Rs. 21.3 crores from Rs. 16 crores in 1987-88, but were still lower than the target of Rs. 30 crores stipulated for the year, mainly due to non-utilisation and delay in installation of the capacities on account of power shortages.

In all, 127 units have been approved upto March 1989 but only 15 units have become operational, while the remaining units are at various stages of implementation.

*Falta Export Processing Zone (FEPZ)*

This export processing zone located on the eastern bank of river Hooghly at Falta, was established in 1984. The Central Government and the State Government together have spent an amount of Rs. 28.1 crores on the development of the infrastructural facilities for the zone so far. In all, 64 proposals have been approved till March 1989. These proposed units seek to produce and export diverse commodities such as computer software, tennis rackets, electrical and electronic products, engineering goods, garments and textiles, etc. However, till end-March 1989, only 4 units had actually started production. These 4 units are engaged in the manufacture and exports of computer peripherals, tennis rackets, computer systems and perfumed fumigants. The total exports by these 4 working units stood at Rs. 8.11 crores during 1988-89 as compared to Rs. 1.86 crores in 1987-88. Most of the exports of these units are made to East European countries.

*Cochin Export Processing Zone (CEPZ)*

This zone is a multi-product zone established in 1984. Till end-March 1989, 62 units had been given licences. However, so far only 8 units have started production. Among these 8 units, 3 are engaged in manufacture of natural essential oils, aromatic chemicals and rectified spice oils. The remaining 5 units are engaged in manufacture of readymade garments, tissue culture plants, TV antennae, rubber gloves etc. During 1989-90, 9 more units are expected to begin operations.

Exports during 1988-89 amounted to Rs. 6.24 crores and were higher by 58 per cent over those in the previous year. An export target of Rs. 15 crores has been set for the year 1989-90.

*100 per cent Export Oriented Units (EOUs)*

The scheme of 100 per cent Export Oriented Units was introduced in 1980 with the objective of generating additional production capacity for exports by providing appropriate policy framework and incentives. Such units are required to undertake manufacture under Custom Bond and export for a period of 10 years ordinarily and for 5 years in case of products having high degree of technological content. Liberal imports of machinery and raw materials free of duty and domestic requirements free of excise duty are also available for these units.

A Board of Approvals constituted for the purpose of approving the units under this scheme, approved 1160 applications till end 1988, out of which 310 could not materialise, leaving about 850 valid approvals. So far, 130 units have reported commencement of production. Exports by these units since their inception amounted to Rs. 762 crores till the end of March 1988. Exports have gone up sizeably in recent years and they rose to Rs. 238 crores in 1987-88 compared to less than Rs. 100 crores before 1984-85.

The working of the scheme is reviewed from time to time with a view to resolve problems not only of the individual units but of the scheme as a whole.

## IV. TRADE AGREEMENTS AND ECONOMIC AND TECHNICAL COOPERATION AGREEMENTS

The Government of India enters into Economic and Technical Cooperation Agreements with different countries periodically. These agreements which are valid for a stipulated period are meant to promote bilateral trade and technical cooperation. While some agreements stipulate in detail commodities of imports and exports to be transacted during a given period along with value stipulations for both sides, other agreements indicate only broad guidelines for promotion of trade and technical cooperation. In the case of those agreements which indicate only broad guidelines, annual protocols are signed after considering the present needs of both the countries and international economic environment. The commodities to be covered for both imports and exports along with value stipulations are also detailed. These agreements facilitate smooth business transactions between the two countries and both exporters and importers in both the countries find these arrangements very convenient. During the year 1988-89, such trade protocols/agreements were signed by India with many countries and these details are given in Appendix III.

## V. IMPORT POLICY

The Import-Export policy of 1988-91, which sought to give further thrust to export promotion was reviewed during 1988-89 and suitable changes were effected to facilitate export promotion and improve industrial competitiveness. On the import front, liberalisation of imports for export production and curbing of less essential imports, continued to be the main policy objective.

The changes implemented in the import-export policy of 1988-91 mainly comprised of additions and deletions into various lists of imports like open general license, lists of limited permissible and restricted items (Appendix II-A).

Among the other changes implemented during the year mention may be made of the enhancement of the aggregate foreign exchange that can be financed for any unit under the Technical Development Fund from the U.S. dollar equivalent of Rs. 1.25 crores to Rs. 2 crores per annum. REP and Additional licences issued to export houses and trading houses on their exports have been made valid for import of samples. Additional licenses issued to export and trading houses for the period prior to 1988-89 have been made freely transferable without actual user condition like the additional licenses for 1988-89 onwards. The procedure for the grant of intermediate advance licences and for the execution of the corresponding Bond and Bank Guarantee/Legal Undertaking has been simplified. Exports of automobiles when made under REP and Duty Free Scheme will be eligible for grant of flexibilities at higher levels. Merchant exporters in the garment sector have been brought under the import-export pass book scheme.

In order to boost modernisation of industries and facilitate capacity expansion for export production, wide ranging reliefs in customs duties have been announced. These related to imports of capital goods under technology upgradation scheme, electronics, automobile machinery, optical communication cables, machinery for thrust sectors, food processing and package machinery, machinery for fishing industry, monitoring instruments for environment control, machinery for seed production and processing, life saving drugs and drug intermediates, raw wool and silk etc. (Appendix II-B).

## VI. INTERNATIONAL TRADE NEGOTIATIONS

### Global System of Trade Preferences (GSTP)

In terms of the Agreement reached at the Third Ministerial Meeting of the negotiating committee on the scheme of Global System of Trade Preferences (GSTP) held on April 13, 1988 at Belgrade paving the way for the operation of the GSTP system (to which a reference was made in the last year's report), forty-six developing countries signed the instrument for the exchange of tariff, para-tariff and non-tariff concessions covering a number of products among the members of the Group of 77. The Agreement became effective on April 19, 1989 when the necessary number of countries ratified it. So far sixteen countries have ratified it. The bilateral and plurilateral tariff concessions exchanged among the ratifying countries will now be multilateralised among them and made effective.

The first meeting of the GSTP Committee of Participants took place on July 27, 1989. This Committee urged the signatory States to complete their legal processes and deposit their instruments of ratification, acceptance or approval within two years from April 19, 1989. The Committee further decided that a GSTP Trust Fund would be established and administered by the UNCTAD, for receiving voluntary contributions from participants, signatories and other bodies such as the UNDP, UNCTAD and G-77. The Committee also decided that conclusion of the Agreement and its associated trade concessions, exchanges and grants relating to these contracting parties which have ratified the Agreement, would be notified to GATT.

**The Generalised System of Preferences (GSP)**

United Nations Conference on Trade and Development (UNCTAD) Special Committee on Preferences met from May 24 to June 1, 1988 to review the report on UNCTAD Secretariat on the latest developments in the Generalised System of Preferences (GSP). The Report of the UNCTAD Secretariat revealed that several preference giving countries had not complied with the generalised, non-discriminatory and non-reciprocal principles of the GSP. While all participants agreed on the importance of the GSP as an instrument of co-operation in trade, they however disagreed on how it should operate. Neither did they reach a consensus on its future role and benefits in relation to the Uruguay Round. They did, however, endorse further work on the rules of origin and the provision of technical assistance to enable developing countries to maximise the use of the GSP. The Committee annexed to its report a draft proposal, submitted by Sri Lanka on behalf of the G-77, which requested preference-giving countries to comply fully with the multilaterally agreed principles of the GSP, expand the product coverage of their schemes and deepen the preferential margins so as to make the GSP a more effective instrument of trade policy.

The sixteenth session of the UNCTAD Special Committee on Preferences which was held at Geneva, during April 24-28, 1989, reviewed the implementation, maintenance, improvement and utilisation of the GSP, and adopted by consensus a decision inviting preference-giving countries to improve their schemes through simplification, greater transparency and stability. The Committee also asked for a study on the feasibility and usefulness of consolidating GSP information to exporters and importers.

**Common Fund for Commodities**

At the U.N. Meeting in June 1980, it was agreed that (i) the Agreement of the Common Fund should be ratified by at least 90 member states accounting for not less than two-thirds of the Fund's directly contributed capital (DCC) and (ii) voluntary contributions to the "Second Window" should equal at least half of the $280 million target. The second condition has long since been met but it was not until July 1988, when the Agreement was ratified by the Maldives (the 102nd state to have done so), that the 'Two-thirds' stipulation was fulfilled. In terms of the proposal for an 'Integrated Programme for Commodities' adopted at UNCTAD IV in 1976 it was decided to set up a Common Fund for the stabilisation of commodity prices. The Common Fund for Commodities entered into force on June 19, 1989 with a membership of 104 countries and total resources of about US $ 545 million. Its directly contributed capital of $ 315 million will serve as a source of funding for its first account activities viz., the buffer stocking operations of the international commodity agreements associated with it. The remaining $ 230 million will finance commodity development activities such as R and D of new uses, improvements in quality and productivity, market promotion and domestic processing.

**GATT**

*Uruguay Round*

With the Uruguay Round of Multilateral Trade Negotiations reaching its half-way stage, the Trade Negotiations Committee (TNC) held a mid-term review at ministerial level in Montreal on September 5, 1988. It was widely expected that this would provide an opportunity for reaching agreements on certain items on which considerable progress had been made, as well as for giving renewed direction and guidance on many other issues on which progress had been limited.

The meeting, however, was widely regarded as having ended in a deadlock. This arose mainly because of the irreconcilable differences in approach between the United States and the European Community (EC) on the liberalisation

of trade in agriculture, the former insisting on long-term commitments to 'eliminate' trade-distorting Government support to the agricultural sector, while the latter not willing to go beyond a "reduction" of such support. On other issues, however,while both the U.S. and EC,held broadly similar positions, they were significantly different from those of developing countries. The issues which proved to be contentious were textiles and clothing, safeguards, and trade-related aspects of intellectual property rights (TRIPS). The meeting could not arrive at a consensus when five Latin American countries declared their intention to block consensus if no agreement was reached on agriculture, in whose liberalisation they held considerable interest. As a result,no major decision could be reached and the meeting ended by adopting some procedural decisions.

The Ministers agreed that substantive negotiations would begin no later than July 1, 1989 and asked their representatives to establish detailed procedures, approaches and methods necessary for the negotiations. They also agreed, as a matter of principle, on a substantial reduction of tariffs by all participating countries.

The meeting of the Trade Negotiations Committee held in Geneva on 5-8 April 1989, completed the mid-term review of the Uruguay Round. Participants adopted four decisions on agriculture, textiles and clothing, safeguards and trade-related aspects of intellectual property rights, the areas on which it had not been possible to reach agreement at Montreal. These four decisions, together with the twelve others (including that on standstill and rollback) adopted at Montreal constitute the Uruguay Round Mid-Term Review package of results.

The GATT Council took the decisions at its meeting on April 12, 1989, on the improvements to the dispute settlement procedures and two elements relating to the functioning of the GATT system, namely the trade policy review mechanism and increased ministerial involvement in GATT. These decisions are to be implemented immediately.

For greater ministerial involvement in the GATT, the Ministers recommended that the Contracting Parties should decide to meet at Ministerial Level at least once every two years, in order, inter alia : (a) to make a fuller contribution to the direction and content of GATT work; (b) to reinforce the commitment of governments to the GATT System; (c) to give greater prominence to GATT in domestic political areas; (d) to assess trends in international trade and place these trends in their wider economic and political context; (e) to enable the contracting parties to contribute effectively to international discussion at the policy level of international adjustment process; (f) and by these means to increase the contribution of the GATT to greater coherence in global economic policy making.

**Super 301**

The Omnibus Trade and Competitiveness Act was passed by the U.S. Congress in August 1988. The U.S. Trade Representatives (USTR), under this Act, had identified eight countries, viz., Brazil, Mexico, China, South Korea, Saudi Arabia, Taiwan, Thailand and India, as falling within the special 301 provisions of the Act, since protection granted to the intellectual property rights such as trade marks, patents, etc., in these countries are deemed to be inadequate. For this reason, these countries had been placed under priority watchlist. The status of each of these eight countries will again be reviewed before November 1, 1989 by USTR. Under the **Super 301** provisions, US identified India, Brazil and Japan as priority countries and USTR was to launch investigations on June 15, 1989 to eliminate significant trade barriers, and trade distorting practices through bilateral negotiations.

Under the **Super 301,** the practices identified for negotiations with India are trade related investment measures and insurance market practices. The requirements of Government approval for all new or expanded foreign investment, and of criteria including requirements for foreign equity participation, as well as of use of locally produced goods in the items that the investors produce in India are regarded as "performance requirements" burdening foreign investors and resulting in significant trade distortions. The USTR had also objected to the monopoly of both life and general insurance business by the public sector in India, and viewed liberalisation of India's insurance market as a means of creating significant market opportunities for the US insurance companies which are competitive world wide.

While Japan had agreed to hold formal

discussions with USTR, India and Brazil did not agree for negotiations. The Government of India took the stand that the new US Trade Act had no international validity and is being forced upon the developing countries under threat of sanctions and retaliations. Further, the decision to consider a particular trade practice as unfair and to include a particular country is entirely unilateral and hence lacks normal bilateral and multilateral approach.

**International agreements in respect of selected commodities**

**Grains**

The twenty-third session of the Inter-Governmental Group on grains was held in Rome on November 8-11, 1988, which reviewed the world grain situation and outlook for 1988-89. It was agreed that the drought in North America would reduce production in 1988 and leave carryover stocks by the end of 1988-89 at their lowest levels since the early 1970s. Tighter supplies had led to a rise in prices. The Group was of the view that this might create difficulties in maintaining food consumption and food security in many low-income food deficit countries. It therefore, agreed that there was need to increase production in 1989 to ensure that global supplies in 1989-90 would meet demand and avert the threat to food security. However, the Group advised caution to avoid returning to situations of food surpluses and depressed markets. It recognised the economic problems of many developing countries which limited their effective import demand for grains. Some delegates called for a reduction of protectionism in developed countries and others stressed the need for establishing an international seed security reserve.

**Jute**

The twenty-fourth session of the FAO Inter Governmental Group (IGG) on Jute and Allied Fibres was held in New Delhi on November 2-4, 1988, against an uncertain outlook generally and unfavourable trends in jute consumption (in particular in developed countries). It concluded that longer-term efforts are crucial to improve yields in order to ensure that raw jute prices remained both competitive with those of synthetics and continued to provide sufficient incentive to the cultivation of the crop. In the overriding need to maintain the fibre's competitive position, the efforts of the producer countries to raise the 1988-89 indicative price levels were resisted. It was ultimately agreed to leave price levels unchanged. In considering possible ways of improving jute's competitive position, the IGG discussed the development of jute/polypropylene blended products, mainly bags, which had resulted in lower production costs and a degree of complementarity between the material fibre and synthetics. Recognising the difficulties of maintaining competitiveness in traditional end-uses, the IGG requested FAO Secretariat to explore in conjunction with International Jute Organisation (IJO) and International Trade Commission (ITC) the possibility of convening an international meeting on the development of new and diversified end-uses.

The International Jute Council (IJC) at its tenth session held on November 4-8, 1988 in New Delhi failed to renegotiate the International Jute Agreement, but agreed to a two-year extension of the existing charter so as to enable members to reach an agreement on price and supply stabilization mechanism and on funding. The other main area covered at the meeting was the formulation of projects relating to jute cultivation and market promotion.

**Sugar**

At the International Sugar Council's second biannual meeting held in London during November 23-25, 1988 under the 1987 International Sugar Agreement, the Executive Director reported on his endeavours to encourage non-member countries to participate in the Council's sessional activities and to join the Agreement. Delegates agreed that from 1989, the Council's biannual meeting will be held in the second week of May and third week of November. The Council's first meeting of 1989 was scheduled on May 16-18. Currently, 34 exporting countries and 9 importing countries are members of the International Sugar Agreement.

**Tin**

At a Negotiating Conference held in Geneva between November 21 and December 2, 1988, under UNCTAD auspices, delegates elaborated further on the objectives and rules of procedure for an international producer/consumer forum

for tin. The UNCTAD Secretariat submitted draft terms of reference and rules of procedure for the proposed forum which could be constituted either within or outside UNCTAD. Members were, however, unable to decide either on the forum's functions or on its institutional nature. Some countries, notably the EC and the United States, favoured an independent body concerned with exchanging information and improving statistics and market transparency, while others preferred it to be constituted within UNCTAD.

**Coffee**

The International Coffee Agreement (ICA) between 74 consuming and producing countries was extended without provisions for export quotas through the end of 1990/91 and the International Coffee Council suspended on July 3, 1989 export quotas for the remainder of the 1988-89 coffee year. This outcome was attributable to sharp differences among the members in the wake of a substantial increase in coffee production.

The suspension of the quotas in the present context of high coffee production, was because of the refusal of some of the major consuming countries which are the members of the ICA to allot higher export quotas demanded by the major coffee producing countries. The countries which demanded higher export quota include Brazil, Guatemala and Costa Rica. Coffee prices which have been declining ever since end 1988, have shown further declines after the suspension of the export quotas, touching the low price of 77 cents a pound by mid-July. Such a sharp decline is a matter of serious concern since it would adversely affect the external payments situation of many coffee exporting countries for whom coffee is a major export item.

## Chapter XI

# Balance of Payments and International Monetary Developments

### I. Balance of Payments

Balance of payments data are at present available upto the fiscal year 1987-88. Table XI-1 presents a summary of balance of payments data for the years 1985-86 to 1987-88.

The balance of payments situation which has remained difficult since the beginning of the Seventh Plan came under considerable pressure during 1988-89, notwithstanding a robust performance of exports, due to a sharp rise in the import bill and large repayments to IMF which peaked during the year. The sharp rise in the import bill was mainly due to a spill-over of essential imports necessitated by the preceding year's drought, rise in the international prices of certain commodities and larger import demand emanating from the substantial recovery in economic activity during the year. Based on available information, the current account deficit which increased by Rs. 463 crores to Rs. 6,293 crores during 1987-88 went up sharply in 1988-89. The ratio of current account deficit to GDP is estimated to have gone up from 1.9 per cent in 1987-88 to 2.7 per cent during the year. Repurchases from the IMF under Extended Fund Facility (EFF) at Rs. 1,547 crores in 1988-89 were also higher than those of Rs. 1,209 crores during 1987-88. As a result, despite substantial inflow of capital from abroad, foreign exchange reserves (foreign currency assets of RBI, gold and SDRs) declined by Rs. 647 crores to Rs. 7,040 crores during 1988-89 as against a fall of Rs. 465 crores in 1987-88. If valuation changes, i.e., net appreciation in the value of foreign currency assets of RBI and SDRs, are excluded, the fall in reserves during 1988-89 was of the order of Rs. 1,449 crores, as compared with a decline of Rs. 956 crores during 1987-88. In SDR terms, reserves declined by SDR 771 million during 1988-89 as compared with a fall of SDR 627 million during 1987-88. But, in U. S. dollar terms, the fall in reserves works out to $ 1,421 million during 1988-89 as compared with a fall of $ 351 million in the preceding year.

On payments basis, the trade deficit during 1988-89 is expected to be substantially higher than in the preceding year. As for invisibles, net receipts would be higher during the year under review due mainly to the receipt of Rs. 642 crores as compensation for Bhopal gas victims. Though earnings from travel and tourism during 1988-89 are estimated to be higher, investment income payments would have shown an increase, as in the past, due to rising interest payments on loans under external assistance and on commercial terms. Inward remittances from non-resident Indians abroad might have remained at the 1987-88 level. However, transportation and miscellaneous accounts would show a larger outgo as in 1987-88.

On the capital side, the net inflow of external assistance during the year at Rs. 3,508 crores were marginally higher by Rs. 57 crores than in the previous year. But in U. S. dollar terms, the net inflow at $ 2,422 million was lower by $ 240 million than in 1987-88. Net inflow under non-resident deposit schemes (NR(E)R and FCNR Accounts) taken together amounted to Rs. 2,320 crores (Rs. 245 crores under NR(E)R Accounts and Rs. 2,075 crores under FCNR Accounts), higher by Rs. 622 crores than those of Rs. 1,698 crores in 1987-88. During the year, an India Growth Fund was launched by the UTI in the U.S.A., which fetched Rs. 88 crores ($ 60 million). Besides, in November 1988, State Bank of India floated a non-repatriable NRI Bond Scheme under which an amount of Rs. 138 crores ($ 92million) was invested by non-resident

**Table XI-1 : India's Balance of Payments - 1985-86 to 1987-88**

| Items | 1985-86 | | 1986-87 | | 1987-88 | |
|---|---|---|---|---|---|---|
| | Rs. Crores | US $ Million | Rs. Crores | US $ Million | Rs. Crores | US $ Million |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **A. Current Account** | | | | | | |
| Exports, f.o.b. | +11,578 | +9,463 | +13,315 | +10,420 | +16,396 | +12,646 |
| | | | (+15.0) | (+10.1) | (+23.1) | (+21.4) |
| Imports, c.i.f. | -21,164 | -17,298 | -22,669 | -17,740 | -25,692 | -19,816 |
| | | | (+7.1) | (+2.6) | (+13.3) | (+11.7) |
| Trade balance | -9,586 | -7,835 | -9,354 | -7,320 | -9,296 | -7,170 |
| | | | (-2.4) | (-6.6) | (-0.6) | (-2.0) |
| Non-monetary gold movement (net) | +29 | +23 | — | — | — | — |
| Official transfers (net) | +307 | +251 | +525 | +411 | +532 | +411 |
| Other invisibles (net) | +3,323 | +2,716 | +2,999 | +2,347 | +2,471 | +1,906 |
| **Current Account (net)** | **-5,927** | **-4,845** | **-5,830** | **-4,562** | **-6,293** | **-4,853** |
| **B. Capital Account** | | | | | | |
| i) Private | +2,091 | +1,709 | +2,267 | +1,774 | +2,248 | +1,734 |
| ii) Banking | +186 | +152 | -70 | -55 | +75 | +58 |
| iii) Official | | | | | | |
| — Loans | +3,683 | +3,011 | +6,462 | +5,057 | +6,832 | +5,269 |
| — Amortisation | -1,152 | -942 | -2,588 | -2,025 | -2,834 | -2,186 |
| — Miscellaneous | +85 | +70 | -172 | -135 | +1,172 | +904 |
| **Total Capital Account (net)** | **+4,893** | **+4,000** | **+5,899** | **+4,616** | **+7,493** | **+5,779** |
| **C. IMF** | **-253** | **-207** | **-672** | **-526** | **-1,209** | **-932** |
| **D. SDR Allocation** | **—** | **—** | **—** | **—** | **—** | **—** |
| **E. Capital Account, IMF and SDR Allocation (B+C+D)** | **+4,640** | **+3,793** | **+5,227** | **+4,090** | **+6,284** | **+4,847** |
| **F. Total Current Account, Capital Account, IMF and SDR Allocation (A+E)** | **-1,287** | **-1,052** | **-603** | **-472** | **-9** | **-6** |
| **G. Errors and Omissions** | **+580** | **+474** | **-129** | **-101** | **-947** | **-731** |
| **H. Reserves and Monetary Gold (Decrease +)** | **+707** | **+578** | **+732** | **+573** | **+956** | **+737** |

*Note:* Figures in brackets indicate percentage increase/decrease over previous year.

Indians.

Repayments to the IMF (including Trust Fund loans) amounted to Rs. 1,749 crores during 1988-89 as against Rs. 1,389 crores during 1987-88. The overall balance, as measured by movement in reserves (excluding repurchases from IMF under EFF) showed a surplus of Rs. 98 crores during 1988-89 as against a surplus of Rs. 253 crores during 1987-88.

Data on current account transactions as a proportion of GDP for the years 1980-81 to 1987-88 are given in Table XI-2. Imports as a proportion of GDP came down from a high of 9.2 per cent in 1980-81 to 7.7 per cent by 1983-84 and remained around 8 per cent thereafter. Exports-GDP ratio has remained more or less around 5 per cent over the period 1980-81 to 1987-88. The ratio of invisibles to GDP came down steadily from 3.2 per cent in 1980-81 to 0.9 per cent by 1987-88. The current account deficit which averaged around 1.2 per cent of GDP during the Sixth Plan period went up to an average of 2.1 per cent during the first three years of the Seventh Plan.

*Devlopments in Reserves*

The foreign currency assets of the Reserve Bank of India declined by Rs. 683 crores during 1988-89 (April-March) as against a fall of Rs. 358 crores in 1987-88.

The SDR holdings increased by SDR 9.8 million to SDR 79.5 million during 1988-89. In the previous year, they had shown a decline of SDR 69.7 million. During 1988-89, repurchases from the IMF under EFF amounted to SDR 804.2 million; payment of charges on the use of fund resources and interest on SDR allocation aggregated SDR 216.5 million. Acquisition of SDRs during the year amounted to SDR 987 million. Receipts from the Fund by way of remuneration, interest on SDR holdings and interest subsidy amounted to SDR 14.2 million, SDR 6.6 million and SDR 22.7 million, respectively. During 1987-88, repurchases from the IMF in SDRs had amounted to SDR 704.2 million. Charges paid to the Fund were SDR 257.2 million. Acquisition of SDRs during 1987-88 amounted to SDR 855 million. Receipts by way of remuneration, interest on SDR holdings and interest subsidy were SDR 13.4 million, SDR 7.7 million and SDR 15.5 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 1989-90 (i. e. April-June 1989) the foreign currency assets of the Reserve Bank fell by Rs. 529 crores as against a decline of Rs. 1,468 crores in the corresponding quarter of 1988. SDR holdings increased by SDR 23.1 million to SDR 102.6 million. Repurchases under the EFF amounted to SDR 147.9 million and charges on the use of Fund resources and interest on SDRs totalled SDR 40.4 million. Acquisition of SDR during the quarter amounted to SDR 205 million. Receipts by way of remuneration and interest on SDR holdings amounted to SDR 4.5 million and SDR

**Table XI-2 : India's Overall Balance of Payments - Current Account Transactions As Percentage of GDP***

| | 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 |
|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1. Imports | 9.2 | 8.7 | 8.4 | 7.7 | 8.1 | 8.1 | 7.7 | 7.8 |
| 2. Exports | 4.8 | 4.9 | 5.2 | 4.9 | 5.2 | 4.4 | 4.5 | 5.0 |
| 3. Trade deficit | 4.4 | 3.8 | 3.2 | 2.8 | 2.9 | 3.7 | 3.2 | 2.8 |
| 4. Invisible receipts@ | 4.3 | 3.7 | 3.4 | 3.3 | 3.6 | 3.0 | 2.8 | 2.8 |
| 5. Invisible payments | 1.1 | 1.3 | 1.5 | 1.6 | 1.9 | 1.6 | 1.6 | 1.9 |
| 6. Invisibles (net 4-5) | 3.2 | 2.4 | 1.9 | 1.7 | 1.7 | 1.4 | 1.2 | 0.9 |
| 7. Current account deficit (3-6) | 1.2 | 1.4 | 1.3 | 1.1 | 1.2 | 2.3 | 2.0 | 1.9 |

@ Include official grant assistance.
* Based on New Series of CSO.

1.8 million, respectively. During the corresponding period of the preceding year, the SDR holdings had increased by SDR 11.3 million. Gold holdings of RBI remained unchanged at Rs. 274 crores during April-June 1989. On the whole, foreign exchange reserves (foreign currency assets of RBI, gold and SDR holdings) fell by Rs. 478 crores as compared with a fall of Rs. 1,443 crores during the corresponding quarter of 1988. In SDR terms, the foreign exchange reserves declined by SDR 307 million in April-June 1989 as against a fall of SDR 886 million during April-June 1988.

## II-Foreign Investment : Policy and Developments

### *A. NRI Investment*

The inflows under NRI deposits have continued to lend support to India's balance of payments. With a view to augmenting the inflows, the Foreign Currency (Non-resident) Account (FCNRA) scheme was extended to cover DM and Yen and a differential interest rate scheme was introduced with effect from August 1, 1988.

The rates of interest on FCNRA have been revised from time to time keeping in step with the developments in interest rates in the overseas markets. During 1988-89 the interest rate was revised eleven times in respect of U. S. dollar, three times in respect of pound sterling, nine times for DM deposits and five times for yen deposits (Table XI-3).

The inflow under Non-resident External Rupee Account [NR(E)RA], during 1988-89 at Rs. 245 crores was lower as compared with that of Rs. 300 crores in 1987-88. The inflow under FCNRA amounted to Rs. 2,075 crores, significantly higher than that of Rs. 1,398 crores in 1987-88 (Table XI-4).

The outstanding liabilities under NRI deposits (both NR(E)RA and FCNRA Schemes) increased nearly fourfold from Rs. 3,819 crores at end-March 1985 to Rs. 14,154 crores at end-March 1989 (Table XI-5).

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 1988-89. During 1988 (calender year), there was a further decline, albeit marginal, in the amount approved for direct investment by non-resident Indians with full repatriation rights. The amount approved was Rs. 192.74 crores which was lower than that of Rs. 220.22 crores in 1987. As in the past, approvals granted for investment under 40 per cent scheme during 1988 at Rs. 174.65 crores accounted for bulk (91 per cent) of the investment approved; such approvals granted during 1987 were higher at Rs. 210.96 crores and formed 96 per cent of total investment approved. During 1988, approvals under the 74 per cent scheme increased to Rs. 18.09 crores from Rs. 9.26 crores in 1987. The proposals approved under direct investment on a non-repatriation basis declined to Rs. 42.83 crores from Rs. 56.91 crores in 1987. Data on actual foreign investment in respect of these approvals are not available. The amount invested by banks on behalf of their non-resident constituents through stock exchanges in respect of approvals granted for portfolio investment was marginally higher at Rs. 7.91 crores as compared with Rs. 6.51 crores in 1987 (Table XI-6).

During the year 1988-89, further efforts were made to attract the savings of non-resident Indians. The India Growth Fund (Country Fund), second in the series, was launched in the USA by UTI and Merril Lynch which helped to mobilise a sum of US $ 60 million equivalent to Rs. 88 crores. Another investment scheme was launched by the State Bank of India in November 1988 through floatation of 7 year cumulative non-repatriable NRI bonds denominated in U. S. dollars. The inflow under this scheme during 1988-89 amounted to US $ 92 million equivalent to Rs. 138 crores.

### *B. Foreign Collaboration*

In regard to foreign collaboration approvals in Indian industry, the number of approvals granted for foreign collaboration went up in 1988 in terms of both number as well as amount. The total number of proposals approved was 926 in 1988 as against 852 in 1987. Of the approvals granted during 1988, 644 or 70 per cent (72 per cent in 1987) were for pure technical collaboration, drawings and designs while 282 (242 in 1987) were for technical-cum financial collaboration. The continued emphasis on technical collaboration is expected to help improve productivity and efficiency of Indian industries.

**Table XI-3 : Interest Rates of FCNRA Deposits *(Contd.)***

(Per cent per annum)

| Effective Dates | U.S. Dollar | | | | Pound Sterling | | | |
|---|---|---|---|---|---|---|---|---|
| Maturity Period | 6 months to 1 year | 1 year to 2 years | 2 years to 3 years | 3 years only | 6 months to 1 year | 1 year to 2 years | 2 years to 3 years | 3 years only |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| May 23, 1988 | 8.25 | 9.00 | 9.25 | 9.50 | 8.25 | 9.00 | 9.25 | 9.50 |
| July 13, 1988 | 8.50 | 9.25 | 9.50 | 9.75 | 8.50 | 9.25 | 9.50 | 9.75 |
| August 1, 1988 | 9.00 | 9.50 | 9.75 | 10.00 | 11.25 | 11.50 | 11.75 | 11.75 |
| August 9, 1988 | 9.00 | 9.50 | 9.75 | 10.00 | 11.25 | 11.50 | 11.75 | 11.75 |
| August 15, 1988 | 9.50 | 10.00 | 10.25 | 10.50 | 11.50 | 11.75 | 12.00 | 12.00 |
| October 31, 1988 | 9.25 | 9.75 | 10.25 | 10.50 | 11.50 | 11.75 | 12.00 | 12.00 |
| December 5, 1988 | 9.75 | 10.25 | 10.50 | 10.50 | 11.50 | 11.75 | 12.00 | 12.00 |
| January 2, 1989 | 10.00 | 10.25 | 10.50 | 10.50 | 11.50 | 11.75 | 12.00 | 12.00 |
| January 30, 1989 | 10.00 | 10.50 | 10.50 | 10.50 | 11.50 | 11.75 | 12.00 | 12.00 |
| February 22, 1989 | 10.50 | 10.75 | 11.00 | 11.00 | 11.50 | 11.75 | 12.00 | 12.00 |
| March 14, 1989 | 10.75 | 11.00 | 11.25 | 11.25 | 11.50 | 11.75 | 12.00 | 12.00 |
| May 17, 1989 | 10.25 | 10.50 | 10.75 | 10.75 | 11.50 | 11.75 | 12.00 | 12.00 |
| June 16, 1989 | 9.50 | 9.75 | 10.00 | 10.00 | 11.50 | 11.75 | 12.00 | 12.00 |

**Table XI-3 : Interest Rates of FCNRA Deposits *(Concld.)***

(Per cent per annum)

| Effective Dates | D.M. | | | | Yen | | | |
|---|---|---|---|---|---|---|---|---|
| Maturity Period | 6 months to 1 year | 1 year to 2 years | 2 years to 3 years | 3 years only | 6 months to 1 year | 1 year to 2 years | 2 years to 3 years | 3 years only |
| | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| May 23, 1988 | | | | Not applicable | | | | |
| July 13, 1988 | | | | | | | | |
| August 1, 1988 | 5.75 | 6.00 | 6.25 | 6.50 | 5.25 | 5.50 | 5.75 | 5.75 |
| August 9, 1988 | 6.00 | 6.25 | 6.50 | 6.75 | 5.25 | 5.50 | 5.75 | 5.75 |
| August 15, 1988 | 6.50 | 6.75 | 7.00 | 7.25 | 5.75 | 6.00 | 6.25 | 6.25 |
| October 31, 1988 | 5.75 | 6.00 | 6.50 | 7.00 | 5.25 | 5.50 | 5.75 | 6.00 |
| December 5, 1988 | 5.75 | 6.00 | 6.50 | 7.00 | 5.25 | 5.50 | 5.75 | 6.00 |
| January 2, 1989 | 6.00 | 6.25 | 6.75 | 7.00 | 5.25 | 5.50 | 5.75 | 6.00 |
| January 30, 1989 | 6.50 | 6.75 | 7.25 | 7.50 | 5.25 | 5.50 | 5.75 | 6.00 |
| February 22, 1989 | 7.00 | 7.25 | 7.50 | 7.75 | 5.25 | 5.50 | 5.75 | 6.00 |
| March 14, 1989 | 7.25 | 7.50 | 7.50 | 7.75 | 5.25 | 5.50 | 5.75 | 6.00 |
| May 17, 1989 | 7.50 | 7.75 | 7.75 | 8.00 | 5.50 | 5.75 | 6.00 | 6.00 |
| June 16, 1989 | 7.50 | 7.75 | 7.75 | 8.00 | 5.75 | 6.00 | 6.25 | 6.25 |

*Note:* FCNRA Scheme has been extended to DM and Yen with effect from August 1, 1988.

**Table XI-4 : Inflows under NR(E)R and FCNR Accounts Schemes**

(Rupees crores)

| Fiscal Year | Non-Resident (External) Account@ | Foreign Currency (Non-Resident) Account | Total |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1984-85 | 358 | 275 | 633 |
| 1985-86 | 287 | 1,151 | 1,438 |
| 1986-87 | 483 | 1,169 | 1,652 |
| 1987-88 | 300 | 1,398 | 1,698 |
| 1988-89 | 245 | 2,075 | 2,320 |

@ Excluding the estimated accrued interest.

**Table XI-5 : Outstanding Liabilities Under NR(E)R and FCNR Accounts**
(as at end-March)

(Rupees crores)

| Year | NR(E)R Accounts* | FCNR Accounts | | | | | |
|---|---|---|---|---|---|---|---|
| | | US $ | Pound Sterling | DM @ | Yen @ | **Total** | **Grand Total** |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1985 | 2,864 | 618 | 337 | | | **955** | **3,819** |
| | (2,304) | (499) | (271) | | | **(770)** | **(3,074)** |
| 1986 | 3,461 | 1,759 | 430 | | | **2,189** | **5,650** |
| | (2,817) | (1,419) | (351) | | | **(1,770)** | **(4,587)** |
| 1987 | 4,336 | 3,047 | 464 | | | **3,511** | **7,847** |
| | (3,354) | (2,360) | (359) | | | **(2,719)** | **(6,073)** |
| 1988 | 5,107 | 4,406 | 541 | | | **4,947** | **10,054** |
| | (3,942) | (3,410) | (418) | | | **(3,828)** | **(7,770)** |
| 1989 | 5,899 | 6,648 | 535 | 700 | 372 | **8,255** | **14,154** |
| | (3,774) | (4,245) | (343) | (448) | (239) | **(5,275)** | **(9,049)** |

* Figures include accrued interest.
@ With effect from August 1, 1988.
*Note:* Figures in brackets indicate U.S. dollar million.

In the long run, it is expected to impart a competitive edge to Indian export industries as also to reduce dependence on foreign imports. Country-wise, of the total number of proposals approved in 1988, USA accounted for 191 (as against 196 in the preceding year), W. Germany 178 (as against 149 in 1987) and the UK 134 (as against 122 in the preceding year). Other countries, like Japan (96), Italy (53), France (42) and Switzerland (41) followed in sequence, though at considerably lower levels. With the exception of France and USA, the number of proposals approved during 1988 showed increases over the year.

As regards proposals with financial participation, with the exception of Japan and Switzerland, the proportion of such proposals to the total showed an increase over the year. The USA had the largest proportion (25%), followed by W. Germany (17%) and the UK (13%).

The amount of foreign investment approved

**Table XI-6 : Value of Approvals for Investment by Non-residents of Indian Nationality/Origin**

(Rupees crores)

| Calender year ended | Direct Investment | | | | | Portfolio Investment | | | Grand Total |
|---|---|---|---|---|---|---|---|---|---|
| | On Repatriation Basis | | | On Non-Repatriation Basis | Total | On Repatriation Basis | On Non-Repatriation Basis | Total | |
| | 40% Scheme | 74% Scheme | Total (2+3) | | (4+5) | | | (7+8) | (6+9) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 1985 | 201.46 | 16.66 | 218.12 | 34.23 | 252.35 | 6.23 | 0.17 | 6.40 | **258.75** |
| 1986 | 254.96 | 8.60 | 263.56 | 63.93 | 327.49 | 4.90 | 0.39 | 5.29 | **332.78** |
| 1987 | 210.96 | 9.26 | 220.22 | 56.91 | 277.13 | 6.00 | 0.51 | 6.51 | **283.64** |
| 1988 | 174.65 | 18.09 | 192.74 | 42.83 | 235.57 | 7.52 | 0.39 | 7.91 | **243.48** |

rose to Rs. 240 crores in 1988 from Rs. 108 crores in 1987. Country-wise, the amount of investment approved for USA was Rs. 97 crores or 40 per cent of total, followed by W. Germany at Rs. 31 crores (13 per cent) and Italy Rs. 28 crores (12 per cent). The largest increase was in respect of the USA (Rs. 67.6 crores or by 229 per cent) followed by Italy (Rs. 24.9 crores or by 838 per cent), W. Germany (Rs. 21.1 crores or by 214 per cent) and Japan (Rs. 10.5 crores or by 150 per cent). Investment approved for Switzerland, however, showed a sharp decline of Rs. 6.1 crores or by 69 per cent (Table XI-7).

*Fast Track Arrangement*

Under this arrangement, a separate Investment Promotion Group was formed during the year for clearance of direct investment proposals from Japan and West Germany.

The 'Fast Track' arrangement connotes an arrangement for fast disposal of applications received for various purposes in the different ministries, Government Departments, Reserve Bank of India, etc. While the existing arrangements of approvals by Secretariat for Industrial Approvals (SIA) etc., would continue, the Group would look into any undue or deliberate delays at any level provided details of such delay were furnished to the Group. The Group might also be able to arrange a special meeting to consider and clear FRG/Japanese proposals only.

Some of the issues raised in the Group which have since been liberalised were as under :

1. Booking of air tickets for travel by a foreign technician to India by any airline is permitted with effect from 26.8.88 provided the passage is booked in Indian rupees. Prior to this,the foreign technicians/experts were required to travel by international services of Indian carriers if the fares were paid by Indian firms/companies.
2. In regard to engagement of foreign technicians by Indian companies and the approval of terms and conditions by RBI, the procedure has been modified with effect from August 25, 1988 and all such cases would be dealt with by the Bank.

As on 31 March 1989, final orders under Section 29 (2), FERA 1973, requiring Indianisation/dilution of non-resident equity holdings to a specified level, were issued to 389 companies. Of these, 369 companies complied with FERA directives as on 31.3.1989. The remaining 20 companies were at various stages of compliance such as issue/transfer of shares, winding up, etc., and extension of time was granted to them at their request. As at end-March 1989, out of 898 applications received, only 2 cases remained to be finally disposed of.

India's objective in setting up of joint ventures and wholly owned subsidiaries abroad apart from serving as an important medium of promoting exports, trade expansion and economic co-operation, also reflected the overall strategy of participating in the developmental efforts of the developing countries, in particular, of Asia and Africa. This policy was pursued

**Table XI-7 : Foreign Collaborations Approved**

| Country | Total No. of proposals approved | | | | Amount of foreign investment approved (Rs. crores) | | | |
|---|---|---|---|---|---|---|---|---|
| | 1985 | 1986 | 1987 | 1988 | 1985 | 1986 | 1987 | 1988 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1. U.S.A. | 197 | 189 | 196 | 191 | 39.93 | 29.37 | 29.52 | 97.14 |
| | (66) | (71) | (57) | (71) | | | | |
| 2. U.K. | 147 | 130 | 122 | 134 | 3.71 | 7.72 | 8.45 | 13.91 |
| | (26) | (23) | (27) | (36) | | | | |
| 3. West Germany | 180 | 183 | 149 | 178 | 11.81 | 20.16 | 9.87 | 31.00 |
| | (36) | (40) | (39) | (47) | | | | |
| 4. France | 61 | 39 | 44 | 42 | 2.36 | 2.05 | 5.35 | 11.78 |
| | (8) | (9) | (10) | (13) | | | | |
| 5. Japan | 108 | 111 | 71 | 96 | 15.68 | 5.62 | 6.91 | 17.43 |
| | (15) | (15) | (15) | (16) | | | | |
| 6. Italy | 56 | 58 | 50 | 53 | 6.95 | 2.33 | 2.97 | 27.87 |
| | (11) | (8) | (10) | (18) | | | | |
| 7. Switzerland | 42 | 32 | 31 | 41 | 0.84 | 3.25 | 8.85 | 2.74 |
| | (4) | (8) | (11) | (8) | | | | |
| 8. Singapore | 5 | 3 | 5 | 11 | 0.37 | 0.25 | 0.85 | 4.63 |
| | (2) | (1) | (2) | (5) | | | | |
| 9. Others | 228 | 212 | 184 | 180 | 44.42 | 36.20 | 34.94 | 33.26 |
| | (70) | (65) | (71) | (68) | | | | |
| **10. Total** | **1,024** | **957** | **852** | **926** | **126.07** | **106.95** | **107.71** | **239.76** |
| | **(238)** | **(240)** | **(242)** | **(282)** | | | | |

*Note:* 1. Figures in brackets indicate number of collaboration approvals with financial participation.
2. Amount approved correspond to proposals with financial participation.

enthusiastically during the year. As at end-December 1988, there were 179 joint ventures abroad, of which 152 were in operation. In addition, 27 joint ventures were at different stages of implementation. Equity participation by the Indian companies in joint ventures which were in operation abroad stood at Rs. 96.78 crores (including bonus shares) as at end-December 1988 as compared to Rs. 93.12 crores at end—December 1987. The approved Indian participation in the equity of the joint ventures under implementation stood at Rs. 16.79 crores as at end-December 1988. Of the 152 joint ventures in operation, 94 (62 per cent) were in manufacturing sector and 58 (38 per cent) were in non-manufacturing sector.

Region-wise, the South East Asian Region accounted for 35 per cent (53) of operating joint ventures, followed by Africa 18 per cent (28), America and Europe 18 per cent (28), South Asia 16 per cent (24), West Asia 10 per cent (15) and Oceania 3 per cent (4). Details regarding inflow of remittances from Indian joint ventures abroad are given below :

(Rupees crores)

| Calendar Year | Dividend | Other Repatriation* |
|---|---|---|
| 1986 | 11.6 | 34.8 |
| 1987 | 18.7 | 32.5 |
| 1988 | 17.6 | 48.3 |

* Includes fees for technical know-how, engineering services, management fee, royalty, etc.

Source : Ministry of Commerce, Government of India, New Delhi.

It would be seen from the Table above, that remittances of dividends received from abroad declined to Rs. 17.6 crores as at the end of December 1988 from Rs. 18.7 crores as at the end of December 1987. However, amounts received by way of fees for technical know-how, engineering services and consultancy fees, etc.

**Table XI-8 : Consents for Capital Issues* — Aggregate and by Non-residents (NR) 1986-87 to 1988-89**

(Rupees crores)

| Fiscal Year | INITIAL ISSUES | | | FURTHER ISSUES | | | BONUS ISSUES | | | DEBENTURE ISSUES | | | LOANS | | | GRAND TOTAL | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| 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** |
| 1988-89 | 820.9 | 58.3 | 7.1 | 622.8@ | 22.3 | 3.6 | 195.5 | 17.2 | 8.8 | 6584.9 | 50.2 | 0.8 | N.A | 8.9** | -- | **8233.0** | **156.9** | **1.9** |

* By Indian Joint Stock Companies.
** The consents for loans issued to Non-Residents only is available.
@ Including premium of Rs. 110.7 crores.

increased from Rs. 32.5 crores to Rs. 48.3 crores during the period.

The number of 'Wholly Owned Subsidiaries' (owned wholly by one or more Indian bodies corporate) were 46 as at end-December 1988, of which 36 were in operation and the remaining 10 were under various stages of implementation. UK (11) and USA (9) accounted for 55 per cent of the subsidiaries under operation. The value of total equity held in 46 subsidiaries stood at Rs. 26.06 crores out of which Rs. 21.18 crores was in subsidiaries which were in operation and remaining Rs. 4.88 crores was in subsidiaries which were at various stages of implementation.

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-8 would not indicate the total value of capital raised by Indian joint stock companies.

The value of consents for capital issues granted to Indian joint stock companies by the Controller of Capital Issues increased by 40.3 per cent to Rs. 8,233 crores in 1988-89 from Rs. 5,868 crores in 1987-88. In the preceding year, their value showed a fall of 4.6 per cent. The value of consents issued to these companies for raising capital from non-residents, however, declined by 22.5 per cent. In the preceding year, the decline was of 15.1 per cent. The number of consents involved was 157 in 1988-89 as compared to 205 in 1987-88. As a result, the share of non-residents in the total value of consents fell from 3.5 per cent in 1987-88 to 1.9 per cent in 1988-89 (Table XI-8).

The fall in the value of consents granted for raising capital from non-residents was noticed under all categories of capital issues except the debenture issues which showed a sharp rise. The value of consents for initial issues to non-residents which increased sharply from Rs. 29 crores in 1986-87 to Rs. 66 crores in 1987-88 declined to Rs. 58 crores in 1988-89. Their share in total initial issues at 7.1 per cent in 1988-89, though higher than in 1986-87, was substantially lower than that of 10.7 per cent in 1987-88. The value of consents issued for further issues to non-residents also declined marginally from Rs. 26 crores in 1987-88 to Rs. 22 crores in 1988-89, their share in total further issues having declined from 4.9 per cent to 3.6 per cent during the period. The value of consents issued to non-residents for bonus issues which had recorded a sharp increase of 60 per cent in 1987-88 declined steeply by 76.2 per cent to Rs. 17 crores in 1988-89 from Rs. 72 crores in 1987-88. Their share in total bonus issues also declined from 24.3 per cent in 1987-88 to 8.8 per cent in 1988-89. Likewise, the value of consents issued to non-residents for raising loans also declined sharply from Rs. 30 crores in 1987-88 to Rs. 9 crores in 1988-89 registering a fall of 70 per cent. The value of consents issued to non-residents for debenture issues, which declined sharply to Rs. 9 crores in 1987-88 from Rs. 72 crores in 1986-87, showed more than five fold increase at Rs. 50 crores during 1988-89. Their share in total debenture issues also rose from 0.2 per cent in 1987-88 to 0.8 per cent in 1988-89. Net of bonus issues, consents for fresh investment for all categories of investors at Rs. 140 crores in 1988-89 were higher by 7.2 per cent than during 1987-88. Such consents had shown a fall of 32.6 per cent to Rs. 130 crores during 1987-88.

### III. External Assistance @

The rising trend of fresh authorisations noticed between 1984-85 and 1987-88 was arrested during 1988-89. Fresh authorisations during 1988-89 at Rs. 7,696 crores (provisional) were lower by Rs. 1,360 crores (or by 15 per cent) than those of Rs. 9,056 crores in 1987-88. During 1987-88, the fresh authorisations had shown an increase of Rs. 2,898 crores (or by 47 per cent) over 1986-87. (In U.S. dollar terms, authorisations during 1988-89 showed a sharp decline of 24 per cent to $5,314 million as against an increase by 45 per cent to $ 6,985 million in the preceding year). Of the total decline in authorisations during the year, 38 per cent (Rs. 515 crores) was accounted for by loans and the balance of 62 per cent (Rs. 845 crores) by grants (Table XI-9). The utilisation of external assistance at Rs. 5,167 crores (provisional) during 1988-89 went up marginally by Rs. 135 crores (3 per cent) as compared with an increase

@ The discussion in this section, as in the last year's Report, is in terms of values at the prevailing exchange rates and not at the pre-December 1971 IMF parity rates as given in the Reports up to 1986-87.

of Rs. 1,454 crores (or by 41 per cent) in 1987-88. The increase in the utilisation was almost wholly under loans. (In U.S. dollar terms, utilisation decreased by 8 per cent during 1988-89 to $ 3,568 million as against an increase of 39 per cent in the previous year to $ 3,881 million). The pace of utilisation showed a sharp jump during the year with utilisation during 1988-89 forming 67 per cent of authorisations during the year as compared with 56-58 per cent of the authorisations during the preceding two years and 48 per cent during 1984-85.

*Authorisations*

The authorisations of loan assistance during 1988-89 were lower by Rs. 515 crores. This was due mainly to a decline in fresh authorisations of Rs. 215 crores by the IBRD, Rs. 410 crores by the IDA and Rs. 484 crores by the U.S.S.R. The share of the World Bank Group (comprising the IBRD and the IDA) in total authorisations fell to 52 per cent in 1988-89 from 56 per cent in 1987-88. The share of the U.S.S.R. also dropped to 9.1 per cent in the current year from 14.5 per cent in the preceding year. Notable among the other countries which showed lower authorisations was Netherlands (Rs. 141 crores). Italy, the IFAD, Canada, Denmark, Switzerland and the U.S.A. made no fresh authorisations during the year. The overall decline was partially offset by increases in fresh authorisations, notably from the ADB (Rs. 398 crores), France (Rs. 126 crores) and Japan (Rs. 226 crores) (Table XI-10).

Authorisations of grants during 1988-89 at Rs. 217 crores were almost one-fifth of Rs. 1,062 crores in 1987-88. Almost all the countries with the exception of Japan accounted for the fall in fresh authorisations. Some countries such as Denmark, Netherlands, Sweden and Switzerland made no fresh authorisations during 1988-89; other countries viz. Canada, U.K. and EEC (East European Countries) showed declines of Rs. 395 crores, Rs. 140 crores and Rs. 107 crores, respectively. Japan, however, more than doubled her grants from Rs. 25 crores in 1987-88 to Rs. 57 crores in 1988-89 (Table XI-11).

*Utilisation*

Utilisation of loans during 1988-89 at Rs. 4,709 crores was marginally higher by Rs. 134 crores than that of Rs. 4,575 crores in the preceding year. Even this marginal increase in loan utilisation during the year came about due to a substantial rise of Rs. 667 crores in the utilisation of loans from the IBRD. The utilisation of ADB credits also was higher by Rs. 78 crores. This was offset by declines in utilisation of credits in respect of certain other countries/institutions, of which particular mention may be made of Japan (Rs. 290 crores), France (Rs. 119 crores), IDA (Rs. 127 crores), Italy (Rs. 51 crores) and the U.S.A. (Rs. 43 crores). Utilisation of credits from the U.S.S.R. also was lower by Rs. 15 crores during the year.

Though the utilisation of grants assistance at Rs. 458 crores during the year was almost the same as in the preceding year, there were variations among countries. While utilisation of grants showed increases in respect of Japan (Rs. 51 crores), the U.K. (Rs. 24 crores) and Sweden (Rs. 20 crores), that from the EEC, the U.S.A. and Denmark declined by Rs. 48 crores, Rs. 33 crores and Rs. 12 crores, respectively (Tables XI-10 and 11).

Purpose-wise authorisations, utilisation and undisbursed balance as at March-end 1988 are given in the Table XI-12. Of the total loan authorised during 1987-88, the share of industrial development was the highest at 28 per cent (Rs. 2,212 crores) followed by Power Projects at 27 per cent (Rs. 2,180 crores). Of the total increase in authorisations during 1987-88, the largest increase was under power projects, followed by transport and communications. On the other hand, authorisations under industrial development and agricultural development showed sharp declines.

The utilisation of loan assistance at Rs. 4,540 crores during 1987-88 was higher by Rs. 1,225 crores than that of Rs. 3,315 crores during 1986-87. The utilisation of assistance was highest in the Agricultural Sector (Rs. 1,118 crores or 25 per cent), followed by power projects (Rs. 866 crores or 19 per cent) and Industrial Sector (Rs. 849 crores or 19 per cent).

*Cumulative Assistance*

The cumulative external assistance authorised for India up to end-March 1989 aggregated Rs. 69,321 crores. Of this, loans amounted to Rs. 59,930 crores or 86 per cent, grants Rs. 6,617 crores or 10 per cent and P. L. 480/665 assistance accounted for the balance of Rs. 2,774 crores or 4 per cent.

**Table XI-9 : External Assistance**
**(Fiscal Years)**

(Rupees crores)

| Items | Loans | Grants | Total (2 + 3) |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| **1. Authorisations during** | | | |
| a) 1980-81 | 3237@ (4093)! | 76 (96) | 3313 (4189) |
| b) 1981-82 | 2633 (2936) | 207 (231) | 2840 (3167) |
| c) 1982-83 | 2542 (2630) | 423 (438) | 2965 (3068) |
| d) 1983-84 | 1687 (1632) | 387 (375) | 2074 (2007) |
| e) 1984-85 | 4401 (3702) | 471 (396) | 4872 (4098) |
| f) 1985-86 | 5335 (4360) | 313 (256) | 5648 (4616) |
| g) 1986-87 | 5728 (4483) | 430 (336) | 6158 (4819) |
| h) 1987-88 R | 7994 (6166) | 1062 (819) | 9056 (6985) |
| i) 1988-89 P | 7479 (5164) | 217 (150) | 7696 (5314) |
| **2. Utilisation during** | | | |
| a) 1980-81 | 1228@ (1553) | 396 (501) | 1624 (2054) |
| b) 1981-82 | 1519 (1694) | 351 (391) | 1870 (2085) |
| c) 1982-83 | 1911 (1977) | 339 (351) | 2250 (2328) |
| d) 1983-84 | 1964 (1899) | 281 (272) | 2245 (2171) |
| e) 1984-85 | 1963 (1651) | 369 (310) | 2332 (1961) |
| f) 1985-86 | 2495 (2039) | 401 (328) | 2896 (2367) |
| g) 1986-87 | 3176 (2485) | 402 (315) | 3578 (2800) |
| h) 1987-88 R | 4575 (3529) | 457 (352) | 5032 (3881) |
| i) 1988-89 P | 4709 (3252) | 458 (316) | 5167 (3568) |
| **3. Amount undisbursed as at the end of March 1989 P** | **32439 (20711)** | **2015 (1286)** | **34454 (21997)** |

*Notes:* 1. Amount of authorisations and utilisation under 'loans' are inclusive of Government and Non-Government loans.
2. Loan amount 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 1989 represent rupee values calculated at the rates prevalent at end-March 1989.
5. Figures in brackets represent amounts in millions of US Dollars. These are converted at the annual average rates for the respective years.

@ Excludes IMF Trust Fund.
P : Provisional.
R : Revised.

**Table XI-10 : Loans Authorised and Utilised During 1987-88 and 1988-89 (Fiscal Years)**

(Rupees crores)

| Country/ Institution | Authorisations | | Utilisation | | Aid Undisbursed as at the end of : | |
|---|---|---|---|---|---|---|
| | 1987-88 R | 1988-89 P | 1987-88 R | 1988-89 P | March 1988 R | March 1989 P |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. IBRD | 3231 | 3016 | 1659 | 2326 | 9205 | 11319 |
| | (2492) | (2083) | (1280) | (1606) | (7064) | (7227) |
| 2. IDA | 1265 | 855 | 1207 | 1080 | 4822 | 6058 |
| | (976) | (590) | (931) | (746) | (3700) | (3868) |
| 3. IFAD | 16 | — | 21 | 29 | 84 | 69 |
| | (12) | (-) | (16) | (20) | (64) | (44) |
| 4. ADB | 492 | 890 | 21 | 99 | 796 | 1754 |
| | (395) | (615) | (16) | (68) | (611) | (1120) |
| 5. Canada | 10 | — | 10 | 3 | 2 | — |
| | (8) | (-) | (8) | (2) | (2) | (-) |
| 6. Denmark | — | — | 22 | 6 | 29 | 21 |
| | (-) | (-) | (17) | (4) | (22) | (13) |
| 7. France | 167 | 293 | 248 | 129 | 285 | 501 |
| | (129) | (202) | (191) | (89) | (219) | (320) |
| 8. West Germany | 390 | 546 | 256 | 286 | 713 | 946 |
| | (301) | (377) | (197) | (197) | (547) | (604) |
| 9. Italy | 111 | — | 93 | 42 | 163 | 140 |
| | (86) | (-) | (72) | (29) | (125) | (89) |
| 10. Japan | 895 | 1121 | 608 | 318 | 2079 | 2993 |
| | (690) | (774) | (469) | (220) | (1595) | (1911) |
| 11. Netherlands | 169 | 28 | 79 | 90 | 98 | 19 |
| | (130) | (19) | (61) | (62) | (75) | (12) |
| 12. Switzerland | — | — | 4 | 4 | 80 | 76 |
| | (-) | (-) | (3) | (3) | (61) | (48) |
| 13. U.S.A. | 25 | — | 83 | 40 | 343 | 370 |
| | (19) | (-) | (64) | (28) | (263) | (236) |
| 14. OPEC* | 60 | 51 | 36 | 37 | 876 | 1063 |
| | (46) | (35) | (28) | (26) | (672) | (679) |
| 15. U.S.S.R. | 1163 | 679 | 222 | 207 | 5819 | 7035 |
| | (897) | (469) | (171) | (143) | (4465) | (4491) |
| 16. Others | — | — | 6 | 13 | 87 | 75 |
| | (-) | (-) | (5) | (9) | (67) | (48) |
| **Total** | **7994** | **7479** | **4575** | **4709** | **25481** | **32439** |
| | **(6166)** | **(5164)** | **(3529)** | **(3252)** | **(19552)** | **(20711)** |

* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and OPEC Special Fund.

R : Revised.

P : Provisional.

*Notes:* (1) Figures in brackets represent millions of US dollars.

(2) Amount undisbursed are converted at end-March rates for respective years.

**Table XI-11 : Grants@ Authorised and Utilised during 1987-88 and 1988-89 (Fiscal Years)**

(Rupees crores)

| Country/ Institution | Authorisations | | Utilisation | | Aid undisbursed as at the end of | |
|---|---|---|---|---|---|---|
| | 1987-88 R | 1988-89 P | 1987-88 R | 1988-89 P | March 1988 R | March 1989 P |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Canada | 399 | 4 | 17 | 15 | 419 | 509 |
| | (308) | (3) | (13) | (10) | (322) | (325) |
| 2. Denmark | 49 | — | 28 | 16 | 49 | 38 |
| | (38) | (-) | (22) | (11) | (38) | (24) |
| 3. West Germany | 1 | 2 | 1 | 1 | 8 | 10 |
| | (1) | (1) | (1) | (1) | (6) | (6) |
| 4. Japan | 25 | 57 | 20 | 71 | 65 | 59 |
| | (19) | (39) | (15) | (49) | (50) | (38) |
| 5. Netherlands | 5 | — | 46 | 46 | 126 | 87 |
| | (4) | (-) | (35) | (31) | (97) | (56) |
| 6. Sweden | 160 | — | 16 | 36 | 151 | 128 |
| | (123) | (-) | (12) | (25) | (116) | (82) |
| 7. Italy | — | — | — | — | — | — |
| | (-) | (-) | (-) | (-) | (-) | (-) |
| 8. Norway | — | — | — | — | 29 | 32 |
| | (-) | (-) | (-) | (-) | (22) | (20) |
| 9. Switzerland | 27 | — | 16 | 17 | 28 | 12 |
| | (21) | (-) | (12) | (12) | (21) | (8) |
| 10. U.K. | 219 | 79 | 131 | 155 | 531 | 494 |
| | (169) | (55) | (101) | (107) | (407) | (315) |
| 11. U.S.A | 30 | 35 | 40 | 7 | 212 | 285 |
| Other than P.L. 480/ P.L. 665 | (23) | (24) | (31) | (5) | (163) | (182) |
| 12. E.E.C. | 147 | 40 | 142 | 94 | 354 | 361 |
| | (113) | (28) | (100) | (65) | (272) | (230) |
| **Total** | **1062** | **217** | **457** | **458** | **1972** | **2015** |
| | **(819)** | **(150)** | **(352)** | **(316)** | **(1514)** | **(1286)** |

*Note:* Figures in brackets represent millions of U.S. Dollars.
R : Revised.
P : Provisional.
@ : Including debt relief as under :

(Rupees crores)

| Country | Authorisations | | Utilisation | |
|---|---|---|---|---|
| | 1987-88 | 1988-89 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 |
| **By Way of Grants** | | | | |
| Japan | 11.8 | 13.3 | 3.0 | 8.7 |
| | (9.1) | (9.2) | (2.3) | (6.0) |

**Table XI-12 : Statement showing purpose-wise distribution of loans**

(Rupees lakhs)

| Purpose | Authorisations | | | | Utilisation | | | | Aid undisbursed as at end-March 1988 |
|---|---|---|---|---|---|---|---|---|---|
| | 1980-85 | 1985-86 | 1986-87 | 1987-88 | 1980-85 | 1985-86 | 1986-87 | 1987-88 | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| I. Transport and Communications | 1768,65 | 380,17 | 142,01 | 1073,29 | 702,10 | 188,73 | 365,30 | 469,91 | 2540,21 |
| II. Power Projects | 3845,55 | 1599,67 | 1028,71 | 2179,75 | 1684,07 | 594,60 | 957,29 | 866,16 | 6741,67 |
| III. Steel and Steel Projects | 116,66 | — | — | — | 192,10 | 26,26 | 13,57 | 72,04 | 267,96 |
| IV. Industrial Development | 3270,49 | 1471,62 | 2981,60 | 2212,11 | 2311,92 | 623,15 | 758,67 | 848,60 | 8145,90 |
| V. Agricultural Development | 3898,33 | 928,18 | 1354,28 | 700,49 | 3106,88 | 701,83 | 830,49 | 1118,07 | 4040,93 |
| VI. Food Aid | 2,91 | — | — | — | 2,91 | — | — | — | — |
| VII. Oil and Petroleum Products | 198,00 | 366,98 | 252,07 | 346,78 | 18,16 | 100,94 | 104,54 | 220,44 | 664,88 |
| VIII. Miscellaneous | 1414,14 | 937,84 | 79,22 | 1451,25 | 546,31 | 259,28 | 284,96 | 945,18 | 3079,24 |
| **Total** | **14514,73** | **5684,46** | **5837,89** | **7963,67** | **8564,45** | **2494,79** | **3314,82** | **4540,40** | **25480,79** |

Assistance utilised up to end-March 1989 amounted to Rs. 47,533 crores or 69 per cent of the total amount authorised. Of the total aid utilised, loans accounted for Rs. 39,086 crores (82 per cent), grants Rs. 5,628 crores (12 per cent) and P. L. 480/665 assistance Rs. 2,819 crores (6 per cent) (Table XI-13).

As at end-March 1989, the share of the World Bank group at 45 per cent in total authorisations was about the same as at end-March 1988 (44.8 per cent). Under utilisation of the assistance, the World Bank Group improved its share by three percentage points to 42 per cent. Other major source countries/institutions were the U.S.A., the U.S.S.R., the U.K., Japan and West Germany which together with the ADB accounted for 40 per cent of the total authorisations and 39 per cent of total utilisation as at end-March 1989. As at end-March 1988, the share of this group was 39 per cent in authorisations and 41 per cent in utilisation (Table XI-14).

*Aid in the Pipeline*

Total aid in the pipeline as at end-March 1989 (at the exchange rate prevailing as on March 31, 1989) amounted to Rs. 34,454 crores (50 per cent of aggregate assistance authorised) higher by Rs. 7,001 crores than the level of 27,453 crores (45 per cent of aggregate assistance) at the end of March 1988. Out of aid in the pipeline, loans constituted Rs. 32,439 crores (94 per cent) and grants Rs. 2,015 crores (6 per cent). In dollar terms, the aid stood at $ 21,997 million, lower by $ 931 million than the level a year ago. The World Bank Group accounted for the largest share of assistance in the pipeline with 53.6 per cent, followed by the U.S.S.R. 21.7 per cent.

*Purpose-wise aid (loans) undisbursed*

At the beginning of 1988-89, the undisbursed loans stood at Rs. 25,481 crores, higher by Rs. 4,557 crores than that of Rs. 20,924 crores at the beginning of last year. Table XI-15 presents data on purpose-wise classification of undisbursed loans. These data show that the largest proportion of undisbursed loans was under 'Industrial Development', in particular the U.S.S.R., followed by 'Power Projects', in particular the World Bank Group, the 'Agricultural Development' and 'Transport and Communications', both of the World Bank Group.

Over the year ended March 1988, the share of World Bank Group generally declined from 70 per cent to 63 per cent in the case of transport and communication, from 78 to 76 per cent under power projects and from 17 to 14 per cent under industrial development. In the case of agricultural development, however, their share went up from 81 to 83 per cent. The USSR's share of aid undisbursed under industrial development increased from 61 to 68 per cent over the year.

Debt service payments at Rs. 2,963 crores (provisional) during 1988-89 were higher by Rs. 339 crores (13 per cent) than those in the preceding year viz. Rs. 2,624 crores. As a result, net inflow of external assistance (net of debt servicing) at Rs. 2,204 crores was lower by Rs. 204 crores (8 per cent) than Rs. 2,408 crores in the preceding year (Table XI-16). Reflecting larger debt service payments (their ratio to gross utilisation rose from 52 per cent in 1987-88 to 57 per cent during 1988-89), the net inflow of external assistance, as a proportion of gross drawals (utilisation) fell from 48 per cent in 1987-88 to 43 per cent in 1988-89. In U.S. Dollar terms, the net inflow of external assistance (net of debt service payments) amounted to $ 1,522 million, lower by around 18 per cent than that of $ 1,858 million in 1987-88. Such inflows during 1987-88 had registered a rise of 53 per cent. The share of amortisation in total debt service payments fell from 60 per cent to 56 per cent during the year.

*Aid Pledges for 1988-89*

At the Aid-India Consortium meeting held in Paris during June 1989, members pledged assistance to India amounting to U. S. $ 6.7 billion for 1989-90, which was higher by U. S. $ 0.4 billion than U. S. $ 6.3 billion pledged for 1988-89. Of the total commitment of U. S. $ 6.7 billion, concessional aid is likely to be about $ 4.0 billion or 60 per cent of the aid pledged. The share of the World Bank Group in the Consortium pledges is about U. S. $ 3,000 million of which U. S. $ 850 million is expected from the IDA, higher than that of U. S. $ 750 million last year.

## IV. India's Financial Assistance to Other Countries

*Authorisations*

During 1988-89, the external assistance

**Table XI-13 : 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 |
| | (4093) | (96) | | (4189) |
| b) 1981-82 | 2,633 | 207 | — | 2,840 |
| | (2936) | (231) | | (3167) |
| c) 1982-83 | 2,542 | 423 | — | 2,965 |
| | (2630) | (438) | | (3068) |
| d) 1983-84 | 1,687 | 387 | — | 2,074 |
| | (1632) | (375) | | (2007) |
| e) 1984-85 | 4,401 | 471 | — | 4,872 |
| | (3702) | (396) | | (4098) |
| f) 1985-86 | 5,335 | 313 | — | 5,648 |
| | (4360) | (256) | | (4616) |
| g) 1986-87 | 5,728 | 430 | — | 6,158 |
| | (4483) | (336) | | (4819) |
| h) 1987-88 R | 7,994 | 1,062 | — | 9,056 |
| | (6166) | (819) | | (6985) |
| i) 1988-89 P | 7,479 | 217 | — | 7,696 |
| | (5164) | (150) | | (5314) |
| **3. Total upto March 1989** | **59,930** | **6,617** | **2,774** | **69,321** |
| **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 |
| | (1553) | | | (2054) |
| b) 1981-82 | 1,519 | 351 | — | 1,870 |
| | (1694) | | | (2085) |
| c) 1982-83 | 1,911 | 339 | — | 2,250 |
| | (1977) | | | (2328) |
| d) 1983-84 | 1,964 | 281 | — | 2,245 |
| | (1899) | | | (2171) |
| e) 1984-85 | 1,963 | 369 | — | 2,332 |
| | (1651) | | | (1961) |
| f) 1985-86 | 2,495 | 401 | — | 2,896 |
| | (2039) | | | (2367) |
| g) 1986-87 | 3,176 | 402 | — | 3,578 |
| | (2485) | | | (2800) |
| h) 1987-88 R | 4,575 | 457 | — | 5,032 |
| | (3529) | | | (3881) |
| i) 1988-89 P | 4,709 | 458 | — | 5,167 |
| | (3252) | | | (3568) |
| **6. Total upto March 1989** | **39,086** | **5,628** | **2,819** | **47,533** |

R : Revised P : Provisional.

*Note:* 1. Refer to notes to Table XI-9.

2. Figures in brackets represent millions of US Dollars.

**Table XI-14 : Aggregate External Assistance — Source-wise (Upto end-March 1989)[ss]**

(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 | 16,970 | — | — | 16,970 (24.5) | 7,990 | — | — | 7,990 (16.8) |
| IDA | 14,425 | — | — | 14,425 (20.8) | 12,058 | — | — | 12,058 (25.4) |
| EEC | 41[s] | 816 | — | 857 (1.2) | 42[s] | 976 | — | 1,018 (2.1) |
| IFAD | 173 | — | — | 173 (0.2) | 170 | — | — | 170 (0.4) |
| ADB | 1,703 | — | — | 1,703 (2.5) | 120 | — | — | 120 (0.2) |
| U.S.A. | 3,251 | 429 | 2,774 | 6,454 (9.3) | 3,265 | 270 | 2,819 | 6,354 (13.4) |
| U.S.S.R | 6,610 | 9 | — | 6,619 (9.6) | 2,025 | 8 | — | 2,033 (4.3) |
| U.K. | 1,223 | 2,677 | — | 3,900 (5.7) | 1,256 | 2,319 | — | 3,575 (7.5) |
| West Germany | 3,877 | 56 | — | 3,933 (5.6) | 3,177 | 52 | — | 3,229 (6.8) |
| Japan | 4,809 | 240 | — | 5,049 (7.3) | 2,929 | 228 | — | 3,157 (6.6) |
| OPEC* | 2,052 | 12 | — | 2,064 (3.0) | 1,688 | 12 | — | 1,700 (3.6) |
| Others | 4,796 | 2,378 | — | 7,174 (10.3) | 4,366 | 1,763 | — | 6,129 (12.9) |
| **Total** | **59,930** | **6,617** | **2,774** | **69,321 (100.0)** | **39,086** | **5,628** | **2,819** | **47,533 (100.0)** |

* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and OPEC Special Fund.
[s] Relates to Special Action Credit.
[ss] Provisional.
*Notes:* Figures in brackets represent percentage to the total.

**Table XI-15 : Purpose-wise Distribution of Aid Undisbursed**

(Rs. crores)

| Purpose and country/ Institution | | Aid undisbursed as at the end of March 1987 R | Aid undisbursed as at the end of March 1988 P |
|---|---|---|---|
| 1 | | 2 | 3 |
| **I. Transport & Communication** | | | |
| i) IBRD | | 1108.41 | 1375.56 |
| ii) IDA | | 201.52 | 238.75 |
| iii) France | | 113.46 | 45.64 |
| iv) West Germany | | 18.49 | 44.55 |
| v) Japan | | 335.80 | 354.96 |
| vi) U. S. A. | | 3.19 | 3.23 |
| vii) Others | | 92.90 | 477.52 |
| **Total I** | | **1873.77** | **2540.21** |
| **II. Power Project** | | | |
| i) IBRD | | 3544.98 | 4660.43 |
| ii) IDA | | 665.71 | 494.19 |
| iii) France | | 7.77 | 1.25 |
| iv) West Germany | | 223.45 | 209.20 |
| v) Japan | | 483.28 | 985.31 |
| vi) U. S. A. | | — | — |
| vii) Others | | 498.33 | 391.29 |
| **Total II** | | **5423.52** | **6741.67** |
| **III. Steel & Steel Projects** | | | |
| i) West Germany | | — | — |
| ii) U. S. S. R. | | 0.05 | 267.96 |
| **Total III** | | **0.05** | **267.96** |
| **IV. Iron Ore Projects** | | | |
| i) Iran | | 483.08 | 488.46 |
| **Total IV** | | **483.08** | **488.46** |
| **V. Industrial Development** | | | |
| i) IBRD | Pub. | 725.68 | 867.59 |
| | Pvt. | 251.94 | 231.94 |
| ii) IDA | | — | — |
| iii) Austria | Pub. | 10.03 | 11.00 |
| | Pvt. | 1.84 | — |
| iv) Belgium | Pub. | 11.68 | — |
| | Pvt. | 8.51 | 2.62 |
| v) Canada | Pub. | 7.75 | — |
| | Pvt. | 0.53 | — |
| vi) Denmark | Pub. | 47.60 | 29.28 |
| vii) France | Pub. | 1.44 | 3.42 |
| | Pvt. | 180.26 | 118.63 |
| viii) West Germany | Pub. | 0.59 | 0.65 |
| | Pvt. | 275.09 | 414.65 |
| ix) Japan | Pub. | 272.69 | 356.16 |
| x) U. S. S. R. | Pub. | 3526.01 | 5551.43 |
| xi) Others | Pub. | 467.91 | 558.53 |
| **Total V** | | **5789.55** | **8145.90** |
| **VI. Agricultural Development** | | | |
| i) IBRD | | 1139.37 | 975.72 |
| ii) IDA | | 2507.24 | 2376.07 |
| iii) West Germany | | — | 2.12 |
| iv) Japan | | 374.45 | 380.10 |
| v) Others | | 684.47 | 306.92 |
| **Total VI** | | **4705.53** | **4040.93** |
| **VII. Food Aid** | | | |
| **Total VII** | | **—** | **—** |
| **VIII. Oil & Petroleum Products** | | | |
| i) France | | 40.55 | 116.40 |
| ii) IBRD | | 351.68 | 412.70 |
| iii) Japan | | 0.03 | 0.04 |
| iv) Others | | 134.25 | 135.74 |
| **Total VIII** | | **526.51** | **664.88** |
| **IX. Miscellaneous** | | | |
| i) IBRD | | 453.17 | 680.67 |
| ii) I. D. A. | | 1456.93 | 1712.68 |
| iii) West Germany | | 17.23 | 42.37 |
| iv) Others | | 194.24 | 155.06 |
| **Total IX** | | **2121.57** | **2590.78** |
| **Grand Total (I to IX)** | | **20923.58** | **25480.79** |

R - Revised
P - Provisional.

extended by India to foreign countries amounted to Rs. 88 crores, lower by Rs. 72 crores (45 per cent) as compared with Rs. 160 crores in the preceding year (Table XI-17). Loan authorisations decreased by Rs. 30 crores and grants by Rs. 42 crores from the level of Rs. 70 crores and Rs. 90 crores respectively of the previous year. As a result, the share of grants in total aid declined from 56 per cent in 1987-88 to 55 per cent in 1988-89. The fall in loan authorisations was mainly accounted for by Sri Lanka,followed by Bhutan and Bangladesh. Due to absence of fresh authorisations, there was a fall in authorisations of grant to Bhutan. Country-wise, assistance to Nepal increased by Rs. 4.1 crores (10.7 per cent) to Rs. 42.3 crores and accounted for the largest share (48 per cent) of financial assistance during the year, followed by Indian Technical and Economic Co-operation Programe (ITEC) (32 per cent), Vietnam (11 per cent), Mauritius (6 per cent) and Bangladesh (3 per cent).

*Utilisation*

The utilisation of aid extended by India at Rs. 74.3 crores during the year was lower by

**Table XI-16 : 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 |
| | (2054) | (655) | (362) | (1017) | (1037) |
| 1981-82 | 1870 | 538 | 311 | 849 | 1021 |
| | (2085) | (600) | (347) | (947) | (1138) |
| 1982-83 | 2250 | 587 | 360 | 947 | 1303 |
| | (2328) | (607) | (372) | (979) | (1349) |
| 1983-84 | 2245 | 616 | 417 | 1033 | 1212 |
| | (2171) | (596) | (403) | (999) | (1172) |
| 1984-85 | 2332 | 647 | 529 | 1176 | 1156 |
| | (1961) | (544) | (4.5) | (989) | (972) |
| 1985-86 | 2896 | 776 | 591 | 1367 | 1529 |
| | (2367) | (634) | (483) | (1117) | (1250) |
| 1986-87 | 3578 | 1176 | 853 | 2029 | 1549 |
| | (2800) | (920) | (668) | (1588) | (1212) |
| 1987-88 R | 5032 | 1581 | 1043 | 2624 | 2408 |
| | (3881) | (1219) | (804) | (2023) | (1858) |
| 1988-89 P | 5167 | 1659 | 1304 | 2963 | 2204 |
| | (3568) | (1146) | (900) | (2046) | (1522) |

R : Revised P : Provisional.

*Notes:* 1. Gross aid utilisation includes debt relief provided in the form of refinancing credits and grants. Debt service payments in these cases are covered in columns (3) and (4) above.

2) Figures in brackets represent millions of US Dollars.

Rs. 72.3 crores (49.3 per cent) than Rs. 146.6 crores in 1987-88. The fall was mainly under grants (Rs. 60 crores or 70 per cent) accounted for by Bhutan as there were no fresh authorisations to that country. Loan utilisation declined by Rs. 12.3 crores (20 per cent) and was shared by a number of countries. Loan assistance authorised during the year to Nepal was fully utilised, while in respect of Vietnam, utilisation was larger than fresh authorisations during the year. Country-wise, Nepal and Vietnam together accounted for Rs. 50.8 crores or 68 per cent of the utilisation of the total assistance extended by India. The pace of utilisation under the ITEC Programme was substantially lower during 1988-89 as compared with 1987-88 (Table XI-17).

*Cumulative Assistance Extended by India*

Total aid authorised upto end-March 1989, amounted to Rs. 1,896 crores, of which 60 per cent was by way of grants and the balance by way of loan assistance. The primary beneficiaries were Bhutan (Rs. 727 crores), Nepal (Rs. 401 crores), Bangladesh (Rs. 290 crores) and Vietnam (Rs. 150 crores). These four countries together accounted for 83 per cent of the total authorisations, nearly the same (84 per cent) as in the preceding year (Table XI-18).

Aid utilised at end-March 1989 was Rs. 1,747 crores or 92 per cent of the amount authorised. Bhutan, Nepal, Bangladesh and Vietnam together accounted for 85 per cent of the total utilisation, same as in the last year.

Among the major beneficiaries, Bhutan had utilised the assistance almost fully. In respect of Bangladesh, Nepal and Vietnam, some undisbursed balance was left.

As utilisation of aid during the year was lower than the fresh authorisations, undisbursed aid in

**Table XI-17 : Assistance Extended by India to other Countries (Fiscal Years)**

(Rupees crores)

| Country/ Programme | Authorisations | | | | | | Utilisation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1987-88 | | | 1988-89 P | | | 1987-88 | | | 1988-89 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 | 4.8 | 1.1 | 5.9 | — | 2.8 | 2.8 | 4.8 | — | 4.8 | — | 2.6 | 2.6 |
| 2. Bhutan | 8.9 | 62.4 | 71.3 | — | — | — | 8.9 | 62.4 | 71.3 | — | — | — |
| 3. Mauritius | — | — | — | 5.0 | — | 5.0 | 3.5 | — | 3.5 | 4.0 | — | 4.0 |
| 4. Nepal | 25.0 | 13.2 | 38.2 | 25.0 | 17.3 | 42.3 | 25.0 | 11.0 | 36.0 | 25.0 | 12.9 | 37.9 |
| 5. Nicaragua | — | — | — | — | — | — | 4.5 | — | 4.5 | 2.8 | — | 2.8 |
| 6. Sri Lanka | 25.0 | — | 25.0 | — | — | — | 2.1 | — | 2.1 | 4.4 | — | 4.4 |
| 7. Vietnam | 6.7 | — | 6.7 | 10.0 | — | 10.0 | 7.6 | — | 7.6 | 12.9 | — | 12.9 |
| 8. Kenya | — | — | — | — | — | — | 5.0 | — | 5.0 | — | — | — |
| 9. ITEC | — | 13.0 | 13.0 | — | 27.6 | 27.6 | — | 11.8 | 11.8 | — | 9.7 | 9.7 |
| **Total** | **70.4** | **89.7** | **160.1** | **40.0** | **47.7** | **87.7** | **61.4** | **85.2** | **146.6** | **49.1** | **25.2** | **74.3** |

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.

**Table XI-18 : Aggregate Assistance Extended by India to other countries (Upto end-March 1989)**

(Rupees crores)

| Country/Programme | Authorisations | | | Utilisation | | | Amount undisbursed as at the end of March 1989 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 | 155.0 | 290.4 | 111.6 | 138.5 | 250.1 | 23.8 | 16.5 | 40.3 |
| 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 | 29.5 | — | 29.5 | 24.0 | — | 24.0 | 5.5 | — | 5.5 |
| 9. Mozambique | 8.1 | — | 8.1 | 7.6 | — | 7.6 | 0.5 | — | 0.5 |
| 10. Nepal | 91.9 | 309.1 | 401.0 | 84.8 | 277.1 | 361.9 | 7.1 | 32.0 | 39.1 |
| 11. Nicaragua | 12.5 | — | 12.5 | 7.3 | — | 7.3 | 5.2 | — | 5.2 |
| 12. Peoples' Deomocratic 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 | 70.2 | — | 70.2 | 24.2 | — | 24.2 |
| 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 | 150.3 | — | 150.3 | 139.1 | — | 139.1 | 11.2 | — | 11.2 |
| 18. Zambia | 5.8 | — | 5.8 | 5.8 | — | 5.8 | — | — | — |
| 19. Zimbabwe | 4.9 | — | 4.9 | 4.9 | — | 4.9 | — | — | — |
| 20. Assistance under ITEC | — | 102.0 | 102.0 | — | 82.9 | 82.9 | — | 19.1 | 19.1 |
| **Total** | **753.7** | **1,142.2** | **1,895.9** | **672.2** | **1,074.3** | **1,746.5** | **81.5** | **67.9** | **149.4** |

P : Provisional.

*Notes:* 1. Refer to notes to table XI-17.

2. Aid to Bangladesh does not cover the relief goods of the value of Rs. 17 crores supplied to that country in 1971-72.

the pipeline increased from Rs. 136 crores at end-March 1988 to Rs. 149 crores at end-March 1989. Of this, Bangladesh, Nepal and Sri Lanka accounted for 69 per cent.

## V. India's External Debt

The large current account deficits that emerged after the Second Oil shock and particularly since the beginning of the Seventh Plan had to be financed largely through inflow of capital from abroad by way of multilateral and bilateral assistance, commercial borrowings and non-resident deposits. As a result, India's external debt rose significantly during the past few years. India's medium and long-term external debt (other than non-resident deposits) rose from Rs. 13,430 crores ($ 16.4 billion) at end-March 1980 to Rs. 35,800 crores ($ 28.8 billion) at end-March 1985, the end of the Sixth Plan period, to nearly Rs. 55,000 crores ($ 42.3 billion) by the end of March 1988 and further to Rs. 69,681 crores ($ 44.6 billion) at end-March 1989 (Table XI-19).

As a per cent of GDP at current market prices, external debt went up from 11.7@ per cent at end-March 1980 to 17.8 per cent by end-March 1989. The debt-export (export of goods and invisibles) ratio rose sharply form 131 per cent in March 1980 to 218 per cent in March 1988. The debt-service ratio also has been rising in the past few years. The debt-service ratio i.e., ratio of debt-service payments exclusive of interest on non-resident deposits to current receipts (exports plus gross invisibles receipts) went up from around 8 per cent in 1979-80 to 13.6 per cent in 1984-85, to 24 per cent in 1987-88 (Table XI-20).

**Table XI-20 : Debt Service Ratio**

| Year | Debt Service Ratio* |
|---|---|
| 1984-85 | 13.6 |
| 1985-86 | 16 |
| 1986-87 | 22 |
| 1987-88 | 24 |
| 1988-89 | 25@@ |

* Debt-service payments, excluding those on NRI Deposits, as per cent of export of goods and invisibles other than official transfer receipts.
@@ Estimate.

**Table XI-19 : India's External Debt**
**(As at end-March)**

(Rupees crores)

| | 1980 | 1985 | 1986 | 1987 | 1988 | 1989 P |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. External assistance | 12,178 | 24,004 | 26,638 | 32,312 | 36,578 | 46,838 |
| 2. IMF | — | 4,888 | 5,271 | 5,548 | 4,732 | 3,696 |
| 3. External Commercial borrowings* | 1,252 | 6,908 | 8,075 | 11,243 | 13,543 | 19,147 |
| **Total (1+2+3)** | **13,430** | **35,800** | **39,984** | **49,103** | **54,853** | **69,681** |
| | **(16.392)** | **(28.801)** | **(32.542)** | **(37.982)** | **(42.344)** | **(44.576)** |

* : Including non-Government loans under external assistance.
P : Provisional.
*Note:* Figures in brackets indicate U.S. dollar billion.

## VI. Exchange Rate Developments

The exchange value of the rupee continues 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 changes that were effected during 1988-89 numbered 200, as against 140 in 1987-88. However, during the first quarter of current fiscal year 1989-90, the adjustments numbered

@ Based on the revised series of GDP.

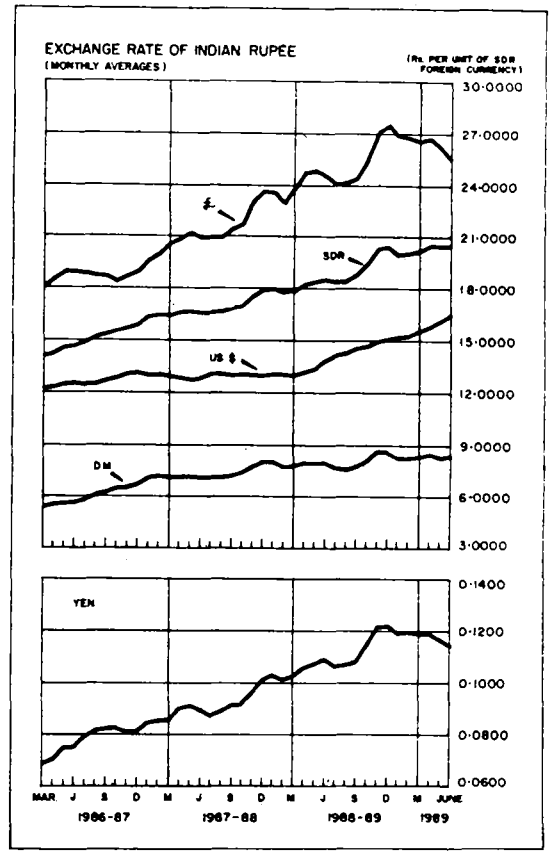
66, which were substantially higher than those of 37 made in the corresponding quarter of previous year. The month-wise data shows that while the largest number of adjustments took place in January 1989, a minimum of ten adjustments were made in May 1988.

Data on the annual averages in the rupee exchange rate vis-a-vis the SDR and currencies of important trading partners for the period 1984-85 to 1988-89 are given in Table XI-21. During the year, the rupee depreciated against the SDR and all the major currencies.

During 1988-89, the rupee deperciation with respect to the major currencies was the largest, in the case of yen, followed by pound sterling, the U. S. dollar and the D. M. In terms of annual averages, during 1988-89, the rupee depreciated further by 16.7 per cent against the yen, (as compared with 14.8 per cent during 1987-88) from Rs. 0.0941 per yen to Rs. 0.1130 per yen, followed by 13.7 per cent, (the same as in the preceding year) against the pound sterling, from Rs. 22.09 per pound sterling to Rs. 25.60 per pound sterling. The rupee depreciation against the U.S. dollar by 10.4 per cent during 1988-89 from Rs. 12.97 per U.S. dollar to Rs. 14.48 per U.S. dollar was substantially higher than the depreciation of 1.5 per cent in 1987-88. The rupee depreciated against the D.M. by 8.1 per cent during the year-from Rs. 7.40 per D.M. to Rs. 8.05 per DM as compared with a softening of 14.9 per cent in the preceding year. In relation to the SDR, the rupee depreciated by 11.1 per cent from Rs. 17.12 per SDR to Rs. 19.26 per SDR as compared with a depreciation of 9.8 per cent in 1987-88.

In respect of currencies of other developed countries (excepting the Canadian dollar), the rate of depreciation was lower during 1988-89, as compared with that in the preceding year. In the case of Canadian dollar, the rate of depreciation during 1988-89 was nearly three-fold as compared with that in 1987-88.

In regard to the currencies of developing countries, including some of the newly industrialising countries, the rupee weakened vis-a-vis Bangladesh Taka, Indonesian Rupiah, Pakistan Rupee and Sri Lankan Rupee, during 1988-89, as against its appreciation against all these currencies in the preceding year. Vis-a-vis Thailand Baht, South Korean Won, Singapore




Dollar and Hongkong Dollar, the rupee depreciation was much sharper during 1988-89 as compared with 1987-88.

Monthly averges in the rupee exchange rates against the four major currencies and the SDR for the period March 1987 to June 1989 are given in Table XI-22. These data show that in relation to the SDR, barring July 1988 and January 1989, the rupee ruled easy in all other months of fiscal year 1988-89. Between March 1988 and March 1989, the rupee depreciated against the SDR by 11.7 per cent as compared with a depreciation of 7.9 per cent in the corresposing period of the preceding year. The rupee continued to depreciate against the SDR during the first quarter of 1989-90, the extent of depreciation being 1.0 per cent, as compared with that of 3.9 per cent in the corresponding quater of 1988-89.

Against the U.S. dollar, the rupee generally ruled easy throughout 1988-89. Over the twelve

**Table XI-21 : Exchange Rate of the Indian Rupee**
**(Annual Averages)* (April-March)**

(Rupees per unit of SDR/foreign currency)

| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5. | 6 |
| SDR | 11.9328 | 12.9232 | 15.4472 | 17.1208 | 19.2619 |
| | | (-7.7) | (-16.3) | (-9.8) | (-11.1) |
| U.S. Dollar | 11.89 | 12.23 | 12.78 | 12.97 | 14.48 |
| | | (-2.8) | (-4.3) | (-1.5) | (-10.4) |
| £ stg. | 14.87 | 16.85 | 19.07 | 22.09 | 25.60 |
| | | (-11.8) | (-11.6) | (-13.7) | (-13.7) |
| D.M. | 3.99 | 4.56 | 6.30 | 7.40 | 8.05 |
| | | (-12.5) | (-27.6) | (-14.9) | (-8.1) |
| Yen | 0.0487 | 0.0562 | 0.0802 | 0.0941 | 0.1130 |
| | | (-13.3) | (-29.9) | (-14.8) | (-16.7) |
| French Franc | 1.3006 | 1.4908 | 1.9290 | 2.2035 | 2.3703 |
| | | (-12.8) | (-22.7) | (-12.5) | (-7.0) |
| Canadian Dollar | 9.0066 | 8.8892 | 9.3095 | 9.9139 | 11.9597 |
| | | (+1.3) | (-4.5) | (-6.1) | (-17.1) |
| Swiss Franc | 4.7797 | 5.4688 | 7.6068 | 8.9791 | 9.5672 |
| | | (-12.6) | (-28.1) | (-15.3) | (-6.1) |
| Italian Lira | 0.0065 | 0.0068 | 0.0091 | 0.0102 | 0.0109 |
| | | (-4.4) | (—25.3) | (-10.8) | (-6.4) |
| Netherlands Guilder | 3.5362 | 4.0426 | 5.1506 | 6.5760 | 7.1438 |
| | | (-12.5) | (-21.5) | (-21.7) | (-7.9) |
| Bangaladesh Taka | 0.4702 | 0.4316 | 0.4282 | 0.4242 | 0.4636 |
| | | (+8.9) | (+0.8) | (+0.9) | (-8.5) |
| Thailand Baht | 0.4853 | 0.4642 | 0.4941 | 0.5146 | 0.5750 |
| | | (+5.2) | (-6.7) | (-4.0) | (-10.5) |
| Indonesian Rupiah | 0.0113 | 0.0109 | 0.0093 | 0.0078 | 0.0085 |
| | | (+3.7) | (+17.2) | (+19.2) | (-8.2) |
| South Korean Won | 0.0145 | 0.0139 | 0.0147 | 0.0162 | 0.0205 |
| | | (+4.3) | (-5.4) | (-9.3) | (-21.0) |
| Sri Lankan Rupee | 0.4656 | 0.4508 | 0.4562 | 0.4352 | 0.4487 |
| | | (+3.3) | (-1.2) | (+4.8) | (-3.0) |
| Pakistan Rupee | 0.8295 | 0.7773 | 0.7641 | 0.7517 | 0.7907 |
| | | (+6.7) | (+1.7) | (+1.6) | (-4.9) |
| Singapore Dollar | 5.4968 | 5.6167 | 5.8807 | 6.2583 | 7.2868 |
| | | (-2.1) | (-4.5) | (-6.0) | (-14.1) |
| Hongkong Dollar | 1.5211 | 1.5721 | 1.6413 | 1.6615 | 1.8558 |
| | | (-3.2) | (-4.2) | (-1.2) | (-10.5) |
| Malaysian Ringgit | 4.9651 | 4.9803 | 4.9327 | 5.1469 | 5.4534 |
| | | (-0.3) | (+1.0) | (-4.2) | (-5.6) |

* Based on monthly averages.

*Notes:* 1. The SDR rate is as given in the IMF Survey. For 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.

**Table XI-22 : Exchange Rate of the Indian Rupee**
**(Monthly Average)**

(Rupees per unit of SDR/foreign currency)

| Month/Year | SDR | U.S. $ | £ | D.M. | Yen |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| March 1987 | 16.4212 | 12.9334 | 20.5965 | 7.0483 | 0.0854 |
| **1987-88** | | | | | |
| April | 16.5453 | 12.8027 | 20.8851 | 7.0699 | 0.0896 |
| May | 16.5525 | 12.7030 | 21.1658 | 7.1036 | 0.0904 |
| June | 16.5140 | 12.8503 | 20.9345 | 7.0691 | 0.0890 |
| July | 16.5349 | 13.0306 | 20.9714 | 7.0516 | 0.0867 |
| August | 16.6127 | 13.0857 | 20.9109 | 7.0493 | 0.0887 |
| Steptember | 16.8143 | 13.0111 | 21.4110 | 7.1815 | 0.0909 |
| October | 16.9199 | 13.0638 | 21.7094 | 7.2650 | 0.0912 |
| November | 17.5254 | 12.9715 | 23.0452 | 7.7196 | 0.0959 |
| December | 17.8898 | 12.9466 | 23.6586 | 7.9211 | 0.1008 |
| January | 17.9902 | 13.0846 | 23.6033 | 7.9307 | 0.1027 |
| February | 17.7217 | 13.0605 | 22.9616 | 7.7001 | 0.1011 |
| March | 17.8284 | 12.9793 | 23.7897 | 7.7435 | 0.1021 |
| | [-7.89] | [-0.35] | [-13.42] | [-8.98] | [-16.36] |
| **1988-89** | | | | | |
| April | 18.2386 | 13.1778 | 24.7439 | 7.8825 | 0.1055 |
| | (-2.25) | (-1.51) | (-3.86) | (-1.76) | (-3.22) |
| May | 18.3232 | 13.3206 | 24.9016 | 7.8631 | 0.1068 |
| | (-0.46) | (-1.07) | (-0.63) | (+0.25) | (-1.22) |
| June | 18.5573 | 13.8269 | 24.5718 | 7.8700 | 0.1086 |
| | (-1.26) | (—3.66) | (+1.34) | (-0.09) | (-1.66) |
| July | 18.4011 | 14.1010 | 24.0338 | 7.6412 | 0.1060 |
| | (+0.85) | (-1.94) | (+2.24) | (+2.99) | (+2.45) |
| August | 18.4104 | 14.2484 | 24.1838 | 7.5414 | 0.1065 |
| | (-0.05) | (-1.03) | (-0.62) | (+1.32) | (-0.47) |
| September | 18.7541 | 14.4984 | 24.4153 | 7.7689 | 0.1079 |
| | (-1.83) | (-1.72) | (-0.95) | (-2.93) | (-1.30) |
| October | 19.4342 | 14.6847 | 25.5206 | 8.0810 | 0.1140 |
| | (-3.50) | (-1.27) | (-4.33) | (-3.86) | (-5.35) |
| November | 20.3269 | 14.9571 | 27.0739 | 8.5636 | 0.1215 |
| | (-4.39) | (-1.82) | (-5.74) | (-5.64) | (-6.17) |
| December | 20.4069 | 15.0369 | 27.4755 | 8.5708 | 0.1218 |
| | (-0.39) | (-0.53) | (-1.46) | (-0.08) | (-0.25) |
| January | 20.0137 | 15.1667 | 26.9027 | 8.2615 | 0.1191 |
| | (+1.96) | (-0.86) | (+2.13) | (+3.74) | (+2.27) |
| February | 20.0779 | 15.2482 | 26.7423 | 8.2408 | 0.1195 |
| | (-0.32) | (-0.53) | (+0.60) | (+0.25) | (-0.33) |
| March | 20.1989 | 15.5137 | 26.5858 | 8.3083 | 0.1190 |
| | (-0.60) | (-1.71) | (+0.59) | (-0.81) | (+0.42) |
| | [-11.74] | [-16.34] | [-10.52] | [-6.80] | [-14.20] |
| **1989-90** | | | | | |
| April | 20.4582 | 15.7115 | 26.7237 | 8.4063 | 0.1190 |
| | (-1.27) | (-1.26) | (-0.52) | (-1.17) | (-) |
| May | 20.4155 | 16.0957 | 26.2151 | 8.2690 | 0.1167 |
| | (+0.21) | (-2.39) | (+1.94) | (+1.66) | (+1.97) |
| June | 20.4079 | 16.4349 | 25.5284 | 8.3079 | 0.1141 |
| | (+0.04) | (-2.06) | (+2.69) | (-0.47) | (+2.28) |
| | [-1.02] | [-5.61] | [+4.14] | [-] | [+4.29] |

*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.

month period, between March 1989 and March 1988, the rupee depreciated by 16.34 per cent as compared with the depreciation of a mere 0.35 per cent in the corresponding period of the preceding year. During the first quarter of 1989-90, the depreciation of rupee (5.6 per cent) was lower than that (6.1 per cent) in the corresponding quarter of the preceding year.

Against the pound sterling, the rupee depreciated by 10.52 per cent during 1988-89 over the twelve-month basis as compared with that of 13.42 per cent in the corresponding period of 1987-88. There were, however, wide fluctuations between months, the rupee hardening during June and July 1988 and January to March 1989. During April-June 1989, the first quarter of 1989-90, the rupee appreciated by 4.1 per cent as compared with an appreciation of 3.2 per cent in the corresponding quarter of 1988-89.

In relation to the DM, the rupee weakened by 6.80 per cent between March 1988 and March 1989, as compared with the weakening of 8.98 per cent in the preceding year. As in the case of pound sterling, the exchange rate showed month-wise fluctuations in case of DM also. While rupee hardened against the DM during May, July, August 1988 and January and February 1989, it weakened during the remaining months. During the first quarter of 1989-90 the rupee remained more or less stable as compared with a depreciation of 1.6 per cent in the corresponding quarter of 1988-89.

Against the yen, the depreciation of rupee was by 14.20 per cent during March 1988 to March 1989, somewhat lower than that of 16.36 per cent during the same twelve month period of the preceding year. Barring July 1988 and January and March 1989, the rupee-Yen exchange rate ruled easy in all other months of 1988-89. During the first quarter of 1989-90, the rupee hardened by 4.29 per cent as against a deperciation of 6.0 per cent in the corresponding quarter of the preceding year.

During 1988-89, the rupee-rouble rate in respect of credit agreements and commercial transactions was changed four times i.e. June 5, October 7, October 24 and November 20, 1988. The exchange rate of the rupee against rouble varied between Rs. 15.86 (end-March 1988) and Rs. 18.11 (end-March 1989) during the year, showing a depreciation of 12.4 per cent as compared with a depreciation of 6.7 per cent in the corresponding period of the preceding year.

## VII. International Monetary Developments

The world economic situation showed a marked improvement during 1988. Global output expanded by 4.0 per cent, almost 1 percentage point higher than that in 1987. The volume of world trade increased by 9.0 per cent, the fastest annual rate of expansion in the eighties so far. Much of these outcomes is reflected in the strengthening of output in industrial countries, the spill-over effects of which on many developing countries, particularly the exporters of manufactures, had been generally favourable. The rate of output growth in developing countries was thus higher at 4.2 per cent compared with the 3.6 per cent recorded in 1987. Exports of these countries picked up. The prices of non-oil primary commodities too showed improvement. The aggregate debt-to-export ratio of developing countries moved down from 159 per cent in 1987 to 140 per cent in 1988.

Notwithstanding these positive outcomes, there persist several areas of concern. The inflation rate in industrial countries, moderate though, has shown a rise from 3.0 per cent in 1987 to 3.3 per cent in 1988. Moreover, in many industrial countries, the rate of expansion in domestic demand was higher than the output growth rate, touching off the need to maximize capacity utilization. The over heating of these economies posed a threat of revival of inflationary conditions. In order to minimize the threat of inflationary pressures, monetary conditions were tightened in several industrial countries, thereby reversing the fall in world interest rates that took place during 1984-87. Such a policy response has implications for the stability of exchange rates of major industrial countries and the management and servicing of external debt of a number of developing countries.

Yet another source of concern had been the persistence of large external imbalances of the three largest industrial countries - U.S.A., Japan and West Germany-despite considerable policy coordination towards stabilisation of exchange rates among the major currencies and fiscal consolidation. These imbalances are expected to remain large in the medium-term, which would imply pressures for further protectionist tendencies and involve risk of instability in financial markets.

As regards developing countries, the main issues that need to be addressed are: enhancement of external financial inflows, raising of the

rate of domestic savings, increasing productive efficiency and improving the external environment as reflected in changes in terms of trade, interest rates, and real exchange rates. These issues, it is widely recognised, could be tackled not only by the developing countries themselves through adoption of appropriate domestic policies but also by the international financial and donor community at large.

The world output growth in 1989 is, according to the IMF, expected to slowdown to 3.1 per cent in 1989 as compared with 4.0 per cent in 1988. This slowdown would be reflected in the moderation of growth in both industrial and developing countries. While industrial countries' output growth rate is expected to be 3.5 per cent in 1989 against 4.4 per cent in 1988, that of developing countries is expected to decline from 4.2 per cent in 1988 to 3.2 per cent in 1989. Growth in the volume of world trade is also expected to slow down to 6.9 per cent in 1989 as against 9.0 per cent in 1988. The current account deficit of the industrial countries is expected to widen to $78 billion in 1989, while that of developing countries is projected to be $7 billion as against $9 billion in 1988.

**Domestic Activity**

**Industrial Countries**

The rate of expansion in output in industrial countries was higher in 1988 at 4.4 per cent than that of 3.5 per cent in 1987. All the seven major industrial countries with the exception of the United Kingdom recorded improvement in the growth rates. The increase in the rate of growth during 1988 could be attributed to the continued weakness of oil prices, rapid expansion of investment leading to some alleviation of capacity constraints and the favourable long-run effects of structural reforms that has improved the efficiency of resource allocation, and raised the level of potential output.

For 1989, the IMF staff projections indicate a deceleration in the growth rate to 3.5 per cent from 4.4 per cent in 1988. The order of output expansion in all the major countries is expected to decelerate.

In spite of the strengthening of economic activity during 1988, consumer prices in the industrial countries recorded a slightly larger rate of increase — 3.3 per cent as against 3.0 per cent in 1987 although it was still moderate. A major reason for such a moderation in price performance has been the absence of significant pressures on labour costs in many countries. The IMF document projects a slight increase in inflation rates in several industrial countries in 1989-90 as the demand stimulus continues, even as the earlier exchange rate appreciations in the case of Japan and Federal Republic of Germany diminish.

Reflecting the strengthening of economic activity in industrial countries, the volume of world trade expanded by 9.0 per cent in 1988 which may be considered as the strongest performance in this decade so far. For the years 1989 and 1990, however, only a moderate expansion of 6-7 per cent is projected, as activity during these years is anticipated to slow-down. The expansion in trade in 1988 was due mainly to buoyant import demand in the major industrial countries. Japanese imports rose by about 17 per cent during that year and are projected to grow by 6.6 per cent and 7.7 per cent during the next two years. Import growth in United Kingdom during 1988 was high at 12.8 per cent. The increase in U.S. imports was 7.0 per cent. Though exports from the U.S.A. expanded by about 24 per cent in 1988, these are projected to slow down to 12.5 per cent and 7.1 per cent during the next two years. In 1988, the U.S. exports accounted for approximately one-third of the increase in world trade. Exporters in Japan and, to a lesser extent, in West Germany lost market shares in 1988.

The sizeable shifts in export performance of the U.S.A. vis-a-vis Japan and West Germany led to a substantial narrowing of the trade imbalances mainly of Japan and the U.S.A. in real terms. The current account surplus of Japan fell to 2.8 per cent of GNP in 1988 (from 3.6 per cent in 1987) and the U.S. current account deficit fell to 2.6 per cent of GNP (from 3.2 per cent in 1987).

The efforts to stabilize exchange rates of major currencies had greater success in 1988 than in the previous year. This may be attributed in part to the substantial official intervention in foreign exchange markets and in part to the change in the market sentiment in favour of the U.S. dollar. In the European Monetary System, parities were maintained by interest rate adjustments as well as exchange market

intervention on a joint basis and partly on account of convergence of inflation rates. Aggregate official reserve accumulation was minimal in 1988 which reflected the return to private financing of payments imbalances. The real effective exchange rates of most developing countries appreciated in 1988.

As regards economic policies in industrial countries, monetary policy took the main burden of short-run macro-economic management in 1988.

In recent years, monetary policy in the major industrial countries has faced the difficult task of balancing two separate objectives, viz., maintaining conditions conducive to a non-inflationary expansion of domestic activity and promoting the exchange rate objectives established under the international co-operative process. The tightening of global monetary conditions that began in 1987 except the period following the stock market correction in October 1987 has been reflected in the behaviour of interest rates rather than in the pattern of monetary aggregates. Short-term interest rates increased in most industrial countries during 1988 with the increases in the United States, United Kingdom and Canada being more pronounced. By August 1989 the rates moved further upwards in these countries, this time accompanied by steep increases in West Germany and European countries within and outside the European Monetary System. In contrast to the sharp increases in short-term rates, long-term interest rates remained remarkably stable during 1988 but during 1989 these rates have weakened. However, the differentials between long and short-term interest rates were considerably less in 1988 than they had been at the end of 1987 in most countries.

In 1988, the targetted U.S. monetary aggregates for $M_2$ and $M_3$ were held within their designated range while the Bundesbank of Germany exceeded its target for $M_3$ by less than 1 per cent. Money stock continued to expand rapidly in Japan during 1988 though at a somewhat slower pace than in 1987. Both the United States and Germany have set targets for monetary growth during 1989. The Bundesbank has established a growth rate of about 5 per cent for $M_3$ for 1989. As has been the practice, Japan has not adopted any formal monetary target while the U.S.A. has specified objectives of 3 to 7 per cent for $M_2$ and 3.5 per cent to 7.5 per cent for $M_3$ growth during 1989.

Fiscal policy made less progress toward medium-term consolidation in 1988 than in the previous years. The Federal Budget deficit widened slightly in dollar terms in fiscal year (FY) 1988 ended September 1988 in the U.S.A. and exceeded the revised Gramm-Rudman-Hollings (GRH) target by $ 11 billion. The deficit is expected to overshoot the GRH target by $ 12 billion in FY 1989. For FY 1990, the April bipartison budget agreement is aimed at achieving budgetary savings consistent with GRH target of $ 100 billion for that fiscal year.

Japan's fiscal policy succeeded in reducing its deficit to 1.7 per cent of GNP in 1988 despite a discretionary cut in personal income taxes while providing support to domestic demand as also making further progress toward fiscal consolidation. The most important development during 1988 was the introduction of a consumption tax aimed at reducing the reliance on direct taxes. This tax formed a part of a comprehensive tax reform package introduced in 1988.

**Developing Countries**

The growth rate of developing countries in terms of real GDP accelerated faster than previously expected, to record 4.2 per cent in 1988 from 3.6 per cent in 1987. The expansion of output, the highest since 1980, reflected buoyant exports and, in a number of countries, stimulus in domestic demand.

The strong growth performance was, however, concentrated mainly in Asian countries, more particularly, in the newly industrializing economies. In most countries with large debt servicing problems, particularly in the Western Hemisphere and sub-Saharan Africa, economic activity was weaker in 1988, in spite of relatively strong expansion of exports. As regards fuel-exporting countries, they continued to be affected by large terms of trade losses in recent years, occuring due to sharp oil price declines.

The strong expansion of exports and domestic demand boosted growth in several developing countries in Asia including Malaysia, Thailand and India which successfully expanded their manufacturing export base in recent years. In the case of China, the rapid growth of output and

investment could be attributed to the gradual economic liberalisation that has been taking place in recent years. In India, economic activity rebounded strongly after a drought-related slowdown in 1987. For the Asian developing countries, as a group, real GDP growth was 9.2 per cent in 1988 as compared with 7.9 per cent in 1987. Output in developing countries is projected to expand at the rate of 3.2 per cent in 1989 and 4.0 per cent in 1990.

The weighted average rates of inflation in the developing countries increased sharply in 1988 to 70.8 per cent from 41.6 per cent in 1987. Much of the increase took place in a relatively small number of high-inflation countries - notably Argentina and Brazil. Inflationary pressures increased in several other countries, for instance, in Turkey, (reflecting expansionary fiscal policy), Poland and China (due to price liberalisation). However, the inflation rate is projected to further increase in 1989 to 85.5 per cent after which it would decline to 36.3 per cent in 1990 as stabilization programmes are expected to be undertaken by a number of Western Hemisphere countries (viz., Mexico, Brazil, and Argentina), and with the tightening of financial policies in many other developing countries.

The combined current account position of the developing countries moved into a deficit of $ 9.1 billion in 1988 from a small surplus in 1987. Exports of the fuel-exporting countries rose by 11.6 per cent in volume terms as against 1.5 per cent in 1987, but mainly owing to fall in the price of oil, exports in value terms declined by 2 per cent as against the rise of 21.8 per cent in 1987. The volume of exports of non-fuel exporting countries also increased but by a lower order of 10.7 per cent in 1988 as against 15.0 per cent in 1987. In value terms,these countries showed gains in export receipts by 19.3 per cent in 1988 as against 22.5 per cent in 1987. However, the developing countries as a group registered a terms of trade loss of 3.5 per cent as against a rise of 1.8 per cent in 1987. The market price of non-oil primary commodities showed considerable gains, while the oil price declined by as much as 20 per cent in contrast to a rise of 28 per cent in 1987.

**International Trade and Payments**

The volume of world trade, which showed an appreciable acceleration from 4.5 per cent in 1986 to 6.6 per cent in 1987, strengthened further in 1988 to 9.0 per cent. The performance in 1988, the strongest in this decade, was over 3 percentage points higher than the average of 5.7 per cent for the 1970s. The factors which played an important role in the acceleration of world trade were the buoyant demand conditions in the largest industrial countries, acceleration in exports of fuel-exporting countries, and strong import growth in developing countries that are engaged in exports of manufactures.

The rise in the volume of world trade was reflected in the increase in the volumes of both exports and imports of industrial as well as developing countries. The volume of exports of industrial countries increased by 8.9 per cent during 1988 as compared with 5.5 per cent in 1987. In the case of developing countries as a group, the expansion in exports in 1988 was slightly lower at 10.9 per cent, than the 11.2 per cent recorded in 1987. Among developing countries, fuel-exporting countries achieved a significant rise of 11.6 per cent in exports as against only 1.5 per cent in 1987. However, exports of non-fuel exporting countries showed a decline to 10.7 per cent in 1988 from 15.0 per cent in 1987. While real exports of non-fuel exporters of manufactures decelerated, those of primary product exporters accelerated. In particular, countries which are exporters of agricultural products recorded a growth of 4.8 per cent in their exports in 1988 as compared with 3.7 per cent in 1987.

Growth in the volume of imports of both industrial countries and developing countries showed significant increases of 9.5 per cent and 10.2 per cent, respectively, in 1988 as against 7.3 per cent and 5.7 per cent, respectively, in 1987. The increase in imports of developing countries was accounted by all regions. Developing countries of Asia, Europe and Western Hemisphere recorded increases in imports of 17.3 per cent, 2.0 per cent and 4.5 per cent, respectively, in 1988 as against 14.8 per cent, 1.2 per cent and 3.7 per cent, respectively, in 1987. The African region showed a positive expansion of 6.1 per cent in imports in 1988 as against the negative growth rate of 4.7 per cent in 1987. In the case of Middle East countries, in the developing countries group, import volume rose marginally by 0.7 per cent in 1988 as against a decline of 6.2 per cent in 1987.

With the anticipated slowdown in activity in 1989, the growth in world trade is expected to moderate to 6.9 per cent from 9.0 per cent in 1988. Export growth of industrial countries is projected to decelerate from 8.9 per cent in 1988 to 7.4 per cent in 1989 and that of developing countries from 10.9 per cent to 6.6 per cent. The expected deceleration in the growth of exports of industrial countries is likely to be particularly sharper in the cases of Canada and United States. In respect of developing countries, it is expected that exports of countries in Asia, Middle East and Western Hemisphere would register sharp declines.

Imports of industrial countries are also expected to increase at a lower pace of 6.4 per cent in 1989, as against 9.5 per cent in 1988, while import growth of developing countries is projected to decelerate from 10.2 per cent in 1988 to 8.7 per cent in 1989. All predominant exporters, with the exception of fuel-exporting countries, are expected to reduce their imports in 1989.

The terms of trade of industrial countries and non-fuel exporting countries showed improvement in 1988. On the other hand, the terms of trade of fuel-exporting countries declined sharply in contrast to the improvement in 1987. For the year 1989, a decline is expected in the terms of trade of industrial countries. In the case of developing countries, the terms of trade are projected to turn favourable in 1989.

Non-oil commodity prices increased sharply by 18.2 per cent during 1988 from 3.4 per cent in 1987. All the four major commodity groups - food, beverages, agricultural commodities and minerals and metals - recorded increases of 25.3 per cent, 0.2 per cent, 8.2 per cent and 40.3 per cent, respectively. The sharp increase in non-oil commodity prices during 1988 was due to both cyclical and supply related factors. The increase in food prices may be ascribed to the severe drought in North America and a poor crop in Soviet Union. Prices of metals rose sharply as strong industrial demand depleted inventories. The prices of agricultural raw materials also responded to the overall strength of economic activity. However, non-oil commodity prices are expected to decline by 1.7 per cent during 1989.

The current account deficit of industrial countries widened further during 1988 to $ 54.4 billion from $ 36.3 billion in 1987, due mainly to strong domestic demand, significant autonomous capital flows and losses of external competitiveness. The current account deficit of U.K. in particular showed a sharp deterioration from $ 6.0 billion in 1987 to $ 26.0 billion in 1988. Japan also experienced a deterioration in its current account, its surplus showing a decline from $ 87.0 billion in 1987 to $ 79.6 billion in 1988.

The current account deficit of industrial countries is projected to rise to $ 77.6 billion in 1989. Country-wise, the current account deficits of the U.S., Canada and U.K. are expected to be at $ 125.1 billion, $ 15.8 billion and $ 30.6 billion, respectively. The current account position of Japan would show a lower surplus of $ 72 billion while that of Germany will show a larger surplus of $ 53.4 billion in 1989.

The combined current account position of developing coutries moved into a deficit of $ 9.1 billion in 1988 from a position of small surplus in 1987†. The deficit on current account of fuel exporting countries widened from $ 3.6 billion in 1987 to $ 19.1 billion in 1988. In the case of non-fuel exporting countries, the surplus on current account which stood at $ 7.8 billion in 1987 increased to $ 10 billion in 1988.

The current account deficit of developing countries is expected to be lower at $ 7.3 billion in 1989. The external surplus of the exporters of manufactured goods is projected to diminish, partly on the assumption that the Newly Industrialising Asian Economies will intensify efforts to limit their surpluses through continued import liberalisation, flexible exchange rate management and support of domestic demand expansion. Other non-fuel exporters are expected to experience a widening of their deficits due to moderation of export growth and less favourable terms of trade. The non-fuel exporting countries are thus expected to show a deficit on current account of $ 2.1 billion in 1989 as against a surplus of $ 10.0 billion in 1988. The

† The combined current account balances of industrial countries and developing countries show large discrepancies due to errors and omissions and asymmetries reported in balance of payments statistics on current account. The Report of IMF's Working Party on World Current Account Discrepancy (September 1987) has identified the main factors responsible for the discrepancy and efforts are being made to reduce the discrepancies.

deficit on current account of fuel exporting countries is, however, expected to be reduced from $ 19.1 billion in 1988 to $ 5.2 billion in 1989.

The current account deficits of the developing countries are mainly financed with the help of long-term external borrowings from official creditors even though the flows under this category declined considerably in 1988. Net long-term borrowings from official creditors declined to $ 18.3 billion in 1988 from $ 22.0 billion in 1987. The non-debt creating flows comprising official transfers and direct investment declined by $ 5.5 billion to $ 30.5 billion in 1988. The net use of Fund resources continued to be negative in 1988 and was of the order of $ 5.0 billion. Further, net borrowing from commercial banks was also negative in 1988 ($ 7.5 billion).

**Resource Flows**

The flow of financial resources to developing countries rose in nominal terms from $ 97 billion in 1987 to $ 102 billion in 1988, but the rate of increase during 1988 at 5.2 per cent was less than one-half of the increase of 15.4 per cent in 1987. At 1987 constant prices and exchange rates, total resource flows came down marginally from $ 97 billion in 1987 to $ 95 billion in 1988. It may be significant to note that resource flows, in real terms, had shown a steady decline since 1981, except for a marginal increase in 1987.

Net disbursements of Official Development Assistance from the countries of the Development Assistance Committee (DAC) rose by 16.2 per cent from $ 41.4 billion in 1987 to $ 48.1 billion in 1988. In real terms, net disbursements increased by 8.2 per cent in 1988, as against a marginal decline of 1.9 per cent in 1987.

ODA as per cent of Gross National Product (GNP) for all the DAC countries as a group improved marginally from 0.34 per cent in 1987 to 0.36 per cent in 1988. However, it continued to be far below the UN target of 0.7 per cent. Among DAC countries, Norway (1.10 per cent), Netherlands (0.98 per cent), Denmark (0.89 per cent), Sweden (0.87 per cent) and France (0.72 per cent) exceeded the UN target, while in regard to other countries, ODA assistance ranged between 0.20 per cent (Ireland) and 0.59 per cent (Finland) of GNP (Table XI-23).

**Table XI-23 : ODA Assistance by DAC Countries**

(Per cent of GNP)

| | 1986 | 1987 | 1988 |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| Australia | 0.47 | 0.34 | 0.47 |
| Austria | 0.21 | 0.17 | 0.24 |
| Belgium | 0.48 | 0.48 | 0.40 |
| Canada | 0.48 | 0.47 | 0.49 |
| Denmark | 0.89 | 0.88 | 0.89 |
| Finland | 0.45 | 0.49 | 0.59 |
| France | | | |
| incl. DOM/TOM@ | 0.70 | 0.74 | 0.72 |
| excl. DOM/TOM@ | 0.44 | 0.51 | 0.50 |
| Germany | 0.43 | 0.39 | 0.39 |
| Ireland | 0.28 | 0.19 | 0.20 |
| Italy | 0.40 | 0.35 | 0.39 |
| Japan | 0.29 | 0.31 | 0.32 |
| Netherlands | 1.01 | 0.98 | 0.98 |
| New Zealand | 0.30 | 0.26 | 0.27 |
| Norway | 1.17 | 1.09 | 1.10 |
| Sweden | 0.85 | 0.88 | 0.87 |
| Switzerland | 0.30 | 0.31 | 0.32 |
| United Kingdom | 0.31 | 0.28 | 0.32 |
| United States | 0.23 | 0.20 | 0.21 |
| **Total DAC** | **0.35** | **0.34** | **0.36** |

@ DOM/TOM : Flows to the Overseas Departments and Territories

There was a positive flow of export credits to the tune of $ 3.0 billion for the first time since 1985. As in 1987, new export credit disbursements amounted to about $ 20 billion.

Foreign direct investment which increased substantially by $ 8.9 billion to $ 20.2 billion in 1987 declined marginally to $ 19.0 billion in 1988. Net bank lending which had improved marginally to $ 5.6 billion in 1987 after an all time low of $ 5.0 billion in 1986 declined to $ 4.7 billion in 1988. Bond lending, on the other hand, increased modestly to $ 1.6 billion in 1988 from $ 1.0 billion in 1987. Grants by private voluntary organisations went up from $ 3.3 billion in 1987 to $ 3.6 billion in 1988, accounting for 11 per cent of total private capital flows as against less than 4 per cent in 1980 (Table XI-24).

**Table XI-24 : Total Net Resource Flows to Developing Countries (a)**

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1980 | 1985 | 1988 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| | | | | | **Current $ billion** | | | | | **Per cent of total** | | |
| I. OFFICIAL DEVELOPMENT FINANCE (ODF) | 45.6 | 45.6 | 44.3 | 42.4 | 47.7 | 49.0 | 56.1 | 61.7 | 65.7 | 35.5 | 58.5 | 64.7 |
| 1. Official Development Assistance (ODA) | 37.8 | 36.9 | 34.0 | 33.9 | 35.0 | 37.4 | 44.3 | 48.4 | 51.0 | 29.5 | 44.6 | 50.5 |
| of which: Bilateral disbursements | 30.0 | 29.0 | 26.4 | 26.3 | 27.2 | 28.9 | 34.8 | 38.3 | 40.0 | 23.4 | 34.5 | 39.4 |
| Multilateral disbursements | 7.8 | 7.9 | 7.6 | 7.6 | 7.8 | 8.5 | 9.5 | 10.1 | 11.3 | 6.1 | 10.1 | 11.1 |
| 2. Other ODF | 7.8 | 8.7 | 10.3 | 8.5 | 12.7 | 11.6 | 11.8 | 13.3 | 14.4 | 6.1 | 13.8 | 14.2 |
| of which: Bilateral disbursements | 3.0 | 3.0 | 3.7 | 1.3 | 4.5 | 3.7 | 4.0 | 6.6 | 8.0 | 2.3 | 4.4 | 7.9 |
| Multilateral disbursements | 4.8 | 5.7 | 6.6 | 7.2 | 8.2 | 7.9 | 7.8 | 6.7 | 6.4 | 3.7 | 9.4 | 6.3 |
| II. TOTAL EXPORT CREDITS | 16.5 | 17.6 | 13.7 | 4.6 | 6.2 | 4.0 | -0.6 | -0.7 | 3.0 | 12.9 | 4.8 | 2.9 |
| 1. DAC Countries | 15.4 | 16.2 | 12.7 | 3.9 | 5.2 | 3.4 | -0.8 | -1.0 | 2.6 | 12.0 | 4.1 | 2.6 |
| of which: Medium and long-term | 13.6 | 13.3 | 9.7 | 7.4 | 4.9 | 0.2 | -3.8 | -5.1 | -1.0 | | | |
| Short-term | 1.8 | 2.9 | 3.0 | -3.5 | 0.3 | 3.2 | 3.0 | 4.1 | 3.6 | | | |
| 2. Other Countries | 1.1 | 1.4 | 1.0 | 0.7 | 1.0 | 0.6 | 0.2 | 0.3 | 0.4 | 0.9 | 0.7 | 0.4 |
| III. PRIVATE FLOWS | 66.2 | 74.5 | 58.3 | 48.1 | 31.7 | 30.8 | 28.2 | 35.6 | 32.9 | 51.6 | 36.8 | 32.4 |
| 1. Direct Investment (OECD) | 11.2 | 17.2 | 12.8 | 9.3 | 11.3 | 6.6 | 11.3 | 20.2 | 19.0 | 8.7 | 7.9 | 18.7 |
| of which: Offshore Centres | 3.0 | 4.1 | 4.1 | 3.7 | 3.8 | 3.7 | 6.8 | 12.0 | .. | | | |
| 2. International bank lending | 49.0 | 52.0 | 37.6 | 34.7 | 16.4 | 13.6 | 5.0 | 5.6 | 4.7 | 38.2 | 16.2 | 4.6 |
| of which: Short-term | 26.0 | 22.0 | 15.0 | -25.0 | -6.0 | 12.0 | -4.0 | 5.0 | .. | | | |
| 3. Total bond lending | 1.6 | 1.5 | 5.0 | 1.2 | 0.3 | 4.8 | 3.3 | 1.0 | 1.6 | 1.2 | 5.7 | 1.6 |
| 4. Other private | 2.0 | 1.8 | 0.6 | 0.6 | 1.1 | 2.9 | 5.3 | 5.5 | 4.0 | 1.6 | 3.5 | 3.9 |
| 5. Grants by non-governmental organisations | 2.4 | 2.0 | 2.3 | 2.3 | 2.6 | 2.9 | 3.3 | 3.3 | 3.6 | 1.9 | 3.5 | 3.5 |
| TOTAL NET RESOURCES FLOWS (I+II+III) | 128.3 | 137.7 | 116.3 | 95.1 | 85.6 | 83.8 | 83.7 | 96.6 | 101.6 | 100.0 | 100.0 | 100.0 |
| Related Data: | | | | | | | | | | | | |
| Use of IMF credit, net | 2.6 | 6.1 | 6.3 | 12.5 | 5.4 | 0.8 | -1.4 | -4.7 | -4.3 | | | |
| Interest and dividends paid by LDCs, gross | 63.6 | 86.4 | 94.0 | 80.6 | 86.8 | 88.7 | 76.2 | 74.7 | 86.0 | | | |
| | | | | | **At 1987 prices and exchange rates** | | | | | | | |
| Total Net Resources Flows | 169.4 | 188.9 | 163.5 | 134.1 | 123.4 | 119.4 | 96.3 | 96.6 | 94.8 | | | |
| Total Official Development Finance | 60.2 | 62.6 | 62.3 | 59.8 | 68.8 | 69.8 | 64.5 | 61.7 | 61.3 | | | |
| Total ODA receipts from all sources | 49.9 | 50.6 | 47.8 | 47.8 | 50.4 | 53.3 | 51.0 | 48.4 | 47.6 | | | |
| Private flows | 87.4 | 102.2 | 82.0 | 67.8 | 45.7 | 43.9 | 32.4 | 35.6 | 30.7 | | | |
| Total DAC ODA (bilateral and multilateral) | 36.0 | 35.1 | 39.1 | 38.9 | 41.4 | 41.9 | 42.2 | 41.5 | 44.8 | | | |

@ Excluding Taiwan. Flows from all sources, i.e. including DAC, CMEA, Arab and other LDC donors.
*Source:* OECD Development Co-operation 1989 Report.

**Policy on Enlarged Access to Fund Resources**

The policy on enlarged access to Fund resources became operative in 1981. The purpose of the enlarged access policy is to enable the Fund to provide additional financing from borrowed resources, in conjunction with the Fund's ordinary resources, to members, with serious payments deficits that are large in relation to their quotas, for undertaking economic and financial policies that would be adequate for the solution of the problem. The enlarged access policy is used when the member needs financing from the Fund that exceeds the amount available to it in the four credit tranches or under the extended fund facility, and when its problems warrant a relatively long period of adjustment. The access to resources available under the enlarged access policy and the future of the policy are reviewed annually.

The Fund decided on November 28, 1988 to extend the enlarged access policy which governs member countries' access to the Fund's general resources in 1989 with the same percentage limits in relation to quotas, as in 1988. Accordingly, access by members to the Fund's general resources under arrangements approved under the policy on enlarged access during 1988 was continued to be subjected 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 of 400 or 440 per cent of quota net of scheduled repurchases, depending on the members' balance of payments need and the strength of its adjustment efforts. The annual and triennial access limits, which may be exceeded in exceptional circumstances, include drawings under the compensatory and contingency financing and buffer stock financing facilities. It was also decided that the policy would be reviewed in light of the outcome of the Ninth General Review of Quotas.

**SDR Allocation and SDR Interest Rate**

Allocations of SDR - an international reserve asset created by the Fund in 1970 - are made for 'basic periods' which are of 5 years duration, unless otherwise decided by the Executive Board of the Fund. The allocations were so far made in the first basic period (1970-72) and in the third basic period (1978-81), thus bringing the total cumulative allocations to SDR 21.4 billion. There were no allocations in the second (1973-77) and in the fourth (1982-86) basic periods.

According to the Articles of Agreement of the Fund, the main criterion for allocation of SDRs is that the Fund should meet the long-term global need for supplementing the existing reserve assets. It has also been stated in the Articles of Agreement that this need should reflect the collective judgement of members. The Articles also mentioned that the Fund should promote the objective of making the SDR the principal reserve asset of the international monetary system.

In the current basic period (beginning 1987), the question of SDR allocation has been considered by the Executive Board a number of times. The views on the SDR allocation have differed sharply between the developing countries and a few industrial countries, such as the U.S.A., the U.K., West Germany, Japan and Canada. In the view of the developing countries, the long-term global need for reserve supplementation should be related to an analysis as to whether larger stocks of owned reserves in the form of SDRs would contribute to a better functioning of the international liquidity system and to an improved performance of the world economy. It is also widely agreed that a number of countries have very limited access to international financial markets. In the absence of such an access, the liquidity shortage faced by these countries would to some extent be obviated by providing unconditional liquidity in the form of SDRs. This is regarded as essential if countries in difficult liquidity positions are to undertake adjustment efforts, both for improving the external viability and for raising economic growth. Besides, SDR allocations could potentially reduce the cost of holding reserves and thereby improve the efficiency of the reserve system. Moreover, in the present situation of moderate inflation the world over, SDR allocations would have little inflationary impact.

As against these grounds for SDR allocations, some of the major industrial countries have taken the view that with the recent growth of international financial markets, there is no dearth of liquidity. Any constraint on access to the financial markets is, in their view, limited to a few countries, and, therefore, not justifiable to trigger the general global mechanism for creation of liquidity. It is also argued that what developing countries require is not short-term

liquidity, but long-term capital. Moreover, SDR allocations may act as a disincentive for many countries to undertake strong adjustment efforts. There is also a view that although there is at present moderate inflationary situation in much of the industrial world, SDR allocations carry a potential to trigger and intensify inflationary pressures.

The Interim Committee in its April 1989 communique stated that the question of allocation of SDRs during the remainder of the fifth basic period should be kept under continuous consideration.

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 positions with the Fund, continues to be set at 100 per cent of the SDR interest rate[1].

The quarterly rate of interest of SDR and the rate of remuneration for the last five quarters are presented in Table XI-25. The SDR interest rate which was 5.66 for the quarter ended June 1988 steadily increased in the subsequent quarters and was 7.92 per cent for the quarter ended March 1989 and 8.13 per cent for the quarter ended June 1989.

**Table XI-25 : SDR Interest and Remuneration Rates@**

(Per cent per annum)

| For the quarter ended | SDR Interest Rate/ Rate of Remuneration |
|---|---|
| June 1988 | 5.66 |
| September 1988 | 6.68 |
| December 1988 | 7.17 |
| March 1989 | 7.92 |
| June 1989 | 8.13 |

@ 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.

[1] This rate was first set at 100 per cent of the SDR interest rate effective February 1, 1987.

### IMF Quota -Ninth General Review

Quotas in the Fund are reviewed every five years for individual countries. Quotas reflect members' contribution to the Fund resources, and provide a basis for determining members' access to these resources and their voting power as well as their share in allocation of SDRs. The present size of the Fund (i. e. total quotas of all members) is of the order of SDR 90 billion.

The size of the Fund should grow in relation to the size of the world economy and in response to the role that the IMF is required to play in the international monetary system, especially in the context of the difficult payments positions being faced by member countries. In the ongoing Ninth General Review of Quotas to which a reference was made in the last year's Report, the main issues of the size of increase in the total quotas and the manner of distribution of quotas have not yet been resolved.

It is however, necessary to have an early resolution of the issues pertaining to the review, since that would give confidence to members for approaching the Fund at an early stage of their payments difficulties. It would also give confidence and assurance to the international community at large that the Fund would be in a position to discharge the purposes for which it was set up.

In the April 1989 meeting of the Interim Committee where the position relating to Fund quotas was reviewed, the Committee called on the Executive Board to complete its work on the Ninth General Review of Quotas in time for the Board of Governors to reach a decision by the end of 1989. The Interim Committee provided guidance for further work by suggesting that "the size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative positions in the world economy and the need to maintain a balance between different groups of countries." This view was reiterated at the September 1989 meeting of the Interim Committee as well. Subsequently it was decided that as the time period for completion of the Review is short, the deadline for it was extended to March 31, 1990. In

pursuance of this, further work is being carried out.

**International Reserves**

Reflecting the increase in trade and financial transactions, international non-gold reserves (i.e. foreign exchange, SDRs and reserve position in the Fund in SDR terms) expanded for the third consecutive year and reached a record level of SDR 541.6 billion at the end of 1988. The rate of growth of reserves was 6.9 per cent compared with the increase of 21 per cent in 1987 and 3.3 per cent in 1986.

Aggregate non-gold reserves of industrial countries increased by 8.3 per cent to a level of SDR 353.0 billion in 1988 from SDR 324.3 billion in 1987. The three industrial countries reporting the largest gains in reserves in 1988 were : Japan (by SDR 14.8 billion to SDR 71.9 billion), Canada (by SDR 6.3 billion to SDR 11.4 billion) and Spain (by SDR 6.0 billion to SDR 27.6 billion).

Reserves of developing countries also increased by 3.4 per cent to SDR 188.6 billion at the end of 1988. But the rise in total reserves marked considerable differences among different groups of developing countries. The reserve holdings of non-oil exporting countries rose by 9.2 per cent to SDR 147.1 billion in 1988 while those of oil exporting countries fell by 12.9 per cent to SDR 41.5 billion. The share of developing countries in global reserves fell to 34.8 per cent from 36.0 per cent in 1987.

Among the components of global reserves, foreign exchange reserves alone recorded increase, having gone up by SDR 38.2 billion (8.4 per cent) to SDR 493.2 billion in 1988. There was, on the other hand, decline in the SDRs and reserve positions in the Fund. SDRs declined by SDR 40 million (0.2 per cent) to SDR 20.2 billion reflecting the wide use of SDRs, especially for payment of charges and the discharge of repurchase obligations to the Fund by the countries that have made use of Fund credit. The reserve position in the Fund declined by SDR 3.2 billion (10 per cent) to SDR 28.3 billion. The decline in the reserve position in the Fund was for the fourth consecutive year from SDR 41.6 billion in 1984 to SDR 28.3 billion in 1988. Among the major industrial countries which reported a fall in reserve position in the Fund, were the U.S.A., West Germany, the U.K. and Canada. Developing countries as a group experienced a continuous fall in their reserve position in the Fund from 1985. These countries relied on the utilisation of reserve position in the Fund for meeting their payment obligations. India, however, has been maintaining its reserve position at SDR 487 million since 1983.

The rising trend witnessed in the non-gold reserves since 1986 continued for the first half of 1989 and as at the end of June 1989 the reserves of all countries had a rise of SDR 36.6 billion (6.8 per cent) to SDR 578.3 billion as compared to end 1988 levels. Of this, industrial countries accounted for a rise of SDR 21.8 billion and developing countries for SDR 14.8 billion.

**Use of International Monetary Fund (Fund) Resources**

The use of Fund resources continued to decline for the fifth year in succession. Total purchases by members in 1988 stood at SDR 2.7 billion as against SDR 3.3 billion in 1987, SDR 3.8 billion in 1986, SDR 4 billion in 1985 and SDR 7.3 billion in 1984. At the same time, repurchases by Fund members amounted to SDR 6.7 billion in 1988. It may be recalled that total repurchases had been rising continuously from SDR 2.3 billion in 1984 to SDR 3.6 billion in 1985, SDR 5.7 billion in 1986 and SDR 7.9 billion in 1987. Thus, the Fund received more than it provided to member countries, in the last three years (see Table XI-26). Net negative purchases which amounted to SDR 1.9 billion in 1986 went up to SDR 4.6 billion in 1987 and stood at SDR 4.0 billion in 1988. As a result, the outstanding Fund credit excluding disbursements under structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF), declined by SDR 4.0 billion to SDR 24.8 billion at the end of 1988 compared with SDR 28.8 billion at the end of 1987 and SDR 33.4 billion at the end of 1986.

As in the previous years, most purchases in 1988 (70 per cent) were subject to upper credit tranche conditionality. Drawings were mostly under stand-by arrangements. They accounted for SDR 1.7 billion (63 per cent of total purchases). Drawings under extended arrangements were SDR 225 million (7 per cent of total purchases). Two countries availed of extended arrangements during 1988-89. The limited use of extended fund facility is in line with the trends in the use of the facility in recent years. But

**Table XI-26 : Fund Purchases and Repurchases**

(Billion SDRs)

| | | | | (January-June) | |
|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1988 | 1989 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| **1. Total Purchases[1]** | 3.8 | 3.3 | 2.7 | 1.4 | 2.2 |
| *Of which:* | | | | | |
| Credit Tranche[2] | 3.0 | 1.9 | 1.7 | 0.8 | 0.9 |
| Extended Fund Facility | 0.3 | 0.2 | 0.2 | 0.1 | 0.5 |
| Compensatory Financing Facility | 0.6 | 1.2 | 0.7 | 0.5 | 0.8 |
| Buffer Stock Financing Facility | — | — | — | — | — |
| **2. Total Repurchases** | 5.7 | 7.9 | 6.7 | 3.3 | 3.0 |
| **3. Net Purchases** | (-)1.9* | (-)4.6* | (-)4.0* | (-)1.9* | (-)0.8* |

1. Excludes purchases under the reserve tranche and disbursements under SAF and ESAF.
2. Includes purchases under Stand-by arrangements.
*: Repurchases exceed total purchases.
*Source:* IFS - various issues.

considering the large payments difficulties of a number of member countries, and the need to correct macro-economic and structural weaknesses for achieving external viability, revitalisation of the extended fund facility was considered critical. The Executive Board, accordingly, agreed in June 1988 to allow the initial three-year extended arrangements to be lengthened to four years in appropriate cases at the request of the concerned members and to permit use of ordinary resources upto 140 per cent of quota (above the first credit tranche) so as to minimise the burden of the charges and to lengthen the maturity period of purchases.

Drawings under the compensatory financing facility in respect of export shortfalls halved to SDR 730 million in 1988 as compared with SDR 1,182 million in 1987. The lower use of the facility is in part a reflection of the pick-up in non-oil commodity prices during 1988.

Under the Compensatory and Contingency Financing Facility (CCFF), about which a reference was made in the last year's Report, Trinidad and Tobago is the first Fund member country to get approval for use of the external contingency mechanism to the tune of SDR 42.5 million; the actual utilisation would, however, take place if the conditions for contingency occur during the period of the stand-by arrangement which was simultaneously approved.

No purchases were made under the buffer stock financing facility during the year. The Fund extended emergency assistance for Bangladesh to the extent of SDR 72 million to assist in meeting immediate foreign exchange needs following the widesperead destruction caused by floods in the later half of 1988.

During the first half (January-June) of 1989, purchases were at SDR 2.2 billion as against SDR 1.4 billion during the same half of 1988. The repayments to the Fund accounted for SDR 3.0 billion in the first half of 1989 as compared with SDR 3.3 billion in the corresponding half of 1988 resulting in the net repurchases of SDR 0.8 billion and SDR 1.9 billion in the first halves of 1989 and 1988 respectively.

There were 12 stand-by arrangements in effect at the end of June 1989, totalling commitments of SDR 2.7 billion, of which SDR 0.9 billion has been drawn by members. Of this, two members (Brazil and Pakistan) made purchases of more than SDR 100 million each. There were five extended arrangements (Chile, Mexico, the Philippines, Tunisia and Venezuela) in effect at the end of June 1989 totalling commitments of SDR 8.2 billion of which SDR 1.3 billion has been drawn.

There were 21 Structural Adjustment Facility (SAF) arrangements and 11 Enhanced Structural Adjustment Facility (ESAF) arrangements in

effect as at end-June 1989. SAF and ESAF arrangements, as reported in the last year's Report provide concessional resources to eligible low income countries with protracted balance of payments difficulties in support of medium-term adjustment programmes consisting of comprehensive macro-economic and structural measures. The commitments totalled SDR 1,394 million in the case of SAF and SDR 1,370 million in respect of ESAF. Under SAF, SDR 758 million and under ESAF, SDR 378 million were drawn by members. Access under the SAF arrangements was raised to a total of 70 per cent of quota from 63.5 per cent of quota, effective March 29, 1989, indicating Fund's increased commitments to low-income countries under SAF arrangements.

Repayments of Trust Fund loans continued in 1988 and loans outstanding at the end of 1988 amounted to SDR 0.9 billion as compared with SDR 1.4 billion at end-1987. It may be recalled that the Trust Fund made its final disbursement in March 1981, and repayments of Trust Fund loans to the Special Disbursement Account had provided the basis for SAF and subsequently for ESAF for low income members.

Total Fund credit declined to SDR 24.4 billion at end-March 1989 as compared with SDR 28.6 billion at end-March 1988.

**Rates of Charge for Use of Ordinary Resources of the Fund and Burden Sharing**

The Fund aims at achieving a positive net income every year, generally with a view to building up its reserves. Net income is derived by deducting administrative expenses from net operational income, consisting of receipts accrued and earned (as for example, from charges, interest on SDR holdings) after netting operational expenses such as remuneration payments, and interest amounts paid on borrowings by the Fund. The target for net income is expressed in terms of a ratio to reserves obtaining at the end of the previous financial year of the Fund (May 01 to April 30). In recent years, as overdue financial obligations of some members to the Fund have increased, the Executive Board adopted various measures to strengthen the financial position of the Fund. Some of these measures have placed a financial burden on members in both debtor and creditor positions in the form of increased charges and reduced remuneration payments respectively. In July 1986 after an examination of the financial consequences to the Fund of overdue obligations from members, the Executive Board decided that the burden of charges that were deferred by members in overdue positions for 6 months or more should be shared by debtors and creditors in a simultaneous and symmetrical fashion by agreeing respectively to pay higher rate of charge and to receive reduced remuneration payments. Besides, burden sharing would be effected in respect of the amounts that represent net income beyond 5 per cent of the reserves at the end of the previous year. For financial year 1987 and financial year 1988, the net income target was to be raised from 5 per cent to 7.5 per cent. This implied that net income equivalent of the differences between the targetted 7.5 per cent and 5 per cent of reserves as at the end of the previous year would be generated equally by increasing the rate of charge and reducing remuneration payments. But reductions in remuneration payments were subjected to a limit such that the remuneration coefficient* would not be lower than 85 per cent. It was also decided that the rate of remuneration would be equal to the SDR interest rate effective February 1, 1987.

The July 1986 burden sharing decision was to be in operation for two financial years. At the end of the financial year 1986-87, when net income turned out to be in excess of the targetted net income, a part of the excess net income was placed in an account specifically created then, called the Special Contingent Account (SCA) to serve essentially the same purposes that reserves perform, in view of the rising overdue financial obligations to the Fund. In January 1988, the establishment of the SCA together with its purposes and procedures was formalised by the

* The rate of remuneration was made equal to 100 per cent of the SDR interest rate with effect form February 1, 1987. The actual rate of remuneration, however, would depend on the adjustments to be made for generating ½ of the increase in the net income target (i. e. 1.25 per cent of the reserves at the beginning of the FY) and to make up for ½ of the amount of charges deferred during the relevant period. When such adjustments are made to the remuneration payments that equal the SDR interest rate times the average remunerated positions, the average remuneration rate would be lower than the SDR interest rate, but such lowering should not be below 85 per cent of the SDR interest rate. It is this ratio of the rate of remuneration to the SDR interest rate that is referred to as the "remuneration co-efficient".

Board. Simultaneously, it was decided that the additional net income equivalent to the difference between 5 per cent and 7.5 per cent of reserves during financial year 1988 together with a further sum equal to 2.5 per cent of reserves to be equally shared by creditor and debtor members would be placed in SCA. The balances in SCA would be distributed to those who contributed to SCA when there are no outstanding overdue charges and repurchases or at such earlier time as the Fund may decide.

The burden sharing decision thus amended was extended annually, twice for subsequent two years, FY 1989 and FY 1990 without any marked changes in its provisions. Adjustments to the rate of charge and rate of remuneration are made every quarter. The rates of charge and of remuneration together with adjustments to them for the four quarters of financial year 1989 ended April 30, 1989 are summarised in Table XI-27.

In respect of the purchases financed with resources borrowed by the Fund at market-related rates of interest, members continued to pay charges to the Fund that reflect its cost of borrowings plus a small margin. In 1988-89, the average rates of charge on purchases under the Supplementary Financing Facility and under the policy on enlarged access were 9.32 per cent and 7.74 per cent, respectively, compared with 8.70 per cent and 7.39 per cent, respectively in 1987-88.

**Gold in International Markets**

International reserves include official holdings of gold, SDRs, reserve positions in the Fund and foreign currencies. The valuation of gold is done by national authorities, and decision in this regard could be influenced by the movements in gold prices in the international markets.

During 1988-89 (April-March) gold prices as measured in US dollars, generally exhibited a declining trend mainly reflecting the appreciation of the US dollar *vis-a-vis* other major currencies, the general rise in interest rates and the growing perception that major governments in the industrial world were determined to contain inflationary pressures. The price of gold at end-March 1989 stood at US$ 383.20 per oz. as against the end-March 1988 price of US $456.95 per oz. in the London Market. At the end of the first month of the year (i.e. April 1988), the price of gold declined to US $449.0 per oz. Thereafter, trading became active during May 1988, as increases in the prices of platinum and other commodities rekindled interest in gold investments and at end-May, the price of gold reached US $ 455.50 per oz., thereby regaining the end-March closing level. Thereafter the price of gold generally declined and reached at end-September, the level of US $ 396.70 per oz., the lowest monthly closing price since November 1986. Thus, during the period (June-September), the price of gold had fallen by US $ 58.8 per oz. The modest increase in gold price to US $ 412.40 per oz. at end-October and further to US $ 422.60

**Table XI-27 : Rates of Charge and Remuneration**

(In per cent)

| For the quarter ended | Rate of charge | | | Rate of Remuneration | | |
|---|---|---|---|---|---|---|
| | Basic Rate* | Adjustment† | Adjusted Rate | Unadjusted Average Rate@ | Adjustment† | Adjusted Average Rate |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| July 31, 1988 | 5.50 | 0.92 | 6.42 | 5.91 | 0.88 | 5.03 |
| October 31, 1988 | 5.50 | 1.01 | 6.51 | 6.86 | 0.94 | 5.92 |
| January 31, 1989 | 7.38 | 0.92 | 8.30 | 7.39 | 0.86 | 6.53 |
| April 30, 1989 | 7.38 | 0.96 | 8.34 | 8.06 | 0.90 | 7.16 |

* This is determined by assuming that all charges due and accrued would be paid.
† This is on account of burden-sharing of overdue charges and of the amounts to be placed in SCA.
@ This is equivalent to the average SDR rate of interest for the quarter concerned.

per oz. at end-November may be attributed to the increased demand for gold as the price fell below US $ 400 an oz., the depreciation of the US dollar and the inability of OPEC ministers to reach an agreement on oil production targets. In December, gold prices declined, influenced by a sharp decline in the price for platinum. At end-December the price was US $ 410.15 per oz. Thus, during calender 1988 the price of gold declined by US $ 76.35 per oz. By comparison, during 1987 the price had risen by $ 95.60 per oz. The declining trend exhibited during December 1988 continued upto end-March 1989 when the price of gold dropped to US $ 383.20 per oz. reflecting a higher level of world interest rates, persistence of an estimated excess supply of precious metals and the generally marked appreciation of the US dollar in foreign exchange markets.

**Developments in Exchange Rates of Major Currencies**

In contrast to the volatile movements in the exchange rates of major currencies in recent years, 1988-89 was marked by considerable degree of exchange rate stability. The G-7 countries* sought to promote the objective of greater stability in exchange rates ever since September 1985 with the Plaza Agreement, mainly to bring about sustainable external current account positions among the major industrial countries. This objective was more forcefully stated in the Louvre accord reached by the G-7 countries in February 1987, and was reaffirmed by these countries in December 1987, notwithstanding the sharp stock price declines in October 1987. At the Toronto summit of June 1988, the G-7 countries once again reiterated their determination to pursue this objective.

During 1988-89, three major exchange rate developments in the G-7 countries could be discerned. First, the realignment of the major currencies associated with general depreciation of the U.S. dollar - the main feature of the three preceding years i.e. 1985-87 - was halted. In early March 1989, the U.S. dollar had appreciated against major currencies excepting the Canadian dollar, as compared with its position at the end of 1987. During 1988-89, the US dollar's nominal effective appreciation was 6.5 per cent, although this represented only a small portion of its preceding decline of 42 per cent between February 1985 and end-1987. The gradual widening of interest rate differentials in favour of dollar-denominated assets showed a change in the market sentiment in favour of the U.S. dollar. The Japanese yen also showed greater stability during the year compared with the preceding 12 month period. The yen's nominal effective exchange rate showed a small order of increase viz. 3.0 per cent between end-March 1988 and early March 1989, against the rise of 13.4 per cent over the preceding 12 month period. Secondly, the only major currency to depreciate in effective terms in 1988 was the Deutsche mark (DM). Between end-1987 and early March 1989, the Deutsche mark depreciated by 6 per cent in nominal effective terms and by 17 per cent *vis-a-vis* the U.S. dollar. Thirdly, the pound sterling was allowed to appreciate in March 1988 *vis-a-vis* the Deutsche mark. Subsequently, upward pressure on sterling was released as the external current account of the U.K. deteriorated sharply, but the pound sterling's external value was broadly maintained as interest rates were raised by more than in any of the other major countries.

The factors influencing the recent exchange rate developments were several and have to do with market sentiments. Among them, the major ones could be identified as (a) policy co-ordination among G-7 countries, a key objective of which was greater exchange rate stability, may well have influenced the exchange market behaviour more frequently through effects on expectations and through actual policy adjustments, and (b) official intervention in foreign exchange markets in support of Louvre accord was reported frequently in 1988 and early 1989 as they influence market perceptions and bring about exchange rate stability.

During April 1988-March 1989, on a monthly average basis, the U.S. dollar showed a rising trend against almost all major currencies excepting the Canadian dollar. In nominal effective terms, the U.S. dollar appreciated by 9.37 per cent against the Pound sterling, 11.48 per cent against the DM, 4.29 per cent against the Japanese yen and 11.35 per cent against the French franc. It depreciated by 3.22 per cent vis-a-vis the Canadian dollar at the end of the year 1988-89 (April-March). The U.S. dollar's

* These countries are : United States of America, United Kingdom, Federal Republic of Germany, Japan, France, Italy and Canada.

recovery against the Canadian dollar peaked in September 1988 but weakened in the last quarter of 1988. The Pound sterling which had ruled firm against all major currencies except the Japanese yen during 1987-88 showed a mixed trend during 1988-89 (April-March).

The Pound sterling firmed up by 1.93 per cent and 1.81 per cent against the DM and the French franc respectively by the end of March 1989 on a monthly average basis. Against the U.S. dollar, the Canadian dollar, the Japanese yen and the Pound sterling depreciated by 8.57 per cent, 11.51 per cent and 4.61 per cent respectively by end-March 1989.

The Japanese yen which had emerged as the strongest of all the major currencies during 1987-88 however depreciated by end-March 1989 against the U.S. dollar and Canadian dollar by 4.17 per cent and 7.23 per cent respectively. Over the year, on a monthly average basis, the Japanese yen appreciated by 6.85 per cent against the DM, 6.73 per cent against the French franc and 4.83 per cent against the Pound sterling.

The DM lost ground against all the major currencies on a monthly average basis during 1988-89. During this period it depreciated by 12.88 per cent against the Canadian dollar, a marginal 0.12 per cent against the French franc, 6.41 per cent against the Japanese yen, 1.89 per cent against the Pound sterling and 10.29 per cent against the U.S. dollar.

The French franc appreciated by a marginal 0.12 per cent by end-March 1989 against DM, and settled at lower levels against all other major currencies. Against the Canadian dollar and the U.S. dollar, it lost most ground and settled at lower values of 13.08 per cent and 10.19 per cent, respectively by end-March 1989. Over the year, it traded lower against the yen, Pound sterling and DM by 6.30 per cent, 1.78 per cent and 0.12 per cent, respectively on a monthly average basis.

The Canadian dollar appreciated against the U.S. dollar by 3.03 per cent and rose all the more strongly against all the other major currencies. By the end of March 1989, on a monthly average basis, it appreciated by 15.19 per cent against the DM, 15.05 per cent against the French franc, 7.80 per cent against the Japanese yen and 13.01 per cent against the Pound sterling.

During the three-month period ending June 1989, the U.S. dollar ruled firm against all the major currencies, including the Canadian dollar by about 1 per cent. The U.S. dollar appreciated by 9.49 per cent against the Pound sterling, 8.83 per cent against the Japanese yen, 6.25 per cent against the French franc and 5.89 per cent against the DM.

During April-June 1989, the Pound sterling lost ground against all the major currencies. During this period, the Pound sterling slipped by 8.68 per cent against the U.S. dollar, 0.61 per cent against the Japanese yen, 2.96 per cent against the French franc, 3.29 per cent against the DM and 7.92 per cent against the Canadian dollar.

Over the period April-June 1989, the Japanese yen depreciated by 8.14 per cent against the U.S. dollar, 2.37 per cent against the French franc, 2.70 per cent against the DM and 7.35 per cent against the Canadian dollar while it appreciated by a marginal 0.61 per cent against the Pound sterling.

During April-June 1989, the French franc showed a mixed trend, appreciating by 3.05 per cent and 2.43 per cent against the Pound sterling and Japanese yen respectively and depreciating by 5.11 per cent, a marginal 0.34 per cent and 5.89 per cent agasinst the Canadian dollar, DM and U.S. dollar respectively.

As in the case of the French franc, the DM also showed a mixed trend during the quarter ended June 1989. The DM depreciated by 5.58 per cent against the U.S. dollar and 4.79 per cent against the Canadian dollar while it appreciated by 0.34 per cent, 2.77 per cent and 3.40 per cent against the French franc, Japanese yen and Pound sterling respectively.

The Canadian dollar stood firm against all major currencies other than the U.S. dollar during April-June 1989. It lost ground marginally by 0.82 per cent against the U.S. dollar during this period. It however strengthened by 5.03 per cent against the DM, 5.38 per cent against the French franc, 7.94 per cent against the Japanese yen and 8.60 per cent against the Pound sterling.

## The Debt Situation and Strategy

### The Debt Strategy

Since the emergence of the debt crisis in 1982, the problem of external debt of developing countries has been the focal point of discussions on international financial issues. In the initial years of the crisis, the problem was viewed mainly as a reflection of liquidity shortage, and as one that could be resolved by debt reschedulings and by strong external adjustment efforts on the part of debtor countries. As the indebted countries found it difficult to service debt, lending by international commercial banks declined. It had also become apparent, at least by 1985, that the debt problem was more fundamental than mere liquidity shortage. Adjustment measures by indebted countries that sharply curtailed expenditures and imports had adverse effects on investment and on growth prospects. In response to this situation, the then U.S. Treasury Secretary, Mr. James Baker III launched in September 1985, a plan that contained mainly three elements, viz., (a) improvement of policies by debtor countries to enhance their growth rates and diversify exports; (b) increased official lending by donor governments and multilateral institutions as well as new money from private lenders, especially commercial banks; and (c) opening of markets of industrial countries for exports of debtor countries. The Baker Plan envisaged a larger commercial bank lending to help debtor countries to undertake adjustment that would improve investment and external positions. The Baker Plan suggested for an indicative group of fifteen heavily indebted countries, a figure of $ 20 billion of new commercial bank lending for the period 1986-88, as needed for the success of the debt strategy.

The Baker Plan did not make much headway as net increases in private flows did not materialise as envisaged, even where the debtor countries undertook adjustment programmes. Commercial banks, concerned about their loan recoveries and balance sheets, were reluctant to extend loans. They had, in fact, begun to make provisioning against possible loan losses. In the meantime, real interest rates had increased, imposing a further servicing burden on the indebted countries. Moreover, many debtor nations faced severe terms of trade deterioration.

Official flows to these countries had increased considerably since 1985 but they could not substitute for private flows. In many cases, the sheer size of the external debt was too large to be financed without undermining investment and growth. This was reflected in sharp market discounts on the debt of indebted countries. However, both donor governments and international financial community ruled out direct interventionist approaches to debt reduction, and favoured market-based methods. It is towards finding ways to grow out of debt and to bring about normalisation of relations between creditors and countries that negotiations with banks have been conducted. Although these negotiations often tended to be prolonged, setting in an adjustment fatigue for debtor countries, they contributed to evolution of ideas on the number of debt instruments that could have a role to play in easing the debt problem. To illustrate, these instruments are: debt-equity swaps, debt buybacks, securitisation and contingent claims. In some cases, some of these instruments were in fact tried, apparently with differing degrees of success. Banks could exercise the option to choose from the menu of market instruments, since their portfolios are not identical and their preferences for instruments often differ markedly.

This approach to the debt problem too did not produce the needed results, mainly because of the absence of new lending by commercial banks and of very little reduction in the nominal value of debt of the indebted countries. It is against this background that the U.S. Treasury Secretary, Mr. Nicholas F. Brady unveiled a new debt strategy, consisting of the following main elements:

(a) Debtor nations should adopt sound growth policies so as to encourage new investment flows, strengthen domestic savings and promote the reversal of flight capital.

(b) Commercial banks should provide a broader range of alternatives for financial support to debtor nations including greater efforts to achieve both debt and debt service reduction.

(c) Commercial banks should also relax constraints on new lending and negotiate waivers of sharing (which prohibit preferential treatment of creditors) and negative pledge clauses (which maintain equality of

repayment among creditors) in existing loan agreements for a three year period.

(d) Creditor banks should be encouraged to provide new loans and consider ways of differentiating new and old debt.

(e) The international financial institutions should continue to play central roles through their efforts to promote sound policies in debtor countries by giving advice and financial support. The IMF and World Bank could provide funding as a part of their policy-based lending programmes for debt or debt service reduction purposes. In addition, both institutions could offer new additional financial support to collateralize a portion of interest payments for debt or debt service reduction transactions.

The Brady Plan, as it has come to be known, is now being pursued actively on a case by case basis. Both the IMF and World Bank have laid down guidelines for supporting it, and thus signalled to the commercial bank creditors to be prepared to work out debt and debt service reductions in relevant cases.

In so far as official debt is concerned, reschedulings of debt, and improvement in terms and conditions such as lower interest rate spread and elongation of maturity period for low income developing countries, and in certain cases of poorest countries, conversion of loans into grants have been the main methods adopted to alleviate the burden of external debt. In general, reliefs by official creditors are contingent on the countries undertaking strong and comprehensive adjustment programme for a medium-term period, under arrangements with the Fund.

**External Debt Situation**

The total external debt of developing countries stood at $ 1,197 billion in 1988 - about $ 3 billion decrease over the level of 1987. Since 1981, the debt stock has gone up by about $ 466 billion. Liabilities to official creditors amounted to $ 475.1 billion in 1988, as against $ 461.6 billion in 1987. In 1981, these liabilities stood at $ 211.6 billion (Table XI-28).

Region-wise, the largest amount of external debt outstanding was in respect of Western Hemisphere countries. Out of their total debt of $ 402.7 billion, long-term debt was worth $ 365.8 billion. The main creditors of long-term debt to these countries were the financial institutions ($ 196.2 billion) and other private creditors ($ 68.0 billion). Long-term debt of these countries to official creditors was thus equivalent of $ 101.7 billion. In the case of African countries, of their total debt of $ 199.8 billion in 1988, long-term debt owed to official creditors amounted to as much as $ 109.8 billion. Asian countries' debt stood at $ 319.1 billion in 1988, with long-term debt to official creditors amounting to $ 142.9 billion.

The debt owed by fifteen heavily indebted countries at the end of 1988 was about $ 471 billion, about 39 per cent of the total outstanding debt of all developing countries. Financial institutions and other private creditors' loans of long-term duration to these countries were equivalent of about $ 300 billion, amounting to 71 per cent of total such loans to all developing countries. Sub-Saharan African countries' debt at $ 100.2 billion in 1988 showed a rise of $ 2.7 billion over the 1987 level. $ 70.2 billion of their debt represented those owed to official creditors.

External borrowing by developing countries was heavily skewed towards official sources in 1988 as has been the case since the onset of the debt crisis in 1982. Lending by private creditors was cut back sharply. Commercial banks' net claims on developing countries are estimated to have declined by $ 7.5 billion.

In 1988, external debt accounted for little over one-third of the developing countries' GDP. The ratio of external debt to GDP at 34.1 per cent in 1988 was much above the 1981 level of 27.7 per cent. However, this ratio showed an improvement for the first time since 1986. The ratio of debt to GDP was the highest for the African countries during 1988 at 48.4 per cent (49.6 per cent in 1987 and 31.2 per cent in 1981). This ratio for Western Hemisphere stood at 38.8 per cent (43.8 per cent in 1987 and 39.8 per cent in 1981). This ratio was the lowest for the Asian countries at 25.1 per cent (27.7 per cent in 1987 and 18.8 per cent in 1981). The ratio of external debt to GDP for the fifteen heavily indebted countries in 1988 was 39.7 per cent, an improvement when compared to 44.2 per cent in 1987 but still high when compared to the level of 37.6 per cent in 1981.

The slower rise in debt, combined with strong export growth resulted in a decline in the developing countries' aggregate debt-to-export ratio to 140 per cent at the end of 1988 from 159 per cent in 1987. However, it was still high compared with the 1981 level of 95.0 per cent. The strong expansion in export volume of the 15 heavily indebted countries during 1987-88 helped reduce the ratio of total debt to exports from 342.4 per cent in 1987 to 293.8 per cent in 1988 but still about 91 percentage points above its level in 1981. In sub-Saharan Africa, export volumes actually declined by 2.9 per cent in 1988 after rising continuously during the six preceding years. This decline was exacerbated by a 0.3 per cent worsening in these countries' terms of trade which followed a 9 per cent deterioration in 1987. Moreover its total debt had also risen and as a result, the debt to export ratio increased from 339.8 per cent in 1987 to 342.1 per cent in 1988. At the 1988 level, the ratio was above the 1981 level of 181.6 per cent by about 161 percentage points.

Rescheduling and arrears significantly reduced the debt service actually paid by the developing countries from 22.8 per cent in 1986 to 19.9 per cent in 1988 (16.1 per cent in 1981). While the debt service ratio of the countries in Asia decreased to 11.2 per cent in 1988 from 14.9 per cent in 1987 (9.9 per cent in 1981), the ratios in Africa and Western Hemisphere recorded higher levels respectively of 26.6 per cent (17.7 per cent in 1981) and 45.4 per cent (43.9 per cent in 1981) in 1988. The debt service ratio in sub-Saharan Africa stood at 24.8 per cent in 1988 as against 24.0 per cent in 1987. The ratio for the 15 heavily indebted countries was higher at 43.2 per cent in 1988 compared with 35.9 per cent in 1987.

**Asian Development Bank**

During 1988, Asian Development Bank (ADB) increased its lending operations significantly, sustaining thereby the momentum of economic activity in the Asian region. Lending commitments rose by 29 per cent to $ 3.1 billion in 1988, comprising 61 loans for 56 projects in the Bank's developing member countries (DMCs). Total loan disbursements in 1988 amounted to a record $ 1.65 billion, a 34 per cent rise over the amount of $ 1.23 billion disbursed in 1987. By the end of 1988, cumulative Bank lending had reached $ 25 billion for 846 projects, while cumulative technical assistance in grants and loans reached $ 1.9 billion for 1906 projects and regional activities.

The robust growth in ADB operations was mainly due to increased lending to 15 DMCs - particularly People's Republic of China, India, Pakistan and the Philippines. Loans from Ordinary Capital Resources (OCR) rose to $ 2.1 billion in 1988 ($ 1.5 billion in 1987) while those from the Asian Development Fund (ADF) increased to $ 1.1 billion ($ 1.0 billion in 1987). These included six programme loans and seven sector loans in 1988.

Commitments in 1988 included a substantial increase in private sector loans from $ 20.5 million in 1987 to $ 58.0 million in 1988. Co-financing rose to $ 774 million from $ 498 million in the previous year.

Eight equity investments amounting to $ 16.7 million were approved in 1988, a decline from $ 22.6 million in 1987. Two underwriting commitments for a total of $ 20 million were approved in 1988 as compared to one commitment of $ 5 million in 1987.

Technical assistance - both grants and loans financed for the preparation of projects, for advisory and project implementation purposes rose sharply to $ 169.5 million from $ 143.1 million in 1987. The increase was partly due to the establishment of the Japan Special Fund in 1988 to provide finance for technical assistance projects and equity investment operations. In the first year of administration of the Fund itself, a total of $ 16.5 million for 41 technical assistance grants was committed for technical assistance operations. This accounted for 22 per cent of the total number of technical assistance grants and 28 per cent of total amount during the year.

The Bank's variable lending rate which is normally altered twice a year(effective January 1 and July 1) was reduced from 6.53 per cent per annum on July 1, 1988 to 6.42 per cent per annum on January 1, 1989. The rate was further reduced to 6.37 per cent per annum on July 1, 1989, the lowest since the start of the Bank's operations.

The Bank's role in India is directed towards financial assistance to industries that could play a major role in the modernization of the industrial sector and in stimulating growth in other sectors, with particular emphasis on the private sector. Bank assistance is also aimed at

**Table XI-28 : External Debt and Debt Service[1]**

| | 1981 | 1982 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **External Debt** (in billions of U.S. dollars) | | | | | | |
| **Developing Countries** | **731.5** | **826.6** | **995.5** | **1086.7** | **1200.2** | **1197.2** |
| Africa | 109.8 | 121.4 | 147.9 | 171.3 | 198.0 | 199.8 |
| Asia | 158.4 | 186.1 | 252.8 | 282.1 | 310.2 | 319.1 |
| Europe | 82.8 | 81.8 | 95.3 | 110.8 | 127.1 | 122.0 |
| Middle East | 91.7 | 106.1 | 130.1 | 139.0 | 149.0 | 153.7 |
| Western Hemisphere | 288.8 | 331.2 | 369.3 | 383.6 | 415.9 | 402.7 |
| Sub-Saharan Africa | 49.3 | 54.0 | 68.7 | 81.0 | 97.5 | 100.2 |
| 15 heavily indebted countries[2] | 333.8 | 380.3 | 423.9 | 448.5 | 486.8 | 470.7 |
| **External Debt to Exports of Goods and Services** (in per cent) | | | | | | |
| **Developing Countries** | **95.0** | **118.7** | **149.9** | **171.2** | **159.4** | **139.9** |
| Africa | 118.6 | 152.8 | 191.7 | 244.1 | 252.4 | 246.4 |
| Asia | 74.6 | 88.8 | 103.6 | 104.8 | 90.0 | 76.1 |
| Europe | 137.9 | 134.5 | 147.7 | 163.6 | 169.0 | 145.9 |
| Middle East | 34.3 | 47.3 | 84.7 | 117.0 | 110.5 | 112.3 |
| Western Hemisphere | 209.8 | 271.0 | 295.8 | 351.9 | 348.0 | 298.3 |
| Sub-Saharan Africa | 181.6 | 213.6 | 268.9 | 305.0 | 339.8 | 342.1 |
| 15 heavily indebted countries | 202.6 | 267.5 | 288.5 | 348.9 | 342.4 | 293.8 |
| **External Debt to GDP** (in per cent) | | | | | | |
| **Developing Countries** | **27.7** | **30.6** | **35.5** | **37.5** | **37.1** | **34.1** |
| Africa | 31.2 | 34.7 | 46.6 | 49.4 | 49.6 | 48.4 |
| Asia | 18.8 | 21.8 | 26.5 | 29.2 | 27.7 | 25.1 |
| Europe | 34.4 | 32.8 | 40.2 | 41.0 | 44.8 | 42.7 |
| Middle East | 19.0 | 22.3 | 27.1 | 31.3 | 31.2 | 30.7 |
| Western Hemisphere | 39.8 | 43.0 | 45.4 | 44.1 | 43.8 | 38.8 |
| Sub-Saharan Africa | 45.9 | 51.2 | 64.8 | 66.8 | 75.4 | 69.4 |
| 15 heavily indebted countries | 37.6 | 41.0 | 46.0 | 45.1 | 44.2 | 39.7 |
| **Debt Service Ratio[3]** | | | | | | |
| **Developing Countries** | **16.1** | **19.5** | **20.7** | **22.8** | **19.8** | **19.9** |
| Africa | 17.7 | 21.9 | 26.0 | 29.5 | 25.6 | 26.6 |
| Asia | 9.9 | 12.4 | 14.8 | 14.7 | 14.9 | 11.2 |
| Europe | 21.8 | 21.3 | 21.8 | 24.6 | 22.7 | 22.9 |
| Middle East | 4.9 | 6.4 | 10.3 | 13.9 | 12.2 | 15.5 |
| Western Hemisphere | 43.9 | 53.2 | 41.4 | 47.1 | 37.0 | 45.4 |
| Sub-Saharan Africa | 21.4 | 23.7 | 26.5 | 26.4 | 24.0 | 24.8 |
| 15 heavily indebted countries | 40.9 | 51.6 | 40.5 | 45.6 | 35.9 | 43.2 |

1. Exclude debt owed and debt service paid to the Fund.
2. These countries are Argentina, Bolivia, Brazil, Chile, Colombia, Cote d'Ivoire, Ecuador, Mexico Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.
3. Interest payments on total debt plus amortization payments on long-term debt as a percentage of exports of goods and services.

*Source :* World Economic Outlook - October 1989.

the removal of bottlenecks to industrial development, especially in power, transport and communications. During 1988, the Bank sanctioned 4 loans (including one in private sector) totalling $ 497 million bringing the cumulative lending in India to $ 1.1 billion. Also four technical assistance projects, the first to be provided under the Bank's programme to India, totalling $ 6,45,500 were approved in 1988. Cumulative disbursements to India amounted to $ 68 million upto end-1988.

**World Bank Group**

The World Bank Group's activities in fiscal 1989 (July-June) included, *inter alia,* continuation of research into poverty issues and provision of support to a wide range of projects and programmes designed to improving the living standards, economic potential and prospects of the poor. With the coming into effect of the Eighth Replenishment of the International Development Association (IDA-8) in September 1987 and with the approval in April 1988 by the Bank's Board of Governors of a recommendation by the Bank's Executive Board for a $ 74.8 billion general capital increase for the International Bank for Reconstruction and Development (IBRD) thereby bringing the Bank's total authorised capital to $ 171.4 billion, the prospect that the Bank can both sustain and strengthen its operations in the coming years has been enhanced. It would be possible to increase significantly the Bank's sustainable level of lending and to achieve a nominal growth in lending of about 10 per cent a year over the next five or six years - that is, to more than $ 20 billion annually by the early 1990s.

As regards the financial operations during the fiscal year (FY) 1988 (July 1987 - June 1988), the World Bank Group (IBRD and IDA) approved total loans amounting to $ 19.2 billion as against $ 17.7 billion in FY 1987. At this level, the loan commitments were higher by $ 1.5 billion or 8.5 per cent than in FY 1987, the same order of rise as in FY 1987. Disbursements by the IBRD and the IDA totalled $ 15.0 billion in FY 1988 exceeding the disbursements during the previous year by $0.6 billion or by 3.9 per cent as compared with a much larger increase of 26.7 per cent during FY 1987. While disbursements made by the IDA in FY 1988 showed an increase of 10.0 per cent as against a fall of 2.1 per cent in FY 1987, those made by the IBRD showed a smaller increase of 2.2 per cent as against a rise of 37.8 per cent during the same period (Table XI-29).

The number of loans/credits sanctioned and the number of borrowing countries for IBRD and IDA, however, showed a declining trend during FY 1988. In the case of IBRD, the number of loans/credits came down to 118 in FY 1988 from 127 in FY 1987, while the number of borrowing countries was reduced from 39 to 37. Similarly the number of loans/credits in respect of IDA was reduced from 108 to 99 and the number of borrowing countries came down to 36 from 39 during the same period. IBRD and IDA lending to countries with per capita income below $ 425, totalled $ 7.5 billion during FY 1988 (IBRD : $ 3.4 billion and IDA : $ 4.1 billion) as against $ 6.5 billion (IBRD : $ 3.3 billion and IDA : $ 3.2 billion) during the previous year.

In FY 1989, the total lending commitments of World Bank group increased by $ 2.1 billion or

**Table XI-29 : Loans by World Bank***

($ million)

| | IBRD | | IDA | | World Bank | |
|---|---|---|---|---|---|---|
| | 1987-88 | 1988-89 | 1987-88 | 1988-89 | 1987-88 | 1988-89 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Lending Commitments | 14,762 | 16,433 | 4,459 | 4,934 | 19,221 | 21,367 |
| | (+4.0) | (+11.3) | (+27.9) | (+10.7) | (+8.8) | (+11.2) |
| 2. Disbursements | 11,636 | 11,310 | 3,397 | 3,597 | 15,033 | 14,907 |
| | (+2.2) | (-2.8) | (+10.0) | (+5.9) | (+3.9) | (-0.8) |

* Exclude figures for Special Facility for sub-Saharan Africa.

*Note :* Figures in brackets are percentage changes over the previous year.

11.2 per cent as compared to an increase of $1.5 billion or 8.8 per cent in the previous year. The disbursements by the IBRD and IDA totalled $14.9 billion, slightly lower by $0.1 billion. While disbursements of IDA increased by $0.2 billion, that of IBRD declined by $0.3 billion in FY 1989 as compared to previous year. Net transfers by the World Bank to seventeen highly indebted, middle-income countries aggregated (-) $ 1,925 million in FY 1989 as against (-) $ 1.267 million in FY 1988.

**International Bank for Reconstruction and Development (IBRD)**

Although fresh commitments of the IBRD in FY 1988 rose marginally by $0.6 billion or 4.0 per cent to $14.8 billion over the year, the number of operations was reduced from 127 in FY 1987 to 118 in FY 1988. Disbursements of IBRD increased by $0.3 billion or 2.2 per cent to $11.6 billion. For FY 1989, new lending commitments increased by $1.7 billion to $16.4 billion but disbursements declined by $0.3 billion or by 2.8 per cent.

Of the 118 countries which received financial support from IBRD in 1987-88, 6 countries viz. India, Mexico, Indonesia, Brazil, Turkey and China secured loan commitments in amounts exceeding $1 billion each and together they accounted for $9.1 billion or 61.9 per cent of the total projects approved. In the previous year too these countries with the exception of China, had secured loan commitments in amounts exceeding $1 billion each and together they had accounted for $7.2 billion or 50.7 per cent of the total approvals. Fresh loan commitments made by the IBRD to India totalled $2.3 billion, the highest among the above six countries. Mexico was the next to receive a commitment of $2.0 billion, followed by Brazil and Indonesia ($1.4 billion each) and China and Turkey ($1.1 billion each). The share of India in the total IBRD approvals increased marginally to 15.3 per cent in 1987-88 from 15.0 per cent in 1986-87. The six projects for which amounts were sanctioned were: Power ($610 million - 27.0 per cent of total loan commitment), Transportation - Railways ($390 million - 17.3 per cent of total loan commitment), Industry ($360 million - 16.0 per cent of total loan commitment), Agriculture and Rural Development ($350 million - 15.5 per cent of total loan commitment), Energy ($295 million - 13.1 per cent of total loan commitment) and Urban Development ($250 million - 11.1 per cent of total loan commitment). Gross disbursements made to India went up from $1,519 million in 1986-87 to $2,225 million in 1987-88, an increase of 46.5 per cent. Net transfers too increased from $888 million to $1,203 million during the same period.

In fiscal 1988, the IBRD achieved its financial funding objectives by borrowing $10.8 billion in the world's leading markets at an average cost of 6.70 per cent and an average maturity of 9.8 years and earned 8.51 per cent average rate of return on investments of its liquidity. As regards repayment terms for IBRD loans, two modifications were adopted on April 28, 1988. Firstly, for the middle-income borrowing countries, the grace period on loans committed from April 28, 1988 to the end of fiscal 1991 was extended to five years; on loans committed after fiscal 1991, however, the grace periods will revert to the three-year and four-year periods as was applicable before April 28, 1988, unless the Executive Directors decide otherwise. The second modification, which is not limited to three years, shifts the repayment pattern for low-income borrowers - those with per capita income below $836 in 1986 dollars - to an annuity basis from the one in which each repayment of principal on a particular loan is of an equal amount. The modified grace periods could enhance net IBRD disbursements to middle-income countries by up to $3.4 billion between fiscal 1992 and fiscal 1995, with gradual reduction in subsequent years. The annuity system is expected to increase net disbursements to low-income countries by about $5 billion by the year 2000.

The IBRD's gross revenues reached a total of $8,549 million in fiscal 1988, an increase of $860 million or 11 per cent from last year. During the fiscal 1988, the average interest rate on disbursed and outstanding loans was 7.93 per cent and the income on loans was $6,798 million comprising an interest income of $6,535 million, and $263 million representing commitment charges of 0.75 per cent on undisbursed loan balances. Since July 1982, IBRD loans have been made at variable rates, adjusted semi-annually on January 1 and July 1, by adding a spread of 0.50 per cent to the IBRD's weighted average cost of borrowing. The variable rate steadily declined from its initial July 1, 1982 level of 11.43 per cent to 7.22 per cent on January 1, 1988. On July 1,

1988 the lending rate was reset at 7.59 per cent. IBRD's net income for fiscal 1988 was $ 1,004 million compared with the record high, set in fiscal 1986, of $ 1,243 million and $ 1,113 million in fiscal 1987.

The Special Facility for sub-Saharan African countries which began operations on July 1, 1985, was funded with two types of resources viz. direct contributions from donors, and resources for special joint financing. Eighteen countries and the World Bank mobilised additional resources that were to be committed over a three-year period. As of June 30, 1988, resources available for the Special Facility operations amounted to $ 1,990 million. Funds from the Special Facility were used to provide "African Facility Credits" and special joint financing to IDA - eligible countries in sub-Saharan Africa. Commitments, as of June 30, 1988, of African Facility Credits amounted to about $ 1.1 billion, and $ 786.3 million was allocated under special joint financing. As of June 30, 1988, total disbursements amounted to $ 1.1 billion, or almost 60 per cent of the commitments of African Facility Credits and Special joint financing.

By July 31, 1989, twenty-two sub-Saharan countries were eligible for assistance under the programme. In FY 1989, IDA commitments to these countries totalled $ 1,903 million as compared to $ 1,902 million in the previous year.

### Multilateral Investment Guarantee Agency (MIGA)

In the last year's report, a reference was made to the international convention establishing the Multilateral Investment Guarantee Agency (MIGA). This Agency came into being on April 12, 1988. The agreement entered into force when its ratification by the United States and the United Kingdom on that day raised total subscriptions to 53.4 per cent of its $ 1,082 billion authorised capital, an amount well above the required one-third minimum. As of June 30, 1988, the convention establishing MIGA had been signed by 15 capital-exporting and 55 capital-importing countries whose subscriptions totalled 73.5 per cent of the Agency's authorised capital.

The objective of MIGA is to encourage the flow of investments for productive purposes among its member countries - in particular, to developing countries. MIGA is intended to enhance mutual understanding and confidence between host governments and foreign investors. It would also seek to provide information and expertise related to the investment process.

The MIGA convention specifically provides for coverage of the following four broad categories of non-commercial risks:

i) the transfer risk resulting from host government restrictions on currency conversion and transfer;

ii) the risk of loss resulting from legislative or administrative actions and omissions of the host government that would have the effect of depriving the foreign investor of his ownership or control of, or substantial benefits from, his investment;

iii) the repudiation by government of contracts with investors in cases in which the investor has no access to a competent forum; faces unreasonable delays in such a forum, or is unable to enforce a judicial decision issued in his favour; and

iv) the risk of armed conflict and civil unrest.

At its first meeting on June 22, 1988, the Board of Directors appointed the President of the World Bank as the Agency's first President. They adopted policy guidelines, regulations and procedures for the Agency's administration and approved its administrative budget for the first fiscal year ending June 30, 1989.

On January 25, 1989, the Agency's Board of Directors approved a standard contract and general conditions of guarantee for MIGA. In its first year of operation, the MIGA, has registered 28 preliminary guarantee applications from investors in projects in 15 countries.

### The International Development Association (IDA)

The IDA credits sanctioned during FY 1988 (July 1987 - June 1988) totalled $ 4,459 million showing a rise of $ 973 million or 27.9 per cent as compared with an increase of $ 346 million (11.0 per cent) during the previous year. Disbursements from IDA increased from $ 3,088 million in FY 1987 to $ 3,397 million in FY 1988.

During the year, India received the largest amount of credit ($717 million) followed by China ($640 million), Ghana ($261 million) and Bangladesh ($228 million). However, India's share in the total sanctions declined from 19.4 per cent in 1986-87 to 16.1 per cent in 1987-88. The share of China and Bangladesh was reduced from 15.9 per cent and 11.2 per cent to 14.4 per cent and 5.1 per cent, respectively, during the same period.

For fiscal 1989, the fresh commitments of IDA amounted to $4,934 million showing an increase of $475 million or 10.7 per cent. Disbursements of IDA at $3,597 million in fiscal 1989 showed an increase of $200 million or 5.9 per cent as compared to an increase of $309 million or 10.0 per cent last year.

For all IDA credits including those already approved and which carry a commitment fee, a variable commitment fee within a range of 0 per cent to 0.5 per cent and a policy to decide the future rate on an annual basis based on IDA's financial position was approved. For fiscal 1988, the variable rate remained at 0.5 per cent; for fiscal 1989, the rate will be reduced to 0 per cent. This change is applicable to new credits, as well as to those made prior to fiscal 1989.

**IDA Eighth Replenishment**

Contributions under IDA-8 provide the Association with funds for commitment in fiscal years 1988-90. The IDA-8 became effective on March 4, 1988, when the Association received notification of participation from donors whose aggregate contributions amounted to 80 per cent of the replenishment.

In fiscal 1988, the Association made credit commitments amounting to SDR 3,301 million; resources available for commitment during the year included (i) SDR 76 million ($100 million equivalent) transferred to IDA in fiscal 1988 from the 1987 net income of the IBRD and (ii) a surplus of SDR 46 million carried over from IDA-7.

**IDA Ninth Replenishment**

After the 1989 Annual meetings of the World Bank and the IMF, representatives of donor countries met in Japan and finalised the Ninth Replenishment of the resources of the IDA at $15.2 billion. IDA-8 expires on June 30, 1990. At their last meeting in Copenhagen in July, there was consensus that IDA's operations should remain focussed on the poorest countries, with continued high priority given to the countries of sub-Saharan Africa. There was also a broad agreement that every effort should be made to achieve a replenishment that is atleast as large in real terms as IDA-8 and that additional resources were crucial to meet IDA-9's objectives and the needs of the poorest countries.

**The International Finance Corporation (IFC)**

During fiscal 1988, the IFC expanded its investment activities to record levels, diversified the services it provides to private companies in the developing world, including several corporate restructuring operations and strengthened its financial position.

The IFC approved 95 investments for a total of $1.3 billion, an increase of 38 per cent over the preceding year and 83 per cent since the beginning of the current five-year programme (fiscal 1985-89).

At the same time, disbursements rose sharply and the total disbursed portfolio of loans and equity investments reached a new high of $2.3 billion in FY 1988 compared with $1.9 billion in FY 1987. A large proportion of the Corporation's new investments during the year was in Latin America, reflecting the presence of good investment opportunities in the region. Further, the IFC continued to support the private sector in sub-Saharan Africa, with particular emphasis on assistance to small and medium-sized businesses. Towards the end of the fiscal year, the IFC announced plans to assist these businesses by establishing a $60 million fund, the African Enterprise Fund.

The distribution of IFC's investments is given in table as follows :

**Table XI-30 : Region-wise Investments**

| Region | FY 1987 | | FY 1988 | |
|---|---|---|---|---|
| | No. of Projects | Amount (US $ million) | No. of Projects | Amount (US $ million) |
| 1 | 2 | 3 | 4 | 5 |
| 1. Africa | 23 | 131 | 23 | 135 |
| (Of which: Sub-Sahara) | (19) | (74) | (20) | (128) |
| 2. Asia | 23 | 266 | 29 | 306 |
| 3. Europe and Middle East | 9 | 98 | 16 | 206 |
| 4. Latin America | 36 | 410 | 26 | 618 |
| 5. Worldwide | 1 | 15 | 1 | 5 |
| Total | 92 | 920 | 95 | 1270 |

Of the 95 projects approved, 93 projects were located in 40 countries, one was regional and one was worldwide in scope. During the previous year, 92 investments were approved in 41 countries, and there was one investment that was worldwide in scope. Of the total approved investment of $ 1.3 billion, 32 (34 per cent of the total projects) with a total value of $ 284 million (22 per cent of the total value of investments) were located in countries with a per capita income of less than $ 805. The investments approved by IFC reflect the increasing diversity of its projects which represent sectors such as agriculture, cement, chemicals, electronics, fertiliser, financial institutions, food processing, glass, mining, non-ferrous metals, nylon, oil exploration, pulp, paper and timber, ship building, telecommunications, textiles, tourism, watches and wood processing.

As of June 30, 1988, paid-in capital of IFC amounted to $ 850.2 million. The Corporation's net worth was $ 1.3 billion, up from $ 1.06 billion at the end of the previous fiscal year. In addition, $ 235.0 million of IFC's subscribed capital has not yet been paid in. The debt-to-equity ratio at the end of FY 1988 was 1.66 : 1, the same as last year.

Gross income of the Corporation for 1988 was $ 345.6 million, an increase of $ 60.2 million or 21.1 per cent as compared to last year. Interest from loans contributed the highest amount of $ 200.4 million as against $ 165.0 million last year. Net income amounted to $ 100.6 million, nearly double the income of the previous year. IFC borrowed a total equivalent to $ 747.4 million in FY 1988. The World Bank provided $ 152.0 million equivalent in loans to the Corporation, while IFC raised the equivalent of $ 595.4 million in eight borrowing operations on the international financial markets in FY 1988.

## VIII. Developments in Exchange Control

### Liberalisation of Blanket Exchange Permit Scheme

1. The following further liberalisations were made with effect from December 30, 1988, in the Blanket Exchange Permit Scheme introduced by RBI.

*(i) Extension of the Scheme to Units in the Export Processing Zones*

The 100 per cent Export Oriented Units holding green cards issued by the Ministry of Commerce, Government of India are eligible for blanket permits during the initial period of two years of their operation, irrespective of their export performace. This facility has been extended to new units operating in the Export Processing Zones, even if such units do not have to their credit the required minimum export performance during the initial period of two years of operation.

*(ii) Enlargement of Approved Purposes*

The number of approved purposes for which exchange can be drawn against blanket permits has been considerably enlarged to cover many more items of expenditure connected with export promotion and allied activities.

### 2. Engagement of Foreign Nationals

Hitherto, companies/firms were required to obtain prior permission from the concerned Administrative Ministry of the Government of India for engagement of foreign technicians/technical experts, except in cases, where the engagement was for a short period not exceeding three months for attending to an

emergency or break-down of plant/machinery. With effect from August 25, 1988, this procedure has been modified and Reserve Bank of India would deal with all types of applications for engagement of foreign technicians/technical experts by companies and firms in India, subject to compliance with the following conditions :-

(i) the total duration of the engagement of foreign technician/s or technical expert/s by any Indian company/firm should not exceed 12 man-months in a full calendar year.
(ii) The payment towards fees/remuneration to any single foreign technician/technical expert should not exceed U.S. $ 500/- per day.
(iii) In the case of payments in foreign exchange on company-to-company basis, the total payment by any Indian company to foreign companies/firms taken together on account of services of foreign technicians/technical experts should not exceed U.S. $ 50,000/- in a full calendar year.

Futher, companies/firms holding blanket exchange permits have been permitted to utilise their blanket permits to meet expenditure in foreign exchange for engagement of foreign technicians/technical experts, provided they have obtained Reserve Bank of India's prior permission for such engagement.

### 3. Booking of Passages for Foreign Technicians/Technical experts

With effect from August 26, 1988, firms/companies engaging the services of foreign technicians/technical experts have been given the freedom of booking the passage of such technicians/experts against payment in rupees on airlines/shipping companies of the latter's choice, if the passage fares were to be borne by the Indain firms/companies. Similarly, the expatriate staff of foreign banks in India are now permitted to travel and despatch their personal effects by airlines/shipping companies of their choice.

### 4. Rupee Loans/Overdrafts to Non-Residents of Indian Nationality/ Origin for Dircet Investment in India

With a view to further encouraging investment in India by non-resident Indians, Reserve Bank of India has decided from August 1988 to consider on merits, applications of authorised dealers for grant of rupee loans/overdrafts to non-residents of Indian nationality/origin against security of fixed deposits in their NR(E)R/FCNR accounts for making direct investments in India, on non-repatriation basis, in the following areas in addition to manufacturing activites and export oriented trading activities.

(a) Hospitals (including diagnostic centres)
(b) Hotels with 3, 4 or 5 star rating
(c) Shipping companies
(d) Development of computer software
(e) Oil exploration services
(f) Any industry listed in Appendix I to the Ministry of Industry's Press Note dated 2nd February 1983 or any other export-oriented industry.

### 5. NRI Bonds Issued by State Bank of India

The State Bank of India was permitted to issue U.S. dollar denominated bonds ("NRI Bonds") with a maturity period of seven years and carrying interest at 11.5 per cent per annum compounded at half-yearly intervals to non-resident individuals of Indian nationality or origin on non-repatriation basis. The issue opened on 14th November 1988 and closed on 15th February 1989. Interest on the bonds is payable at maturity or on an annual basis depending on the option exercised by the investor. The bonds can be gifted by the NRI bondholders to other NRIs or to close relatives resident in India. The bonds will continue to be denominated in U.S. dollar, even if the holder becomes resident in India subsequent to their acquisition or they are gifted by non-residents to close relatives resident in India. The prinicipal amount of the bonds on maturity and the periodical interest thereon will be paid to the bondholders after converting the amount into rupees at the State Bank of India at T.T. Buying rate for U.S. dollar prevailing on the date of payment.

In order to enable the holders of NRI bonds to raise rupee funds for meeting their genuine financial requirements in India, they have been granted the facility of obtaining rupee loans against the security of the bonds for specified purposes.

### 6. RIFEE Scheme-Extension of Period of Entitlement

(i) The entitlement of a release of foreign exchange upto 50 per cent of the total amount of foreign exchange (including balances held in NR (E) R/FCNR Accounts) repatriated to India by non-residents of Indian nationality/origin returning to India for permanent settlement, for specified purposes, has now been extended to 15 years from the ten years available earlier.

(ii) Under the RIFEE Scheme foreign exchange is released to permit holders or their dependants for specified purposes so long as the permit holders are resident in India. The permit holders cannot draw exchange against their RIFEE Permits once they become non-residents. As an exception, it has been decided that RIFEE permit holders may be allowed to draw foreign exchange against their permits for education abroad of dependant children/wards even if the children/wards take up residence abroad with their parents/guardians.

### 7. Scheme for Manufacture and Export of Gold and Silver Jewellery and Articles From Export Processing Zones and 100 Per Cent Export Oriented Complexes

Government of India have introduced a new scheme under which units in Export Processing Zones (EPZs) and 100 per cent Export-Oriented Complexes are permitted to import raw materials, intermediates and components made out of gold or silver for manufacture and export of jewellery. Further, Government of India have permitted State Bank of India and Minerals and Metals Trading Corporation of India Ltd. (MMTC) to make available gold to such units under the Gold Jewellery Export Promotion and Replenishment Scheme, to enable them to manufacture jewellery for export.

In order to obviate the need for securing specific export licences from the Reserve Bank of India as required, under Section 13 (2) of FERA 1973, the Bank has granted special permission to these units for sending out of India gold/silver jewellery under the provisions of the Scheme.

### 8. Overseas Contracts for Management/ Technical/Consultancy Services

With effect from 1st May 1989, powers have been delegated to authorised dealers and Exim Bank to grant pre-bid clearance for export of management/technical/consultancy services up to the monetary limit of Rs. 2 crores and Rs. 5 crores, respectively.

### 9. Exchange Risk Administration Scheme

With a view to providing a measure of protection to the sub-borrowers against the exchange risk inherent in their medium and long term borrowings in foreign exchange, the three financial institutions viz.I.C.I.C.I., I.D.B.I. and I.F.C.I. have launched a scheme known as the 'Exchange Risk Administration Scheme' (ERAS) with effect from 1st April 1989. The benefit of cover under the Scheme is available to new foreign currency sub-loans disbursed by the financial institutions on or after 1st April 1989. Undisbursed portions of foreign currency loans sanctioned prior to April 1, 1989 are also eligible for cover by mutual consent. While eligible borrowers have an option to join the Scheme in respect of each loan, the option once exercised will be irrevocable during the currency of the loan. Initially, the Scheme will be in operation for 2 years. However, all disbursements made within the two-year period would be eligible for cover during the full duration of the loans.

The repayment obligations in respect of the prinicipal amounts of the sub-loans will be rupee-tied at the rates prevailing on the dates of disbursement. The interest liability of the sub-borrowers, the spread of the financial institutions and the exchange risk premium would be merged into a 'composite cost' with ceiling and floor rates. The actual rate within the band will be announced from time to time and be payable at quarterly intervals. The exchange risk premium in the composite cost will be credited to a fund called 'Exchange Risk Administration Fund' set up and administered by IDBI.

### 10. Opening of Transferable Letters of Credit

Hitherto, authorised dealers were required to take prior permission of the Reserve Bank of India for opening transferable letters of credit in favour of overseas suppliers of goods for import into India. Authorised dealers have since been permitted to open transferable letters of credit for import of goods into India providing for transfer of interest from the first beneficiary to another beneficiary, provided the second beneficiary is also a resident of the same country. If

the second beneficiary of the credit is resident in another country, the transfer would be permissible only if both the countries fall in the External Group and are not members of the Asian Clearing Union.

### 11. Liberalisation of International Credit Card Facility

The Scheme of International Credit Card Facility was further liberlized to allow card holders travelling abroad to avail of cash advance abroad up to a maximum of U.S. $ 500 subject to the condition that the amount is within the overall foreign exchange entitlement of each traveller.

### 12. Rupee-Rouble Exchange Rate

The Rupee-Rouble exchange rate in respect of a) Cerdit agreements and commercial transactions and (b) Contracts (under the deferred payments protocol dated December 23, 1985) relating to deliveries of machinery and equipment from USSR to India were revised as under:

| | Rs. per Rouble | |
|---|---|---|
| | (a) | (b) |
| From October 24, 1988 | 17.5760 | 18.5763 |
| July 9, 1989 | 18.670 | 19.7421 |

### 13. Opening of Offices

During 1988-89 (July-June) 64 overseas companies/firms were granted permission to open new liaison/representative offices in India. In addition, permission was granted for opening 15 project offices by overseas companies engaged in execution of contracts in India.

### 14. Opening of Offices Abroad by Indian Companies

During 1988-89, (July-June) approvals were granted to Indian companies/firms for opening 30 trading and 90 non-trading offices abroad. Approvals were also granted to 26 Indian companies to post representatives abroad.

### 15. Indian Projects Abroad

During the year 1988-89 (July-June), the Working Group on Project Exports (comprising representatives of Reserve Bank of India, Exim Bank and ECGC) accorded pre-bid approvals for 106 proposals involving an aggregate value of Rs. 6,284 crores. The number of proposals were 30 for turnkey contracts, 50 for civil construction contracts, 10 for deferred payment supply contracts and 16 for consultancy service contracts.

## APPENDIX-I

## IMPORTANT EXPORT CONTROL/PROMOTION ANNOUNCEMENTS

## APRIL 1988 - MARCH 1989

### A. CHANGES IN EXPORT CONTROL

| Sr. No. | Item | Month(s) of Announcements | Details |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. | Basmati Rice | April 1988 | Export was allowed under Open General Licence subject to a minimum export price (MEP) of Rs. 7,500/- per MT. |
| 2. | Meat of Buffalo (both male and female) | April 1988 | Export was allowed within a limited ceiling subject to MEP of Rs. 11.50 per kg. (f.o.b.) on production of certificate from the designated veterinary authorities of the State from which the meat emanates, stating that the meat is from Buffaloes not used for breeding and milch purposes.<br>Export of chilled/frozen meat was allowed on furnishing pre-shipment inspection certificate issued by the Office of the State Directorate of Animal Husbandry or any other Veterinarian authorised on their behalf. |
| 3. | Meat of Indian Sheep & Goat | April 1988 | Export of chilled/frozen meat was allowed on furnishing pre-shipment inspection certificate issued by the office of State Directorate of Animal Husbandry or any other Veterinarian authorised on their behalf.<br>Export of frozen meat was allowed on furnishing an additional pre-shipment inspection certificate issued by the State Director of Animal Husbandry or any other officer authorised on his behalf in case of exports from Bombay, Delhi and Mangalore and by the Export Inspection Agency in respect of exports from Cochin and Madras. Export of meat of Indian Sheep and Goat was allowed on an out-right sale basis and not on consignment basis. |
| 4. | Iron Ore of Goa Origin | April 1988 | Export was allowed under OGL No. 3 subject to registration of contract with Goa Mineral Ore Exporters Association. |
| 5. | Semi-processed hides and skins including crust leather and ready-to-finish leather | June 1988 | During the period April 1988 to September 1988, export was allowed within a limited ceiling of 29,69,000 pieces consisting of 19,48,750 pieces of semi-finished E.I. tanned (Buff Calf 2,44,500, Cow Calf 2,08,750, Cow Hide 2,21,250, Buff Hide 13,750, Sheep Skin 5,63,000 and Goat Skin 6,97,500 Total 19,48,750) and 10,20,250 pieces of Blue Goat Skins. |
| 6. | Pure Milk Ghee | July 1988 | Export was allowed within a limited ceiling. |
| 7. | Basmati Rice | August 1988 | The minimum export price was increased from Rs. 7500/- to Rs. 8,000/- per MT (f.o.b.) |
| 8. | Non – Basmati Rice | September 1988 | Export was allowed within a limited ceiling, on the basis of registration of contracts with APEDA, backed by 100% confirmed Irrevocable Letter of Credit or against advance payment received in full subject to production of Bank Certificate from a Nationalised/Scheduled bank of India covering 100% f.o.b. value against the specific export order or against revolving Letter of Credit. |
| 9. | HPS Groundnut (both in shell and kernels) | September 1988 | Exports were allowed under OGL No. 3 against registration of contracts with Indian Oil and Produce Exporters Association, Bombay. |
| 10. | Wool Top and Noils/Wool Waste under Customs Bond | October 1988 | Export of Wool tops and Noils/Wool Waste manufactured out of imported wool under Customs Bond was allowed without export licensing formalities as per the provisions contained in Section 65(i) of Customs Act. |

| Sr. No. | Item | Month(s) of Announcements | Details |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 11. | Buffalo Offals | October 1988 | Export was allowed under OGL No. 3 subject to: (i) obtaining certificate from the designated Veterinary Authorities of the State to the effect that offals are from Buffaloes not used for breeding and milch purposes. (ii) furnishing pre-shipment inspection certificate issued by the office of State Directorate of Animal Husbandry or any other Veterinarian authorised on their behalf. |
| 12. | Semi-processed hides and skins including crust leather and ready-to-finish leather | October 1988 | During the period October 1988 to March 1989, export was allowed within a limited ceiling of 39,16,207 pieces (including unutilised balance ceiling for April-September 1988 left with Jt. Chief Controller of Imports and Exports, Madras and Calcutta) consisting of 23,24,932 pieces of semi-finished E. I. tanned (Buff Calf 2,53,180, Cow Calf 2,08,750, Cow Hide 2,76,562, Buff Hide 13,750, Sheep Skin 5,87,450 and Goat Skin 9,85,240, Total 23,24,932) and 15,71,275 pieces of Wet Blue Goat Skins. |
| 13. | Non-Basmati Rice | October 1988 | Export was allowed with a period of shipment upto six months or till the end of the licensing year i.e. 31st March, 1989, whichever is earlier from the date of registration of contracts with Agricultural and Processed Food Products Export Development Authority, New Delhi (APEDA). |
| 14. | Colour Picture Tubes | November 1988 | Export was canalised under OGL No. 4 through the Electronics Trade and Technology Development Corporation, New Delhi. |
| 15. | Sesame Seeds | —„— | Export was allowed under Open General Licence No. 3, subject to registration of contracts with Indian Oil and Produce Exporters Association (IOPEA). |
| 16. | Niger Seeds | —„— | Export was allowed under Open General Licence No.3 against registration of contracts with Indian Oil and Produce Exporters Association, Bombay. |
| 17. | Meat of Indian Sheep & Goat | —„— | Export was allowed subject to a minimum export price of Rs. 26/- per kg. f.o.b. |
| 18. | Polyester Staple Fibre/Yarn | —„— | Export of 100% Staple Fibre Spun Yarn was allowed under OGL No.3 by the Customs authorities subject to the condition that the information in respect of exports effected should be furnished by the exporters within 15 days after shipment to the concerned council. |
| 19. | Hand knotted/woven woollen Carpets | —„— | Export was allowed under OGL No. 3. Shipment shall not be permitted on Documents against Acceptance (D/A) payment basis unless the same are backed by a Bank Guarantee. |
| 20. | Bajra & Jowar | December 1988 | Export was allowed on "first-come, first-served", basis against the contracts backed by 100% Irrevocable Letter of Credit. |
| 21. | Colour Picture Tubes | March 1989 | Export of sub-assemblies of colour TV containing colour picture tubes was also canalised under O.G.L. No. 4 through the Electronics Trade and Technology Development Corporation, New Delhi. |

## APPENDIX—I
## B. CHANGES IN EXPORT DUTY
## (April 1988 - March 1989)

| Sr. No. | Item | Date of Announcement | Duty | | Cess | |
|---|---|---|---|---|---|---|
| | | | Present | Previous | Present | Previous |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. | Coffee | 26.08.1988 | Nil (exempted) | Rs. 100 — per quintal | Rs. 11.80 per quintal | Rs. 11.80 per quintal |
| 2. | Black Pepper | 20.09.1988 | Nil (exempted) | Rs. 5/- per kg. | ½% | ½% |

*Source:* Custom Notifications, Ministry of Finance, Government of India.

## APPENDIX—II

## A — IMPORTANT ANNOUNCEMENTS WITH REGARD TO IMPORT CONTROL POLICY (APRIL 1988-MARCH 1989)

| Sr. No. | Item | Month of Announcement | Details |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. | Expansion of list of Limited permissible items and OGL | March 1988 | (1) The list of limited permissible items has been expanded by addition of 9 electronic items. (2) One item relating to relays for electronic industry with four sub-categories was included in the list of electronic items under OGL. (3) Additional six categories of grease/lubricants items were included under OGL. |
| 2. | Additions to item under Open General Licence | June 1988 | Government Transport Authorities and specified manufacturers are permitted to import bus and truck tyres of certain specifications under OGL. |
| 3. | Sale of Gold by MMTC | June 1988 | Under the scheme for exports of gold and silver jewellery from export processing zones and 100 per cent export oriented complexes, the Minerals and Metals Trading Corporation of India Limited (MMTC) can also supply gold, gold intermediates and components including gold alloys, carat gold and coloured gold excluding specified items to approved gold jewellery manufacturing and exporting units. |
| 4. | Import policy for registered exporters | June 1988 | (1) REP licences issued to Export Houses/Trading Houses on their own exports will also be made valid for the import of samples as per specified provisions and conditions. (2) Registered Exporters may utilise the REP licences issued in the previous year for making import of items permitted under the new Import Policy for registered exporters. (3) Export Houses/Trading houses are also eligible to obtain licences without having specific export order. The import entitlement would be based on the annual average past export performance of the "related export product" which has been defined as the product which could be manufactured with the existing infrastructure and production facility. |
| 5. | Revision of REP rates for leather footwear | June 1988 | The rate of import replenishment for leather foot wear (excluding canvas footwear) was revised to 12 per cent. |
| 6. | Ceiling raised for import of Technology | July 1988 | The aggregate foreign exchange financed under the Technical Development Fund for any unit for import of technology is raised to U.S. dollars equivalent to Rs. 2 crores from Rs. 1.25 crores per year. |
| 7. | REP rate for precious stones | July 1988 | REP rate for cut and polished precious stones and semi-precious stones (less than Rs. 4,000 per carat f.o.b.) are given a uniform rate of 60 per cent. |
| 8. | Additional Licence for import of Almonds | July 1988 | Each eligible dry fruit licencee shall also be granted an additional licence for import of almonds only for a value of Rs. 20,000/- irrespective of the value of the dryfruit licence to which he is entitled. |
| 9. | Limits on imports of almonds by Export Houses/Trading Houses | July 1988 | Additional licences issued to Export Houses/Trading Houses after 1-4-1988 will also be valid for making import of almonds upto 5% of the value of licence within the overall value of the licence. |
| 10. | Licence for import of additional categories of machinery and equipment under OGL | August 1988 | Additional 15 items of machinery and equipment required for the gems & jewellery industry were included in the existing list of gems and jewellery machinery allowed under OGL. |

| Sr. No. | Item | Month(s) of Announcements | Details |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 11. | Import of gold through SBI | August 1988 | The exporters of gold and silver jewellery articles may also be allowed the option to obtain the requisite quantity of gold from the SBI in advance at the then prevailing international price on cash payment subject to conditions specified. For failure to effect the exports in full within 180 days from the date of the purchase of gold from SBI by exporters, the bank would forfeit the bank guarantee. The SBI would be authorised to effect this forfeiture. |
| 12. | Liberalisation of imports of Components of Computers, switches and electronic items,etc. | August 1988 | (1) Components imported by manufacturers of computer and computer peripherals against supplementary licences can be supplied as spares for repairs of computer and computer peripherals upto 2 per cent of the value of the licences. (2) List of limited permissible items was expanded by addition of items mainly relating to switches and components of electronic items (3) OGL list is also expanded by including a number of electronic items. |
| 13. | Special REP rates | August 1988 | Export products such as passenger cars, trucks, station wagons, buses, tempos, jeeps, motor cycles, scooters, mopeds, three wheelers and other motor vehicles including tractors, are made eligible for flexibility or a special REP at higher rates, which would be equal to 20 per cent of the value addition achieved. |
| 14. | Transferability and import eligibility against REP licences issued to Export Houses and Trading Houses | September 1988 | (1) Additional licences already issued prior to 1.4.1988 or after 1.4.1988 against exports made during 1986-87 or earlier periods and Additional licences/REP Licences endorsed for the import of non – OGL Capital Goods in terms of specified provisions of EXIM POLICY 1985-88 shall also be freely transferable and without actual user conditions like additional licences issued after 1.4.1988 against exports made during 1987-88. (2) Additional Licences issued to Export Houses/Trading Houses after 1.4.1988 on exports made during 1986-87 or earlier periods will be valid for imports of specified items under OGL. |
| 15. | Amendment to Open General Licence No. 23 | September 1988 | 100% Export Oriented units importing under the OGL are required to adhere to the minimum value added condition stipulated by the Government in respect of them. Such importers are also required to maintain proper accounts of their imports, consumption, utilisation of all imported materials and of the exports made by them and submit them periodically to the concerned authorities specified. |
| 16. | Blanket Import Export Pass Books for the export of Garments | September 1988 | This facility has been designed to give garment exporters the freedom and flexibility to import duty free the required inputs quickly to meet the needs of fast changing fashion oriented industry which requires time bound execution of export orders. The facility is subject to various conditions including the following : All Registered Exporters having exports of garments in all preceding 3 licensing years will be eligible for the issue of these pass books. However, in the case of merchant exporters a minimum annual average f.o.b. value of exports of Rs. 50 lakhs in the preceding licensing years will be insisted upon. The pass book under the scheme will be available for the export of ready-made garments made of all types of fabrics excluding woollen and natural silk fabrics. |

| Sr. No. | Item | Month(s) of Announcements | Details |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 17. | Export obligation for importers of dry fruits waived | September 1988 | Dry fruits import licences upto the value of Rs. 40,000/- (Dry fruits licences upto Rs. 20,000/- and almonds licences of a value of Rs. 20,000/-) will not be subject to specified export obligation. |
| 18. | New items for import under OGL | October 1988 | Imports of seeds of vegetables/flowers, seeds of ornamental plants, tubers and blubs of flowers, cuttings, saplings, budwood, etc. of flowers are allowed to be made under OGL by the designated authority/ies. |
| 19. | New Items of capital goods for imports under OGL | October 1988 | Nine new items of textile machinery are allowed for import under the OGL. |
| 20. | Execution of bond with EXIM Bank. | November 1988 | In the case of import of computer systems imported under the EXIM Bank Scheme, the importer shall be required to execute the bond backed by bank guarantee with the EXIM Bank for the value and period as determined by designated authority. |
| 21. | Issue of Subsidiary Licences | November 1988 | In order to facilitate the clearance of goods through different sections of the same Customs House the licensing authorities will consider request for the issue of subsidiary licences against an existing Actual User Licence, subject to various conditions and specifications. |
| 22. | Amendment to Open General Licence No. 1 | November 1988 | Import of colour T.V. picture tubes will be allowed under OGL only for the purpose of manufacture of colour T.V. sets. |
| 23. | Disposal of items imported under Duty Exemption Scheme | November 1988 | The holder of an Advance Licence in respect of export of engineering and chemicals including petro-chemical products will be eligible to dispose of the replenished exempt materials to any person. Permission for the disposal of items is required to be obtained from the licensing authority who can allow only when the relevant export obligation has been fully discharged for the related products. |
| 24. | New Input-Output norms for chemicals and allied products | November 1988 | New Input-output norms fixed for some varieties of raw materials that can be imported against specified export products. |
| 25. | Import Policy for registered exporters | November 1988 | Import replenishment rates revised and rationalised for registered exporters. |
| 26. | Import of Cloves, Cinnamon/ Cassia | November 1988 | Import of these items will be allowed against licences to be granted to all those who have imported these items during the current year or in any of the last five years. Actual Users who have no past imports will also be eligible for licences. Imports of these items under OGL shall not be permitted. |
| 27. | Import of bicycle machinery under OGL | December 1988 | Twenty seven items of machinery for manufacture of bicycles and components thereof are made eligible for import under the OGL. |
| 28. | Additional items allowed for import | February 1989 | (1) Ten new items of textile machinery were allowed for imports under OGL. (2) Two new items of machinery for woollen industry were added to the list of OGL. (3) Several items were added to list of limited, permissible and restricted categories. Similarly addition and deletions were made to the specified list of non-capital goods under OGL. |
| 29. | Amendment to Open General Licence No. 4 | February 1989 | Impor of bonafide technical and trade samples of tea supplied free of charge not exceeding Rs. 1000/- in c.i.f. value in one consignment, allowed on the recommendation of the Tea Board, Calcutta. |
| 30. | Import of Paraxylene by canalised agency | March 1989 | Import of Paraxylene will be made only by Indian Petrochemicals Corporation (IPCL) under OGL on the basis of foreign exchange released by the Government in its favour. |

| Sr. No. | Item | Month(s) of Announcements | Details |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 31. | New Input-output norms fixed | March 1989 | New Input-output norms indicating the quantum of import allowed, quantity of import allowed with duty exemption for specified export products in various categories of exports like engineering, chemical and allied products, textiles and food have been announced. |
| 32. | Additional types of medicinal injection for imports under OGL | March 1989 | Ten more items of injections have been allowed for imports under OGL. |
| 33. | Trade with Nepal | March 1989 | Import from and export to Nepal will be governed as per the normal Import-Export Policy with effect from 24th March, 1989 since the Indo-Nepal Treaty on Trade stands lapsed as on 23rd March, 1989. |

## APPENDIX—II
## B — CHANGES IN IMPORT DUTIES
## (APRIL 1988 - MARCH 1989)

| Sr. No. | Date of Announcement | Changes announced |
|---|---|---|
| 1 | 2 | 3 |
| 1. | 18.4.1988 | All medical and surgical instruments, apparatus and appliances including spare parts and accessories thereof, imported into India by any Department or Ministry of the Government of India, are exempted from whole of the customs duty and additional duty subject to the condition that the imports relate to Government Assistance Programme with any other country. Auxiliary duty has also been completely exempted. |
| 2. | 18.4.1988 | Customs duty in excess of 20 per cent on specified items of dental, opthalmic and medical equipments and the whole of the additional duty have been exempted, subject to specified conditions. Auxiliary duty has also been completely exempted. |
| 3. | 22.4.1988 | Enriched uranium has been exempted from basic duty in excess of 40 per cent and the whole of the additional duty. Auxiliary duty in excess of 30 per cent has also been exempted. |
| 4. | 27.4.1988 | Sight saving equipment and their accessories and spare parts have been completely exempted from the whole of basic, additional and auxiliary duties. |
| 5. | 2.5.1988 | Silver imported under the scheme for export of gold and silver jewellery and articles for sale at approved exhibitions have been completely exempted from basic and auxiliary duties. |
| 6. | 11.5.1988 | Reduction in basic customs duty from 70 per cent to 15 per cent on Acrylonitrile. |
| 7. | 13.5.1988 | Polyurethene films and foils imported for the manufacture of finished leather exempted from so much of the basic customs and additional duty as is in excess of 40 per cent. |
| 8. | 13.5.1988 | Increase in basic duty from 85 per cent to 115 per cent on ash and residues of zinc. |
| 9. | 16.5.1988 | Basic customs duty in excess of 35 per cent has been exempted and the whole of additional and auxiliary duties have been exempted on prawn feed, for the cultivation of prawns for export. |
| 10. | 20.5.1988 | Basic duty exempted for five sight saving equipments namely Slit lamp Biomicroscope/Photo slit lamp, Surgical operating zoom microscope with close circuit T.V. Camera, Surgical Operating Microscope Manual, Argon/Krypton Laser and Yag laser and basic, additional and auxiliary duties for parts thereof have been totally exempted. |
| 11. | 25.5.1988 | Exemption of customs duty in excess of 20 per cent and total exemption of additional and auxiliary duty have been prescribed on temporarily imported computer hardware on loan basis for execution of computer software export contracts. |
| 12. | 25.5.1988 | Customs duty in excess of 35 per cent on machinery imported for manufacture of hard gelatine capsules exempted and additional and auxiliary duties totally exempted. |
| 13. | 26.5.1988 | Ribbed lug and semi-lug varieties of Nylon tyres exempted from basic customs duty in excess of 60 per cent. |
| 14. | 1.6.1988 | Basic duty on Ethylene dichloride for the manufacture of Polyvinyl chloride resins has been reduced from 25 per cent to 15 per cent. Auxiliary duty has been totally exempted. |
| 15. | 23.6.1988 | Customs duty on Non-alloy steel billets in excess of 15 per cent has been exempted. |
| 16. | 29.6.1988 | Machinery and equipments for generation of electrical power (including generation sets) of capacity 2.5 MW and above, but not exceeding 50 MW have been exempted from customs duty in excess of 35 per cent. Machinery and equipments to generate electrical power exceeding 50 MW have been exempted from basic duty in excess of 25 per cent. The whole of the additional and auxiliary duties have also been exempted. |
| 17. | 4.7.1988 | Basic duty in excess of 40 per cent on Titanium dioxide has been exempted. |
| 18. | 12.7.1988 | Jumborolls of graphic art film and Jumbo rolls of photographic colour paper exempted from basic customs duty in excess of 60 per cent. |
| 19. | 18.7.1988 | Diethyl Aniline used for the manufacture of butachlor has been exempted from basic duty in excess of 25 per cent and completely exempted from auxiliary duty. |
| 20. | 18.7.1988 | Basic duty in excess of 50 per cent and additional duty in excess of 10 per cent on spare parts of computers and computer peripherals have been exempted and auxiliary duty totally exempted. |
| 21. | 19.7.1988 | Basic duty on Butachlor in excess of 45 per cent has been exempted. |
| 22. | 1.8.1988 | Machinery, equipment, instruments, components, spares, raw materials and consumables required for Light Combat Aircraft have been totally exempted from basic, auxiliary and additional duties. |

| Sr. No. | Date of Announcement | Changes announced |
|---|---|---|
| 1 | 2 | 3 |
| 23. | 1.8.1988 | Basic duty in excess of 35 per cent on Photo polymer plates used in printing industry has been exempted. |
| 24. | 16.8.1988 | Basic duty on imports of fire arms and ammunitions by renowned shots have been reduced from the existing 70 per cent to 35 per cent. |
| 25. | 26.8.1988 | Customs duty in excess of Rs. 45,000 per tonne and whole of the additional duty on unwrought nickel exempted. |
| 26. | 8.9.1988 | Basic duty in excess of 35 per cent and whole of additional duty on coal tar pitch exempted. Auxiliary duty of 5 per cent fixed. |
| 27. | 16.9.1988 | Reduction in customs duty on component parts of medical equipment from 40 per cent to 25 per cent. |
| 28. | 16.9.1988 | Specified machines for manufacture of packaging media exempted from basic customs duty in excess of 35 per cent and whole of additional and auxiliary duty. |
| 29. | 28.9.1988 | Five specified items of planting material have been exempted from so much of customs duty as in excess of 15 per cent and total exemption of auxiliary and additional duties when imported for sowing or planting. |
| 30. | 29.9.1988 | Component parts of fork lift trucks of capacity exceeding 10 tonnes have been exempted from so much of that portion of the customs duty as is in excess of the amount calculated at the rate of 45 per cent |
| 31. | 29.9.1988 | Basic duty on unwrought zinc is reduced from 85 per cent to 50 per cent. |
| 32. | 30.9.1988 | Components of fuel efficient light commercial motor vehicles employing indirect injection engines have been exempted from so much of customs duty as is in excess of 10 per cent and whole of the additional duty and auxiliary duty in excess of 30 per cent. |
| 33. | 30.9.1988 | Basic customs duty on Copper scrap imported for the manufacture of copper oxy-chloride has been reduced from 65 per cent to 40 per cent. |
| 34. | 30.9.1988 | Basic duty on Aluminium waste and scrap reduced from 50 per cent to 30 per cent and auxiliary duty in excess of 5 per cent exempted. |
| 35. | 3.10.1988 | Import duty on pulses increased from 10 per cent to 35 per cent. |
| 36. | 12.10.1988 | Die, tools, jigs and fixtures exempted from so much of basic duty as is in excess of 35 per cent. The whole of additional and auxiliary duties have also been exempted. |
| 37. | 14.10.1988 | Plastic bags for preserving blood and its components exempted from so much of basic duty as is in excess of 40 per cent. The whole of additional and auxiliary duties were also exempted. |
| 38. | 1.11.1988 | Prestaglandin F2 and Lincomycin Hydrochloride imported for manufacture of specified drugs and hormones exempted from basic duty in excess of 25 per cent and whole of additional and auxiliary duties. |
| 39. | 1.11.1988 | Reduction in basic customs duty on specified olefins imported for manufacture of oxoalcohols from 24 per cent to 20 per cent. |
| 40. | 1.11.1988 | Reduction in basic customs duty on methanol from 80 per cent to 60 per cent. |
| 41. | 1.12.1988 | Video cassettes and Video tapes of a predominantly educational character are exempted from the whole of the additional duty of customs. |
| 42. | 15.12.1988 | Components required for the manufacture of power transmission systems for earth moving machinery, fork lift trucks and locomotives have been exempted from so much of basic duty as is in excess of 45 per cent. |
| 43. | 23.12.1988 | Customs duty on unwrought nickel indicated in Sr. No. 25 was amended and customs duty in excess of Rs. 35,000 exempted. |
| 44. | 31.12.1988 | Specified goods imported for on-shore oil operations like swivel, hook, rotary tables, derricks, etc. have been exempted from basic customs duty as is in excess of 25 per cent and from the whole of the additional duty. |
| 45. | 31.12.1988 | Specified goods for off-shore oil operations such as helicopters, supply boats, castings and tubings imported have been exempted from basic customs duty as is in excess of 25 per cent and the whole of additional duty. |
| 46. | 16.1.1989 | Consumable goods when imported by a public funded research institution or a university have been exempted from the whole of customs, additional, and auxiliary duties. |
| 47. | 1.2.1989 | Project goods imported by the Ordnance Factory Board, Calcutta exempted from the whole of basic, additional and auxiliary duty of customs. |

| Sr. No. | Date of Announcement | Changes announced |
|---|---|---|
| 1 | 2 | 3 |
| 48. | 2.2.1989 | Exempts specified goods for manufacture of rubber surgical gloves from specified customs duty which is in excess of 25 per cent. Further the whole of the additional duty and also auxiliary duty is exempted. |
| 49. | 1.3.1989 | Exemption from basic duty in excess of 40 per cent on silicon carbide and synthetic aluminium oxide for manufacture of grinding wheels and abrasive products. |
| 50. | 1.3.1989 | Exemption from basic duty as is in excess of 40 per cent on cubic boron nitride for manufacture of grinding wheels and cutting tools. |
| 51. | 1.3.1989 | Exemption from basic duty in excess of 45 per cent on X-Ray phosphor for manufacture of X-Ray intensifying screens. |
| 52. | 1.3.1989 | Basic duty in excess of 25 per cent and whole of additional duty on two specified amino acids namely, L Lysine and D L Methionine for manufacture of poultry feeds have been exempted |
| 53. | 1.3.1989 | Exemption of basic duty in excess of 30 per cent on specified machinery/equipments for textile garments and leather, etc. and parts thereof. The whole of additional duty is also exempted. |
| 54. | 1.3.1989 | Basic Duty in excess of 35 per cent on machinery for manufacture of fishing nets has been exempted. The whole of the additional duty has also been exempted. |
| 55. | 1.3.1989 | Basic duty in excess of 35 per cent on machinery for manufacture of fuel injection equipment has been exempted. The whole of the additional duty has also been exempted. |
| 56. | 1.3.1989 | Basic duty in excess of 35 per cent on machinery for the leather industry has been exempted. The whole of the additional duty of customs has also been exempted. |
| 57. | 1.3.1989 | Basic duty in excess of 35 per cent on machinery for the garments and hosiery industry has been exempted. The whole of the additional duty has also been exempted. |
| 58. | 1.3.1989 | Basic duty in excess of 35 per cent on freeze drier for vaccines has been exempted. The whole of the additional duty has been exempted. |
| 59. | 1.3.1989 | Basic duty in excess of 40 per cent on specified goods for the electronic industry has been exempted. The whole of the additional duty has been exempted. |
| 60. | 1.3.1989 | Basic duty in excess of 50 per cent on specified raw materials for optical communication cables has been exempted. |
| 61. | 1.3.1989 | Basic duty on paper capacitors has been increased from 60 per cent to 100 per cent. |
| 62. | 1.3.1989 | Basic duty in excess of 50 per cent on specified electronic components has been exempted. |
| 63. | 1.3.1989 | Total exemption from basic and additional duty on thermoplastic splinting material has been prescribed. |
| 64. | 1.3.1989 | Basic duty in excess of 20 per cent on components etc. for manufacture of HPSV lamps has been exempted. The whole of the additional duty is exempted. |
| 65. | 1.3.1989 | The basic duty on rubber glove making machines has been increased from 25 per cent to 35 per cent. |
| 66. | 1.3.1989 | Basic duty in excess of 35 per cent on specified inputs for the newspaper industry has been exempted. |
| 67. | 1.3.1989 | Basic duty in excess of 35 per cent and whole of additional duty on specified equipments for safety in chemicals industry and for use in pollution control has been exempted. |
| 68. | 1.3.1989 | Basic duty in excess of 35 per cent and whole of additional duty on machinery/equipments for the seed sector have been exempted. |
| 69. | 1.3.1989 | Complete exemption of auxiliary duty in respect of several commodities and partial exemption from auxiliary duty in respect of some commodities were announced. |

## APPENDIX—III

## IMPORTANT TRADE AGREEMENTS/TRADE PROTOCOLS ETC. SIGNED BETWEEN INDIA AND OTHER COUNTRIES

## (APRIL 1988 - MARCH 1989)

| Sr. No. | Country | Date of Agreement/Trade Protocol/Trade plan review | Duration of Agreement/ Trade Protocol/ Trade Plan | Major items of exports and imports from/to India | New commodities of exports/imports added in the Protocol | Remarks |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. | Czechoslovakia | Trade Plan 2.12.1988 | For 1989 | **Exports** : Tea, black pepper, cashew kernels, de-oiled cakes, cotton seed, soyabean extractions, de-oiled rice bran, iron-ore concentrates and pellets, shoe uppers, leather products, cotton yarn, machinery items,etc.<br><br>**Imports** : Organic and inorganic chemicals, plastic materials, rolled steel products, ball bearings, various types of machinery,etc. | **Exports** : Varnishes, enamels and paints<br>**Imports** : Equipments for type production, machinery for production of bricks and T.V. picture tubes (including T.V. guns). | The Trade Plan envisages a total turn over of Rs. 580 crores representing an increase of 7 per cent in total turn over. Imports and exports each will account for Rs. 290 crores i.e. about half of the total turn over. |
| 2. | Poland | Trade Plan 7.12.1988 | For 1989 | **Exports** : Tea, coffee, pepper, deoiled cakes, chemicals, cotton yarn, cotton textiles, textile machinery, electromedical equipments, machine tools,etc.<br><br>**Imports:** Coking coal, sulphur and rapeseed oil, machinery, equipment and components for power stations,. equipment for railways, mining machinery/components/ equipments/spares/ services, mining electronic metal working machines, machine tools,fishing trawlers, ship engines/equipments, steel products, copper and copper products, zinc,etc. | **Exports** : Manganese ore<br><br>**Imports** : Petrochemicals and old ships for scrapping and scrap materials | The Trade Plan envisages a trade turnover of Rs. 686 crores representing Rs. 315 crores by way of exports to Poland and Rs. 371 crores by way of imports into India. The turnover represents a growth of 16 per cent as compared to the 1988 Plan. |

| Sr. No. | Country | Date of Agreement/Trade Protocol/Trade plan review | Duration of Agreement/ Trade Protocol/ Trade Plan | Major items of exports and imports from/to India | New commodities of exports/imports added in the Protocol | Remarks |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3. | GDR | Trade Protocol 30.11.1988 | For 1989 | **Exports** : Cashewnuts, pepper, de-oiled cakes, iron ore, tobacco, shoe uppers, finished leather, cotton grey clothes, machine and hand tools, electronic components, etc.<br><br>**Imports** : Steel & steel products, news print, organic and inorganic chemicals and chemical products, diesel generating sets, printing equipment, electronic and office equipment, etc. | **Exports** : Polyester staple fibre, workers' overalls, basic drugs and pharmaceuticals and granite.<br><br>**Imports** : High rise stackers for automotive sectors, equipment for Vaccuum technique, freeze drying, microlithographic equipment for chip production, etc; | The Protocol envisages a trade turnover of Rs. 580 crores during 1989 consisting of Indian exports to GDR of Rs. 280 crores and imports into India of Rs. 300 crores. This would represent a growth of about 8 per cent in total trade turnover. |
| 4. | China | Trade Protocol 8.6.1988 | April 1, 1988 to March 31, 1989 | **Exports** : Oil mills, iron ore, other ores and minerals, basic chemicals, engineering goods, etc.<br>**Imports** : Raw silk, pulses, coal, coke and briquettes, organic and inorganic chemicals, non-ferrous metals, textile yarn, fabrics and made ups, pearls, precious and semi-precious stones, iron and steel, various items of machinery, project goods, manufacture of metals, etc. | **Exports** : India is likely to export mineral ore, agricultural products, chemicals, engineering products, urea, plywood, jewellery and processed diamonds and synthetic yarns.<br><br>**Imports** : India is likely to import raw silk and silk yarn, agricultural and native products, metals and minerals, chemicals and petroleum products, fresh water cultivated pearls, engineering products, pharmaceuticals and pig iron. | |
| 5. | Yugoslavia | A. Trade Protocol 20.6.1988 | A. (for two years i.e. upto 30.9.1990) | **Exports** : Coffee, tea, spices, shellac, HPS groundnut, leather and leather manufacture goods, iron ore, mica, basic chemicals, engineering goods and textiles. | A. **Proposed Exports** : Coffee, machine tools, automotive components, leather goods, maruti cars and iron ore. | |

| Sr. No. | Country | Date of Agreement/Trade Protocol/Trade plan review | Duration of Agreement/ Trade Protocol/ Trade Plan | Major items of exports and imports from/to India | New commodities of exports/imports added in the Protocol | Remarks |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | | B. Tripartite Agreement on trade expansion and economic cooperation between India, Egypt and Yugoslavia scheduled to expire on December 31, 1988 | B. Extension of Tripartite Agreement (upto March 31, 1993) | **Imports** : Pulp and waste paper, pulses, artificial resins, plastic material, newsprint, non-ferrous metals, iron and steel, paper-board,etc. | B. **Proposed Imports** : Petro-chemicals, newsprint, rails, steel and steel products etc. | |
| 6. | Romania | Trade Protocol 7.12.1988 | For 1989 | **Exports:** Iron ore and mangenese ore, cashew kernels, pepper, tea, coffee, de-oiled cakes, cotton yarn, cotton textiles, chemicals,engineering items,etc. | **Exports** : Pesticides and herbicides, computer peripherals, electronic components such as electrolytic capacitors,etc. | The Trade Plan envisages a turnover of Rs. 760 crores in 1989 comprising of exports of Rs. 380 crores from each country. |
| | | | | **Imports** : Oil prospecting and drilling equipments,castings,pipings and tubings, diesel generating sets, machine tools, ball bearings, rolled round steel products, railway equipment, electronics equipment and components, fertilisers and chemicals. | **Imports** : Streptomycin sulphate, Vitamin-A, speciality papers and glass shells for picture tubes | |
| 7. | U.S.S.R. | 16.11.1988 | For 1989 | **Exports** : Tea, coffee, instant coffee, packaged tea, soyabean extractions and other agricultural items, mineral items, ready-made garments, leather, chemicals, medicines and pharmaceutical preparations, dyestuffs and other intermediates, paints and varnishes, engineering goods like automobile storage batteries, iron and steel castings,electrical equipments,etc. | **Exports** : Non-ferrous castings and forgings, castings for railways, abrasive goods, analysers for quality control of farm products, machinery & equipment for textile, sewing & leather industries, ship repairs, components for tractors, sports shoes, razor blades, detergents, decorative plastics,etc. | The trade plan envisages a total trade turnover of Rs. 7000 crores representing a growth of 35 per cent over the previous year. |

| Sr. No. | Country | Date of Agreement/Trade Protocol/Trade plan review | Duration of Agreement/ Trade Protocol/ Trade Plan | Major items of exports and imports from/to India | New commodities of exports/imports added in the Protocol | Remarks |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | | | | **Imports** : Project goods, agricultural machinery, equipment for ports, crude oil and oil products, metal scrap, coking coal, nickel, copper, wood pulp, timber logs. | **Imports** : Benzene, pig-iron, equipment and material for railways. | |
| 8. | Hungary | Trade Protocol 28.10.1988 | | **Exports** : Tea, spices, oil meals, chemicals, iron ore, leather and leather products, textiles, readymade garments, engineering goods, etc.<br><br>**Imports** : Pulses, artificial resins, plastic materials, electrical machinery and transport equipment, iron and steel, drugs and pharmaceuticals. | **Proposed Exports** : Passenger cars, mopeds, machine tools, engineering machinery, castings and forgings, automobile components and electronic goods. | It was agreed that the existing trade of over US $ 100 million should be increased to U.S. $ 200 million. |

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