

Supplement to the Reserve Bank of India Bulletin, August 1970



ANNUAL REPORT on the working of
the **RESERVE BANK OF INDIA**
and **TREND AND PROGRESS**
of **Banking in India**
for the year ended June 30, 1970

Reserve Bank of India

Report of the Central Board of Directors on the Working of the Reserve Bank of India and Trend and Progress of Banking in India for the year ended June 30, 1970. Submitted to the Central Government in terms of Section 53(2) of the Reserve Bank of India Act, 1934 and Section 36(2) of the Banking Regulation Act, 1949.



Annual Report 1970

CENTRAL BOARD OF DIRECTORS

Governor

SHRI S. JAGANNATHAN

Deputy Governors

SHRI P. N. DAMRY

DR. R. K. HAZARI

Directors nominated under Section 8(1)(b) of the RBI Act.

SHRI S. L. KIRLOSKAR
SHRI BHASKAR MITTER

SHRI V. N. PURI
SHRI J. RAMDAVE ROW

Directors nominated under Section 8(1)(c) of the RBI Act.

SHRI P. L. TANDON
SHRI ARVIND N. MAFATLAL
SHRI G. BASU
SHRI C. P. N. SINGH
PROF. M. MUJEEB

DR. V. SHANMUGASUNDARAM
SHRI KAMALJIT SINGH
SHRI D. C. KOTHARI
DR. P. B. GAJENDRAGADKAR
DR. A. M. KHUSRO

Director nominated under Section 8(1)(d) of the RBI Act.

SHRI A. BAKSI, *Secretary,*
Government of India,
Ministry of Finance,
Department of Banking

MEMBERS OF LOCAL BOARDS

WESTERN AREA

SHRI S. L. KIRLOSKAR
SHRI LAXMAN VAMAN APTE
SHRI K. MAHINDRA
SHRI RAMKRISHNA BAJAJ
SHRI DAYALJI GOVINDJI PATEL

EASTERN AREA

SHRI BHASKAR MITTER
SHRI A. K. SEN
SHRI ABHIJIT SEN
SHRI HARI SHANKER SINGHANIA
SHRI G. K. BHAGAT

NORTHERN AREA

SHRI C. P. N. SINGH
SHRI G. R. MATTOO
SHRI V. N. PURI

SOUTHERN AREA

SHRI J. RAMDAVE ROW
SHRI C. RAMAKRISHNA
SHRI M. K. RAMACHANDRA
SHRI JOHN K. JOHN
SHRI A. SIVASAILAM

OFFICES / BRANCHES OF THE ISSUE AND BANKING DEPARTMENT

ISSUE DEPARTMENT

BANGALORE

BOMBAY (FORT)

BYCULLA (BOMBAY)

CALCUTTA

HYDERABAD

KANPUR

MADRAS

NAGPUR

NEW DELHI

PATNA

BANKING DEPARTMENT

BANGALORE

BOMBAY (FORT)

BYCULLA (BOMBAY)

CALCUTTA

HYDERABAD

KANPUR

MADRAS

NAGPUR

NEW DELHI

PATNA

LETTER OF TRANSMITTAL

Reserve Bank of India,
Central Office,
Bombay.

August 17, 1970
Sravana 26, 1892 (Saka)

The Secretary to the Government of India,
Ministry of Finance,
Department of Banking,
NEW DELHI.

Dear Sir,

In pursuance of the provisions of Section 53(2) of the Reserve Bank of India Act, 1934 and of Section 36(2) of the Banking Regulation Act, 1949, I forward herewith the following documents:—

- (1) A copy of the Annual Accounts of the Bank for the year ended the 30th June 1970 signed by me, the Deputy Governors and the Chief Accountant and certified by the Bank's Auditors ;
and
- (2) Two copies of the Annual Report of the Central Board on the working of the Bank and on Trend and Progress of Banking in India during the year ended the 30th June 1970.

Yours faithfully,

S. JAGANNATHAN
Governor

ANNUAL REPORT ON THE WORKING OF THE RESERVE BANK OF INDIA AND TREND AND PROGRESS OF BANKING IN INDIA

For the year July 1, 1969—June 30, 1970

I. OVERALL TRENDS IN THE ECONOMY

During the Bank's accounting year July 1969 to June 1970, the Indian economy registered good progress on several fronts. The output of all important agricultural commodities showed increase, that in the case of food-grains and jute and mesta being sizeable. Industrial production also maintained a good rate of growth. National income at constant prices during 1969-70 (fiscal) is estimated to have increased by 5 to 5½ per cent which corresponds closely to the average annual rate of growth postulated in the Fourth Five-Year Plan. Foreign exchange reserves recorded a substantial increase mainly as a result of a steep decline in imports. Exports continued to grow though the rate of growth was much smaller than that a year earlier. The rate of growth of monetary resources was somewhat smaller than last year. The net bank credit to Government exerted a much smaller expansionary impact on monetary resources than in the preceding year, indicating the greater degree of balance in the budgetary operations of the Government sector. As against these favourable developments, there was some worsening in the price situation. The relative price stability, experienced over the last two years, was replaced by a rising trend.

2. Investment in the economy continued to rise, particularly in agriculture and small-scale industry. There was a moderate increase in the assistance sanctioned during the year as well as disbursements against earlier sanctions by the term-lending institutions. The small-scale industrial sector in particular was sanctioned a larger volume of assistance. Several measures were announced in the budget of the Government of India to encourage savings in the form of financial assets such as small savings instruments, bank deposits, Government securities and stocks and shares. The stock market remained subdued during the greater part

of the year under review, but became active following the tax concessions granted in the budget for 1970-71 for investing in stocks and shares.

3. The budgetary policy was designed to give a further momentum to productive forces and at the same time ensure the well-being of the needy and the poor. Indirect tax measures were designed to provide impetus to export promotion and import substitution and to restrain consumption. Taxes on investment or producer goods as well as corporation taxes were not changed in order that the uptrend in production is maintained. With a view to mobilising larger savings, the rates of interest on some of the existing media of small savings were stepped up and new media of small savings yielding higher rates of interest but not qualifying for tax concessions were introduced. In order to combine growth with greater regard for welfare of the most needy sections of the society, the budget for 1970-71 provided for specific programmes such as (i) special schemes for small farmers in 45 districts spread throughout the country, (ii) selected rural works programmes particularly in areas prone to famine, (iii) schemes for supply of drinking water in those areas having no easy access to this basic requirement, (iv) social security benefit for industrial workers and government employees, (v) nutritional programme for children and (vi) setting up of an Urban Development Corporation with an authorised capital of Rs. 10 crores for financing slum clearance, housing and urban land development.

4. Monetary policy continued to be operated with the objective of stimulating economic growth and at the same time, curbing inflationary trends in the economy. Nationalisation of 14 major commercial banks enabled considerable re-orientation of bank

lending so as to accelerate the process of development, particularly in those sectors of the economy like agriculture, small-scale industry which hitherto had not received sufficient attention from commercial banks. Increasing emphasis was placed on mobilisation of deposits on a massive scale throughout the country.

Output, Prices and Policy Measures

5. During 1969-70, despite delay in the onset of monsoon and deficient rainfall in certain areas in the initial months, agricultural production recorded substantial progress. Foodgrains production which stood at 95 million tonnes in 1967-68 and at 94 million tonnes in 1968-69 rose to 100 million tonnes during 1969-70. Output of rice is estimated to have increased by 2.3 million tonnes to 42 million tonnes and of wheat by 1.3 million tonnes to 20 million tonnes. The final estimate of raw jute and mesta production is placed higher at 6.8 million bales as against 3.8 million bales in 1968-69. Output of groundnuts at 5.1 million tonnes also showed an increase of about 11 per cent over last year. Output of raw cotton is estimated by trade slightly higher at 6.1 million bales as against 6.0 million bales last year. Production of sugarcane in terms of gur continued to show improvement, total production during 1969-70 being estimated at 12.5 million tonnes as against 12 million tonnes in the preceding year.

Table 1 — Trends in Agricultural Production

	Unit	1968-69 (Final Estimates)	1969-70 (Esti- mates)
1. Foodgrains ..	Million tonnes	94.1	100.00**
(i) Rice ..	- do -	39.8	42**
(ii) Wheat ..	- do -	18.7	20**
2. Raw Cotton ..	Million bales@	5.3 (6.0)†	6.1†
3. Raw Jute and Mesta ..	- do -	3.8*	6.8@@
4. Groundnuts ..	Million tonnes	4.6*	5.1@@
5. Sugarcane ..	- do -	12.0	(12.5)††
(in terms of gur)			

@ Bale of 180 kgs.

* Partially revised estimate.

@@ Final Estimate.

** Provisional.

† Trade estimate, including non-commercial production.

†† Trade estimate.

6. For the calendar year 1969 the overall rate of growth in industrial production was marginally higher at 6.9 per cent as against 6.4 per cent in 1968. During the first nine months of the year under review, i.e., July 1969 to March 1970, the rate of growth in industrial production slackened to 5.8 per cent as against 7.4 per cent in the corresponding period last year.

Table 2 — Growth Rates — Index Numbers of Industrial Production

(Base : 1960=100)

Group	Average Index for July-March		
	1967-68	1968-69	1969-70
General Index ..	154.1	165.5	175.1
Seasonally Adjusted ..		(+7.4)	(+5.8)
<i>Based on Uses</i>			
Basic Industries ..	181.3	201.7	217.4
		(+11.3)	(+7.8)
Capital Goods Industries ..	205.2	219.1	214.8
		(+6.8)	(-2.0)
Intermediate Goods Industries ..	143.2	150.4	158.7
		(+5.0)	(+5.5)
Consumer Goods Industries ..	130.9	138.6	149.3
		(+5.9)	(+7.7)
Consumer Durable Goods ..	189.3	223.1	242.1
		(+17.9)	(+8.5)
<i>Based on Inputs</i>			
Agro-based Industries	120.1	122.1	128.7
		(+1.7)	(+5.4)
Metal-based Industries	198.6	221.3	224.9
		(+11.4)	(+1.6)
Chemical-based Industries	184.4	221.4	239.3
		(+20.1)	(+8.1)

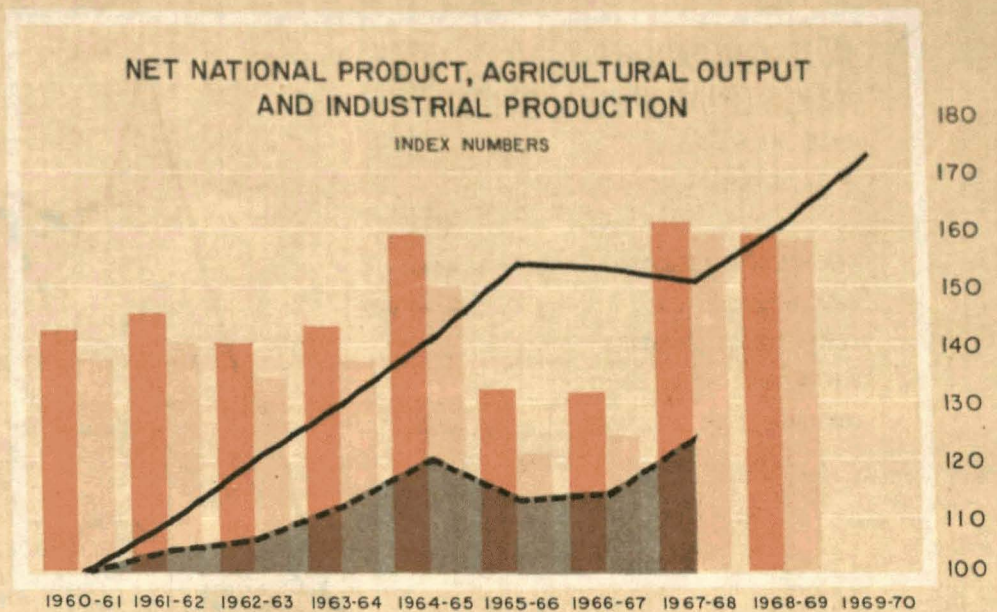
Note : Figures in brackets represent percentage change over previous year.

7. Among the major groups of industries, classified according to their uses, 'basic industries' recorded a lower rate of increase at 7.8 per cent during the period under review as against 11.3 per cent in the corresponding period last year. 'Capital goods industries' registered an absolute decline of 2.0 per cent as against a rise of 6.8 per cent in the corresponding period last year. The growth rate in the case of 'intermediate goods

NET NATIONAL PRODUCT, AGRICULTURAL OUTPUT AND INDUSTRIAL PRODUCTION

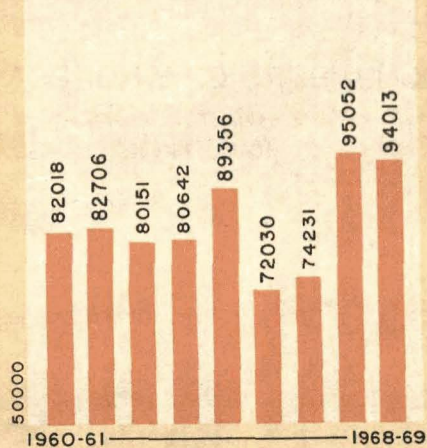
- NET NATIONAL PRODUCT
AT 1960-61 PRICES (APRIL - MARCH)
Base: 1960-61 = 100
- INDUSTRIAL PRODUCTION
GENERAL INDEX *
Base: 1960 = 100
- AGRICULTURAL PRODUCTION
ALL COMMODITIES (JULY - JUNE)
Base: 1949-50 = 100
- FOODGRAINS PRODUCTION (JULY-JUNE)
Base: 1949-50 = 100

* Relates to calendar year.
1960-61 corresponds to 1960 and so on.

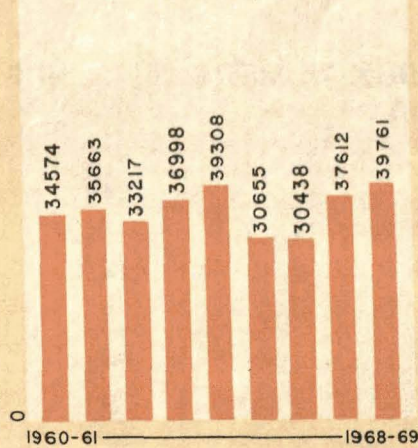


AGRICULTURAL PRODUCTION

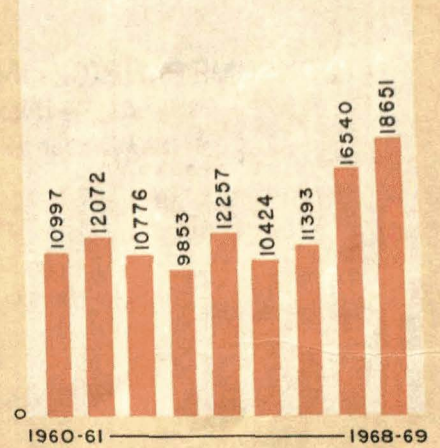
FOODGRAINS ('000 Metric Tons)



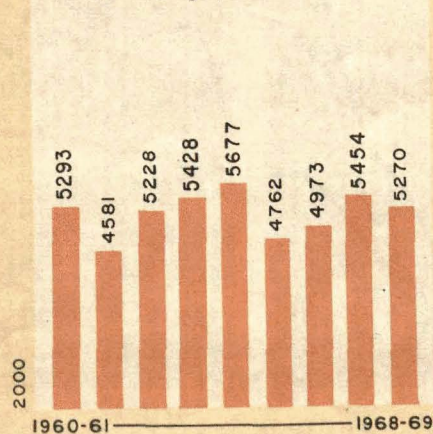
RICE ('000 Metric Tons)



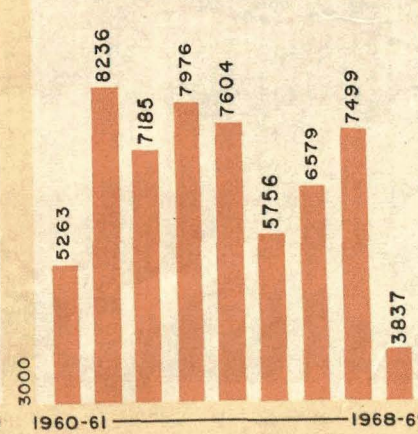
WHEAT ('000 Metric Tons)



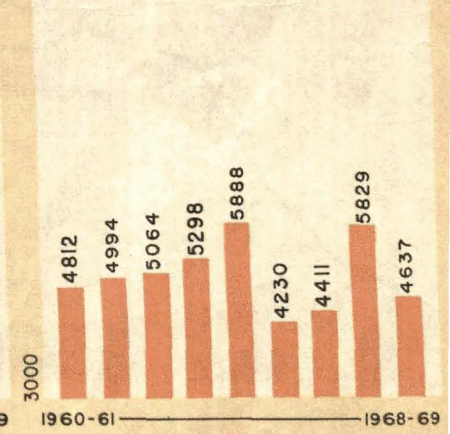
COTTON LINT ('000 Bales)
(1 Bale = 180 Kgs.)



JUTE AND MESTA ('000 Bales)
(1 Bale = 180 Kgs.)



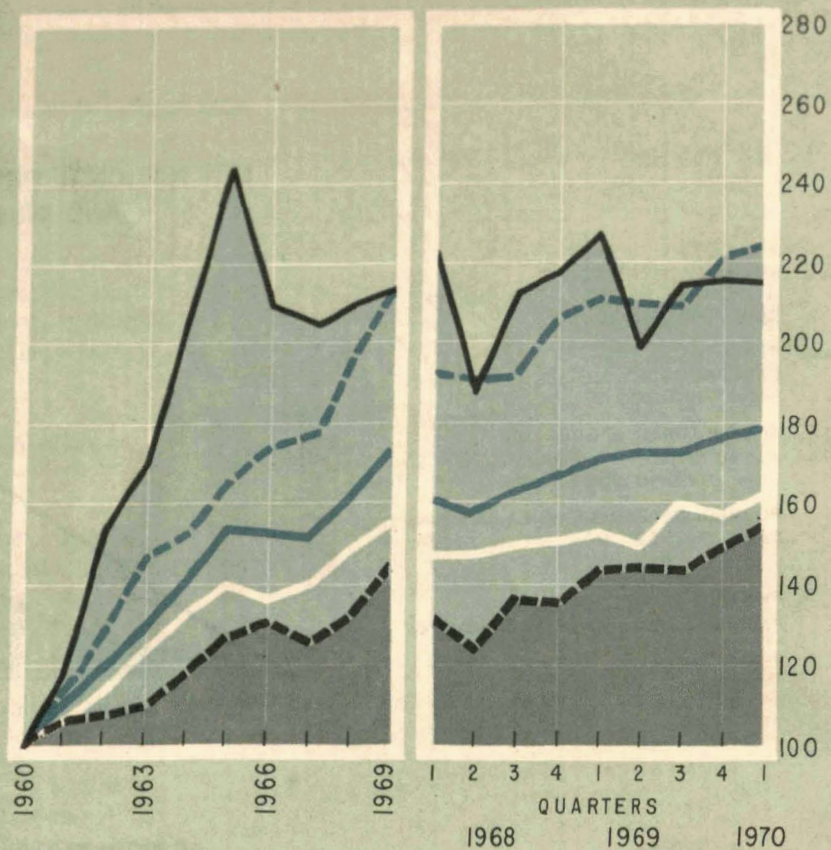
GROUNDNUT ('000 Metric Tons)
(In Shell)



INDEX NUMBERS OF INDUSTRIAL PRODUCTION

BASE: 1960 = 100

GENERAL INDEX (SEASONALLY ADJUSTED)
 BASIC INDUSTRIES
 CAPITAL GOODS INDUSTRIES
 INTERMEDIATE GOODS INDUSTRIES
 CONSUMER GOODS INDUSTRIES

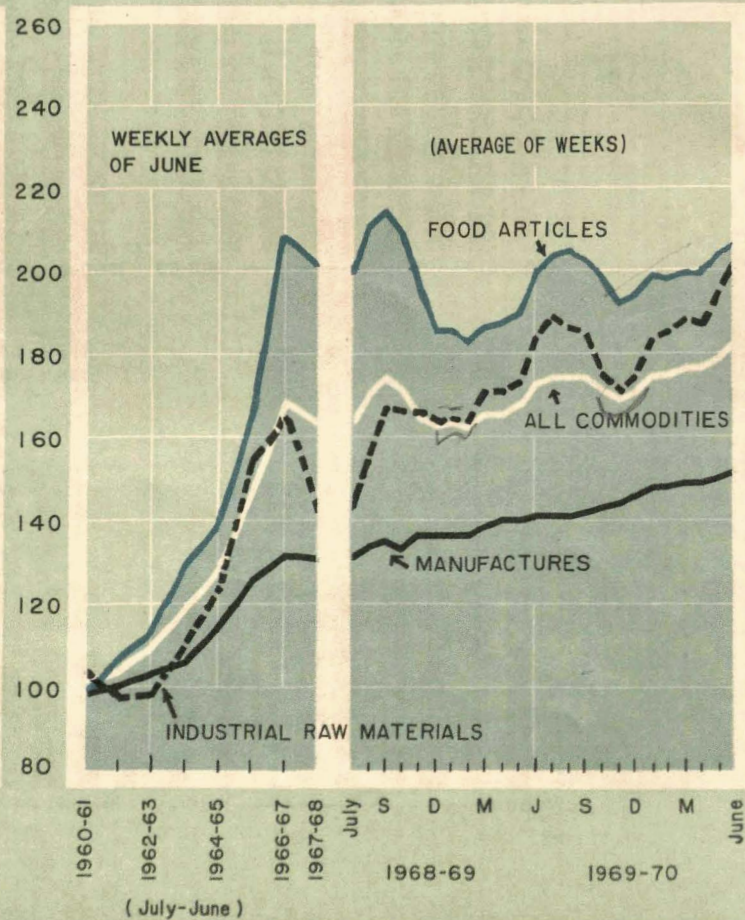
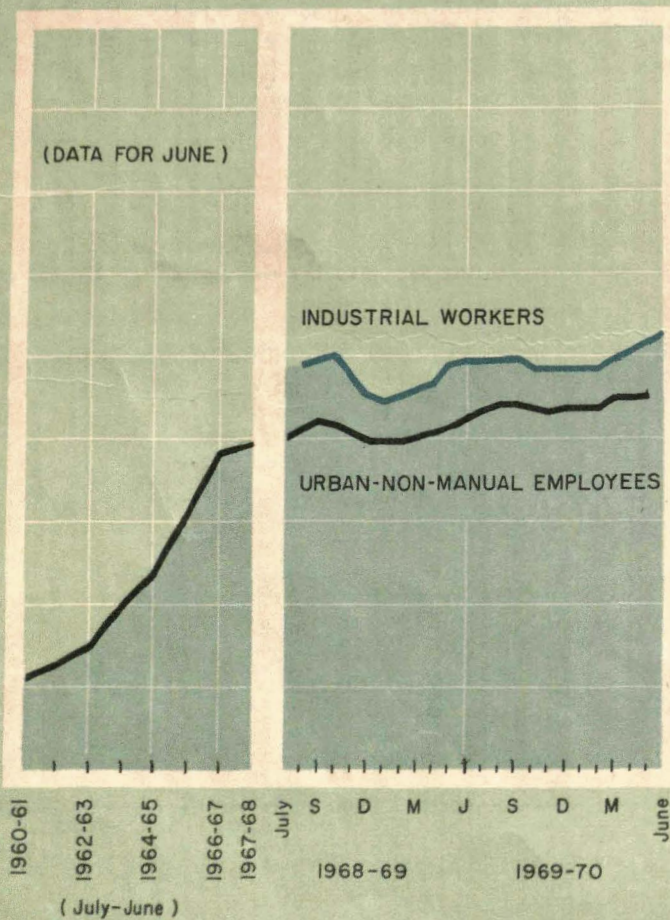


CONSUMER PRICE INDEX NUMERS ALL-INDIA

(BASE: 1960 = 100)

INDEX NUMBERS OF WHOLESALE PRICES BY GROUPS

(BASE: 1961-62 = 100)



industries' and 'consumer goods industries' continued its upitrend, the overall rate of increase in the case of the former being 5.5 per cent as against 5.0 per cent and in the case of the latter, 7.7 per cent as against 5.9 per cent last year. Analysis of industries according to inputs shows that agriculture-based industries which have nearly 44 per cent weightage in the general index were able to improve their performance, their growth rate rising to 5.4 per cent as against 1.7 per cent last year. This improvement is largely due to substantial increase in output of sugar and tea and some increase in cotton spinning output. The growth rates of metal-based and chemical-based industries slackened to 1.6 per cent and 8.1 per cent as against 11.4 per cent and 20.1 per cent, respectively, last year.

8. Among 'basic industries', mining and quarrying and manufacture of fertilisers registered lower rates of increase. The output of iron and steel basic industries remained virtually at last year's level due mainly to labour troubles, lack of proper maintenance and some technological defects in one of the public sector steel plants. Fertiliser production slowed down partly because of lower offtake and partly because of shortage of basic inputs. However, heavy inorganic chemicals, manufacture of cement, and copper smelting and rolling mills improved their rates of growth.

9. Among 'capital goods industries', prime movers, boilers and steam generating plants, industrial machinery, rail-road equipment and motor vehicles registered substantial declines. However, there was significant improvement in manufacture of electrical motors and furnaces, electrical cables and electrical machinery, apparatus and appliances, etc., reflecting the rising tempo of investment by the State Electricity Boards.

10. Among 'intermediate goods industries,' production of cotton spinning rose by 3.8 per cent, manufacture of batteries by 13.3 per cent and synthetic resins and plastics by 2.7 per cent. The rate of growth in petroleum refinery products was slightly lower at 8.7 per cent as against 10.4 per cent last year. The jute goods output remained static during the nine month period in contrast to

a decline of 18.3 per cent during the corresponding period of 1968-69.

11. Among 'consumer goods industries,' the food manufacturing group (sugar, tea and vanaspati together) registered a significant increase of 20.4 per cent as against an increase of 0.1 per cent in the corresponding period last year. Paper and paper products also improved their performance. The growth rates in consumer durables such as communication equipment, motor cycles and bicycles slowed down. Production of woollen/worsted fabrics and fine and pharmaceutical chemicals declined by 7.8 per cent and 7.0 per cent, respectively, as against increases of 46.3 per cent and 36.3 per cent in the corresponding period last year.

12. With the rising tempo of investment in the small-scale industrial sector, estimates of output in this sector registered an impressive increase of 11.2 per cent during 1969-70 as against 8.2 per cent in 1968-69.

13. Data on utilisation of industrial capacity are available only upto the end of December 1969. According to these data the level of capacity utilisation as measured by the percentage ratio of average monthly production to the installed capacity, as at the end of 1969 showed improvement. Among basic industries, caustic soda, ammonium sulphate, urea, sulphuric acid, fertilisers, cement, finished steel and steel pipes and tubes significantly improved their capacity utilisation. However, among capital goods industries, in respect of motor vehicles, and power transformers the capacity utilisation was lower than in 1968.

14. The slow-down in the rate of industrial production was due mainly to the tight supply position of agricultural raw materials and shortages of special categories of steel faced by the engineering and allied industries. The pick-up of investment in the public and private sector of the organised industry was also not adequate to provide a strong stimulus to industrial growth. Labour relations continued to remain disturbed in many important sectors of industry during 1969. The man-days lost on account of strikes and lock-outs

during 1969 were 16.68 million as against the annual average of 5.8 million man-days lost between 1961 and 1965.

15. Price situation during the year under review, particularly during the latter half, has been causing serious concern. The post-harvest decline in prices came abruptly to an end from mid-November and since then the general price index exhibited a disconcertingly sharp upward trend which con-

tinued till the close of the year. The annual average of the general index registered an increase of 4.6 per cent in contrast with a nominal decline of 0.2 per cent in the preceding year. Between June-end 1969 and June-end 1970 the extent of increase was, however, lower at 4.0 per cent as against 7.4 per cent in the corresponding period last year. The following table shows the variations in the price movements during the year which fall into three broad phases.

Table 3 — Seasonal Variations in Wholesale Prices
(Base : 1961-62=100)

Groups/Commodities	End-June 1969 and End-July 1969	End-July 1969 and November 15, 1969	November 15, 1969 and End-June 1970	End-June 1969 and End-June 1970
All Commodities	+ 1.0 (+ 2.0)	- 4.2 (+ 0.8)	+ 7.5 (+ 4.5)	+ 4.0 (+ 7.4)
Food Articles	+ 1.3 (+ 2.4)	- 7.4 (- 3.7)	+ 7.9 (+ 3.8)	+ 1.2 (+ 2.4)
Rice	+ 1.2 (+ 0.4)	- 4.3 (- 7.4)	+ 6.7 (+ 5.2)	+ 3.4 (- 2.2)
Wheat	+ 3.2 (+ 2.2)	- 3.8 (+ 5.0)	- 0.1 (- 0.3)	- 0.9 (+ 7.0)
Pulses	+ 3.0 (+ 0.9)	- 6.1 (+ 5.0)	+ 2.7 (+ 7.1)	- 0.7 (+ 13.5)
Edible Oils	+ 2.7 (+ 6.6)	- 11.9 (+ 25.0)	+ 25.3 (+ 19.7)	+ 13.5 (+ 59.4)
Liquor and Tobacco	- 1.5 (+ 2.9)	- 6.4 (+ 10.1)	- 1.0 (+ 3.7)	- 8.8 (+ 17.5)
Fuel, Power, Light and Lubricants	+ 0.8 (+ 0.8)	+ 0.5 (+ 0.3)	+ 2.8 (+ 3.0)	+ 4.2 (+ 4.2)
Industrial Raw Materials	+ 2.5 (+ 4.3)	- 9.1 (+ 13.3)	+ 16.4 (+ 12.4)	+ 8.4 (+ 32.8)
Cotton Raw	+ 1.1 (+ 0.8)	- 5.8 (+ 3.2)	+ 18.2 (+ 6.5)	+ 12.6 (+ 10.9)
Jute Raw and Mesta	+ 3.5 (+ 9.7)	- 30.4 (+ 38.1)	+ 23.6 (- 4.7)	- 10.9 (+ 44.4)
Oilseeds	+ 3.3 (+ 8.5)	- 10.8 (+ 19.5)	+ 23.2 (+ 22.5)	+ 13.6 (+ 58.7)
Groundnuts	+ 4.1 (+ 11.9)	- 22.9 (+ 23.8)	+ 37.8 (+ 38.4)	+ 10.7 (+ 91.8)
Chemicals	- 1.6 (- 0.1)	+ 7.8 (+ 5.6)	- 2.6 (+ 3.8)	+ 3.4 (+ 9.5)
Machinery & Transport Equipment	+ 0.3 (-)	+ 2.8 (+ 0.7)	+ 5.7 (+ 0.5)	+ 8.9 (+ 1.2)
Manufactures	+ 0.4 (+ 0.7)	+ 2.5 (+ 3.6)	+ 4.6 (+ 3.3)	+ 7.7 (+ 7.8)

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

16. The first phase was a continuation of the rising trend noticed since February 1969. In this phase, barring 'liquor and tobacco' and 'chemicals,' all the major groups showed a rise. During the second phase, *i.e.*, between end-July and mid-November, 1969, the general index registered a decline of 4.2 per cent mainly as a result of a fall of 7.4 per cent under 'food articles' and 9.1 per cent under 'industrial raw materials.' But 'manufactures,' 'machinery and transport equipment,' 'fuel, power, light and lubricants' and 'chemicals' continued to register increases. In the third phase, the general index registered an increase of 7.5 per cent. The rise is spread over almost all the major sub-groups. 'Food articles' recorded an increase of 7.9 per cent, 'industrial raw materials' 16.4 per cent and 'manufactures' 4.6 per cent.

17. The rise of 4.0 per cent over the year was brought about mainly by industrial raw materials and manufactures. The contribution of food articles to the price increase was smaller than last year. The increase in

food articles was lower at 1.2 per cent as against 2.4 per cent last year. The price index for rice showed an increase of 3.4 per cent as against a decline of 2.2 per cent last year, while that for wheat showed a nominal fall of 0.9 per cent as against a rise of 7.0 per cent last year. Pulses also noted a similar trend showing a nominal fall of 0.7 per cent as against a substantial rise of 13.5 per cent last year. The prices of edible oils rose during most part of the year, the extent of rise over the year being 13.5 per cent on the top of an increase of 59.4 per cent last year. Gur prices, (monthly averages) however, declined by 25.8 per cent as against 55.6 per cent last year. Prices of sugar remained more or less steady.

18. The rise of 8.4 per cent under 'industrial raw materials' reflected the tight supply position of major agricultural raw materials in relation to demand. The availability of raw cotton, raw jute and oilseeds, though higher than in the preceding year, was much below 1967-68 levels.

Table 4—Availability¹ of Raw Materials for Industries

	1966-67	1967-68	1968-69	1969-70 (Estimates)
Raw Cotton (lakh bales) September-August				
Production ²	53.1	65.4	60.2	60.7
Imports	7.8	7.8	4.3	8.2
Availability ³	82.9	92.4	86.2	88.6
Mill Consumption (lakh bales)	57.6	61.7	62.0	64.0
Raw Jute and Mesta (lakh bales) July-June				
Production	65.8	75.9	38.4	67.5
Imports	16.5	—	6.5	—
Availability	94.0	94.6	64.9	75.5
Mill Consumption (lakh bales)	72.0	71.3	58.5	65.5
Major Oilseeds ⁴ (million tonnes) July-June				
Production	6.4	8.3	7.1	7.8

1. Availability is defined as production + imports + opening stocks.

2. Trade estimate, including non-commercial production.

3. Exports of raw cotton (Bengal Deshi) during 1969-70 season (upto June) amounted to 2.0 lakh bales as against 1.7 lakh bales in the corresponding period of 1968-69.

4. Groundnuts, rapeseed and mustard, linseed, sesamum and castorseed.

19. The prices of raw cotton registered a decline between end-August and mid-October 1969, but thereafter rose continuously till the close of the year, reflecting a rising trend in mill consumption.

20. Prices of groundnuts showed a rise of 10.7 per cent over and above a sizeable rise of 91.8 per cent in the preceding year. The oilseeds group as a whole showed an increase of 13.6 per cent this year as against 58.7 per cent last year. The price index of raw jute and mesta showed a decline of 10.9 per cent over the year. But this decline over the year conceals the pressure on raw jute prices which started from mid-October 1969. Raw jute and mesta prices which rose sharply during 1968-69 recorded a precipitate fall from a high level of 200.6 on February 8, 1969 to 105.6 by October 11, 1969, in view of the prospects of a bumper raw jute crop during 1969-70. The declining trend was arrested and reversed following rising trends in jute goods production and the governmental measures to purchase at a minimum support price, raw jute through the S.T.C. Apart from rising mill demand, the scaling down of the estimates of raw jute crop for 1969-70 from the earlier expectation of 76 to 80 lakh bales to 67.5 lakh bales and the initial pessimistic outlook of the 1970-71 crop also helped to sustain the rising trend. Between mid-October 1969 and end-June 1970 the price index rose by 47.9 per cent from 105.6 to 156.2.

21. The other two important groups namely 'machinery and transport equipment' and 'manufactures' registered increase of about 8-9 per cent each, the prices of manufactured articles having been rising almost continuously throughout the year. The rise in manufactured articles reflected mainly substantial increases in wages granted to labour in two major industries, viz., jute textile and cotton textile, in August and October 1969, respectively, and the rise in prices of industrial raw materials.

22. The All-India Consumer Price Index for Working Class (*Base: 1960=100*) recorded an increase of 3.9 per cent between June 1969 and June 1970 as against a rise of 1.1 per cent during the corresponding period last year.

23. The policy measures oriented towards strengthening of the technological base for accelerating productivity in agriculture were continued during 1969-70. The area covered under the High-Yielding Varieties Programme increased to 10.9 million hectares in 1969-70 from 9.2 million hectares in 1968-69. Likewise, the area under multiple cropping was sought to be increased from 6.07 million hectares in 1968-69 to 7.87 million hectares in 1969-70. Since the fulfilment of the targeted production under the new strategy depends on the timely and adequate availability of water, the accent on minor irrigation programme was continued and extended. Consequently, institutional investment on minor irrigation works was expected to be stepped up to Rs. 115 crores during 1969-70 from Rs. 106 crores in 1968-69. The establishment of Rural Electrification Corporation would further accelerate investment in minor irrigation schemes. The initiation of schemes for development of agriculture in dry farming regions and the progress made in setting up of Small Farmers' Development Agencies in selected districts were important agricultural policy measures taken during the year. The consumption of fertilisers, though increased to 2.1 million tonnes during 1969-70 from 1.8 million tonnes in 1968-69, fell short of the postulated annual increase of about 25 per cent. The slow-down in the rate of fertiliser consumption was due to a number of factors such as delay in the onset of monsoon in some parts of the country, application of doses lower than the recommended ones, lack of adequate distribution arrangements and a number of restrictive practices adopted by several States preventing free movement of fertilisers from factories to consuming points. With a view to stepping up fertiliser consumption, trading in fertilisers has been delicensed. Further, the commercial banks have been advised to provide larger credit for stocking of fertilisers and to meet adequately the credit needs of farmers for purchase of fertilisers on more liberal terms. To induce agriculturists to step up their investment in agriculture and to reduce the risk of price fluctuations, Government continued its policy of fixing remunerative prices for procurement of foodgrains and of intensifying procurement operations. The system of

fixing minimum support prices for major agricultural commodities was also continued.

24. Procurement of foodgrains during 1968-69 totalled 6.2 million tonnes consisting of 3.3 million tonnes of rice, 0.5 million tonnes of *kharif* coarse grains and 2.4 million tonnes of wheat as against the target of 7.9 million tonnes. Procurement of foodgrains till about the end of June 1970 was marginally lower at 5.6 million tonnes as against 5.8 million tonnes in the corresponding period last year. The target for *kharif* foodgrains procurement (1969-70) has been placed at 5.5 million tonnes and that for *rabi* grains (1970-71) at 3.7 million tonnes. Considering the progress made so far, it appears that the procurement of foodgrains during 1969-70 is likely to be of the same order as last year. In view of the improvement in domestic production, foodgrains imports were scaled down from 5.7 million tonnes in 1968 to 3.9 million tonnes in 1969. Imports of foodgrains during 1970 are likely to be reduced further to 3 million tonnes. Consequent on the increased open-market availability, the pressure on public distribution eased further; the quantity of foodgrains issued during 1969 amounted to 9.6 million tonnes as against 10.4 million tonnes in 1968. The stocks of foodgrains with Central and State Governments at the end of May 1970 stood at 4.7 million tonnes as against 5.0 million tonnes at the end of May 1969. Government stocks of foodgrains will continue to experience reduced pressure on account of withdrawal of statutory rationing in several towns and cities and the consequent reduction in the total population covered under statutory rationing from 25.6 million in 1968 to 22.6 million during 1969. As regards the informal rationing, the pressure is also not expected to be higher than last year because of somewhat larger availability of foodgrains.

25. The tight supply position of agricultural raw materials in relation to demand was sought to be overcome by larger imports. The raw cotton imports were sought to be stepped up from 4.3 lakh bales to over 8 lakh bales. Import programme of soyabean oil and other edible oils and fats was also stepped up. Further, to discourage the holding of excess inventories with the help of bank funds, the Reserve Bank tightened

effective January 21, 1970 the selective credit controls on bank advances against the security of all oilseeds and vegetable oils, indigenous cotton as well as foodgrains by stiffening the margin rates and reducing the ceilings on advances of individual banks against these commodities. The minimum rate of interest to be charged on advances against these commodities was fixed at 10 per cent. On April 28, this was raised to 12 per cent in respect of advances against oilseeds and cotton. The Bank also withdrew the ceiling rate of $9\frac{1}{2}$ per cent of interest on advances of scheduled banks. Simultaneously, the Textile Commissioner imposed a limit of $2\frac{1}{2}$ months' average monthly consumption on stocks of Indian cotton to be held in the cities of Bombay and Ahmedabad, 4 months' consumption in Assam and $3\frac{1}{2}$ months' consumption in other areas. However, higher stock limits were fixed in the case of mills exporting 20 per cent or more of their production or executing orders for defence purposes, Growers' Co-operative Spinning Mills and Mills under Authorised Controllers. Following further increases in prices, stock limits were reduced by one month's average consumption in all cases on February 17, 1970. In view of the sharp decline in raw jute prices which continued till about September and relative improvement in supply position, the Government of India abolished all production and purchase restrictions on jute mills from August 1969. Further, with a view to supporting raw jute prices, minimum purchase quotas by mills were introduced from September 1969 onwards.

26. With a view to stimulating industrial production, the Government continued to follow its policy of liberal imports so as to replenish the inventories of raw materials and components which were run down considerably and to ensure that production does not suffer for want of important imported raw materials and components. Industrial units exporting 25 per cent (instead of 10 per cent earlier) or more of their production were given greater preference in the matter of sources of supply. Besides, import substitution which too provided an impetus to many industries in recent years, has been carried a step further by banning the import of 159 items and by restricting import of 56 other items. The Budget for 1970-71

provided incentives to export-oriented industries by either reducing or abolishing export duties, and to import-substituting industries by raising the import duties on machinery, motor vehicle parts, pharmaceutical chemicals, non-electrical instruments, apparatus and appliances (However, some exception was made in the case of imported machinery required for initial setting up of projects or for substantial expansion of existing projects).

27. In the case of industrial products upward revision of prices was granted so as to compensate for the increase in cost of production. A programme of improvement and renovation was initiated in steel plants and balancing equipment is being installed in certain crucial sectors for orienting production to the changing demand pattern. With the completion of heavy engineering projects at Ranchi and the hydro-electrical plants at Tiruchi and Hyderabad, domestic production possibility for a significant proportion of the equipment needed for power generation and steel-making has been considerably improved. The schemes for providing term finance assistance for production of capital goods and export of capital goods on deferred payment basis as also for the purchase of indigenous machinery on deferred payment basis initiated by the I.D.B.I. and the Reserve Bank were continued during the year under review.

28. To accelerate industrial development a firm and comprehensive policy of industrial licensing has been evolved. Under the new industrial licensing policy, there would be a list of core industries consisting of basic, critical and strategic industries in the economy. In addition to the core sector, all new investment propositions of over Rs. 5 crores would be deemed to be in the heavy investment sector. Except for industries reserved for the public sector, undertakings belonging to the larger industrial houses together with foreign concerns and subsidiaries or branches of foreign companies would be allowed to participate in and contribute to the establishment of industries in the core and heavy investment sector. In the middle sector involving investment ranging from Rs. 1 crore to Rs. 5 crores, licence applications of parties other than undertakings belonging to larger

industrial houses would be given special consideration and licences would be issued liberally except where foreign exchange implications necessitate careful scrutiny. New undertakings or substantial expansion of units requiring investment of Rs. 1 crore or less will not be required to take a licence under the Act. The existing policy for the reservation of small-scale sector would be continued and the area of such reservation would be extended wherever this sector can be expected to meet the growth in demand adequately. As a result of this change in licensing policy and improving the administrative efficiency, it will be possible for industrial houses and newcomers to set up industries quickly and add to the production potential. Immediately after the close of the year under review, a number of licences have been granted to industrial houses in the private sector to expand their industrial capacity and augment their production particularly in the fields of chemical fertilisers, aluminium, freezers and chillers, caustic soda, calculating machines, jute carpet backing, bread and biscuit-making and canning machinery.

29. The Government established in March 1970 a separate Bureau of Industrial Costs and Prices which is expected to assist Government in the determination and revision of industrial prices and in watching cost-price behaviour in the industrial sector. Healthy industrial practices are also likely to be ensured through the provision of the Monopoly and Restrictive Trade Practices Act, 1969 which came into effect from June 1, 1970.

Budgetary Operations@

30. The budgetary trends during the fiscal year 1969-70* were characterised by a slackening in the rate of growth of revenue receipts of Central and State Governments and a modest increase in the rate of growth in their revenue disbursements. The combined revenue receipts of the Centre and States which had increased by 11.1 per cent during 1968-69 rose by only 7.6 per cent during 1969-70 (Table 5).

@ All the amounts mentioned in this Section are in respect of the fiscal year (April-March) unless stated otherwise.

* All references to figures relating to 1969-70 represent revised estimates unless stated otherwise.

The slower rate of growth in revenue receipts was attributable mainly to non-tax revenues. The growth rate in respect of non-tax receipts worked out to 5.4 per cent in 1969-70 as against 19.2 per cent in 1968-69. The rate of growth in tax receipts showed a modest decline from 8.9 per cent in 1968-69 to 8.3 per cent in 1969-70 mainly due to the decline in revenue yields from customs (for the third year in succession) and from land revenue. The combined receipts of the Centre and States on capital account, however, increased by 18.5 per cent during 1969-70 as against a decline of 4.9 per cent during 1968-69.

31. The rate of growth in revenue disbursements during 1969-70 (12.9 per cent) exceeded the growth in revenue receipts, though as compared with the growth rate in disbursements during 1968-69 (11.9 per cent), it was not significantly large. The increase during 1969-70 in revenue disbursements was shared both by developmental expenditure (13.4 per cent) and non-developmental expenditure (13.3 per cent).

32. In the case of Centre, developmental expenditure on revenue account showed a larger increase during 1969-70 (15.4 per cent) than non-developmental expenditure (8.3 per cent). However, in the case of States, non-developmental expenditure showed a faster rise (22.6 per cent) than developmental expenditure (13.0 per cent); a special factor for this was the substantial increase in the provision for famine relief expenditure by States affected by drought and floods. The provision for famine expenditure which had risen only moderately from Rs. 87 crores in 1967-68 to Rs. 90 crores in 1968-69 was stepped up to as much as Rs. 154 crores in 1969-70.

33. The combined disbursements of Centre and States on capital account increased by 12.9 per cent during 1969-70 as against a decline of 4.1 per cent during 1968-69.

34. As compared to budget estimates for 1969-70, aggregate disbursements of Centre increased by Rs. 221 crores to Rs. 5,776 crores in the revised estimates; aggregate receipts rose by Rs. 185 crores to Rs. 5,486 crores (Table 6). In the case of States, aggregate

receipts at Rs. 4,790 crores in 1969-70 exceeded by Rs. 332 crores the budgeted amount, mainly on account of increase in transfer of resources from Centre (Table 7). Aggregate disbursements at Rs. 4,936 crores showed a smaller increase of Rs. 139 crores over budget provision; the increase was mainly under non-developmental items and loans and advances.

35. The budget estimates of Centre and States for 1969-70 had placed the overall deficit (as measured by the net increase in outstanding Treasury bills of Centre, withdrawal from cash balances of Centre and States, net sale of securities held by States in their cash balance investment account and net transfer from Revenue Reserve Funds of States) at Rs. 593 crores. The revised estimates for 1969-70 place the overall deficit at Rs. 436 crores as against the deficit of Rs. 274 crores in 1968-69. As compared to the budget forecast, the overall deficit of States declined from Rs. 339 crores to Rs. 146 crores and that of Central Government increased from Rs. 254 crores to Rs. 290 crores in 1969-70.

36. The deterioration in the case of the Centre and the improvement in the case of the States reflected, in part, the impact of the substantial increase in the quantum of resources transferred from Centre to States in the form of loans and divisible taxes over the budget estimates. The increase in the provision of loans to States was a sequel to the stepping up of loans to States affected by drought and floods, as well as provision of special assistance to States to cover the gap in their resources. The increase in divisible taxes followed mainly the implementation of the recommendations embodied in the final Report of the Fifth Finance Commission which was submitted in July 1969.

37. The strain on the resources of the Centre arising from the increase in loans to States and in States' share in divisible taxes was mitigated to a large extent by sizeable increases in non-tax revenue, internal market loans and miscellaneous items of capital receipts on the one hand, and savings in disbursements under developmental and defence items, in net interest payments and in grants to States, on the other.

Table 5—Combined Receipts and Disbursements of Central and State Governments

	1968-69 (Accounts)			1969-70 (a) (Budget Estimates)			1969-70 (Revised Estimates)			1970-71 (a) (Budget Estimates)		
	Centre		Total	Centre		Total	Centre		Total	Centre		Total
	States			States			States			States		
I. Total Receipts (A+B)	..	..	..	..	..	..	..	..	..	..	..	..
A. Revenue Receipts	..	..	..	..	..	..	..	..	..	..	..	..
Of which :	..	..	..	..	..	..	..	..	..	..	..	..
Tax Receipts	..	..	..	..	..	..	..	..	..	..	..	..
B. Capital Receipts	..	..	..	..	..	..	..	..	..	..	..	..
II. Total Disbursements	..	..	..	..	..	..	..	..	..	..	..	..
Of which :	..	..	..	..	..	..	..	..	..	..	..	..
Developmental	..	..	..	..	..	..	..	..	..	..	..	..
Outlay (a+b)	..	..	..	..	..	..	..	..	..	..	..	..
(a) Revenue	..	..	..	..	..	..	..	..	..	..	..	..
(b) Capital	..	..	..	..	..	..	..	..	..	..	..	..
Plan Outlay	..	..	..	..	..	..	..	..	..	..	..	..
Non-Developmental Outlay (a+b)	..	..	..	..	..	..	..	..	..	..	..	..
(a) Revenue	..	..	..	..	..	..	..	..	..	..	..	..
(b) Capital	..	..	..	..	..	..	..	..	..	..	..	..
III. Overall Surplus (+) or Deficit (-)	..	..	..	..	..	..	..	..	..	..	..	..
(I-II)	..	..	..	..	..	..	..	..	..	..	..	..

Notes :—(i) Figures are adjusted for inter-governmental transfers and hence differ from those given in budget papers and in Table 6. The combined overall position, however, remains unchanged.

(ii) Figures in brackets indicate per cent increase (+) or decrease (-) over the previous year.

(a) Includes effects of budget proposals.

(b) Includes States' share in Central taxes.

(c) Excludes Treasury bills receipts (net).

(d) Comprises Plan outlay of Centre, States and Union Territories.

(e) As measured by the net increase in outstanding Treasury bills of Centre, withdrawal of cash balances of Centre and States, net sales of securities held by States in their cash balances investment account and net transfer from revenue reserve funds of States.

Table 6—Overall Budgetary Position of Centre

						(Rupees crores)		
						1969-70 (Budget Estimates)	1969-70 (Revised Estimates)	1970-71* (Budget Estimates)
I. Aggregate Receipts (A+B) ..						5301	5486	5450
A. Revenue Receipts ..						2957	2924	(5573)
of which :								(3241)
Tax Revenue ..						2196	2110	2267
B. Capital Receipts ..						2344	2562	(2390)
of which :								2332
Internal Loans (Gross) ..						500	535	455
External Loans (Gross) ..						850	714	719
II. Aggregate Disbursements ..						5555	5776	5800
of which :								
(a) Developmental Outlay ..						1047	1020	1152
(b) Non-Developmental Outlay ..						2048	2095	2158
(c) Discharge of Internal Loans ..						394	394	293
(d) Discharge of External Loans ..						208	180	200
III. Overall Deficit (I—II) ..						254	290	350
								(227)

Note: Figures of receipts and disbursements in this Table do not agree with those in Table 5, because of adjustments for inter-governmental transfers.

* Figures in brackets are after taking into account the estimated yield from additional tax measures.

Table 7—Overall Budgetary Position of States

						(Rupees crores)		
						1969-70 (Budget Estimates)	1969-70 (Revised Estimates)	1970-71* (Budget Estimates)
I. Aggregate Receipts (A+B) ..						4458	4790	4755
A. Revenue Receipts (i+ii) ..						2934	3131	(4824)
of which:								3315
(i) States' own Revenue Receipts ..						1863	1953	(3384)
(ii) Resources transferred from Centre (a+b) ..						1071	1178	2099
(a) Shared Taxes ..						517	611	(2123)
(b) Grants from Centre ..						554	567	1216
B. Capital Receipts (i+ii) ..						1524	1659	(1261)
(i) States' own Capital Receipts ..						732	701	682
of which:								(727)
Market Borrowing (Gross) ..						145	177	534
(ii) Loans from Centre (Gross) ..						792	958	1440
II. Aggregate Disbursements ..						4797	4936	4959
of which:								
(a) Developmental Outlay ..						2300	2317	2472
(b) Non-Developmental Outlay ..						1381	1456	1394
(c) Repayment of Loans to Centre ..						586	593	603
(d) Loans & Advances to third Parties ..						378	433	381
(e) Repayment of Market Loans ..						89	89	62
III. Overall Deficit ..						339	146	204
								(135)

Note: Figures of receipts and disbursements in this Table do not agree with those in Table 5 because of adjustments for inter-governmental transfers.

* Figures in brackets are after taking into account estimated yield from additional tax measures.

38. The magnitude of the actual deficit of the Centre and States for 1969-70 is not yet available. However, an indication of the likely actual deficit is available in the amount of net Reserve Bank credit to Centre and States ; such credit increased by Rs. 12.70 crores during the fiscal year 1969-70 as against an increase of Rs. 241.89 crores in 1968-69. The net credit by Reserve Bank to Central Government increased by Rs. 81.16 crores during 1969-70 as compared to an increase of Rs. 128.63 crores during 1968-69 ; the net credit to States *declined* by Rs. 68.46 crores in contrast to an increase of Rs. 113.26 crores in the preceding year. Even so, some States had outstanding overdrafts with the Reserve Bank at the end of March 1970 though the level of total outstanding overdrafts was lower than at the end of March 1969.

39. In the period March 31 to June-end (last Friday) 1970, net Reserve Bank credit to Government sector declined by Rs. 89 crores compared to a decline of Rs. 7 crores in the corresponding period of 1969. Net Reserve Bank credit to Central Government declined by Rs. 10 crores during March 31 to June-end 1970 (in contrast to an increase of Rs. 185 crores during March 31 to June—end 1969) and to State Governments by Rs. 79 crores (compared to a decline of Rs. 192 crores in the corresponding period last year).

40. The Union budget for 1970-71 was framed against the background of favourable economic conditions which permitted a vigorous effort to stimulate economic growth. The overall rate of growth in income in 1969-70, the first year of the Fourth Five-Year Plan, is anticipated to be of the order of 5 to 5.5 per cent (at constant prices)—the same as projected for the Fourth Five-Year Plan period. To sustain the pace of growth, the budget has considerably stepped up the provision for developmental outlay, particularly that resulting in capital formation. The budgetary provision for gross capital formation shows a step-up of about 13 per cent over 1969-70. On the other hand, consumption expenditure is estimated to rise by 5 per cent over 1969-70 as against a rise of 7.2 per cent in 1969-70 over 1968-69 reflecting the Government's policy to

keep such increases within reasonable limits. As a result, savings of Government Administration as a per cent of revenue receipts are expected to increase from 2.9 in 1969-70 to 7.6 in 1970-71. Net savings of Government, including savings of departmental commercial undertakings, are expected to finance 66.4 per cent of net investment of Government and departmental commercial undertakings in 1970-71 as against 33.9 per cent in 1969-70. The budgeted pattern of outlay reflects the concern of the Government not only for growth with stability but also for the well-being of the needy and the poor sections of the community ; towards the latter objective, provision has been made for specific programmes directed towards small farmers and agricultural labour, rural water supply schemes, nutritional programmes for children, social security benefits for industrial workers and government employees in particular.

41. The aggregate receipts on revenue and capital accounts for 1970-71 (including yield from additional tax measures) are estimated at Rs. 5,573 crores, showing an increase of Rs. 87 crores (1.6 per cent) over 1969-70. As aggregate disbursements are placed at Rs. 5,800 crores, showing a smaller increase of Rs. 24 crores (0.4 per cent) over 1969-70, the overall deficit is estimated to be Rs. 227 crores—lower by Rs. 63 crores than the deficit of Rs. 290 crores for 1969-70. The overall deficit is expected to form 3.9 per cent of total disbursements in 1970-71 as compared to 5.0 per cent in 1969-70.

42. For 1970-71, States have budgeted for aggregate receipts on revenue (at 1969-70 rates of taxation) and capital accounts at Rs. 4,755 crores, which are lower than in 1969-70 by Rs. 35 crores (0.7 per cent). This decline is the net result of an expected fall in the aggregate quantum of transfer of resources from the Centre to States and an increase in States' own resources. Aggregate disbursements at Rs. 4,959 crores are higher by Rs. 23 crores than in 1969-70. Whereas developmental expenditure has been stepped up by Rs. 155 crores (6.7 per cent), non-developmental expenditure has been reduced by Rs. 62 crores (4.3 per cent) and loans and advances by Rs. 52 crores (12.0 per cent).

Own resources of States will finance 56.2 per cent of total disbursements in 1970-71 as compared to 53.8 per cent in 1969-70. The budgeted overall deficit at Rs. 204 crores is Rs. 58 crores more than in 1969-70. The overall deficit is made up of a surplus of Rs. 15 crores on revenue account and a deficit of Rs. 219 crores on capital account. To meet a part of the overall deficit, States have proposed additional tax measures estimated to yield Rs. 24 crores in 1970-71. To this should be added States' share of Rs. 45 crores in the yield from additional tax measures introduced by the Centre and the improvement of Rs. 2 crores over the budget estimates in the actual market borrowings of the State Governments. These would reduce the overall budgeted deficit to Rs. 133 crores. Further, in respect of shared taxes, grants-in-aid and loans from the Centre, the credit taken in the State budgets is lower by Rs. 171 crores than that provided in the Central Government budget. Making allowance for this factor the budgetary position of the State Governments would indicate an overall surplus of Rs. 38 crores during 1970-71 as against an overall deficit of Rs. 146 crores in 1969-70.

43. Reference was made in last year's Report to the presentation to the Parliament of the revised draft of the Fourth Five-Year Plan, 1969-70 to 1973-74. The Final document of the Plan was presented to Parliament on May 18, 1970. The final version bears the imprint of the Government's new socio-economic policies and embodies the objectives of growth with stability and social justice. The total outlay in the final Plan has been raised by Rs. 484 crores—from Rs. 24,398 crores in the draft Plan to Rs. 24,882 crores. While the share of the public sector in total outlay has been stepped up by Rs. 1,504 crores—from Rs. 14,398 crores (59 per cent) to Rs. 15,902 crores (64 per cent), the share of private sector has been reduced by Rs. 1,020 crores—from Rs. 10,000 crores (41 per cent) to Rs. 8,980 crores (36 per cent).

44. Of the total public sector outlay of Rs. 15,902 crores, the outlays for the Centre (including Union Territories and Centrally-sponsored schemes) and the States at Rs. 9,296 crores and Rs. 6,606 crores, respectively, are

higher than the outlays (Rs. 8,332 crores and Rs. 6,066 crores, respectively) provided in the draft Plan.

45. The public sector outlay comprises Rs. 13,655 crores of investment and Rs. 2,247 crores of current expenditure. Sector-wise, the shares of outlays on agriculture and allied sectors (including irrigation and flood control) and power projects are now slightly higher at 24 per cent and 16 per cent, respectively, as against 22 per cent and 14 per cent of the total outlay in the draft Plan. On the other hand, the shares of outlays on industries and minerals, transport and communications and social services are somewhat lower at 21 per cent, 20 per cent and 16 per cent, respectively, as against 22 per cent each on industries and minerals, and transport and communications and 17 per cent on social services provided in the draft Plan. The miscellaneous items claim the remaining three per cent of the outlay, almost the same as in the draft Plan.

46. The increased outlay in the public sector has been made possible by the expected improvement in budgetary resources (at 1968-69 rates of taxation) from Rs. 10,839 crores in the draft Plan to Rs. 11,854 crores and an upward revision in the target of additional mobilisation from Rs. 2,709 crores to Rs. 3,198 crores—Rs. 2,100 crores by Central Government and Rs. 1,098 crores by State Governments—in the final Plan. The quantum of deficit financing is retained at the level of Rs. 850 crores envisaged in the draft Plan. The pattern of financing the public sector outlay is indicated in Table 8.

47. The Plan outlay of the public sector for 1969-70 is placed at Rs. 2,239 crores as against Rs. 2,361 crores in 1968-69, a decline of Rs. 122 crores (5.2 per cent). For 1970-71, the Plan outlay is placed at Rs. 2,637 crores, an increase of Rs. 398 crores or 18 per cent over the outlay for 1969-70. The aggregate outlays during the first two years thus work out to 31 per cent of the total public sector outlay estimated for the Fourth Plan. The outlays are projected at 1968-69 prices in the Plan document. However, there has been a rise of 4.0 per cent in 1969-70 (April-March) in the whole-

**Table 8 — Estimates of Resources for The Fourth Plan
(1969-74)**

(Rupees crores)					
	Draft Plan		Final Plan		
	Amount	Per cent to total	Amount	Per cent to total	
I. Budgetary Resources at 1968-69 rates of taxation (I+2)	10,839	75.3	11,854	74.5	
1. Domestic Budgetary Resources (i to x)	8,325	57.8	9,240	58.1	
(i) Balance from Current Revenues	2,455	17.1	1,673	10.5	
(ii) Contribution of Public Enterprises	1,730	12.0	2,029	12.8	
(iii) Retained Profits of Reserve Bank	165	1.1	202	1.3	
(iv) Market Borrowings of Central and State Governments (net)	1,166	8.1	1,415	8.9	
(v) Borrowings by Financial Institutions including F. C. I.	—	—	405	2.5	
(vi) Small Savings	800	5.6	769	4.8	
(vii) Annuity Deposits, Compulsory Deposits, Prize Bonds and Gold Bonds	—104	—0.7	—104	—0.7	
(viii) State Provident Funds	640	4.4	660	4.2	
(ix) Miscellaneous Capital Receipts (net)	1,130	7.8	1,685	10.6	
(x) Loans from L. I. C., etc. and State Enterprises' Market Borrowings (gross)	343	2.4	506	3.2	
2. External Assistance (net)	2,514	17.5	2,614	16.4	
II. Additional Resource Mobilisation	2,709	18.8	3,198	20.1	
III. Deficit Financing	850	5.9	850	5.4	
IV. Aggregate Resources for the Plan (I+II+III)	14,398	100.0	15,902	100.0	

Source : Planning Commission, Government of India, Fourth Five-Year Plan (1969-74)—Draft and Final.

sale price index (*Base* : 1961-62=100). This would reduce the Plan outlays in real terms.

48. The measures of additional mobilisation (including changes in postal tariffs and in railway passenger fares and freights) undertaken by the Central Government are estimated to yield Rs. 202.5 crores during 1970-71. This comprises Rs. 168.3 crores on account of tax measures (including States' share), Rs. 26 crores on account of upward revision of railway fares and freights and Rs. 8.2 crores on account of changes in postal and telegraph tariffs made in 1970-71. The yield next year is estimated higher at Rs. 223.5 crores since some of the modifications, in respect of income and wealth taxes will become fully effective from 1971-72. The tax measures proposed by States in 1970-71 are estimated to yield Rs. 23.7 crores during 1970-71 and Rs. 26.0 crores in a full year. The additional mobilisation undertaken by the Centre (including Railways and Posts and Telegraphs) and States

during 1969-70, the first year of the Fourth Plan, was estimated to yield Rs. 176.9 crores in a full year. All these measures of additional mobilisation may be expected to yield around Rs. 1,850 crores—Rs. 1,519 crores by Centre and Rs. 331 crores by State Governments—during the five years of the Plan (or 57.8 per cent of the target).

49. The tax measures of the Centre for 1970-71 are designed to achieve greater equality of income and wealth, restrain consumption, check speculative increases in urban land values and plug loopholes in tax laws which facilitate avoidance of tax. The budget also contains certain measures to liberalise the incentives for savings and investment. Of the total yield of Rs. 168.3 crores for 1970-71 from the additional tax measures, proposals in regard to Union excise duties account for Rs. 133.3 crores or nearly 80 per cent. The proposals in regard to Union excise duties are confined by and large, to final consumer goods and are so designed

as to safeguard, to the extent possible, the consumption of the poor sections of the community. The policy of conversion of specific rates of Union excise duties into *ad valorem* rates initiated in the previous budget has been carried further. In regard to income tax, the marginal rates of tax chargeable on incomes in the slabs over Rs. 40,000 have been stepped up ; relief is provided to low income groups by increasing the basic exemption limit and by extending the system of deductible allowances to assesseees using public conveyances for the purpose of employment. In respect of wealth-tax (including additional wealth-tax on urban lands and buildings) the slab rates have been raised. While the rate structure of corporate taxation has not been changed, provision has been introduced to disallow expenditure on entertainment and on maintenance of guest houses in computing taxable income.

50. Concessions for savings and investment have been further liberalised. The amount of exemption for purposes of income tax in respect of dividend and interest incomes from certain investments has been raised from Rs. 2,000 to Rs. 3,000 ; the choice of assets has also been widened. The amount of exemption for the purpose of wealth-tax has also been raised from Rs. 1.2 lakhs to Rs. 1.5 lakhs. The category of financial assets qualifying for such exemption has been widened to include among others, deposits in banking companies, State Financial Corporations and co-operative banks, Government securities and company shares.

51. Nine States, namely, Assam, Gujarat, Jammu and Kashmir, Kerala, Madhya Pradesh, Mysore, Nagaland, Orissa and Tamil Nadu have proposed additional measures ; Rajasthan and Uttar Pradesh have proposed measures to raise additional revenue as well as concessions. Bihar and West Bengal, on the other hand, have announced tax concessions. In the net, additional measures are expected to yield Rs. 23.7 crores in 1970-71 and Rs. 26.0 crores in a full year as against the estimated yield of Rs. 38.3 crores (Rs. 47.8 crores in a full year) in 1969-70 from fresh measures (including post-budget measures).

52. The response to the market borrowing programme of the Centre and States during the financial year 1969-70 was satisfactory. The combined net receipts during the year amounted to Rs. 224 crores which is Rs. 72 crores more than the net amount raised (Rs. 152 crores) in 1968-69.

53. The Centre's borrowing programme during 1969-70 was completed in two phases as in the earlier year. The $5\frac{1}{2}$ per cent 1999 Loan floated on April 30, 1969, for an amount of Rs. 250 crores, brought in Rs. 275 crores—Rs. 107 crores in cash and Rs. 168 crores by conversion. The $4\frac{1}{4}$ per cent Loan 1976 issued on July 1, 1969 for Rs. 250 crores yielded Rs. 260 crores (Rs. 99 crores in cash and Rs. 161 crores by conversion). After providing for cash repayments (Rs. 65 crores) on account of maturing loans not tendered for conversion, net market borrowings of the Centre in 1969-70 amounted to Rs. 141 crores—Rs. 60 crores more than in 1968-69.

54. On September 1, 1969, fifteen State Governments issued $5\frac{3}{4}$ per cent Development Loans maturing in 12 years for an aggregate amount of Rs. 155 crores. While two Loans were issued at par, all the others were issued at a discount of 50 paise (i.e., at an issue price of Rs. 99.50). Maturing loans of 12 States amounting to Rs. 88 crores were offered for conversion into their respective loans. All the loans were over-subscribed ; the over-subscription in most cases exceeding 10 per cent of the notified amount. Subscriptions accepted after partial allotment amounted to Rs. 171 crores ; cash subscriptions amounted to Rs. 125 crores and conversion to Rs. 46 crores. Net borrowings after providing for repayment in cash of unconverted portion of maturing loans (Rs. 42 crores), amounted to Rs. 83 crores as against Rs. 70 crores in 1968-69.

55. Of the total net market borrowings of Rs. 224 crores by the Central and State Governments during 1969-70 the initial intake of securities by the public (i.e., investors other than the Reserve Bank of India and State Governments) amounted to Rs. 161 crores (72.0 per cent of total net borrowings) in 1969-70 as against Rs. 98 crores (64.5 per cent of total net borrow-

ings) in 1968-69. The net open market sales of securities by the Reserve Bank to public showed a decline from Rs. 88 crores in 1968-69 to Rs. 18 crores in 1969-70. The net absorption of securities by the public during the financial year 1969-70 thus amounted to Rs. 179 crores (80.0 per cent of total net borrowings) as against Rs. 186 crores in 1968-69 (122.3 per cent of total) and Rs. 145 crores (89.5 per cent of total) in 1967-68.

56. The gilt-edged market continued to rule steady throughout the year (July 1969—June 1970) as a result of institutional support. The All-India Index for Government and Semi-Government Securities (*base* : 1961-62 =100) rose marginally to 99.3. While the index for Central Government securities remained more or less steady around 98.9, those of State Government securities and semi-Government securities rose by about one point and two points, respectively, to 100.5 and 101.3. This relative improvement in these securities is attributable to banks' support to long-term trustee securities issued by bodies like Electricity Boards, Industrial Finance Corporation, etc. following the Reserve Bank's directive to banks on the eve of the 1969 slack season requiring them to deploy their resources for investment in these securities so as to help revive demand for several capital goods industries and give added impetus to agricultural output and industrial development. Besides, Bank's open market policy continued to be directed towards maintaining orderly and active trading conditions in the market and alignment of yield pattern to the general structure of interest rates. Purchases and sales of securities during the accounting year aggregated Rs. 315.3 crores and Rs. 345.3 crores, respectively, resulting in net sales of Rs. 30.0 crores as compared to Rs. 53.4 crores in the preceding year.

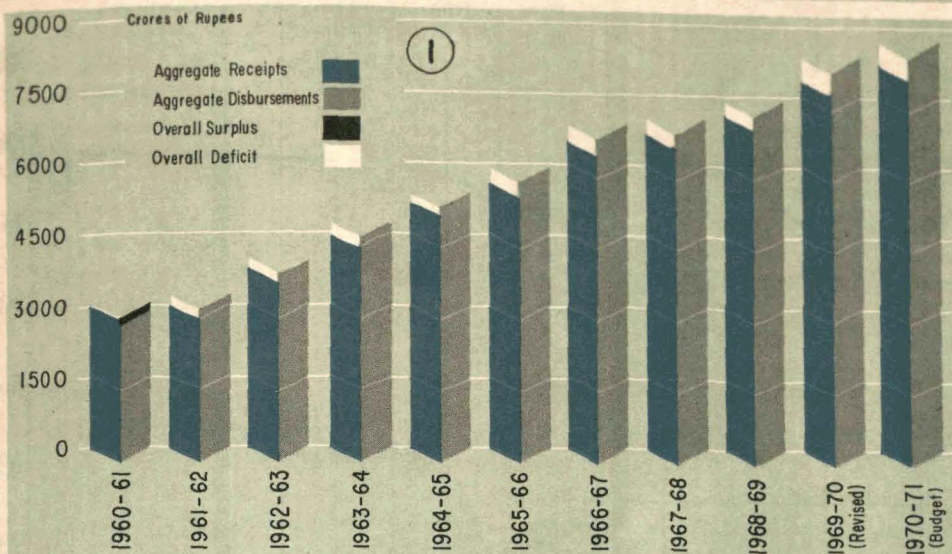
57. The budget of the Central Government for 1970-71 has taken credit for gross internal borrowings of Rs. 455 crores as against Rs. 535 crores (gross) raised during 1969-70. As loans maturing in 1970-71 are smaller at Rs. 293 crores than in the previous year (Rs. 394 crores), net receipts at Rs. 162 crores would be higher than during 1969-70 (Rs. 141 crores) by Rs. 20 crores. In the first phase

of its borrowing programme, the Central Government issued on April 11, 1970, the 5½ per cent Loan, 2000, at par for an amount of Rs. 275 crores. The 4 per cent Loan 1970 was offered for conversion. The subscriptions amounted to Rs. 290 crores, the whole of which was retained ; of this Rs. 150 crores were in cash and Rs. 140 crores in conversion. Allowing for cash repayment (Rs. 38 crores) in respect of the maturing loan not tendered for conversion, net market borrowings from this loan would amount to Rs. 112 crores, or nearly 70 per cent of the budgeted amount, leaving Rs. 50 crores to be raised during the remaining part of the current fiscal year.

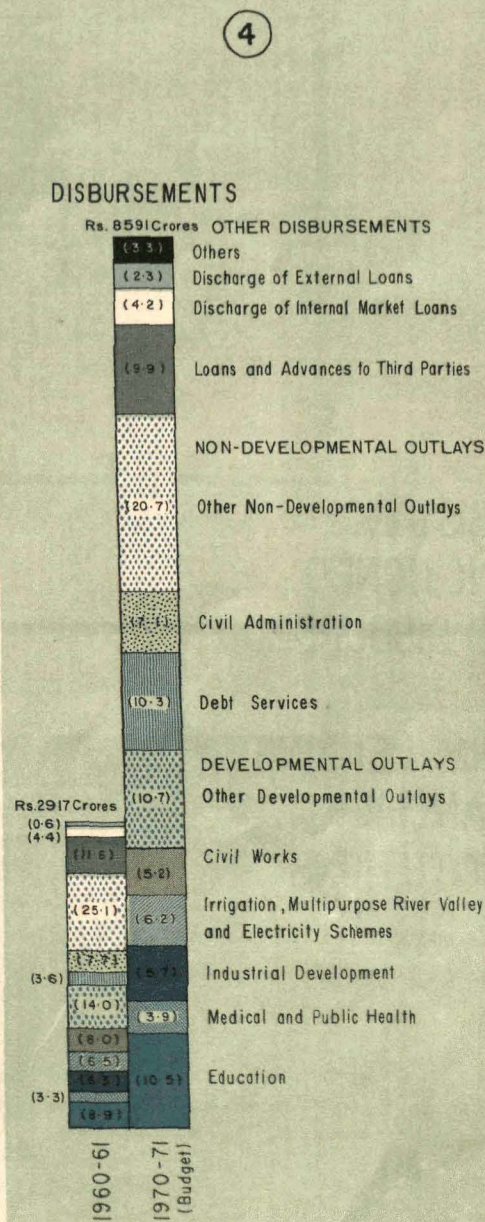
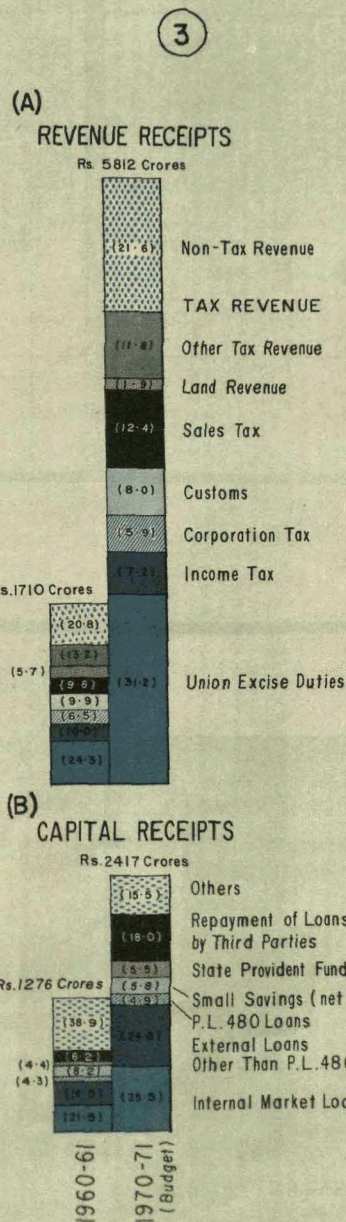
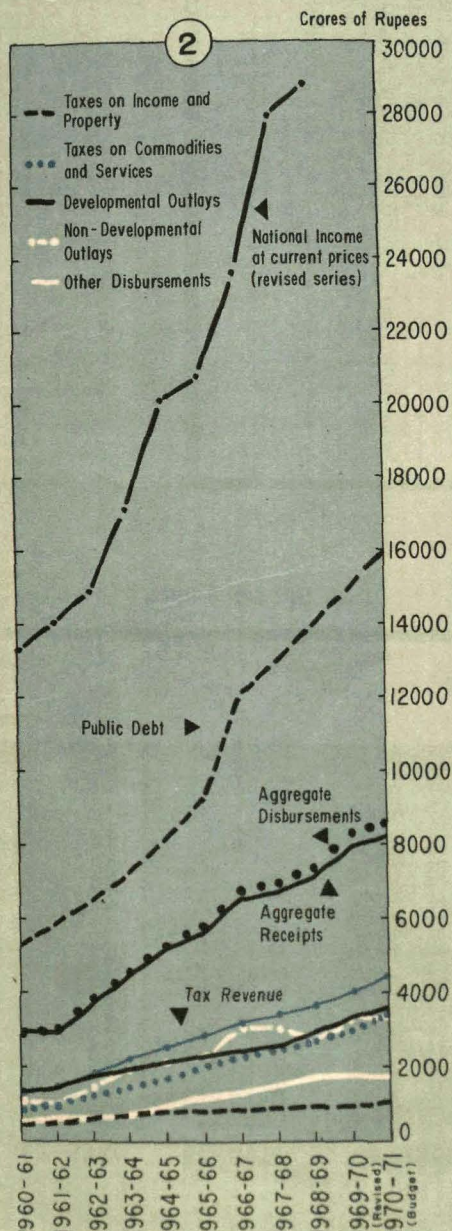
58. On July 1, 1970, fifteen State Governments announced the issue at par of 5½ per cent Development Loans maturing in 12 years for an aggregate amount of Rs. 142.50 crores. Maturing loans of State Governments (with an outstanding amount of Rs. 56.91 crores) were offered for conversion into the new loans of the respective State Governments. Total subscriptions aggregated Rs. 164 crores—Rs. 131 crores in cash and Rs. 33 crores by way of conversion ; all the loans were over-subscribed. Subscriptions after partial allotment amounted to Rs. 157 crores. Allowing for cash repayment (Rs. 24 crores) on account of maturing loans not tendered for conversion, net market borrowings of States would amount to Rs. 100 crores, Rs. 17 crores more than in 1969-70.

59. Net collections of small savings during the fiscal year 1969-70, according to provisional figures, are placed at about Rs. 129 crores (including Rs. 5 crores from the new schemes introduced since March 16, 1970), exceeding the collections during the preceding year by Rs. 16 crores ; these are lower than the budget estimates for 1969-70 by Rs. 6 crores. For 1970-71, the Union budget has taken credit for Rs. 140 crores under small savings. The budget embodied a number of incentives to promote small savings. These incentives include enhancement of the rates of interest (free of income tax) on certain existing media and introduction of new media bearing higher (taxable) rates of return. The new small savings media are post office time deposits, and recurring deposit schemes (carrying

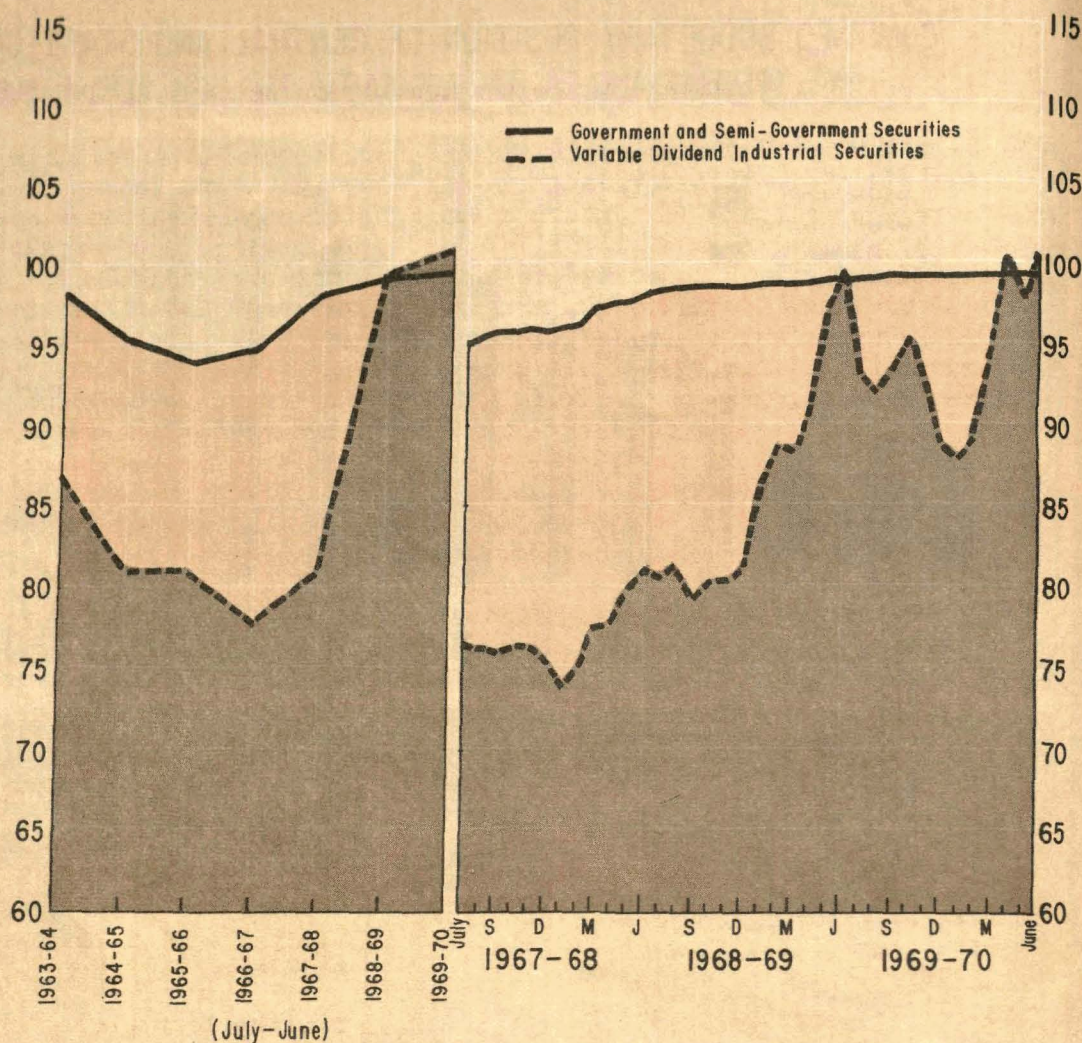
COMBINED BUDGETARY POSITION OF CENTRAL AND STATE GOVERNMENTS (REVENUE AND CAPITAL ACCOUNTS) 1960-61 TO 1970-71 (BUDGET)



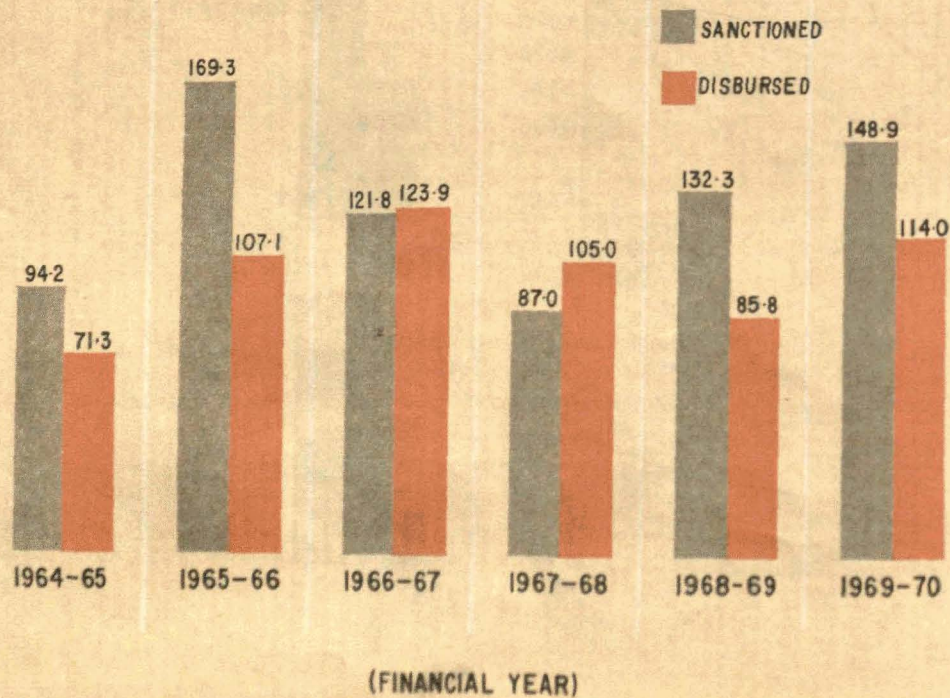
- CHART ① Aggregate Receipts, Disbursements and Overall Surplus or Deficit
- CHART ② Trends in (A) National Income, (B) Budgetary Receipts and Disbursements
- CHART ③ (C) Public Debt
- CHART ④ Pattern of Receipts 1960-61 and 1970-71 (Budget)
- CHART ⑤ (A) Revenue Receipts (B) Capital Receipts
- CHART ⑥ Pattern of Disbursements 1960-61 and 1970-71 (Budget)
- Figures in Brackets are Percentages to Total



INDEX NUMBERS OF SECURITY PRICES ALL-INDIA (REVISED SERIES) Base : 1961-62 = 100 (As on last Saturday)



ASSISTANCE SANCTIONED AND DISBURSED BY TERM-LENDING FINANCIAL- INSTITUTIONS [I.D.B.I., I.F.C., I.C.I.C.I., S.F.Cs. and S.I.D.Cs.] (CRORES OF RUPEES)



interest subject to income tax), 'blocked' savings accounts in post offices (carrying interest free of income tax) and the 7-Year National Savings Certificates II, III (carrying interest free of income tax) and IV issues (carrying interest subject to income tax). The 10-Year Defence Deposit Certificates and 12-Year National Defence Certificates (carrying interest free of income tax), and the 10-Year National Savings Certificates (carrying interest subject to income tax) have been discontinued.

60. Net receipts from the Public Provident Fund Scheme estimated at Rs. 5 crores in the 1969-70 budget are placed at Rs. 2 crores in the revised estimates; actual collections, however, amounted to about Rs. 1.6 crores (provisional), as compared with about Rs. 1 crore in 1968-69. In 1970-71, Rs. 5 crores are expected from this source.

Private Corporate Sector

61. Although the investment climate improved as a result of tax concessions provided by the last three Central budgets, the investment activity in the private corporate sector did not show significant increase over the preceding year. The stagnation in public sector investment expenditure on industrial projects and the difficulty in making necessary arrangements for foreign exchange finance in the absence of a clear picture about the project assistance were mainly responsible for the lack of a significant pick-up in investment activity in the private corporate sector. The equity prices which suffered a sharp set-back after the imposition of the ban on forward trading in securities towards the close of last year (July 1968-June 1969) recovered much of their lost ground and tended to forge ahead following substantial tax concessions granted to investments in stocks and shares.

62. Corporate performance improved during 1969-70. A preliminary study of the dividend announcements by public limited companies shows that of the 520 public limited companies which closed their accounts between April-December 1969, 164 or 32 per cent of companies raised the dividend rates and another 156 or 30 per cent paid the

same rates as in the previous year. Of the remaining 200 companies, 63 companies or 12 per cent reduced their dividends as against 98 companies or 19 per cent last year. The number of companies paying 'nil' dividends was lower at 137 as compared with 149 last year. In regard to the actual dividend rates* there was also a marked increase in the number of companies paying dividends between 6 and 10 per cent from 132 (25 per cent) in 1968-69 to 157 (30 per cent) in 1969-70. In the higher dividend ranges also, there was a larger number of companies this year relatively to last year.

63. Consents/acknowledgements of proposals accorded to non-government public limited companies for capital issues in the form of shares (excluding bonus) and debentures were substantially higher during 1969-70 (July-June) at Rs. 89.1* crores as against Rs. 59.5 crores in 1968-69 (July-June). Consents for 'initial' issues increased to Rs. 19.5 crores from Rs. 11.3 crores in the previous year, and consents for 'further' issues increased to Rs. 69.6 crores from Rs. 48.2 crores. Security-wise, consents for equity issues at Rs. 43.4 crores were substantially higher by Rs. 17.7 crores and those for debenture issues were similarly higher at Rs. 37.8 crores as compared with Rs. 23.9 crores in 1969-70. Consents for preference shares decreased to Rs. 7.8 crores from Rs. 9.9 crores. Consents for bonus issues by non-government public limited companies amounted to Rs. 45.6 crores in 1969-70 as compared with Rs. 17.8 crores in 1968-69. With a view to protecting the interest of the general investors, the Government issued new guidelines for issue of bonus shares, important among which are: (a) bonus issues are not to be permitted in lieu of dividend, (b) there should be a time lag of at least 18 months between two bonus issue announcements and (c) not more than two bonus issues should be allowed to a company over a period of 5 years.

64. The new capital issue activity recovered during July 1969-June 1970* and the total amount issued through both prospectus and rights rose to Rs. 75.8 crores* from Rs. 57.8 crores in 1968-69. The rise

* Preliminary data.

was mainly in equity and preference issues which was accompanied by a slight increase in debenture issues. Initial issues spurted up to Rs. 22.5 crores from a low level of Rs. 10.4 crores in 1968-69. The public response to capital issues indicated a definite improvement, some of the issues having been over-subscribed to a large extent. The institutional investors continued to provide the underwriting support but due to better public response the proportion of the amount devolving on underwriters declined to 27 per cent in 1969 from 38 per cent in the previous year.

65. The movements in equity prices in the major stock exchanges fall broadly into two phases, the first phase covering the period July 1969 to mid-February 1970 and the second phase from mid-February to June 1970. In the first phase, equity prices declined sharply following the imposition of ban on forward trading in shares in the last week of June 1969. The apprehensions in some quarters regarding curbs on flow of credit to the private sector following the nationalisation of 14 major commercial banks and strikes in jute textiles and certain other industries were other contributory factors. The Reserve Bank's All-India Index of Prices of Variable Dividend Industrial Securities (base: 1961-62=100) was marked down from the end-June 1969 level of 99.3 to 89.2 by mid-August. After a short-lived recovery lasting upto mid-October on account of reports of purchase of shares by institutional investors, good corporate news and shortage of good floating scrips, the stock prices resumed their downtrend as the expectations regarding early resumption of forward trading in shares did not materialise. There was a strike in protest against ban on forward trading in shares from December 4 to 18 in stock exchanges of Bombay, Calcutta, Delhi and Ahmedabad. The index dropped to the lowest level of the year at 87.3 in the first week of February 1970. In the second phase, with the announcement (i) on February 7, 1970 of the appointment of an expert committee to re-examine the possibilities regarding the forward trading in shares and (ii) on 14th February of higher compensation for renationalised banks, stock prices tended to move up. This recovery was accelerated further by the proposals of the Central budget

for 1970-71 to maintain the corporate tax structure unchanged so as to provide stable climate for investment decisions and to raise the combined income-tax exemption limit to Rs. 3,000 for income arising from investments in units of the Unit Trust of India, shares of Indian companies, Government securities, rural debentures and bank deposits. With the renewed buoyancy, equity prices gradually rose to 100.6 by June end—a level higher than 99.3 as at the end of June 1969.

66. Financial assistance sanctioned by the term-lending institutions* during 1969-70 (April-March) and their disbursements recorded a rise as compared with their levels in the previous year owing mainly to an increase in the assistance of SFCs to the small-scale industrial sector. Aggregate financial assistance sanctioned by all the institutions in the form of loans, underwriting of and direct subscriptions to shares and debentures was higher at Rs. 149.9 crores@ in 1969-70 (April-March) than at Rs. 132.3 crores in 1968-69. Disbursements were also higher at Rs. 114.0 crores† in 1969-70 as compared with Rs. 85.8 crores in the preceding year. The Industrial Development Bank sanctioned loans†† amounting to Rs. 50.2 crores@ during 1969-70 as against Rs. 46.1 crores in 1968-69 and its disbursements were substantially higher at Rs. 43.3 crores@ in 1969-70 as against Rs. 27.4 crores in the previous year.

67. The underwriting and investment operations of the Unit Trust of India and the Life Insurance Corporation lent considerable support to the private corporate sector. In the previous year the Life Insurance Corporation sanctioned Rs. 14.4 crores for the underwriting of and direct subscriptions to shares and debentures. The Unit Trust of India also sanctioned underwriting of and direct subscriptions to the shares to the extent of Rs. 10 crores** in 1969-70 which was almost at the same level as in the previous year. The Credit Guarantee Scheme for the small-scale industries recorded substantial progress. The amount of outstanding guarantees at the end of March 1970 stood at Rs. 535.9

* IDBI, IFCI, ICICI, SFCs and SIDCs.

@ Provisional.

† Including disbursements on account of guarantees.

†† Including refinance to banks and rediscounts.

** Preliminary data.

crores as against Rs. 240.9 crores on June 30, 1969. Procedures for extension of assistance in the form of guarantee under the Scheme were further streamlined by the Government so as to expedite the flow of credit to small-scale industries.

68. Except for temporary spells of easiness in the beginning of the year under review, between mid-December 1969 and mid-January 1970, and again towards the end of the year, the silver section in the Bombay bullion market remained, on the whole, firm following reports of larger unauthorised exports and higher overseas advices. The quotation rose from Rs. 457 per kg. as at the end of June 1969, after temporary fluctuations, to a high of Rs. 526 by April 1, 1970. Thereafter the quotation hovered between Rs. 499 and Rs. 524.50 till May-end 1970 before closing for the year at Rs. 504. At this level the price showed a net gain of Rs. 47 per kg. over the year.

69. In the international market, silver ruled firm during the greater part of the year owing to improved outlook of demand for silver following the introduction of a Bill in the U. S. Senate to mint Eisenhower Memorial Coins but towards the end of the year heavy speculative selling pressure erased a good part of the gains made earlier. The quotation after touching 200 cents in November closed for the year at 161.2 cents as against the closing quotation of 156 cents as on June 30 last year.

70. In the Bombay bullion market the easiness in gold prices noticed towards the close of last year proved temporary. The prices again firmed up following the promulgation of Gold Control (Amendment) Ordinance on July 3, 1969, replaced subsequently by the Gold Control (Amendment) Act, 1969 on August 29, 1969. The price of standard gold moved up steadily from the June-end level of Rs. 167.50 per ten grams to Rs. 184 by August 25, 1969 and after fluctuating between Rs. 177.75 and Rs. 183 in September rose almost continuously to reach a high of Rs. 186.50 per ten grams on the eve of the Dassera day (October 18, 1969). This firmness continued till end-November, the price of gold moving narrowly between

Rs. 181 and Rs. 185 per ten grams. Following the reports in early December of a slump in the international price of gold the rising trend received a set-back and the price eased to Rs. 170 per ten grams by December 10, 1969 and continued to rule easy till early February 1970. This spell of easiness came to an end as a result of reported decline in the supply of standard gold in the market following the introduction of new measures by the mint authorities requiring the disclosure of identity of the sellers of gold ornaments brought for refining. The price of standard gold shot up to a new high of Rs. 192 on February 24, 1970. Although subsequently the price was not maintained at this high level, the firmness was sustained throughout the rest of the year owing to seasonal demand for gold. Barring a temporary decline to Rs. 183.50 on March 18 and again on April 4, 1970, the quotation moved within a narrow range of Rs. 184 and Rs. 191.50 before closing for the year at Rs. 185.50. At this level, the quotation showed a net rise of Rs. 18 per ten grams over the year.

71. In the international free market for gold, the most striking development was the complete alignment of the free market price with the official price of gold. Several factors contributed to the forging of this alignment : (i) the continued sales of gold by South Africa to meet its balance of payments deficit, (ii) the devaluation of the French franc on August 8, and revaluation of the Deutsche Mark on October 24, (iii) the improvement in the United Kingdom's balance of payments position and (iv) the ratification of Special Drawing Rights Scheme in early October. These developments sparked off heavy speculative selling pressure as a result of which the free market price of gold slumped to \$ 35 per ounce by December 9, 1969 and continued to remain around that level till the close of the year.

Investment Finance for Agriculture

72. Finance for investment in agriculture provided by institutional agencies showed considerable increase during the last two years (Table 9). This was largely the result of substantially higher level of loan commit-

Table 9—Investment Finance For Agriculture

Year (July-June)	(Rupees crores)															
	Debtures flo- ated by Central Co-operative Land Mortgage/Deve- lopment Banks				Agricultural/Refinance Corporation (ARC)				Agricultural Finance Corporation (AFC)				Rural Electrification Corporation (REC)			
	No. of schemes** sanc- tioned				Total outlay				Total outlay				No. of schemes sanc- tioned			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1960-61	..	9.97	1.55												4.68	5.69
1961-62	..	10.50	2.38*												9.56	7.39
1962-63	..	10.25	1.57												9.31	4.18
1963-64	..	23.34	1.84	3	2.23	2.01									14.01	7.45
1964-65	..	34.81	3.23	8	11.02	9.35	0.45								14.39	7.91
1965-66	..	43.10	4.33	14	13.31	10.31	4.45								14.11	7.45
1966-67	..	52.05	2.93	13	9.18	7.36	2.08								15.49	9.12
1967-68	..	64.51	1.57	87	67.08	58.13	5.67								16.57	9.12
1968-69	..	103.42	5.00	108	79.21	69.32	17.84	6	61.50	4.20@	2.32				19.00	9.02
1969-70	..	114.72	1.10	142	92.78	70.92	28.60	23	46.74	29.31††	15.04	31.11	30.28	—	18.30	11.48

Note: Figures of investment finance made available by commercial banks, other than by way of contribution to the debentures floated by land mortgage/development banks and participation with the Agricultural Finance Corporation, are not available. Similarly, figures of investment finance provided by Co-operative credit agencies out of their own funds are also not available.

* Includes special development debentures of Rs. 13.5 lakhs.

** Excluding schemes sanctioned but subsequently withdrawn.

† Includes participation by member-banks.

@ Refers to participation in respect of 4 schemes involving an outlay of Rs. 4.20 crores. Participation in respect of the remaining two schemes involving an outlay of Rs. 57.30 crores is yet to be finalised.

†† Refers to participation in respect of 19 schemes involving an outlay of Rs. 29.31 crores. Participation in respect of four schemes involving an outlay of Rs. 17.43 crores is yet to be finalised.

‡ Revised.

ments and disbursements by the Agricultural Refinance Corporation and ordinary debentures floated by co-operative land development/mortgage banks during the last two years. The number of schemes sanctioned and the total disbursements by the Agricultural Finance Corporation Ltd. also increased considerably during 1969-70.

73. The year witnessed the setting up of the Rural Electrification Corporation Ltd. in July 1969. The Corporation was set up with a view to stepping up the pace of rural electrification through: (i) financing rural electrification schemes in priority areas, (ii) subscribing to special rural electricity bonds to be issued by electricity boards and (iii) providing block capital loans to rural electric co-operatives to be organised in different States. The Corporation started functioning in January 1970. Allocations made by it will be additive to the normal provisions available. Its involvement, though modest now, is likely to grow in view of its crucial role in accelerating rural electrification programmes in the country. Its resources would also increase to the extent of Rs. 150 crores as a result of the provision made in the Fourth Plan.

74. During the Fourth Plan, land development banks are likely to expand their loan operations to Rs. 700 crores—a target fixed on the basis of the available resources. The Agricultural Refinance Corporation has a refinance target of Rs. 200 crores.

Trends in Money Supply

75. During the year 1969-70 (July-June) increase in money supply with the public at Rs. 578 crores was higher than that in the preceding year (Rs. 566 crores). However, the rate of increase slackened to 9.6 per cent in the current year as against 10.3 per cent in 1968-69. Total monetary resources, which comprise currency with the public and aggregate deposits of banks, recorded a smaller increase at Rs. 991 crores or 11.4 per cent as against Rs. 1039 crores or 13.5 per cent in 1968-69. Component-wise, the increase under currency continued to be larger than the increase in deposit money, reflecting the

continued growth in agricultural incomes. The expansion in currency component during 1969-70 was Rs. 386 crores or Rs. 45 crores more than that in last year, while the increase in deposit money at Rs. 192 crores was Rs. 33 crores smaller than last year. The rate of growth of time deposits also slackened considerably from Rs. 473 crores or 21.5 per cent in 1968-69 to Rs. 413 crores or 15.4 per cent. During 1969-70 net bank credit to Government registered a marginal increase of Rs. 6 crores as against a sizeable increase of Rs. 433 crores in 1968-69. On the other hand, the net foreign exchange assets position of banking sector this year exerted a much larger expansionary impact on money supply than last year. Following considerable decline in payments for imports and some increase in earnings from exports the net foreign exchange assets of the banking sector registered a larger increase of Rs. 285 crores than Rs. 153 crores last year. Bank credit to the commercial sector also exerted a much larger expansionary impact on money supply than last year, the increase of Rs. 736 crores being Rs. 95 crores larger than the increase during the preceding year. In assessing the magnitude of expansion in bank credit to commercial sector, it has to be borne in mind that a good part of this credit is on account of advances to public sector undertakings including the Food Corporation of India as well as to State Governments for commercial purposes such as food procurement and purchase and distribution of fertilisers. Table 11 would provide some idea of the magnitude of such advances in the total bank credit to the commercial sector as also of their variations over the period ended December 1969.

Seasonal Trends

76. The slack season of 1969 (May-October) witnessed a smaller contraction in money supply (Rs. 73 crores) than in the 1968 slack season. The contraction in money supply stemmed mainly from a decline in net bank credit to Government and the commercial sector (*i.e.*, adjusted for variation in time deposits of banks), which was partly offset by an accrual of Rs. 45 crores to net foreign exchange assets of the banking sector.

Table 10 — Trends in Money Supply and Monetary Resources
(Annual)

(Rupees crores)

							Variations during July-June		
							1967-68	1968-69	1969-70
1. Currency with the Public	..	..	..	..	..	..	+ 235 (+ 7.3)	+ 341 (+ 9.9)	+ 386 (+10.2)
2. Demand Deposits	..	..	..	..	..	..	+ 276 (+15.7)	+ 225 (+11.1)	+ 192 (+ 8.5)
3. Money Supply (1 + 2)	..	..	..	..	..	..	+ 510 (+10.3)	+ 566 (+10.3)	+ 578 (+ 9.6)
4. Time Deposits	..	..	..	..	..	..	+ 258 (+13.2)	+ 473 (+21.5)	+ 413 (+15.4)
5. Total Monetary Resources (3 + 4)	..	..	..	..	..	..	+ 768 (+11.1)	+1039 (+13.5)	+ 991 (+11.4)
6. Net Bank Credit to Government	..	..	..	..	..	..	+ 171 (+ 4.1)	+ 433 (+ 9.9)	+ 6 (+ 0.1)
7. Net Foreign Exchange Assets of the Banking Sector..	..	..	..	..	..	..	+ 81 (+81.0)	+ 153@ (+84.6)	+285 (+71.4)
8. Government's Net Currency Liabilities to the Public	..	..	..	..	..	..	— 2 (-0.6)	+ 33 (+10.4)	+11 (+ 3.2)
9. Total (6 + 7 + 8)	..	..	..	..	..	..	+ 250 (+ 5.4)	+ 619@ (+12.7)	+ 302 (+ 5.4)
10. Bank Credit to Commercial Sector	..	..	..	..	..	..	+ 570 (+18.6)	+ 641 (+17.6)	+ 736 (+17.2)
11. Net Non-Monetary Liabilities of Reserve Bank	..	..	..	..	..	..	— 8	— 95@	— 60
12. Net Non-Monetary Liabilities of other banks	..	..	..	..	..	..	— 44	— 126	+ 13
13. Total (9 + 10)	..	..	..	..	..	..	+ 820 (+10.6)	+1260@ (+14.8)	+1038 (+10.5)

Note : Figures in brackets represent percentage variations.

@ Excluding changes due to revaluation of gold held in the Issue Department of the Reserve Bank with effect from February 1, 1969.

Table 11 — Outstandings of Scheduled Commercial Bank Credit to Public Sector

		(Rupees crores)			
		June 28, 1968	December 27, 1968	June 27, 1969	December 26, 1969*
(i)	Government Companies and Corporations ..	223.38 (+142.2)	299.88 (+ 34.2)	224.97 (- 25.0)	165.37 (-26.5)
(ii)	Other Government Bodies	10.08 (+ 2.9)	14.44 (+ 43.2)	14.90 (+ 3.2)	18.97 (+27.3)
(iii)	State Governments	22.86 (+ 26.7)	18.46 (- 19.2)	87.58 (+374.4)	30.95 (-64.7)
(iv)	State Electricity Boards	10.92 (+248.9)	10.74 (- 1.6)	23.13 (+115.4)	19.07 (-17.6)
(v)	Grand Total	267.24 (+116.9)	343.52 (+ 28.5)	350.58 (+ 2.1)	234.36 (-33.2)
(vi)	Total Scheduled Commercial Bank Credit ..	3102.89 (+ 13.9)	3068.99 (- 1.1)	3598.77 (+ 17.3)	3615.92 (+0.5)
(vii)	Proportion of Credit to Public Sector to total Scheduled Commercial Bank Credit ..	8.6	11.2	9.7	6.5

Note : Figures in brackets indicate percentage changes over the previous period.

* Provisional

**Table 12 — Trends in Money Supply and Monetary Resources
(Seasonal)**

		(Rupees crores)			
		Variations during the			
		Slack Season		Busy Season	
		1968	1969	1968-69	1969-70
1.	Currency with the Public	- 126 (- 3.6)	- 149 (- 4.0)	+ 411 (+12.2)	+ 512 (+14.1)
2.	Demand Deposits	- 5 (- 0.2)	+ 76 (+ 3.6)	+ 196 (+10.0)	+ 183 (+ 8.2)
3.	Money Supply (1 + 2)	- 131 (- 2.4)	- 73 (- 1.2)	+ 607 (+11.4)	+ 695 (+11.9)
4.	Time Deposits	+ 230 (+10.6)	+ 248 (+ 9.6)	+ 200 (+ 8.4)	+ 162 (+ 5.7)
5.	Monetary Resources (3 + 4)	+ 99 (+ 1.3)	+ 175 (+ 2.1)	+ 807 (+10.5)	+ 857 (+ 9.9)
6.	Net Bank Credit to Government	+ 36 (+ 0.8)	- 14 (- 0.3)	+ 324 (+ 7.4)	+ 130 (+ 2.8)
7.	Net Foreign Exchange Assets of the Banking Sector ..	+ 9 (+ 5.0)	+ 45 (+11.3)	+ 133@ (+67.7)	+ 181 (+40.9)
8.	Government's Net Currency Liabilities to the Public ..	- 8 (- 2.6)	-	+ 33 (+10.5)	+ 13 (+ 3.9)
9.	Total (6 + 7 + 8)	+ 37 (+ 0.8)	+ 31 (+ 0.6)	+ 490@ (+10.0)	+ 324 (+ 5.9)
10.	Bank Credit to Commercial Sector	+ 56 (+ 1.6)	+ 136 (+ 3.3)	+ 470 (+12.9)	+ 569 (+13.4)
11.	Net Non-Monetary Liabilities of Reserve Bank of India ..	+ 2	+ 15	- 77@	- 76
12.	Net Non-Monetary Liabilities of other banks	+ 4	- 7	- 76	+ 40
13.	Total (9 + 10)	+ 93 (+ 1.1)	+ 167 (+ 1.7)	+ 960@ (+11.2)	+ 893 (+ 9.2)

Note: Figures in brackets represent percentage variations.

@ Excluding changes due to revaluation of gold held in the Issue Department of the Reserve Bank with effect from February 1, 1969.

77. During the busy season period of 1969-70, *i.e.*, November 1969 to April 1970, money supply expansion was higher at Rs. 695 crores or 11.9 per cent against Rs. 607 crores or 11.4 per cent in the 1968-69 busy season. The expansion in currency component at Rs. 512 crores was about Rs. 100 crores larger than last busy season, while increase in demand deposits was smaller by Rs. 13 crores. Increase in time deposits was also smaller by Rs. 38 crores than in the 1968-69 busy season.

78. The increase in net bank credit to Government during the 1969-70 busy season was much smaller at Rs. 130 crores as against Rs. 324 crores in the corresponding period last year. However, the increase in foreign exchange assets at Rs. 181 crores was higher by Rs. 48 crores than in the 1968-69 busy season. Credit to commercial sector expanded by Rs. 569 crores in 1969-70 season as against a rise of Rs. 470 crores in the last busy season. Thus during the 1969-70 busy season, larger increases in net foreign exchange assets and bank credit to the commercial sector were responsible for larger increase in money supply.

79. During the current slack season *i.e.*,

the 1970 slack season so far there is a contra-seasonal expansion in money supply as in the corresponding period of the 1969 slack season. While net credit to Government continues to be smaller, both foreign exchange assets and credit to commercial sector were higher during this slack season so far than in the corresponding period last year.

Banking Trends and Credit Policy

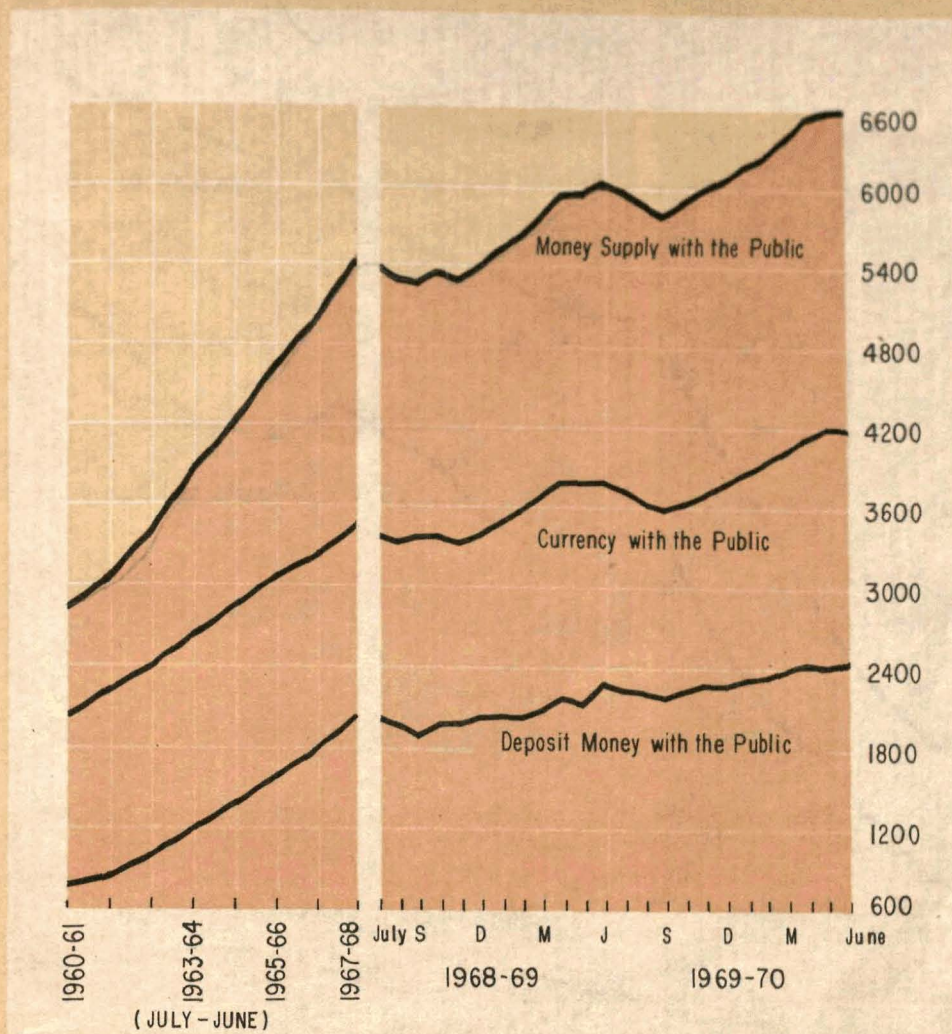
80. During the year the strain on the resources of the scheduled commercial banks increased owing to larger expansion in bank credit and a slow-down in the rate of deposit growth. Banks' recourse to Reserve Bank credit was substantially higher than last year. The Reserve Bank, therefore, tightened its credit control measures to reduce to some extent the banks' access to refinance facilities available in respect of their lending to priority sectors. Some of the concessions in respect of these refinance facilities were withdrawn. In the context of the upward pressure on prices, excessive build up of inventories in industry of agricultural raw materials in short supply was curbed by stiffening the margin requirements and lowering of ceiling limits in respect of bank advances against the security of these commodities.

Table 13 — Annual Variations in Important Banking Data

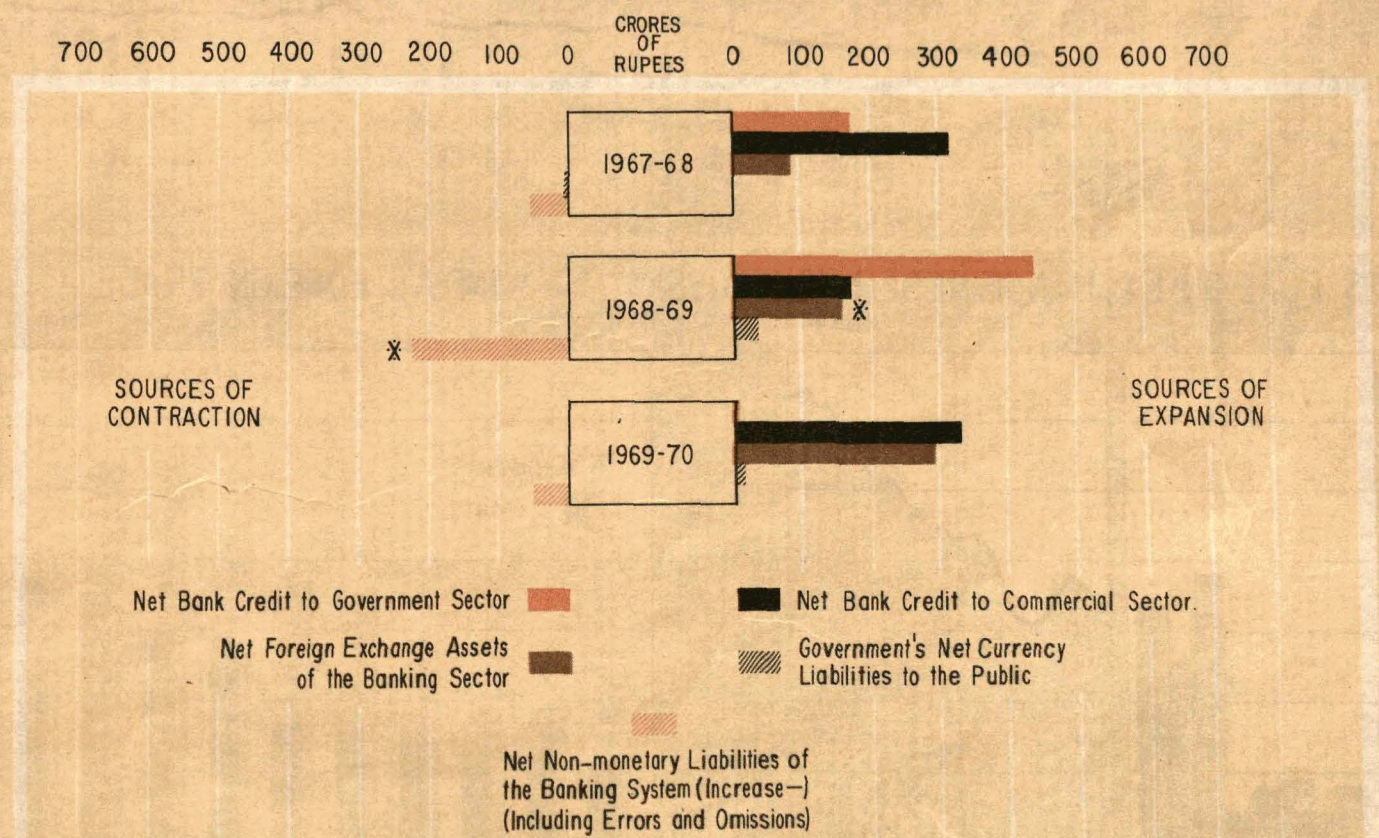
	June 1967	Vari- ation during the year ended June 1967	June 1968	Vari- ation during the year ended June 1968	June 1969	Vari- ation during the year ended June 1969	June 1970*	Vari- ation during the year ended June 1970
(Rupees crores)								
1. Total Bank Credit	2631.1	+359.7	3102.9	+471.8	3598.8	+495.9	4227.6	+628.8
2. Total Investments	1069.9	+ 20.4	1160.7	+ 90.8	1358.9	+198.2	1505.7	+146.8
(a) in Government securities	922.6	+ 3.8	975.6	+ 53.0	1126.3	+150.7	1187.6	+ 61.3
(b) in other approved securities	147.3	+ 16.6	185.1	+ 37.8	232.6	+ 47.5	318.1	+ 85.5
3. Cash and Balances with the Reserve Bank of India	258.8	+ 63.5	269.5	+ 10.7	380.3	+110.8	340.8	- 39.5
4. Money at call	57.7	- 4.5	50.6	- 7.1	88.1	+ 37.5	49.3	- 38.8
5. Aggregate Deposits	3517.0	+393.8	3969.0	+452.0	4645.8	+676.8	5239.8	+594.0
(a) Demand	1664.6	+187.3	1874.8	+210.2	2103.5	+228.7	2307.3	+203.8
(b) Time	1852.4	+206.5	2094.2	+241.8	2542.3	+448.1	2932.5	+390.2
6. Borrowings from Reserve Bank of India	11.5	+ 9.0	103.5	+ 92.0	172.2	+ 68.7	291.5	+119.3

* Provisional.

Source : Returns submitted under Section 42(2) of the Reserve Bank of India Act, 1934, except in respect of borrowings from the Reserve Bank of India which are based on borrowing advices from regional offices of the Reserve Bank of India.



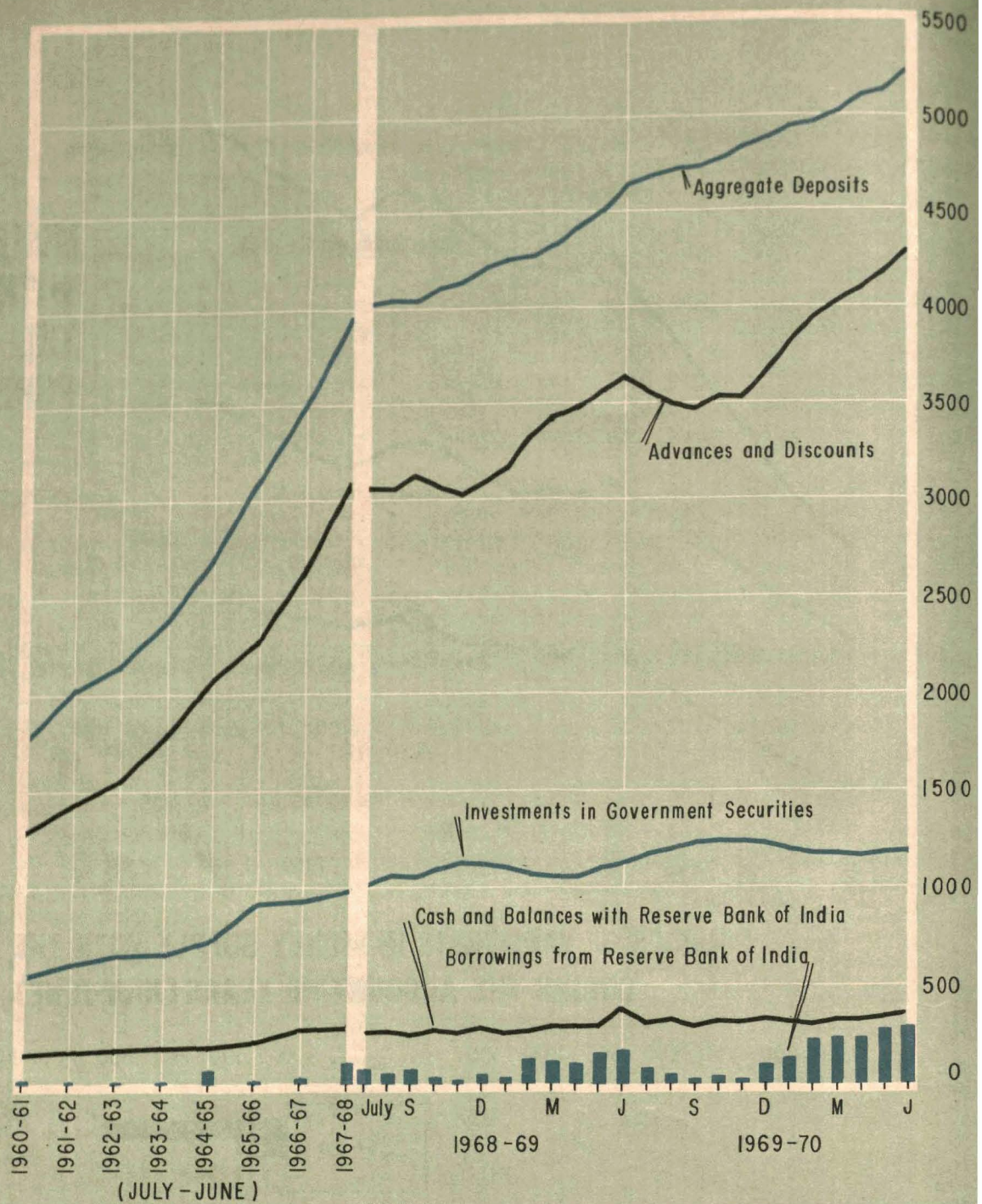
SOURCES OF VARIATIONS IN MONEY SUPPLY WITH THE PUBLIC DURING THE ACCOUNTING YEARS (JULY-JUNE)



* Excluding the changes due to revaluation of gold held in the Issue Department of the Reserve Bank with effect from February 1, 1969

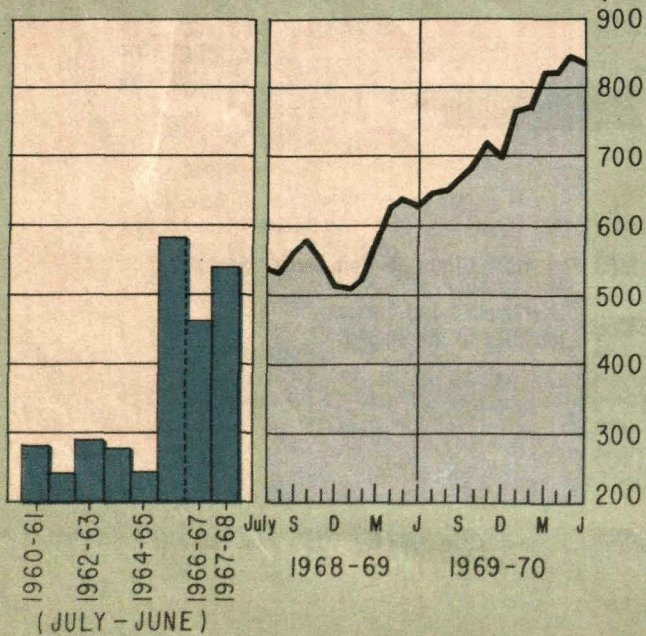
SCHEDULED COMMERCIAL BANKS' DATA

(AS ON LAST FRIDAY)
(CRORES OF RUPEES)



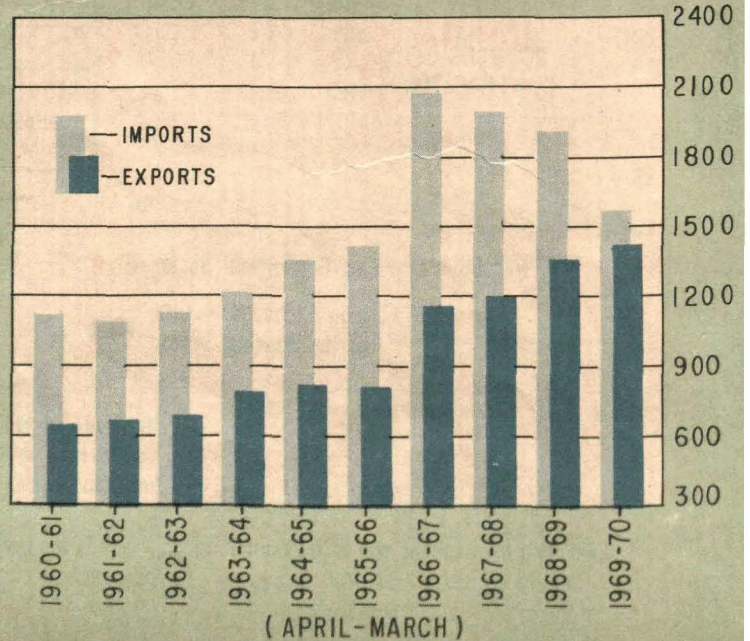
INDIA'S FOREIGN EXCHANGE RESERVES (GROSS)

Crores of Rupees



INDIA'S FOREIGN TRADE

Crores of Rupees



81. Total scheduled commercial banks' credit recorded an increase of Rs. 628.8 crores as compared with the expansion of Rs. 495.9 crores in 1968-69. The rate of increase in credit in 1969-70 was 17.5 per cent as compared with 16.0 per cent in 1968-69. Aggregate deposits, on the other hand, showed a smaller rise of Rs. 594.0 crores as compared with the rise of Rs. 676.8 crores in 1968-69. The rate of growth in deposits thus declined from 17.0 per cent in 1968-69 to 12.8 per cent in 1969-70. The credit-deposit ratio at the end of the year stood at a high level of 80.7 per cent, which was 3.2 per cent higher than at the end of June 1969. Of the total increase in deposits, time deposits accounted for 66 per cent as in 1968-69. Scheduled commercial banks' investments in Government securities showed an increase of only Rs. 61.3 crores, as against a much larger increase of Rs. 150.7 crores in 1968-69. In view of this, the investment-deposit ratio at 22.7 per cent was lower by 1.5 percentage points than the ratio a year ago. Cash and balances with the Reserve Bank showed a decrease of Rs. 39.5 crores as against an increase of Rs. 110.8 crores in 1968-69. As a result, the cash ratio declined from 8.2 per cent in June 1969 to 6.5 per cent in June 1970. The outstanding

level of banks' borrowings from the Reserve Bank at the end of June 1970 was much higher at Rs. 291.5 crores than the level of Rs. 172.2 crores at the end of June 1969.

82. The credit policy announced on the eve of 1969 slack season was referred to in the previous Report. The 1969 slack season witnessed a substantial growth in deposits of Rs. 348 crores, relatively to the increase of Rs. 239 crores in the 1968 slack season. It was, however, not much higher than the increase of Rs. 325 crores in the 1968-69 busy season. The rate of growth in deposits in the 1969 slack season was slightly lower at 7.8 per cent as compared to 7.9 per cent in 1968-69 busy season which preceded it but was higher when compared to 6.2 per cent in 1968 slack season. Of the total increase in deposits, only about 67 per cent was in the form of time deposits, whereas the proportion in the 1968 slack season was 95 per cent. Bank credit on the other hand, recorded a contra-seasonal rise of Rs. 31 crores as against a contraction of Rs. 43 crores in the slack season of 1968. Even so, the credit-deposit ratio stood lower at 72.9 per cent at the end of October 1969— as compared to 73.7 per cent a year ago.

Table 14 — Seasonal Variations in Scheduled Commercial Banks' Data

						(Rupees crores)	
						Slack Season	Busy Season
						1968	1968-69
						Slack Season	Busy Season
						1969	1969-70
						Slack Season Upto	
						June 26, 1970*	June 27, 1969
1. Bank Credit	..	..	..	..	..	- 42.9	+ 426.9
2. Investments in Government Securities and other approved securities	..	..	..	..	..	+ 138.7	- 2.4
(a) in Government securities	..	..	..	..	..	+ 133.9	- 43.0
(b) in other approved securities	..	..	..	..	..	+ 4.8	+ 40.6
3. Cash in hand and balances with Reserve Bank	..	..	..	..	..	+ 30.2	+ 20.2
4. Money at call and short notice	..	..	..	..	..	+ 34.6	+ 6.7
5. Aggregate Deposits	..	..	..	..	..	+ 238.9	+ 324.9
(a) Demand	..	..	..	..	..	+ 12.3	+ 145.1
(b) Time	..	..	..	..	..	+ 226.6	+ 179.8
6. Borrowings from the Reserve Bank	..	..	..	..	..	- 81.9	+ 70.8

* Provisional.

Notes: (1) Data are based on weekly returns submitted by banks under Section 42(2) of the Reserve Bank of India Act, 1934, except in respect of borrowings from the Reserve Bank of India which are based on weekly borrowing advices from regional offices of the Reserve Bank of India.

(2) The variations are based on the last Friday figures of April and October.

Table 15 — Seasonal Pattern of Principal Ratios of Scheduled Commercial Banks

(Rupees crores)

	October, 1968		April, 1969		October, 1969		April, 1970		June, 1970*		June, 1969	
	Amo- unt	Per- cent- age	Amo- unt	Per- cent- age	Amo- unt	Per- cent- age	Amo- unt	Per- cent- age	Amo- unt	Per- cent- age	Amo- unt	Per- cent- age
1. Bank Credit	3034.4	73.7	3461.3	78.0	3492.6	72.9	4054.2	79.4	4227.6	80.7	3598.8	77.5
2. Investments in Government and other approved securities	1288.0	31.3	1285.6	28.9	1525.1	31.8	1471.2	28.8	1505.7	28.7	1358.9	29.2
(a) in Government securities ..	1100.8	26.8	1057.8	23.8	1266.1	26.4	1165.1	22.8	1187.6	22.7	1126.3	24.2
(b) in other approved securities	187.2	4.5	227.8	5.1	259.0	5.4	306.1	6.0	318.1	6.0	232.6	5.0
3. Cash & Balances with Reserve Bank	260.7	6.3	280.9	6.3	307.6	6.4	314.4	6.2	340.8	6.5	380.3	8.2
4. Money at Call and Short Notice	78.2	—	84.9	—	59.1	—	44.9	—	49.3	—	88.1	—
5. Aggregate Deposits	4115.1	100.0	4440.0	100.0	4788.1	100.0	5106.6	100.0	5239.8	100.0	4645.8	100.0
(a) Demand	1834.3	44.6	1979.4	44.6	2094.4	43.7	2264.7	44.3	2307.3	44.0	2103.5	45.3
(b) Time	2280.8	55.4	2460.6	55.4	2693.7	56.3	2841.9	55.7	2932.5	56.0	2542.3	54.7
6. Borrowings from Reserve Bank	30.3	—	101.0	—	33.5	—	236.5	—	291.5	—	172.2	—

Notes: (1) The percentages are ratios to aggregate deposits.

(2) Data are based on weekly returns submitted by banks under Section 42(2) of the Reserve Bank of India Act, 1934, except in respect of borrowings from Reserve Bank of India which are based on weekly borrowing advices received from regional offices of the Reserve Bank of India. All figures relate to the last Friday of the month.

* Provisional.

83. In response to the Governor's request to banks on the eve of the slack season, to invest their surplus funds in government securities as well as in other approved securities, the banks increased substantially their holdings of Government securities by Rs. 208 crores and of other approved securities by Rs. 31 crores in the 1969 slack season as compared to Rs. 134 crores and Rs. 5 crores, respectively, in the 1968 slack season. The investment-deposit ratio of banks moved up by nearly 3 points during the season and stood at 31.8 per cent at the end of October 1969, as compared with 31.3 per cent a year ago. The increase in cash and balances with the Reserve Bank was somewhat smaller than in the 1968 slack season, but the cash ratio showed a marginal rise of 0.1 per cent to 6.4 per cent at the end of the 1969 slack season. Borrowings from the Reserve Bank by scheduled commercial banks declined from Rs. 101.0 crores at the end of April 1969 to Rs. 33.5 crores at the end of October 1969, which was about Rs. 3 crores higher than the level a year ago. In view of the com-

fortable resources position of the banking system and the continuance of the refinance facilities by the Reserve Bank for the priority sectors, the money market remained easy during the 1969 slack season. The call rate at Bombay declined from the busy season's closing level of 4 per cent to 3.1 per cent in the third week of August 1969, but thereafter it rose steadily to 4 per cent at which level it remained till the end of the slack season as compared to the level of 3.5 per cent at the end of the 1968 slack season. In Calcutta, the call rate rose from 3.7 per cent at the end of April to 4.6 per cent in the second week of May 1969, but declined to 2.9 per cent at the end of August. Thereafter it moved upto 3.7 per cent at the end of the 1969 slack season. In the 1968 slack season, the call rate at Calcutta ruled between 3.1 per cent and 4.8 per cent and closed at 4.1 per cent.

84. On September 1, 1969, the Reserve Bank issued a directive, in terms of which the payment of interest on current accounts

and on deposits for periods upto 14 days, as well as the payment of brokerage on deposits by banks was prohibited. The rates of interest fixed on other categories of deposits were not revised and kept at the same levels as were in force under the earlier All-India Inter-Bank Agreement on Deposit Rates.

85. During the 1969 slack season some procedural relaxations in Credit Authorisation Scheme and Bill Market Scheme were also made. In May 1969 certain categories of advances were exempted from the requirements of Reserve Bank's prior authorisation. Important among these categories, were advances to State Governments, Food Corporation of India and State Co-operative Banks for financing food procurement operations, advances against Government and other trustee securities and advances to State Electricity Boards and public sector undertakings. In August 1969, further exemptions were granted from the prior authorisation requirement, in respect of the purchase and discount of inland documentary bills and supply bills drawn on quasi-Government bodies.

86. In pursuance of the recommendations of the Fertiliser Credit Committee, set up by the Fertiliser Association of India, the Bank reduced in August 1969 the minimum amount of usance promissory notes in respect of advances granted for distribution of fertilisers, from Rs. 50,000 to Rs. 25,000 and the minimum amount that can be borrowed by a bank at a time from Rs. 5 lakhs to Rs. 1 lakh. The Reserve Bank also made a similar concession for refinancing advances granted by banks to small-scale industries.

Credit Policy For 1969-70 Busy Season

87. At a meeting with the Chairmen/Chief Executives of major banks on November 1, 1969, the Governor of the Reserve Bank reviewed banking trends in the 1969 slack season and indicated the Bank's policy for the 1969-70 busy season. It was felt that although there was a favourable outlook for agricultural production and the revival in industrial output and the rising trend in exports continued, the banking system would not be faced with any problem of inadequacy of funds to meet the credit requirements,

in view of the improved liquidity position and the likely addition to their resources by way of fresh deposits during the busy season. In view of this and to maintain a degree of stability in Bank's credit policy with a view to helping banks to plan their operations, there was no basic change in the credit policy for the busy season of 1969-70. Refinance at $4\frac{1}{2}$ per cent, irrespective of net liquidity ratio, was available : (i) against packing credits to exporters of metallurgical and engineering products ; (ii) upto an amount equivalent to the increase in export credit over the prescribed base period (November 1968 to April 1969) ; and (iii) upto an amount equivalent to the total of short-term outstanding credit to agriculture and small-scale industries (guaranteed by the Credit Guarantee Organisation). In addition, refinance at the Bank rate, irrespective of the net liquidity ratio, was continued (i) against packing credit to exporters of goods other than metallurgical and engineering, and against post-shipment export credit and (ii) in respect of advances to State Governments, their agencies and Food Corporation of India for food procurement operations. Further, the increase in credit to export sector over the prescribed base period, continued to be treated as liquid assets of banks for the purpose of computation of net liquidity ratio. Finally, as in the past, the Reserve Bank agreed to consider giving discretionary accommodation to banks, in deserving cases, at the Bank rate, if they experienced sudden or specially heavy demands on credit from particular sectors.

88. However, unlike in the busy season of 1968-69 the pace of credit expansion increased considerably from early part of the busy season of 1969-70. The credit expansion during the first three months of the season amounted to Rs. 277 crores as compared to Rs. 112 crores in the corresponding period of 1968-69 season. At the same time, there was a contra-seasonal rise in prices and the monthly average index of wholesale prices during January 1970 was 6.8 per cent higher than the level a year ago. In a letter to banks on February 5, 1970 the Governor drew the banks' attention to the sharp rise in bank credit as well as in the borrowings of banks from the Reserve Bank during the season and pointed out that the credit expansion was larger than what was

warranted by genuine production and marketing needs. He, therefore, advised the banks to exercise adequate credit restraint and to make a careful analysis of the directions in which the credit expansion had taken place during the season. In order to reduce the recourse by banks to refinance facilities of the Reserve Bank and to restrain credit expansion, the refinance facility at the Bank rate in respect of food procurement advances, irrespective of a bank's net liquidity ratio, was withdrawn, and the availability of refinance at $4\frac{1}{2}$ per cent upto the total of short-term lending to agriculture was discontinued and only direct lending to agriculture was made eligible for refinance at Bank rate. The banks were also asked to step up their holdings of assets which are included in their statutory liquidity ratio, from 25 per cent to 26 per cent of their aggregate demand and time liabilities within a month.

89. Subsequently, on February 18, 1970, the Chairmen/Chief Executives of the banks and the Governor of the Reserve Bank reviewed credit and deposit trends during the first three months of 1969-70 busy season. As credit expansion continued to grow in the 1969-70 busy season, the Governor asked the bankers to exercise the utmost caution in extending credit and exercise greater vigilance in the matter of end-use of credit. The Governor also urged the banks to rely more on the resources, which they could mobilise by way of deposits than on recourse to the Reserve Bank. As the banks continued to have large recourse to the Reserve Bank's refinance facilities, the availability of refinance to banks was further restricted to an amount equivalent to an increase in credit to the priority sectors over the prescribed base period. Simultaneously, the minimum net liquidity ratio qualifying for Bank rate refinance was also raised from 30 to 31 per cent, which was to be stepped up further to 32 per cent by the last Friday of April 1970. Banks were also asked to step up their assets in respect of statutory liquidity ratio from 26 to 27 per cent by the last Friday of April 1970.

90. The Bank also took certain additional measures to curb credit expansion and to encourage deposit mobilisation by banks.

On January 21, 1970, the Bank removed the ceiling rate of interest on advances, which was fixed at $9\frac{1}{2}$ per cent on March 2, 1968 and which was applicable to the larger Indian scheduled commercial banks and foreign banks operating in India. However, in order to maintain the cost of export credit at a reasonable low level, the Bank continued the ceiling rate at 6 per cent for export credit granted by banks (both pre-shipment and post-shipment). Following the removal of the ceiling rate of $9\frac{1}{2}$ per cent on advances and the upward revision of the rates of interest on certain categories of postal deposits, the Reserve Bank raised on March 28, 1970 by $\frac{1}{4}$ to $\frac{1}{2}$ per cent the rate payable by banks on deposits for periods of two years and above, while retaining the rates of interest on savings deposits and the rates on fixed deposits for periods of less than two years at the previous levels. The new rates came into effect from April 1, 1970. At the same time, with a view to bringing about a more rational allocation of credit and to induce the borrowers to exercise greater care in estimating their credit requirements, the Reserve Bank issued on March 28, 1970 a directive to banks asking them to levy a commitment charge of 1 per cent per annum effective April 1, 1970, on the unutilised portion of credit limits of Rs. 10 lakhs and above. Suitable exemptions have been granted in respect of credit limits for inland, export and import bills, packing credit for exports, letters of credit opened for imports, trust receipt facilities in connection with the import of goods, procurement operations as well as credit limits granted to State Trading Corporation for the purpose of storage and distribution of soyabean and sunflower oil.

91. Following the withdrawal of the refinance facility at Bank rate in respect of food procurement advances from February 5, 1970, the banks which continued to finance food procurement operations found it difficult to meet the growing financial requirements of other priority sectors as well as some of the industries like the sugar industry which were faced with the problem of carrying a large volume of stocks. The Bank, therefore, agreed in April 1970 to refinance at Bank rate 80 per cent of the increase in advances granted by banks for food procure-

ment purposes over the average level of such advances in the quarter ended March 1970. This facility was made available till the third Friday of July 1970 after which it was to be reduced to 50 per cent of the outstanding level of such advances.

Selective Credit Controls

92. As regards selective credit control measures, following considerable improvement in supplies and the fall in prices of raw jute, the Bank withdrew in September 1969 the restrictions imposed in October 1968 on advances against raw jute to parties other than jute mills, as well as on advances against Pucca Delivery Orders for jute goods. However, in view of the tight supply position in respect of oilseeds, vegetable oils and raw cotton and the sharp rise in their prices in recent months, the Reserve Bank of India issued a directive on January 21, 1970, tightening the control on credit against oilseeds, vegetable oils and cotton and kapas. In terms of this directive, the control on advances against foodgrains was also stiffened in order to discourage holding of excess stocks with the help of bank finance. The minimum margin on advances against oilseeds and vegetable oils (including vanaspati) was raised uniformly for advances to all parties to 60 per cent of the value of stocks. The margin for advances against foodgrains was raised to 50 per cent. The permissible levels of credit were reduced to 70 per cent of the average aggregate level of advances maintained by a bank in 1967 in the case of oilseeds and vegetable oils and to 80 per cent of the 1968 level in the case of foodgrains. The minimum margin on advances against cotton and kapas to the parties other than mills was also raised from 50 to 60 per cent and the control was reimposed on advances to cotton textile mills with a minimum margin of 40 per cent and a ceiling which for every six-month-period commencing from November 1969 to April 1970 would be equivalent to 85 per cent of the peak level of the corresponding period in the year 1967-68 (November-October). Advances against stocks of imported cotton and to exporters of cotton and kapas continued to be exempted from the directive. To reinforce the impact of these controls, the Bank also prescribed a minimum rate of 10 per cent on advances

against foodgrains, oilseeds, vegetable oils (including vanaspati) and cotton and kapas. Advances granted by banks to the Food Corporation of India, State Governments and their approved agents for food procurement and distribution continued to be exempted from the provisions of this directive. On March 11, 1970 advances against imported sunflower oil were completely exempted from the control. The Bank directed the banks on March 17, 1970 not to grant credit facilities to parties affected by the directive of January 21, 1970 by way of clean advances or discount of clean bills. The banks were also advised on April 11, 1970 to exercise utmost caution in extending credit against demand documentary bills with a view to preventing the misuse of such credit by their clients. In view of the persisting rise in the prices of oilseeds, vegetable oils and cotton and kapas, the Bank directed the banks on April 28, 1970 to raise the minimum rate of interest charged on such advances from 10 per cent to 12 per cent per annum in respect of all borrowers. The minimum margin on advances against indigenous cotton and kapas to parties other than cotton mills was also raised from 60 to 75 per cent. Some relaxations were made in respect of advances against raw cotton to mills owned or managed by the Government as well as to the financially weak mills.

93. Owing to the improved supply position and the considerable fall in the price of gur, the Bank withdrew its control on advances against gur on January 21, 1970. To overcome the difficulties experienced by the roller flour mills in making payments in respect of wheat purchases from the Food Corporation of India, the Bank advised the banks on April 10, 1970, to charge a reduced margin of 25 per cent for advances to roller flour mills as against the earlier margin of 50 per cent. The Bank also removed the ceiling restrictions on advances granted by banks to roller flour mills against wheat supplied by the Food Corporation of India. On April 28, 1970 bank advances against barley were exempted from control.

94. Following the large increase in the production of sugar and the decline in the free market prices of sugar, the Bank with-

drew on May 4, 1970 its control on bank advances against sugar imposed on April 27, 1963. Earlier, bank advances against sugar were subject to a minimum margin of 45 per cent, in respect of parties other than sugar mills and to mills in respect of stocks which had left the factory premises and on which excise duty had been paid. Subsequently on May 30, 1970, the Bank advised the banks to provide additional finance to sugar mills to enable them to continue the crushing activity. The banks were also advised to fix the same margin for levy and free sugar, the latter being based on the tariff value fixed by the Government or the market value, whichever is lower.

95. On representations received from the vanaspati manufacturing units that they experienced difficulties in securing bank credit, the Bank relaxed on June 8, 1970, its restrictions on advances to vanaspati units and registered oil mills; these manufacturing units were exempted from the existing ceiling restrictions on bank credit. Banks were also asked to charge a lower margin of 40 per cent for advances against vegetable oils to vanaspati units. This reduced margin would, however, apply only to stocks of vegetable oils equivalent to six weeks consumption of each factory located in Northern and Eastern Zones and to four weeks consumption of each factory in the Southern and Western Zones, worked out on the basis of a specified weekly consumption. The Bank also exempted from control advances granted to solvent extraction units against the extracted oil, in cases where the value of raw material exceeds the value of de-oiled cakes to be exported. The ceiling limit on advances against non-edible vegetable oils, excluding linseed and castorseed oils, has also been removed.

Banking Trends during 1969-70 Busy Season

96. The busy season of 1969-70 witnessed a much larger expansion in bank credit than the 1968-69 season. The pace of deposit accretion during this busy season on the other hand, was somewhat slower than in the busy season of the preceding year. Scheduled commercial banks' credit expanded by Rs. 562 crores as compared with an expansion of Rs. 427 crores and Rs. 509 crores in the busy

seasons of 1968-69 and 1967-68, respectively. Excluding food procurement advances, credit expansion in 1969-70 busy season was also much higher at Rs. 589 crores than in the earlier busy season at Rs. 419 crores. A security-wise analysis of bank credit (based on estimates) in the 1969-70 busy season showed that there has been a substantial decline in advances against foodgrains as against a small rise in the 1968-69 season, while the increase in the credit against oilseeds, and cotton and kapas, was smaller than in the 1968-69 season. Advances against vegetable oils (including vanaspati) and raw jute rose by a much larger amount than in 1968-69 season. Advances against sugar increased by Rs. 102 crores as compared with Rs. 99 crores in 1968-69 season, which indicates that the sugar industry did not increase its recourse to bank finance to a much greater extent than in the previous year. Among manufactures, credit against cotton textiles showed a sharp increase, which reflected the accumulation of stocks of finished goods held by the industry. The increase in credit against jute textiles was only slightly larger than in 1968-69 season. Advances against iron and steel and engineering goods also showed a substantial increase of Rs. 58 crores as against a fall of Rs. 13 crores in 1968-69 busy season. On the other hand, credit against chemicals, dyes, drugs and pharmaceuticals showed a sharp fall of Rs. 19 crores as against a substantial rise of Rs. 48 crores in the previous busy season. Unsecured advances also showed a smaller expansion of Rs. 36 crores as compared with Rs. 56 crores in the previous busy season.

97. Deposit accretion in 1969-70 busy season was somewhat smaller at Rs. 319 crores as compared with Rs. 325 crores in the 1968-69 busy season. As a result, the credit-deposit ratio at the end of April 1970 was higher at 79.4 per cent as compared with 78.0 per cent at the end of April 1969. The increase in demand deposits was larger than time deposits during the busy season of 1969-70 as against a larger rise in time deposits in 1968-69 season. In fact, the rise in time deposits amounting to Rs. 148 crores was much less than the rise of Rs. 233 crores recorded in the 1969 slack season. Even in 1968-69 busy season, time deposits

Table 16 — Seasonal Trends in Bank Credit : Security-Wise Classification

(Rupees crores)

					Busy Season 1967-68	Slack Season 1968	Busy Season 1968-69	Slack Season 1969	Busy Season 1969-70†
Seasonal Advances¶	..	..	..	..	+359.7	-152.5	+206.8	-192.0	+123.0
Paddy & Rice	..	..	..	..	+ 63.0	- 36.6	+ 41.1	- 29.0	- 7.7
Wheat	..	..	..	..	+ 12.4	+ 69.8	- 33.7	+ 14.4	- 59.4
Other foodgrains	..	..	..	..	+ 29.9	- 10.9	+ 9.0	- 3.1	+ 17.2
Sugar	..	..	..	..	+123.0	-104.6	+ 98.9	- 44.6	+102.4
Gur	..	..	..	..	+ 4.5	- 5.2	+ 3.7	- 3.6	+ 8.9
Groundnuts	..	..	..	..	+ 8.2	- 7.1	+ 11.8	- 13.7	+ 5.9
Other oilseeds	..	..	..	..	+ 6.8	- 5.7	+ 13.9	- 17.0	+ 9.0
Vegetable oils	..	..	..	..	+ 11.2	- 2.2	+ 1.6	- 10.2	+ 10.2
Cotton and kapas	..	..	..	..	+ 83.4	- 49.4	+ 68.1	- 86.9	+ 40.4
Raw Jute	..	..	..	..	+ 19.2	- 18.1	+ 1.0	- 6.1	+ 10.6
Tea	..	..	..	..	- 1.9	+ 17.5	- 8.6	+ 7.8	- 14.5
Non-Seasonal Advances‡	..	..	..	..	+135.6	+ 89.6	+131.4	+185.0	+365.5
Cotton Textiles	..	..	..	..	+ 22.5	+ 14.8	+ 0.5	+ 1.0	+ 27.9
Jute Textiles	..	..	..	..	- 3.7	+ 9.4	+ 6.1	- 0.8	+ 7.1
Iron, steel and engineering goods*	..	..	..	..	+ 6.0	+ 31.1	- 12.7	+ 44.9	+ 58.3
Chemicals, dyes, paints, drugs and pharmaceuticals§	..	..	..	..	+ 23.2	+ 21.5	+ 48.2	+ 7.4	- 19.2
Electrical goods	..	..	..	..	+ 7.5	+ 4.7	- 6.7	+ 18.4	n.a.
Assets of industrial concerns—fixed or floating	..	..	..	..	+ 0.3	+ 9.3	+ 4.7	+ 10.3	+ 5.0
Shares of joint stock companies	..	..	..	..	+ 2.1	- 0.8	+ 3.0	- 1.5	+ 2.6
Government and other trustee securities	..	..	..	..	- 2.7	- 0.4	- 1.7	+ 0.6	n.a.
Gold and silver bullion and ornaments	..	..	..	..	+ 1.2	+ 3.6	+ 1.5	+ 8.4	n.a.
Total Secured Advances	..	..	..	..	+495.3	- 62.9	+338.2	- 7.0	+488.5
Unsecured Advances	..	..	..	..	+ 3.5	+ 33.3	+ 55.8	+ 25.2	+ 35.6
Total Advances	..	..	..	..	+498.8	- 29.6	+394.0	+ 18.2	+524.1

Source : Fortnightly/Monthly Survey of Banks' advances classified according to security. These figures may not tally with those given in Table 14 as these relate to reporting branches only.

* Includes advances against vehicles.

§ Includes advances against fertilisers.

† Estimates based on mid-April 1970 returns received from selected branches of banks.

¶ Excluding plantations other than tea.

‡ Including plantations other than tea.

n.a. = not available.

showed a rise of Rs. 180 crores. To some extent the slower growth in time deposits could be attributed to the rise in prices and to the pressure of demand for funds during the 1969-70 busy season.

98. The disinvestment in Government securities during the last busy season was much larger at Rs. 101 crores than the decline of Rs. 43 crores in the 1968-69 busy season. Consequently, the investment-deposit ratio declined from 26.4 per cent at the beginning of the season to 22.8 per cent at the end of April 1970, which was lower than the level of 23.8 per cent at the end of April 1969. Cash and balances with the Reserve Bank during the season showed a rise of Rs. 7 crores as compared with the rise of Rs. 20 crores during the 1968-69 busy season. Thus, the cash ratio stood at 6.2 per cent at the end of April 1970 as compared with 6.3 per cent a year ago. Outstanding borrowings from the Reserve Bank at Rs. 237 crores at the end of April 1970 were at a much higher level than at the end of 1968-69 busy season (Rs. 101 crores). During the 1969-70 busy season they also showed a substantial increase of Rs. 203 crores as compared to the rise of Rs. 71 crores in the 1968-69 busy season. Owing to the considerable pressure of demand for credit and the curtailment of refinance facilities by the Reserve Bank, the inter-bank call money rate in Bombay and in Calcutta rose to a much higher level in the 1969-70 busy season than in the previous busy season. Thus the call rate in Bombay, which moved between 4 and 4½ per cent till February 6, 1970 rose sharply thereafter and touched 8.9 per cent by April 3, 1970. Subsequently, the rate moved down to 6½ per cent on April 24, 1970. In Calcutta also, the rate gradually moved up to 4.8 per cent by the first week of February 1970 and shot up to 9 per cent by April 3, 1970, but thereafter it eased to 6.2 per cent on April 24, 1970. The highest levels touched in the 1968-69 busy season in Bombay and Calcutta were 5 per cent and 6.1 per cent, respectively, and the rate at the end of that busy season was also much lower at 4 per cent in Bombay and 3.75 per cent in Calcutta.

99. Scheduled commercial banks' credit continued to increase during the first two

months of the 1970 slack season and the increase in credit amounted to Rs. 173.4 crores as compared with the rises of Rs. 137.6 crores and Rs. 25.6 crores, respectively, in the corresponding periods of 1969 and 1968. The increase in credit for food procurement was larger at Rs. 107.0 crores as compared to Rs. 80 crores in the corresponding period of 1969. Credit expansion against sugar, tea, chemicals and drugs, as well as assets of industrial concerns was also higher during the first two months of 1970 slack season than in 1969. On the other hand, aggregate deposits increased by Rs. 133.2 crores in the first two months of 1970 slack season as compared with Rs. 205.8 crores and Rs. 93 crores during the corresponding periods of 1969 and 1968 seasons. Consequently, the credit-deposit ratio continued to be much higher at 80.7 per cent than the corresponding levels of 77.5 per cent and 78.2 per cent in 1969 and 1968 seasons. As the banks' resources position had been under strain for sometime, borrowings from the Reserve Bank continued to rise and reached a record level of Rs. 307 crores as on June 19, 1970. During the subsequent week, they declined to Rs. 291.5 crores which was still Rs. 119.3 crores higher than the level a year ago. The call money market therefore continued to remain tight, with the inter-bank borrowing rate quoting at 6.5 per cent in Bombay and 7.1 per cent in Calcutta. A year ago the rate stood much lower at 3.5 per cent in both the centres.

100. The Reserve Bank informed the banks that the refinance facilities under its Bill Market Scheme would be continued beyond June 1970 to enable them to meet the credit requirements of the priority sectors. These facilities would be available in respect of banks' short-term direct lending to agriculture including credit granted to primary co-operative societies in the selected States as well as for short-term lending to small-scale industries covered by the guarantee of the Credit Guarantee Organisation. The amount of refinance would not, however, exceed the total of outstanding bank loans to these sectors. Refinance facilities in respect of bank advances for food procurement and distribution of fertilisers would also continue to be available after June 30, 1970.

Export Finance

101. As regards exports, the Bank continued to provide refinance against export credit granted by banks (both packing credit and post-shipment credit) under its Pre-Shipment Credit Scheme and its Export Bills Credit Scheme. The procedural requirements under the Pre-Shipment Credit Scheme were modified or waived wherever necessary, taking into account the special circumstances and trade practices of exporters of individual commodities. In June 1969, loans and advances granted by banks against freight differential claims were also made eligible for interest subsidy under the Export Credit (Interest Subsidy) Scheme, as they are considered a part of post-shipment credit. Accordingly, these advances are also subject to the ceiling rate of interest of 6 per cent per annum applicable to other types of export credit.

102. There has been a steady increase in the amount of refinance availed of by scheduled commercial banks from the Reserve Bank of India in respect of export credit granted by them. At the end of June 1970, the outstanding amount of refinance by Reserve Bank of India stood at Rs. 53.9 crores in respect of packing credit for exports and Rs. 52.3 crores in respect of post-shipment credit. The banks also continued to avail themselves of the interest subsidy in regard to export credit provided by them. During the period under review, claims for interest subsidy from 40 eligible commercial banks were received and an aggregate amount of Rs. 3.52 crores was paid to them. Out of this amount, Rs. 1.60 crores represented subsidy in respect of pre-shipment credit and Rs. 1.92 crores for post-shipment credit.

103. The Bank extended its scheme of refinance under Section 17(3A) of the Reserve Bank of India Act and the scope of Export Credit (Interest Subsidy) Scheme to cover also pre-shipment advances by banks to manufacturers of machine tools, construction contractors and tanners. Bonafide manufacturer-exporters of machine tools can avail themselves of packing credit advances from banks even without the prior lodgement of firm export orders/letters of credit, subject to certain conditions. Banks can also make advances to bonafide contractors at

the rate of interest applicable to export finance to meet their initial working capital requirements for execution of contracts abroad subject to certain safeguards. Similarly, tanners who supply exportable quality leather to the State Trading Corporation for feeding footwear fabricators producing shoes for export through the Corporation were also made eligible for packing credit advances from banks at 6 per cent subject to certain conditions. These advances would be eligible for refinance from the Reserve Bank and also for interest subsidy under the Export Credit (Interest Subsidy) Scheme.

104. In July 1969, in order to overcome the difficulties of the diamond exporters and in view of the special trading practices in regard to diamond exports, banks were allowed to grant pre-shipment advances without insisting on the lodgement of letters of credit/firm export orders. The advances would be given at the concessional rate of interest not exceeding 6 per cent under the Pre-Shipment Credit Scheme against rough diamonds imported or purchased locally for the purpose of cutting and polishing them for ultimate export.

105. Export credit given by banks is also exempted for the purposes of 'norm' relating to unsecured advances and guarantees given by banks. In July the Bank decided to exclude for purposes of this 'norm' unsecured advances made to exporters in respect of exports made on consignment basis where the consignees give an undertaking to remit the sale proceeds or return the goods direct to the bank. The Industrial Development Bank also continued to make available refinance facilities to eligible banks against medium-term export credit granted to exporters primarily for export of capital and engineering goods. The details of such assistance have been referred to in Chapter II.

Advances to Agriculture, Small-Scale and other Sectors

106. The nationalisation of 14 major Indian banks on July 19, 1969 gave an added impetus to banks' lending to the priority sectors such as agriculture and small-scale industries and there has been a greater involvement of banks in these and other socially desirable

sectors. The measures taken by the nationalised banks in this regard have been described in Chapter III of the Report.

107. Scheduled commercial banks' advances for agricultural purposes rose from Rs. 188.4 crores in June 1969 to Rs. 286.1 crores in March 1970, while the number of such accounts increased from 2.67 lakhs to 7.10 lakhs during the same period. In particular, the amount of direct credit given to farmers rose from Rs. 53.6 crores to Rs. 150.4 crores during the period and the number of accounts in this regard from 2.6 lakhs to 6.9 lakhs. Advances by the 14 nationalised banks to agriculture doubled from Rs. 62 crores at the end of June 1969 to Rs. 124 crores at the end of March 1970 and the number of these accounts with them rose from 1.27 lakhs to 3.12 lakhs.

108. As regards advances to the small-scale sector (comprising small-scale industries, road transport operators and industrial

estates), scheduled commercial banks' advances rose from Rs. 294 crores in June 1969 to Rs. 419 crores in March 1970 and the number of accounts increased from 85,280 to 1.35 lakhs. The bulk of advances to the small-scale sector was in respect of advances to the small-scale industries, which rose from Rs. 286 crores in June 1969 to Rs. 394 crores in March 1970. The number of accounts in the case of small-scale industries rose from 81,706 to 1.24 lakhs. The 14 nationalised banks accounted for about 50 per cent of the increase in advances to small-scale industries, the amount provided by them rising from Rs. 148 crores to Rs. 199 crores during this period. There has also been a sharp increase in credit to road transport operators. Banks have also stepped up their assistance to exports—another priority sector—and the amount of credit (both packing credit and post-shipment credit) for exports increased from Rs. 263.4 crores at the end of June 1969 to Rs. 304.1 crores at the end of March 1970.

Table 17 — Scheduled Commercial Banks' Advances to Agriculture, Small-Scale Sector and Exports
(Rupees crores)

		SBI and Subsidiaries		14 Nationalised Banks		Total Public Sector Banks		Other Scheduled Commercial Banks		Total	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1. Total for Agricultural Purposes*											
	June 1969 ..	37740	99.91	126741	62.42	164481	162.33	102545	26.08	267026	188.41
	March 1970 ..	204715	125.34	312403	124.20	517118	249.54	192570	36.54	709688	286.08
	Of which : Direct Finance to Farmers*										
	June 1969 ..	37031	11.06	122989	29.16	160020	40.22	97378	13.39	257398	53.61
	March 1970 ..	203419	46.53	299679	82.85	503098	129.38	188905	21.05	692003	150.43
2. Total for Small-Scale Sector (A+B+C)											
	June 1969 ..	37688	103.01	36801	153.79	74489	256.80	10791	37.30	85280	294.10
	March 1970 ..	55774	155.22	63309	214.86	119083	370.08	16047	48.51	135130	418.59
(A) Road Transport Operators											
	June 1969 ..	2	..	2322	5.48	2324	5.48	1207	2.74	3531	8.22
	March 1970 ..	1215	2.98	8071	15.88	9286	18.86	1870	5.47	11156	24.33
(B) Small-Scale Industries											
	June 1969 ..	37686	103.01	34446	148.05	72132	251.00	9574	34.54	81706	285.60
	March 1970 ..	54559	152.24	55217	198.72	109776	350.96	14167	42.94	123943	393.90
(C) Loans for setting up Industrial Estates											
	June 1969 ..	—	—	33	0.26	33	0.26	10	0.02	43	0.28
	March 1970 ..	—	—	21	0.26	21	0.26	10	0.10	31	0.36
3. Exports											
	June 1969 ..	—	70.72	—	123.97	—	194.69	—	68.74	—	263.43
	March 1970** ..	—	84.00	—	147.77	—	231.77	—	72.31	—	304.08

Source : Special returns received from banks.

Note : The figures are as on the last Friday of the month.

* Including development finance to plantations.

.. Below Rs. 50 thousand.

** Provisional.

109. Consequent on the nationalisation of 14 major banks, there has also been a shift in emphasis of these banks from creditworthiness of the borrower to the creditworthiness of the project to be financed. This is evidenced by the larger amounts lent by these banks to the other sectors like retail trade and self-employed persons and for purposes of higher education. Thus, advances by 14 nationalised banks rose between June 1969 and March 1970 from Rs. 19 crores

to Rs. 41 crores in the case of retail trade and small business, from Rs. 33 lakhs to Rs. 6.56 crores in the case of self-employed and from Rs. 46 lakhs to Rs. 1.80 crores for education. There was a sharp increase in the number of small borrowers as shown by the rise in number of accounts in respect of retail trade and small business from 28,037 to 71,148 and the number of accounts of self-employed persons, from 422 to 22,233 during the period of nine months.

Table 18 — Advances to Other Sectors by 14 Nationalised Banks

					(Rupees lakhs)	
					June 1969	
					No. of Accounts	Amount
					March 1970	
					No. of Accounts	Amount
Retail Trade and Small Business	..	..	..	..	28037	1922
Self-employed	..	..	..	..	422	33
Education	..	..	..	..	594	46

Note : The figures relate to the last Friday of the month.

Source : Special returns received from banks.

110. Thus, the amount of bank credit made available to agriculture, small-scale sector and exports taken together increased from Rs. 745.94 crores as at the end of June 1969 to Rs. 1008.75 crores at the end of March 1970, its proportion to total bank credit rising from 20.7 per cent to 25.3 per cent.

111. The total number of deposit accounts with scheduled commercial banks increased by 22 lakhs to 183 lakhs between March 31, 1968 and March 31, 1969. The increase in personal accounts was 19 lakhs, of which as many as 16 lakhs represented savings deposit accounts. Personal accounts comprising current, savings and fixed deposit accounts, continued to form the bulk of the total number of deposit accounts accounting for 88 per cent of the total. The outstanding amount of deposits with banks increased by Rs. 522 crores during the year ending March 31, 1969, of which the rise in personal deposits

was Rs. 259 crores. In 1968, on the other hand, the increase in personal deposits was Rs. 275 crores out of a total increase in deposits of Rs. 454 crores. As a result, the proportion of personal deposits in the total deposits declined from 57.3 per cent in March 1968 to 56.4 per cent in March 1969. The average amount per account also showed a decline from Rs. 1,612 to Rs. 1,586. On the other hand, the increase in the number of business accounts and deposits was much larger than in 1968. Thus, the number of business accounts increased by 94,000 in 1968-69 as compared to 56,000 in 1967-68, while the deposits in these accounts increased by as much as Rs. 131 crores as against a rise of Rs. 25 crores in 1967-68. The share of business deposits in the total deposits of banks, however, rose marginally from 23.0 per cent to 23.2 per cent. All categories of business accounts (industry, trade, etc.) showed increases both in the number of

accounts and in deposits during the year, which may be attributed to the revival of business activity.

112. The pattern of investments of scheduled commercial banks has shown a shift in favour of 'other trustee' securities (securities of Municipalities, Port Trusts, Electricity Boards, Industrial Finance Corporation, State Financial Corporations, Land Mortgage Banks, etc.). The banks have been increasing their investments in 'other trustee' securities at a faster pace than in Government securities, with the result that the share of Government securities in total investments declined from 82 per cent in March 1967 to 80 per cent in March 1968 and further to 79 per cent in March 1969. At the same time, the proportion of investments in 'other trustee' securities to the total has increased from 11.9 per cent in 1967 to 14.9 per cent in 1968 and further to 16.1 per cent in 1969. These two types of securities continued to form the bulk of the total investments of banks, their proportion in the total increasing from 94 per cent in March 1967 to 95.2 per cent in March 1969. Of the balance, shares and debentures of companies accounted for 2.7 per cent at the end of March 1969, as compared to 2.3 per cent at the end of March 1967.

Banks' Earnings, Expenses and Profits

113. A complete picture of banks' earnings, expenses and profits for the year 1969 is not yet available. However, it would appear from the published accounts of the State Bank of India and its seven subsidiaries that both income and expenditure of commercial banks have recorded a smaller rate of increase in 1969 than in 1968. The balance of profit (after providing for taxation, but before making other allocations) of the State Bank of India and its subsidiaries rose to Rs. 6.42 crores in 1969 from Rs. 6.02 crores in 1968. The rate of increase in income of these banks worked out to 14.3 per cent in 1969 as compared to 18.5 per cent in 1968. This is mainly due to the slower rate of growth in bank credit during the year 1969 than in 1968. The two important components of expenditure namely, interest paid on deposits and borrowings, as well as establishment expenses also showed a smaller rate of increase in 1969 than in 1968. Thus, the increase in interest

payments slowed down from 17 per cent in 1968 to 16 per cent, while that of establishment expenses dropped from 19.2 per cent in 1968 to 14.0 per cent in 1969. Consequently, the total expenditure of these banks recorded an increase of 14.8 per cent in 1969 as against 19.0 per cent in 1968. Despite increase in the unit cost of supervision of accounts consequent on substantial increase in the number of small borrowers, the 14 nationalised banks made larger gross profits on the whole in 1969 than they did in 1968.

114. The number of Indian banks operating abroad remained unchanged at 7 on December 31, 1969, but their offices excluding offices in Pakistan showed a decline from 60 to 56, following the conversion of 5 branches of Bank of Baroda and Bank of India in Uganda and the branch of the Bank of India in Nigeria into subsidiary companies in terms of the provisions of the Uganda Banking Amendment Act, 1969 and the Companies Decree No. 51 by the Federal Government of Nigeria and nationalisation of the Aden branch of the Bank of India. Country-wise, Malaysia had at the end of December 1969 the largest number of Indian banks' offices viz., 11, followed by Kenya, U.K. and Singapore with 10, 9 and 6 offices, respectively. Total liabilities/assets of Indian banks abroad decreased from Rs. 211 crores to Rs. 205 crores or by 3 per cent during the year 1969 mainly owing to the developments affecting Indian banks in Nigeria, Uganda and Aden, mentioned earlier. Total deposits of Indian banks abroad at the end of 1969 amounted to Rs. 158 crores as compared with Rs. 161 crores in the preceding year. Loans and advances decreased sharply from Rs. 66 crores to Rs. 51 crores largely in view of the decline in advances in the U.K. On the other hand, bills purchased and discounted increased from Rs. 37 crores to Rs. 40 crores, investments from Rs. 25 crores to Rs. 31 crores and money at call and short notice from Rs. 19 crores to Rs. 22 crores. The liquid assets* increased during the year by Rs. 8 crores to Rs. 85 crores and their ratio to deposits at 54 per cent showed a rise of 6 percentage points.

* Comprising cash in hand, balances with the Central Bank, balances in current account with other banks, money at call and short notice and bills purchased and discounted.

Table 19 — Growth in Scheduled Commercial Banks' Offices, Deposits and Credit in India

(Rupees crores)											
Offices			Deposits (excluding inter-bank deposits)						Credit		
	Total	Annual Increase	Demand Deposits	Time Deposits	Aggregate Deposits	Annual Increase	Percentage Rise	Bank Credit	Annual Increase	Percentage Rise	
End—June 1965	5727	+ 498	1275.1	1433.0	2708.1	+ 323.4	13.6	2068.4	+ 294.6	16.6	
End—June 1966	6139	+ 412	1477.3	1645.9	3123.2	+ 415.1	15.3	2271.4	+ 203.0	9.8	
End—June 1967	6620	+ 481	1664.6	1852.4	3517.0	+ 393.8	12.6	2631.1	+ 359.7	15.8	
End—June 1968	7044	+ 424	1874.8	2094.2	3969.0	+ 452.0	12.9	3102.9	+ 471.8	17.9	
End—June 1969	8045	+ 1001	2103.5	2542.3	4645.8	+ 676.8	17.0	3598.8	+ 495.9	16.0	
End—June 1970*	9938	+ 1893	2307.3	2932.5	5239.8	+ 594.0	12.8	4227.6	+ 628.8	17.5	

* Provisional.

Note: Data are based on weekly returns submitted by banks under Section 42(2) of the Reserve Bank of India Act, 1934, except number of offices.

**Table 20—Commercial Banking Trends at a Glance
(as on the last Friday of June)**

(Rupees crores)									
	1961	1966	1967	1968	1969	1970			
I. Number of Banks									
(i) Scheduled Banks	85	76	74	73	73	72			
(ii) Non-Scheduled Banks	249	31	24	19	16	14			
II. Number of Offices									
(i) Scheduled Banks	4250	6139	6620	7044	8045	9938			
(ii) Non-Scheduled Banks	776	240	216	203	217	193			
III. Aggregate Deposits									
(i) Scheduled Banks	1775.8	3123.2	3517.0	3969.1	4645.8	5239.8			
(ii) Non-Scheduled Banks	43.4	25.0	24.5	26.2	28.0	23.5			
IV. Demand Deposits									
(i) Scheduled Banks	725.3	1477.3	1664.6	1874.8	2103.5	2307.3			
(ii) Non-Scheduled Banks	12.6	9.1	9.1	10.2	11.7	10.6			
V. Time Deposits									
(i) Scheduled Banks	1050.5	1645.9	1852.4	2094.3	2542.3	2932.5			
(ii) Non-Scheduled Banks	30.8	15.9	15.4	16.0	16.3	12.9			
VI. Deposits as percentage of National Income	12.6	14.4	14.6	14.1	15.2@	16.6@			
VII. Total Bank Credit									
(i) Scheduled Banks	1282.8	2271.4	2631.1	3102.9	3598.8	4227.6			
(ii) Non-Scheduled Banks	27.6	15.0	15.1	12.8	16.4	11.3			
VIII. Credit-Deposit Ratio									
(i) Scheduled Banks	72.2	72.7	74.8	78.2	77.5	80.7			
(ii) Non-Scheduled Banks	63.6	60.0	61.6	48.9	58.6	48.1			
IX. Investment in Government Securities									
(i) Scheduled Banks	548.8	918.8	922.6	975.6	1126.3	1187.6			
(ii) Non-Scheduled Banks	11.0	5.6	5.4	6.6	6.7	6.0			
X. Investment-Deposit Ratio									
(i) Scheduled Banks	30.9	29.4	26.2	24.6	24.2	22.7			
(ii) Non-Scheduled Banks	25.3	22.4	22.0	25.2	23.9	25.5			
XI. Cash and Balances with RBI									
(i) Scheduled Banks	144.6	195.3	258.8	269.5	380.3	340.8			
(ii) Non-Scheduled Banks	3.2	1.7	1.9	2.1	2.5	2.0			
XII. Cash-Deposit Ratio									
(i) Scheduled Banks	8.1	6.3	7.4	6.8	8.2	6.5			
(ii) Non-Scheduled Banks	7.4	6.8	7.8	8.0	8.9	8.5			

Notes:—1. The figures for 1961 relate to scheduled banks.

2. The figures for Non-Scheduled Banks in the last column relate to October 1969.

3. The figures for June 1970 are provisional.

@ Based on National Income at current prices (estimated).

Balance of Payments

115. The external payments position continued to show further improvement during the year under review. Foreign exchange reserves increased substantially by \$ 278 million during 1969-70 (July-June) as against \$ 118 million in 1968-69 (July-June). Reserves benefited during the year on account of the allocation to India by the I.M.F. on January 1, 1970 of \$ 126 million in Special Drawing Rights, the first allotment under the Scheme which came into force on July 28, 1969 as a device for the deliberate creation of international liquidity by international agreement. On the other hand, repayments to the I.M.F. at \$ 187 million were \$ 59 million higher than in the previous year. Excluding transactions with the I.M.F.—allocation of SDRs as well as repayments to the Fund—refund of I.B.R.D. special deposits and the appreciation of the Deutsche Mark component of the country's reserve assets following the revaluation of DM in October 1969, the increase in reserves during 1969-70 would amount to \$ 347 million as against that of \$ 261 million in 1968-69.

116. As a result of the improvement in the balance of payments position and in the foreign exchange reserves, India became subject to designation by the I.M.F. for the acceptance of SDRs from other SDR participants in exchange for convertible currencies. At the beginning of July 1970, the Fund decided that India could be designated for a maximum amount of SDRs equivalent to \$ 14 million for the quarter July-September 1970. Early in August, India thus accepted \$ 1.5 million equivalent in SDRs from other participants.

117. Details of current and capital account balance of payments transactions of which the end result was the impressive improvement in the country's foreign exchange reserves in July 1969-June 1970 are not yet available. The latest detailed balance of payments compilations relate only to the calendar year 1969.

118. According to the balance of payments statistics for the calendar year 1969, there was a sizeable reduction in the aggregate import bill, particularly the free foreign exchange

outlay on imports. Exports also showed a rise, but their contribution was marginal. The flow of external assistance, though on a smaller scale than in 1968, was also a contributory factor in alleviating the pressure on the reserves. The debt service charges, however, remained burdensome, despite some measure of relief which continued to be provided by the donor countries.

Overall Trends

119. The aggregate import bill declined over the year by Rs. 263.0 crores, while exports increased by Rs. 48.3 crores, and the trade deficit was narrowed down by Rs. 311.3 crores to Rs. 165.2 crores. In addition, the deficit on invisibles account, including official transfer payment transactions, contracted by Rs. 14.2 crores. Consequently, there was a sizeable reduction in the deficit on current account from Rs. 498.2 crores to Rs. 172.7 crores. Taking the current account and the "errors and omissions" together, the total deficit in 1969 amounted to Rs. 203.1 crores which was about one-third of that in 1968. The net inflow from capital transactions was on a relatively reduced scale.

Imports

120. As observed earlier, the aggregate import bill at Rs. 1,563.2 crores was lower than in 1968 by Rs. 263.0 crores. More than half of this decline was on account of imports financed out of own resources and the balance represented the fall in aid-financed imports. Nearly half of the fall in the aggregate import bill was accounted for by the lower outlay on foodgrain imports following the improved domestic supply position. In addition there was also a reduction in the outlay on imports of raw cotton and non-ferrous metals. Further, the continued progress in import substitution coupled with the moderate tempo of investment activity led to a reduction in the outlay on imports of machinery and transport equipment.

121. Sector-wise, imports on private as well as Government accounts were lower than in 1968. Private imports fell by Rs. 64.3 crores to Rs. 608.2 crores. Though

Table 21 — India's Balance of Payments (Preliminary)

						(Rupees crores)					
						January-March 1969	April-June 1969	July-September 1969	October-December 1969	January-December 1969	January-December 1968
A. Current Account											
Imports c.i.f.											
(a) Private	..	..	..	..	..	147.9	149.8	157.9	152.6	608.2	672.5
(b) Government	..	..	..	..	..	245.9	203.3	272.5	233.3	955.0	1153.7
Total Imports (a+b)	..	..	..	..	..	393.8	353.1	430.4	385.9	1563.2	1826.2
Exports f.o.b.	..	..	..	..	..	343.7	343.1	352.5	358.7	1398.0	1349.7
Trade Balance	..	..	..	..	..	- 50.1	- 10.0	- 77.9	- 27.2	-165.2	-476.5
Non-Monetary Gold Movement (net)	..	..	..	..	..	—	—	—	—	—	—
Official Transfer Payments (net)	..	..	..	..	..	+ 24.3	+ 7.3	+ 7.8	+ 4.0	+ 43.4	+ 11.9
Other Invisibles (net)	..	..	..	..	..	- 20.0	- 1.4	- 17.6	- 11.9	- 50.9	- 33.6
Current Account (Net)	..	..	..	..	..	- 45.8	- 4.1	- 87.7	- 35.1	-172.7	-498.2
B. Errors and Omissions (net)	..	..	..	..	..	+ 6.2	- 32.4	- 14.8	+ 10.6	- 30.4	-143.6
C. Capital Account											
Private Capital (net)						.. + 1.6	- 16.2	- 2.8	- 9.7	- 27.1	- 9.8
(a) Long-term	..	..	..	..	..	+ 0.6	- 17.2	- 3.0	- 9.8	- 29.4	- 13.0
(b) Short-term	..	..	..	..	..	+ 1.0	+ 1.0	+ 0.2	+ 0.1	+ 2.3	+ 3.2
Banking Capital (Net)	..	..	..	..	..	- 16.9	+ 4.6	+ 14.8	- 6.2	- 3.7	+ 12.9
Official Capital (Net)	..	..	..	..	..	+120.1	+ 99.9	+129.8	+ 60.5	+410.3	+653.5
(a) Loans	..	..	..	..	..	+347.9	+164.5	+130.8	+134.7	+777.9	+886.5†
(b) I. M. F.	..	..	..	..	..	- 28.5	- 37.5	—	- 45.1	-111.1	- 73.2
(c) Amortisation	..	..	..	..	..	- 36.2	- 29.6	- 47.5	- 72.6	-185.9	-166.7
(d) Miscellaneous	..	..	..	..	..	-163.1	+ 2.5	+ 46.5	+ 43.5	- 70.6	+ 6.9
Capital Account (Net)	..	..	..	..	..	+ 104.8	+ 88.3	+ 141.8	+ 44.6	+379.5	+656.6
D. Movement in Reserves (A+B+C)											
Increase (+)/Decrease (-)	..	..	..	..	..	+ 65.2	+ 51.8	+ 39.3	+ 20.1	+176.4*	+ 14.8

† Partly revised.

* Excludes changes due to appreciation.

all major items registered a fall, it was particularly significant in raw cotton and machinery. Government imports dropped by Rs. 198.7 crores to Rs. 955.0 crores, about three-fourths of the decline being accounted for by food-imports, both aid-financed and bought from own resources.

Exports

122. After the set-back in 1966, exports registered a rise for the third year in succession to amount to Rs. 1,398.0 crores in 1969.

However, the increase over the year at Rs. 48.3 crores, or 4 per cent, was much lower than in 1968, when it was 10 per cent. The slower rise in exports in 1969 reflected largely the fall in world prices for some of the commodities and partly the lower export availabilities. The marginal improvement in the total was brought about entirely by non-traditional items, notably engineering goods, leather manufactures and marine products. The set-back in the exports of traditional items was mainly accounted for by tea, jute manufactures and vegetable oils.

Invisibles

123. On invisibles account, official transfer payment transactions resulted in a surplus of Rs. 43.4 crores as against Rs. 11.9 crores in 1968 (Table 21). The improvement reflected mainly larger receipts by way of food aid and interest relief grants and grants from P. L. 480 counterpart funds. As regards the other invisible transactions, the deficit widened from Rs. 33.6 crores to Rs. 50.9 crores due to the larger gross outgo. Gross payments at Rs. 454.7 crores were higher than in 1968 by Rs. 24.2 crores, the bulk of which represented the increased outgo on investment income account. Payments on investment income account, which amount to more than half of the total gross outgo, increased over the year by Rs. 15.1 crores to Rs. 248.3 crores; interest payments on loans and credits alone amounted to Rs. 186.8 crores as against Rs. 178.4 crores in 1968. In addition there was an increase in the outgo on account of insurance and miscellaneous service transactions, but this was moderated to some extent by the reduced outgo under private transfer payments. Gross receipts also increased over the year by Rs. 6.9 crores to Rs. 403.8 crores mainly as a result of larger investment income, following the higher interest rates prevailing abroad, and increased private unilateral transfers.

Capital Transactions

124. Capital transactions, as mentioned earlier, resulted in a net inflow of Rs. 379.5 crores as against Rs. 656.6 crores in 1968. The net flows pertaining to all the three sectors were adversely affected during the year. Following larger repayments of loans and repatriation of funds by oil companies, the net outflow on account of private capital movements increased from Rs. 9.8 crores to Rs. 27.1 crores. Under banking capital, there was a changeover from a net *inflow* of Rs. 12.9 crores to a net *outflow* of Rs. 3.7 crores. Almost the entire net outflow resulted from an increase in authorised dealers' foreign currency assets. In 1968, on the other hand, there was a sizeable reduction in their foreign currency assets which, though accompanied by a reduction in their foreign currency liabilities, resulted in a net inflow.

125. The net inflow under the official sector at Rs. 410.3 crores was lower than in 1968 by Rs. 243.2 crores. Utilisation of external assistance loans, which constitute the largest component of inflow into this sector, dropped from Rs. 891.4 crores in 1968 to Rs. 780.6 crores following the deceleration in the disbursement of P. L. 480 counterpart fund loans. The outgo by way of repurchases from the I.M.F. (Rs. 111.1 crores) and amortisation payments (Rs. 188.1 crores) were also larger than in 1968. Miscellaneous capital transactions resulted in a net *outflow* (Rs. 70.6 crores) as against a net *inflow* (Rs. 6.9 crores) in 1968. All these together affected adversely the net inflow into this sector.

Regional Trends

126. The current account position with all the regions showed an improvement. While the surplus with the sterling area increased marginally by Rs. 2.4 crores, the deficit with the non-sterling area as a whole markedly narrowed down by Rs. 327.1 crores. The deficit with international institutions, which amounted to Rs. 53.4 crores, was, however, somewhat higher than in 1968 due mainly to the larger outgo on investment income account.

127. With all the regions there was an improvement in the trade balance. While the trade surplus with the sterling area increased, the trade deficits with the dollar area and O.E.C.D. countries declined, and the deficit with the 'rest of non-sterling area' changed over to a *surplus*. Imports from all the regions, excepting those from the 'rest of non-sterling area,' were marked down considerably, with the fall in imports from the non-sterling area as a whole accounting for more than 80 per cent of the reduction. Exports to the sterling area declined but the fall was more than made up by marked increase in exports to the non-sterling area, particularly to the 'rest of non-sterling area' and the dollar area.

128. On invisibles account, including official transfer payment transactions, there was a drop in the surplus with the sterling area which offset in part the gain in the trade

Table 22 — India's Regional Balance of Payments on Current Account (Preliminary)

						(Rupees crores)					
						January- March 1969	April- June 1969	July- September 1969	October- December 1969	January- December 1969	January- December 1968
Sterling Area											
Imports c.i.f.	..	..	..	..	..	66.6	64.5	61.0	63.3	255.4	300.0
Exports f.o.b.	..	..	..	..	..	89.0	85.2	86.0	91.2	351.4	388.8
Trade Balance	..	..	..	..	..	+ 22.4	+ 20.7	+ 25.0	+ 27.9	+ 96.0	+ 88.8
Non-Monetary Gold Movement (Net)	..	..	..	..	..	—	—	—	—	—	—
Official Transfer Payments (Net)	..	..	..	..	..	+ 4.5	+ 0.2	— 0.1	+ 2.7	+ 7.3	+ 2.5
Other Invisibles (Net)	..	..	..	..	..	+ 4.5	+ 1.6	+ 6.0	— 1.3	+ 10.8	+ 20.4
Current Account (Net)	..	..	..	..	..	+ 31.4	+ 22.5	+ 30.9	+ 29.3	+ 114.1	+ 111.7
Dollar Area											
Imports c.i.f.	..	..	..	..	..	125.0	122.2	144.8	102.3	494.3	680.5
Exports f.o.b.	..	..	..	..	..	78.9	71.1	71.1	69.5	290.6	262.3
Trade Balance	..	..	..	..	..	— 46.1	— 51.1	— 73.7	— 32.8	— 203.7	— 418.2
Non-Monetary Gold Movement (Net)	..	..	..	..	..	—	—	—	—	—	—
Official Transfer Payments (Net)	..	..	..	..	..	+ 22.3	+ 5.1	+ 5.8	+ 8.7	+ 41.9	+ 25.2
Other Invisibles (Net)	..	..	..	..	..	+ 6.5	+ 7.5	— 4.3	+ 0.6	+ 10.3	+ 22.0
Current Account (Net)	..	..	..	..	..	+ 17.3	— 38.5	— 72.2	— 23.5	— 151.5	— 371.0
O.E.C.D. Countries											
Imports c.i.f.	..	..	..	..	..	48.7	43.6	48.4	53.7	194.4	234.1
Exports f.o.b.	..	..	..	..	..	34.8	30.1	32.8	34.6	132.3	131.8
Trade Balance	..	..	..	..	..	— 13.9	— 13.5	— 15.6	— 19.1	— 62.1	— 102.3
Non-Monetary Gold Movement (Net)	..	..	..	..	..	—	—	—	—	—	—
Official Transfer Payments (Net)	..	..	..	..	..	+ 0.6	+ 2.2	+ 3.1	+ 4.0	+ 9.9	— 0.6
Other Invisibles (Net)	..	..	..	..	..	— 7.9	— 9.6	— 6.9	— 9.9	— 34.3	— 41.0
Current Account (Net)	..	..	..	..	..	— 21.2	— 20.9	— 19.4	— 25.0	— 86.5	— 143.9
Rest of Non-Sterling Area											
Imports c.i.f.	..	..	..	..	..	153.5	122.8	176.2	166.6	619.1	611.6
Exports f.o.b.	..	..	..	..	..	141.0	156.7	162.6	163.4	623.7	566.8
Trade Balance	..	..	..	..	..	— 12.5	+ 33.9	— 13.6	— 3.2	+ 4.6	— 44.8
Non-Monetary Gold Movement (Net)	..	..	..	..	..	—	—	—	—	—	—
Official Transfer Payments (Net)	..	..	..	..	..	—	—	—	—	—	—
Other Invisibles (Net)	..	..	..	..	..	— 13.1	+ 9.1	— 2.1	+ 6.0	— 0.1	— 0.7
Current Account (Net)	..	..	..	..	..	— 25.6	+ 43.0	— 15.7	+ 2.8	+ 4.5	— 45.7
International Institutions											
Imports c.i.f.	..	..	..	..	..	—	—	—	—	—	—
Exports f.o.b.	..	..	..	..	..	—	—	—	—	—	—
Trade Balance	..	..	..	..	..	—	—	—	—	—	—
Non-Monetary Gold Movement (Net)	..	..	..	..	..	—	—	—	—	—	—
Official Transfer Payments (Net)	..	..	..	..	..	— 3.1	— 0.2	— 1.0	— 11.4	— 15.7	— 15.0
Other Invisibles (Net)	..	..	..	..	..	— 10.0	— 10.1	— 10.3	— 7.3	— 37.7	— 34.3
Current Account (Net)	..	..	..	..	..	— 13.1	— 10.3	— 11.3	— 18.7	— 53.4	— 49.3

balance. With the non-sterling area, on the other hand, there was an increase in the surplus on account of these transactions which contributed further to the improvement in the current account position.

129. According to the statistics of foreign trade compiled by the DGCIS which are available for the financial year 1969-70 (April-March) the trade deficit narrowed down considerably to \$ 206 million from \$ 734 million in 1968-69. The reduction in the adverse trade balance during 1969-70, was due to a decline in imports of \$ 455 million and an increase in exports of \$ 73 million.

130. Exports (DGCIS data) during 1969-70 (April-March) at \$ 1,884 million showed a growth rate of 4 per cent as compared with 13 per cent in 1968-69. The export performance during the first quarter (April-June 1969) was satisfactory with exports showing a 12 per cent rise. However, the poor performance in the next five months brought down the growth rate during the first eight months (April-November) of 1969-70 to barely 1 per cent. With a view to arresting the deceleration in the rate of growth of exports, a crash programme of exports was launched. The salient features of the crash programme are (i) encouragement for increasing exports ex-stocks and from scheduled production and (ii) encouragement for a fuller utilisation of idle capacity for exports through adequate supply of raw materials and other inputs both indigenous and imported. The main objective of the programme was to provide an immediate boost to exports so as to make good as far as possible in 1969-70, the shortfall in exports from the broad target set by the Planning Commission. Since a number of measures in the programme were of a somewhat long-term nature, they would have an impact on exports only in 1970-71. Nevertheless, in the last quarter of 1969-70 (January-March 1970) exports recorded an increase of 11 per cent reflecting partly the success of the crash programme. In the first two months of 1970-71 (April and May 1970), exports were 5 per cent higher than in the corresponding period of 1969-70. However, the sharp decline in exports in June 1970 (18 per cent over June 1969 level) due to the strike by

bargemen at Calcutta port brought down exports during April-June 1970 to a level which was 3 per cent lower than that in April-June 1969.

131. Exports to all regions except Western Europe showed an increase during 1969-70. Significant increases were recorded in exports to Africa (21 per cent), Asia and Oceania (10 per cent) and Eastern Europe (15 per cent). Under Asia and Oceania, exports to ECAFE countries increased by 11 per cent mainly due to a rise of 13 per cent in exports to Japan. Exports to the USA also registered a modest increase (1.5 per cent). However, exports to Western Europe were lower by 13 per cent as a result of a decline of 18 per cent in exports to the U.K. and 10 per cent in exports to EEC countries.

132. The slowing down of the growth rate in exports during 1969-70 was due to lower exports of items like tea, jute manufactures, oilseeds, oils and oilcakes, cashew kernels and manganese ore. Exports of tea, cashew kernels, oilseeds, oils and oilcakes and manganese ore slumped both in terms of unit value and quantum. Export earnings from tea declined further by \$ 43 million in 1969-70, having declined by \$ 32 million in the previous year. There was a glut in the world tea market which reduced the unit value to Rs. 7.15 paise per kg. in 1969-70 as compared with Rs. 7.79 paise per kg. in 1968-69 and Rs. 8.86 paise per kg. in 1967-68. The decline in jute manufactures was the continuation of the downtrend of earlier years though the magnitude of decline in 1969-70 (5 per cent) was smaller than in the previous year (7 per cent). The cut-back in orders from the USA due to the recession and the keen competition from substitutes as well as from Pakistan resulted in a cumulative decline of 28 per cent in the value of exports of jute manufactures in the past four years. Exports of oilcakes, oilseeds and oils suffered due to inadequate domestic supply of these commodities. In the case of cotton yarn and manufactures, the decline in the exports of cotton piecegoods was more than made good by increased exports of cotton yarn. The decline in exports of cotton piecegoods was due to competition from Pakistan, Hong Kong and Japan and import restrictions in

the U.K. Exports of cotton yarn increased by 127 per cent mainly due to larger exports to Burma, Yugoslavia, Czechoslovakia and the U.A.R.

133. Exports of engineering goods increased by 30 per cent, despite the shortage of certain categories of steel and other restraints that affected production in some

engineering industries. The acute domestic shortage of steel reduced the quantity of iron and steel exports but in view of better price realisation, export earnings increased by 10 per cent. Export earnings from iron ore, chemicals, hides, skins, leather and leather manufactures, spices and fish and fish preparations also showed sizeable increases during the year.

Table 23 — India's Principal Exports

							(U.S. \$ million)	
Commodities	1965-66	1968-69	1969-70	Percentage change in 1969-70				
				Over 1965-66	Over 1968-69			
A. Items showing a rise								
Cotton yarn and manufactures	148	134	154	+ 4	+ 15			
Iron ore	89	118	126	+ 42	+ 7			
Engineering goods	37	92	120	+224	+ 30			
Hides, skins, leather including manufactures ..	79	104	119	+ 51	+ 14			
Iron and steel	26	105	116	+346	+ 10			
Spices	49	34	46	- 6	+ 35			
Chemicals	23	32	40	+ 74	+ 25			
Fish and fish preparations	14	30	42	+200	+ 40			
B. Items showing a fall								
Jute yarn and manufactures	384	291	276	-28	- 5			
Tea	241	209	166	- 31	- 21			
Cashew kernels	58	81	77	+ 33	- 5			
Oilseeds, oils and oilcakes	82	91	73	- 11	- 20			
Pearls, precious and semi-precious stones, unworked/worked	31	60	56	+ 81	- 7			
Manganese ore	23	18	15	- 35	- 17			
C. TOTAL	1693	1811	1884	+ 11	+ 4			

Source : DGCIS

134. During the four years 1966-67 to 1969-70, exports increased by 11 per cent showing an annual compound growth rate of 2.7 per cent. While the two major traditional exports *viz.*, jute manufactures and tea declined by 8 per cent and 9 per cent per annum, compounded, there was substantial growth in exports of newer items. Iron and steel recorded the largest annual compound

rate of growth (45 per cent), followed by engineering goods (34 per cent), fish and fish preparations (32 per cent) and chemicals (15 per cent).

135. Imports, according to the DGCIS data, amounted to \$2,090 million during 1969-70 (April-March) showing a decline of 18 per cent from the level in 1968-69.

Table 24 — India's Principal Imports

(U.S. \$ million)

Commodities	1965-66	1968-69	1969-70	Percentage change in 1969-70	
				Over 1965-66	Over 1968-69
1. Food (excluding cashewnuts)	712	495	391	- 45	- 21
Of which:					
Cereals and cereal preparations ..	676	449	348	- 49	- 23
2. Raw cotton	97	120	110	+ 13	- 8
3. Raw jute and mesta	53	22	7	- 87	- 68
4. Cashewnuts	32	42	37	+ 16	- 12
5. Mineral oils	143	177	183	+ 28	+ 3
Of which :					
(a) Petroleum, crude and partly refined	73	128	128	+ 75	—
(b) Others	70	49	55	- 21	+ 12
6. Chemicals	221	378	246	+ 11	- 35
Of which :					
(a) Fertilisers	82	186	90	+ 10	- 52
(b) Others	139	192	156	+ 12	- 19
7. Machinery and transport equipment	1034	685	524	- 49	- 24
Of which :					
(a) Machinery other than electric ..	701	488	372	- 47	- 24
(b) Electrical machinery	184	109	85	- 54	- 22
(c) Transport equipment	149	88	67	- 55	- 24
8. Iron and steel	206	115	108	- 48	- 6
9.* Non-ferrous metals	145	119	99	- 32	- 17
10. Crude rubber (including synthetic and reclaimed)	10	7	13	+ 30	+ 86
11. Wool and other animal hair	11	15	23	+109	+ 53
12. Animal and vegetable oils and fats	32	26	39	+ 22	+ 50
13. Paper, paper board and manufactures thereof	28	24	32	+ 14	+ 33
14. Pearls and precious and semi-precious stones, unworked/worked	3	37	38	+1167	+ 3
15. Others	232	283	240	+ 3	- 15
TOTAL	2959	2545	2090	- 29	- 18

Source : DGCIS

136. The decline in total imports in the current year was in foodgrains as well as non-foodgrain imports, while in the previous year, non-foodgrain imports had increased by 6 per cent. Imports of foodgrains (*i.e.*, cereals) declined by 23 per cent during 1969-70 mainly on account of comfortable supply position due to better crops. Fertiliser imports were less than half of those in 1968-69 largely as a result of an increase in domestic production. Imports of mineral oils were, however, higher by 3 per cent, mainly on account of larger imports of other petroleum products; imports of crude oil did not show any change. Imports of wool, animal and vegetable oils and paper and paper boards were higher than in the previous year. Imports of machinery and transport equipment registered a decline of 24 per cent in 1969-70, partly reflecting a further progress of import substitution. A part of the decline may also be due to lagged effect of the recession in industry in earlier years.

137. In the four years 1966-67 to 1969-70, overall imports declined by 29 per cent, the main areas accounting for the decline being foodgrains, raw jute and mesta, machinery and transport equipment, iron and steel and non-ferrous metals. The fact that a higher

level of industrial output in 1969-70 as compared with 1965-66, has been sustained with a sharply lower level of non-foodgrain imports, possibly points to the working of an import substitution effect in the Indian economy.

External Assistance

138. Authorisations of external assistance increased from an annual average of \$ 1,060 million during the Second Plan period to that of \$ 1,222 million during the Third Plan period and to \$ 2,099 million in 1966-67. Subsequently, however, the authorisations have substantially declined and also fluctuated considerably. They dropped sharply in 1967-68 (April-March) to \$ 949 million, or 45 per cent of the level in the preceding year. In 1968-69, they rose to \$ 1,275 million to fall even below the 1967-68 low to \$ 830 million in 1969-70. About 88 per cent of the drop in authorisations during 1969-70 as compared to 1968-69 was accounted for by loans, which declined over the year by \$ 391 million due to a sharp fall in authorisations from the U.S.A. Grants authorised also were \$ 56 million lower than in 1968-69. Only P. L. 480 Title I assistance was marginally higher (by \$ 2 million) than in the previous year.

Table 25 — External Assistance*

						(U.S. \$ million)			
						Loans**	Grants	P.L. 480 Aid@	Total (1+2+3)
						(1)	(2)	(3)	(4)
1.	Amount undisbursed as at the end of March 1966	..	..	..	..	2,235	115	226††	2,576
2.	Authorisations during								
	(a) 1966-67	..	..	..	..	1,469	106	524	2,099
	(b) 1967-68	..	..	..	..	603	22	324	949
	(c) 1968-69	..	..	..	..	1,088	91	96	1,275
	(d) 1969-70	..	..	..	..	697	35	98	830
	TOTAL	..	..	..	..	3,857	254	1,042	5,153
3.	Utilisation during								
	(a) 1966-67	..	..	..	..	903	126	480	1,509
	(b) 1967-68	..	..	..	..	1,074	81	415	1,570
	(c) 1968-69	..	..	..	..	888	87	113	1,088
	(d) 1969-70	..	..	..	..	1,026	34	143	1,203
	TOTAL	..	..	..	..	3,891	328	1,151	5,370
4.	Amount undisbursed as at the end of March 1970	..	..	..	..	2,186†	42†	108@@	2,336

* Excludes (a) grants under U.S. P.L. 480 Titles II and III and (b) special deposits placed by the I.B.R.D. with the Reserve Bank of India during 1967-68. Loan of \$ 15 million given to the Government out of I.B.R.D. deposits is included under loans in 1968-69.

** Includes authorisations and utilisation of P.L. 480 Convertible Local Currency Credits.

@ Represents rupee deposits against import of goods under U.S. P.L. 480 Title I programme; disbursements out of these funds by way of loans and grants are, therefore, excluded from columns 1 and 2.

†† Adjusted for the lapsed agreements by \$ 184 million.

† Adjusted for the devaluation of pound sterling and Danish kroner in November 1967, of French franc in August 1969 and for the revaluation of Deutsche mark in October 1969.

@@ Adjusted for the lapsed agreements by \$ 9 million.

139. Utilisation of external assistance, however, showed some improvement during the financial year 1969-70. It amounted to \$1,203 million, \$115 million or 11 per cent higher than in 1968-69. Utilisation in a period normally depends on authorisations in the preceding periods. The higher level in the year under review reflected mainly larger utilisation of non-project loans. Foreign exchange outlay on servicing of the

official assistance also rose from \$458 million* in 1968-69 to \$506 million* in 1969-70. This formed 27 per cent of our export earnings for the year, and 42 per cent of gross external aid utilisation. However, as this rise was smaller than the increase in utilisation, the net inflow of foreign resources under assistance programmes was higher over the year by \$67 million at \$697 million.

**Table 26 — Inflow of Foreign Assistance :
Gross and Net**

(U. S. \$ million)					
Year	Gross aid utilisation (1)	Amortisation payments (2)	Interest payments (3)	Total debt service (2 + 3) (4)	Net inflow of aid (1 - 4) (5)
1961-62	711	121	70	191	520
1962-63	933	101	81	182	751
1963-64	1,239	113	96	209	1,030
1964-65	1,520	145	110	255	1,265
1965-66	1,622	162	141	303	1,319
1966-67	1,509	210*	153	363	1,146
1967-68	1,570	275*	163	438	1,132
1968-69	1,088	276*	182@	458	630
1969-70	1,203	317*	189@	506	697

* Excludes figures of debt rescheduling/postponement as under :

	1966-67	1967-68	1968-69	1969-70
Japan	3	6	17	19
I.B.R.D.	—	—	15	15
U.S.A.	—	—	6	6
Canada	—	—	1	1
Total	3	6	39	41

@ Excludes figures of postponement of interest by the U.S.A. amounting to \$3 million each in 1968-69 and 1969-70.

140. As in the last year, loans dominated the aid authorised during 1969-70. They accounted for 84 per cent of the total aid authorisations, the shares of P. L. 480 aid@ and grants being 12 per cent and 4 per cent, respectively. About 45 per cent (\$315 mil-

lion) of the loans authorised in 1969-70 was non-project aid, 9 per cent (\$61 million) for debt relief and the balance of 46 per cent formed loans tied to specific projects. The share of loans tied to projects has shot up over the year from 17 per cent to 46 per cent during 1969-70 as the entire amount provided by the I.B.R.D., the I.D.A., the U.S.A.I.D. and U.S. Eximbank and a large part of the assistance from Italy and Canada were tied to specific projects. A major part of the authorisations made by the U.K. and West

* Excluding debt relief provided in the form of re-scheduling and postponement of payments due by the IBRD, the USA, Japan and Canada, but for which the debt service payments would have been \$500 million and \$550 million, respectively, in 1968-69 and 1969-70.

@ Excluding P. L. 480 Convertible Local Currency Credits, which are covered under loans.

Germany continued to be untied to any projects as were the entire authorisations by Japan, the Netherlands and Belgium. Besides, West Germany, the Netherlands and Belgium liberalised, albeit marginally, the terms of their authorisations. The rate of interest on West German loans (other than debt refinancing credit) was $\frac{1}{2}$ per cent lower than the rate of 3 per cent per annum on the loans authorised in 1968-69 and the 1969-70 authorisation carried a longer grace period (8 years as against 7 years in the previous year) as also longer maturities (30 years as against 25 years in the previous year). The Netherlands also effected a similar reduction in the rate of interest and increased the maturity from 26 years to 30 years. In respect of the loan authorised by Belgium, the interest rate was reduced by a larger amount, from 3 to 2 per cent per annum, while grace and maturity periods were increased from 7 to 10 years and 24 to 29 years, respectively. On

the other hand, the terms of P. L. 480 assistance were further toughened during the year under review. The share of Convertible Local Currency Credits was raised to 60 per cent from 40 per cent applicable to the December 1968 agreement.

141. Cumulatively, external assistance authorised from August 15, 1947 to March 31, 1970 amounted to \$17,366 million, of which 68 per cent (\$11,889 million) was in the form of loans, 26 per cent (\$4,400 million) in the form of P. L. 480/665 and Third Country Currency assistance from the U.S.A. and the balance of 6 per cent (\$1,077 million) by way of grants. Assistance utilised upto the end of March 1970 is placed at \$14,823 million, \$9,688 million by way of loans, \$4,099 million by way of P. L. 480 aid and similar assistance and \$1,036 million in the form of grants.

Table 27 — Aggregate External Assistance

(U. S. \$ million)

				Loans	Grants	P.L. 480/665 Aid and Third Country Cur- rency Assistance	Total
Authorisations							
1. Up to the Second Plan	..	..		3,145	545	2,411	6,101
2. During Third Plan	..	..	..	4,887	278	947	6,112
3. During 1966-67 ..	..	..	..	1,469	106	524	2,099
4. During 1967-68	..	..	..	603	22	324	949
5. During 1968-69 ..	..	..	..	1,088	91	96	1,275
6. During 1969-70	..	..	..	697	35	98	830
TOTAL	..	..	..	11,889	1,077	4,400	17,366
Utilisation							
1. Up to the Second Plan	..	..		1,788	485	1,155	3,428
2. During Third Plan	..	..	..	4,009	223	1,793	6,025
3. During 1966-67	..	..	..	903	126	480	1,509
4. During 1967-68 ..	..	..	..	1,074	81	415	1,570
5. During 1968-69	..	..	..	888	87	113	1,088
6. During 1969-70	..	..	..	1,026	34	143	1,203
TOTAL	..	..	..	9,688	1,036	4,099	14,823

Note : Please refer to footnotes to Table 25.

Table 28 — Aggregate External Assistance—Source-Wise

(\$ million)

Authorised upto March 1970						Utilised upto March 1970			
	Loans	Grants	P.L. 480/ 665 Aid and Third Country Currency Assistance	Total		Loans	Grants	P.L. 480/ 665 Aid and Third Country Currency Assistance	Total
I.B.R.D./I.D.A.	2,191	—	—	2,191 (12.6)		1,938	—	—	1,938 (13.1)
U.S.A.	4,076	362	4,400	8,838 (50.9)		3,589	353	4,099	8,041 (54.2)
U.S.S.R.	1,362	16	—	1,378 (8.0)		844	14	—	858 (5.8)
West Germany	1,191	23	—	1,214 (7.0)		1,042	22	—	1,064 (7.2)
United Kingdom	1,172	14	—	1,186 (6.8)		1,024	10	—	1,034 (7.0)
Japan	488	1	—	489 (2.8)		429	1	—	430 (2.9)
Others	1,409	661	—	2,070 (11.9)		822	636	—	1,458 (9.8)
TOTAL	11,889	1,077	4,400	17,366 (100.0)		9,688	1,036	4,099	14,823 (100.0)

Note : Please refer to footnotes to Table 25. Figures in brackets represent percentages to the total.

142. The U.S.A. accounted for about 51 per cent of the total cumulative authorisations and about 54 per cent of the total cumulative utilisation. The I.B.R.D. and I.D.A. together accounted for about 13 per cent of authorisations as well as of the utilisation. Other countries that provided sizeable assistance were the U.S.S.R., West Germany and the United Kingdom in that order.

143. About one-half of the total U.S. aid to India has been under P. L. 480 Title I programme. Authorisations under this programme during 1969-70 amounted to \$ 248 million, a major portion of which was allocated for the purchase of foodgrains viz., wheat (\$ 145 million), rice (\$ 18 million) and grain sorghum (\$ 14 million); and the balance for the purchase of cotton (\$ 40 million) and soyabean oil (\$ 28 million). An amount of \$ 3 million was also provided to finance a part of ocean freight costs. A major part (\$ 150 million or 60 per cent) of the P. L. 480 assistance was provided on credit terms. The total P. L. 480 assistance authorised upto the end of March 1970 amounted to \$ 4,637 million, \$ 4,325 million against rupee deposits and \$ 312 million in the form of Convertible Currency Credits. The rupee counterpart funds accruing from the import of commodities under the programme have been allocated in the following manner :—

Allocation of P. L. 480 Counterpart Funds

	Amount (\$ million)	Percentage to the total
1. Loans to the Government of India	2,643	61.1
2. Grants to the Government of India	839	19.4
3. Loans to private enterprise under the Cooley Amendment	281	6.5
4. For the use of the U. S. Government	562	13.0
Total	4,325	100.0

144. As in the last year, the Aid-India Consortium provided during 1969-70 debt relief assistance either in the form of fresh refinancing credits, postponements of payments due, rescheduling of debt or cancellation/reduction of interest. The amount of debt relief assistance received during the year amounted to \$ 111 million, \$ 18 million larger than in the previous year because the U. K. made available the debt relief assistance which would have normally been made available in 1970-71.

145. For the year 1970-71, the Aid-India Consortium at its meeting held in Paris in May 1970 agreed on non-project assistance of \$ 600 million and debt relief assistance

Table 29 — Debt Relief Assistance

(U. S. \$ million)

	1968-69		1969-70	
	Authorisation	Utilisation	Authorisation	Utilisation
A. By way of refinancing credits				
1. Austria	0.9	0.9	1.1	1.1
2. Belgium	1.1	1.1	1.1	1.1
3. France	5.0	3.7	—@	1.3†
4. Germany (West)*	14.6	14.4	15.5	17.2
5. Italy	5.5	—	7.3	—
6. United Kingdom	18.0	18.0	36.0	36.0
Total A	45.1	38.1	61.0	56.7
B. By way of postponement of payments				
1. I.B.R.D.	15.0	15.0	15.0	15.0
2. U.S.A.	8.7	8.7	8.7	8.7
3. Canada	0.9	0.9	0.9	0.9
Total B	24.6	24.6	24.6	24.6
C. By way of re-scheduling of payments				
1. Japan	16.8	16.8	19.6	19.6
Total C	16.8	16.8	19.6	19.6
D. By way of grants (interest relief)				
1. Canada	1.1	1.1	—	—
2. Germany (West)	4.8	4.8	4.8	5.0
Total D	5.9	5.9	4.8	5.0
E. Interest reduction				
1. Austria	0.5	0.5	0.5	0.5
2. Netherlands	0.6	0.6	0.6	0.6
Total E	1.1	1.1	1.1	1.1
GRAND TOTAL	93.5*	86.5	111.1	107.0

* Excludes cash assistance amounting to \$8.0 million each in 1968-69 and 1969-70.

@ The Agreement for French commitments for 1969-70 was signed in April 1970 for an amount of \$5.0 million.

† Represents utilisation of the 1968-69 credit.

of about \$ 100 million and also recognised the need for project assistance amounting to \$ 400 million. However, on past experience, it is difficult to say whether actual authorisations would add up to these levels.

International Monetary Situation

146. The international monetary situation improved considerably during the year under review as a result of the revaluation of the Deutsche mark and the French franc, agreement between the International Monetary Fund and South Africa on the question of sales of South African gold and the activation of the Fund's Special Drawing Rights Scheme, which was referred to in the last Report. The heavy speculative movements and consequent disorderly conditions on the international exchanges subsided after the devaluation of the French franc in August 1969 by 11.1 per cent and the upvaluation of the Deutsche mark in October 1969 by 9.3 per cent. Following the very strong position of the Canadian dollar in the exchange markets since the beginning of 1970

and a rising rate of growth of Canada's foreign exchange reserves, the Canadian authorities suspended on May 31, 1970 the existing par value of the Canadian dollar which promptly appreciated on the exchanges on being left to float on the market. Adoption by the members of the Fund of the scheme for deliberate creation of international liquidity by international agreement through a Special Drawing Rights Account in the Fund materially influenced the expectations of speculators in gold, short-term investors, who had built up their gold holdings in anticipation of an increase in the official price of gold, began to liquidate the holdings by the middle of 1969. Prospects of an agreement on future sales of South African gold further influenced the market downward. With the impact of an increase in the cost of holding gold with borrowed funds working in the same direction, the free market international price of gold thus sharply eased from the peak of U. S. \$ 43 per ounce in the spring to the official level of U. S. \$ 35 in December 1969 which was reached for the first time since 1958.

147. International trade too grew more impressively than in the preceding year in terms of value ; though at the end of 1969 some signs of a moderation of the growth rate began to appear in the imports of major industrial countries. In 1969, the rate of growth was 14 per cent while it was 12 per cent in 1968. As in the past, the growth of trade of the less developed countries lagged behind, but at 11 per cent was still 1.5 percentage points better than in 1968. Mainly as a result of the favourable turn in the position of the U. K., the U.S.A. and France, only partly offset by an opposite movement in the case of West Germany, the combined overall payments position of the industrial countries improved to a near balance in 1969 from that of a deficit of \$ 2.6 billion in 1968. The higher export earnings flowing from the larger demand from industrial countries reduced the current account deficit of the less developed countries from \$ 6.8 billion to \$ 6.1 billion. With inflow on capital account slightly reduced from \$ 7.9 billion to \$ 7.8 billion, the overall payments surplus of the less developed countries improved from \$ 1.1 billion in 1968 to \$ 1.7 billion in 1969.

148. Much as the international scene improved during the year under review, some major problems remained. There was a deterioration in the U. S. current account as a result of which the surplus contracted from \$ 1.4 billion to \$ 0.9 billion. There was also a substantial outflow of private capital and the two together resulted in a deficit of as much as \$ 7 billion in contrast to a position of near balance in 1968. The stringent monetary policy pursued by the U. S. monetary authorities to meet the domestic inflationary situation and balance of payments problems, however, resulted in attracting a substantial volume of foreign short-term funds to the U.S.A. and encouraging the U. S. banks to borrow abroad heavily. This inflow of funds more than covered the deficit and actually the U. S. balance of payments ended up with a larger overall surplus of \$ 2.8 billion in 1969 as against \$ 1.4 billion in 1968. All the same the balance of payments position of the U.S. remained an important disquieting feature of the world monetary system.

149. In the last two years, there has been a considerable amount of discussion of the international monetary situation and the adjustment mechanism. At one time opinion seemed to favour greater flexibility in exchange rates than available under the present system of fixed parities. In the latter part of the year under review, however, opinion in some influential quarters appeared to have reservations about greater flexibility. There is concern over the adverse repercussions that increased flexibility in market exchange rates might have on national authorities' obligations to undertake corrective measures in other fields, and on national authorities' willingness to hold dollar balances. Further, major industrial countries on the Continent view departure from the present regime of fixed parities as a threat to the smooth working of the common market arrangements and to their long-term objective of evolving a common market currency.

150. The position in regard to international interest rates too continues to cause general anxiety. Contrary to the expectations of a section of international opinion, the changes during the year in the arrangements for international monetary co-operation and the European currency realignments, international interest rates failed to ease from the high levels reached in the preceding year. Active use of monetary policy by the U. S. to combat domestic inflation and deal with the balance of payments deterioration pushed rates higher generally, the Euro-dollar market providing the mechanism for quick international transmission. At the end of June 1970, commercial banks' Euro-dollar lending rate to prime borrowers was 9.9 per cent and domestic corporate bond yields in leading industrial countries varied between 8.4 per cent and 11.5 per cent. International rates have for some time been at historically high levels and portend serious difficulties for national investment efforts, particularly in capital-starved developing countries.

151. During the second half of the year under review, there has been widespread use of the created international liquidity in the form of the Fund's Special Drawing Rights. Although the SDR Scheme does not link

the allocations with the developmental needs of the poor countries it is significant that the total utilisation of SDRs by such countries amounted to under a third of their initial allocation. In the context of national policies and attitudes of richer countries in respect of their domestic welfare and environment programmes, and in the context of their performance in respect of replenishment of IDA funds and bilateral developmental aid to poorer countries, it would appear desirable to provide for a positive relationship between created liquidity and developmental needs. IDA replenishment for the next 3 years at about \$ 800 million, which has been agreed to in July 1970, appears satisfactory. But the total aid flow to the less developed countries needs to be stepped up especially in view of the mounting burden of debt servicing payments.

152. An authoritative examination of development and international aid appeared in the form of the report "Partners in Development" presented in September 1969 to the World Bank by the Pearson Commission set up by it in August 1968, as referred to in the last year's Report. On the basis of the analysis of the record of recent years, the Pearson Commission came to the judgement that the majority of the world's poorer countries can achieve self-sustaining growth in 30 years if adequate assistance is provided to them by the richer countries. The Commission emphasized that though the record of development was mixed, it was "far better than generally realized." It pointed out that "in recent years the volume of aid has stagnated, the terms have hardened and the conditions have become more restrictive." The Commission advocates a partnership based on joint effort towards clearly defined economic goals and increases in development aid to be allocated on the basis of increasingly explicit criteria based primarily on economic performance. The Commission recommended *inter alia* that (a) official development assistance be raised from the 1968 average of 0.39 per cent of GNP to 0.7 per cent of each donor country's Gross National Product by 1975 and in any case not later than 1980 ; (b) the multilateral component of official aid should rise from 10 per cent to a minimum of 20 per cent by 1975 ; (c) aid

funds should be made available for periods of at least 3 years ; (d) the IDA assistance should be substantially increased, which could be accomplished through developed countries making available to the IDA a part of the SDRs allocated to them. The Commission has also recommended a reduction in the interest rate, lengthening of the maturity periods and progressive untying of credit. The Pearson Commission's Report, it is hoped, would change fundamentally for the better the present rather unfavourable international climate for aid, and pave the way for a rapid growth of the world's poorer economies.

Assessment and Prospects

153. The developments in the Indian economy reviewed in the foregoing paragraphs indicate the degree of success achieved by the economy during the past twelve months in stepping up output and mobilising resources for development. This period has also been notable for the several important measures taken by the authorities in the fields of banking, industrial policy and social welfare policy. Foremost amongst these is the nationalisation of the 14 major commercial banks a year ago with the objective of ensuring that the developmental needs of all sectors of the economy are served by the banking system in conformity with national policy and priorities. An immediate consequence of this has been a much greater degree of co-ordination between the major units of the Indian banking system in regard to their operational problems. Another measure is the Lead Bank scheme under which banks have been allotted districts where they are required to survey the potential for banking development, to identify institutional and credit gaps and to take the initiative in endeavouring to fill them. This should result in orienting the banking system towards an 'area' approach and thus increasing its involvement in the process of economic development. Alongside of this, branch expansion programmes of commercial and co-operative banks have been speeded up and the banks themselves have announced a variety of schemes to attract more deposits and to provide credit to agriculture and small-scale industries. The IDBI on its part has taken

several steps to promote the development of small and medium industries with special attention to the relatively under-developed areas in the country. Thus the institutional structure for short and long-term credit has been geared up much more closely to the planning process than at any time in the past. In regard to industry, several far-reaching changes have been announced in the Industrial Licensing Policy and in the case of medium and small-sized projects licensing policy has been liberalised considerably. Further, for basic, critical and strategic industries essential inputs will be made available on a priority basis. In the Budget of the Government of India for the current financial year significant incentives have been given for increasing savings in the form of various types of financial assets. Various special schemes designed to improve the lot of the less-privileged sectors of the economy have also been announced. All these developments provide a favourable climate for the economy to move on to a path of sustained high rate of growth.

154. Attention needs to be given, however, to certain aspects of the economy which give rise to concern. The most important of these is the re-emergence of a rising trend in prices, thus disturbing the relative price stability witnessed during the two years previous to the year under review. To some extent the price rise is due to the short-falls in the outputs of commercial crops and difficulties in arranging for imports in a short period. This emphasises the need to make the same kind of progress in agricultural technology of the major commercial crops as has been done in the case of foodgrains. But the more serious aspect of the price situation is that even where supplies have improved as in the case of foodgrains and industrial output, prices continue to move upwards.

155. The pressure on prices emanating from the demand side was somewhat reduced as indicated by the slower rate of growth of both money supply and time deposits. The decline in the rate of monetary expansion has taken place despite bank credit to the commercial sector expanding almost at the same rate as in the earlier years. The quantum

of deficit financing as measured by the net bank credit to Government showed a very considerable reduction during the year under review. This was the result of better resource mobilisation as well as some short-falls in governmental expenditure reflecting lower level of public sector activity. There is, however, still a good deal of leeway to be made up in the matter of raising savings in the governmental sector. Currently the ratio of governmental savings to national income is in the neighbourhood of 1 per cent. To achieve the estimated volume of savings this ratio needs to be raised to 3.8 per cent by the end of Fourth Plan. Improvements in the working of public sector enterprises, reduction of the losses on commercial irrigation works and multi-purpose river valley schemes and resource mobilisation by State Governments can make a major contribution towards achieving this.

156. There has also to be a stepping-up in the savings on the part of the household sector of the economy. The various tax concessions given to savings in the form of financial assets as well as the new schemes of small savings should no doubt be of considerable help in this matter. But the major role will have to be played by the banking system by stepping up deposit mobilisation. In particular, banks have to make a concerted effort in mobilising deposits in the rural areas. With increasing incomes made possible by improvements in agricultural technology, the savings potential in the agricultural sector is bound to increase rapidly. However, the savings habits in this sector are considerably undeveloped. It continues to hold its liquid assets largely in the form of currency, and its investments other than those in farm business largely take the form of jewellery or deposits in the unorganised money market. The various schemes of deposit mobilisation announced by the banks do not seem to have had as yet any significant impact on such habits. Banks will therefore have to develop appropriate strategies in deposit mobilisation to garner the savings of this sector. An important factor in the success of deposit mobilisation in the rural areas is the extent of credit facilities made available by banks for economic activity in these areas. If banks continue to act merely

as institutions mopping up savings from the rural areas and transferring them to the urban centres, they are not likely to have more than only a limited response to their efforts at deposit mobilisation. The surveys under the Lead Bank scheme will be of considerable help in revealing the existing institutional and credit gaps in these areas. These will have to be followed up by systematic and expeditious efforts by banks both commercial and co-operative to remove these gaps.

157. On the supply side of the economy, as has already been observed, good progress has been made in increasing output both in agriculture and industry. As far as agriculture is concerned, the progress of the monsoon so far has been satisfactory and it may be expected that barring unforeseen adverse developments, the forthcoming year should prove a good one from the point of view of supplies of foodgrains and raw materials of agricultural origin. On the industrial front, however, there have been some signs of a slowing down in the rate of growth of output during the first quarter of the current calendar year. Capital goods industries in particular show an absolute decline in output as compared to the corresponding period last year. Another feature of the industrial situation during the year under review is the high degree of variability in rates of growth; indeed there are quite a number of industries in all the three groups which have shown substantial declines in their output as compared to the previous year.

158. With the prospect of an increase in agricultural income and therefore, of a rise in demand for various types of consumer goods, it will be necessary to achieve a high rate of growth of industrial production to match the growing demand. In the short run, this can be achieved by increasing the utilisation of existing capacity through the provision of adequate raw materials, imported wherever necessary, and other inputs. Over a longer perspective, however, the ability of the economy to continue to increase output will depend primarily on the maintenance of a proper volume of investment in both public and private sectors. With the finalisation of the Fourth Five Year Plan, investment in the public sector can now be

expected to proceed apace at the appropriate rate of growth. As regards the private sector, however, the position is not free from anxiety. While investment in agriculture and small-scale industry has been rising, there appears to be a slackening in the growth of investment in the large-scale sector of the industry. It is significant in this context that investment financing institutions have been suffering, not as in the past, from a dearth of resources but on the contrary from a dearth of suitable investment propositions. A continuation of such a state of affairs cannot fail to have serious adverse repercussions on the country's future economic development. With the prospect of sizeable increase in agricultural income and therefore in the demand for various types of consumer goods—durable and non-durable—agricultural machinery and equipment, inflationary pressures can build up rapidly unless industry has equipped itself to increase output by building up the necessary capacity. Projects with long gestation periods in particular require urgent attention if a satisfactory tempo of investment is to be maintained over a long-term perspective. The emphasis in the industrial licensing policy to make available all the necessary inputs on a priority basis to industries in the core sector will be of considerable benefit in this respect.

159. A notable feature of the working of the economy during the past twelve months is the substantial accretion to foreign exchange reserves. This is due largely to a sharp reduction in imports, a reflection, partly of the increase in foodgrains output and the progress of import substitution in industry and partly of the slow-down in investment activity commented upon earlier. On current indications the declining trend of imports is likely to be reversed soon and the reserves once again are likely to come under pressure. The deceleration in the rate of growth of exports witnessed during the past twelve months gives cause for concern in this context. It also indicates the magnitude of the efforts that require to be made to attain on an average the 7 per cent per annum rate of growth in exports over the next decade that has been considered as the minimum necessary for the development strategy aiming at self-reliant growth.

II. DEVELOPMENTS IN INDUSTRIAL FINANCE

Industrial Development Bank of India and other Term-lending Institutions

160. Apart from continuing its schemes for providing medium and long-term direct assistance and refinance/rediscout facilities for the development of the organised sector of the industry and promotion of exports of capital and engineering goods, the Industrial Development Bank of India (IDBI) adopted policy measures aimed at promoting the development of small and small-medium industries, particularly in the relatively under-developed regions in the country. To identify the industrial potential of backward regions, the IDBI has also initiated regional surveys in collaboration with other term-lending institutions.

161. Total assistance sanctioned by the IDBI during 1969-70 (excluding guarantees) aggregated Rs. 66.6 crores or of the same magnitude as in 1968-69. Except direct industrial loans and refinance of export credits, assistance under all the other categories showed increases. A special feature of the IDBI's operations during the year was the step-up in assistance for financing exports under the scheme for direct loans and guarantee facilities to exporters of capital and engineering goods and services on deferred payment basis, which was introduced in December 1968 ; direct loans and guarantees for exports sanctioned rose from Rs. 7.1 crores in 1968-69 to Rs. 11.2 crores in 1969-70 with total sanctions aggregating Rs. 18.4 crores at the end of the year. The assistance sanctioned during the year covered exports of textile machinery, steel rails, automobile chassis, transmission line towers, copper and ACSR conductors and shuttering and scaffolding materials. At the same time, there was a marked decline in sanctions of refinance of medium-term export credits from Rs. 7.3 crores in 1968-69 to Rs. 1.3 crores in 1969-70. The flow of applications for such assistance has slackened with the introduction of the scheme for direct loans and guarantees for exports to which the exporters are switching presumably to take advantage of the lower average rate of interest. Direct assistance (loan and underwriting assistance) to indus-

trial concerns (other than for exports) decreased from Rs. 18.4 crores in 1968-69 to Rs. 13.8 crores in 1969-70. In sanctioning direct assistance, the IDBI continued to pay attention to a number of small and medium projects and those promoted by middle class technician-entrepreneurs and/or located in less developed areas. Its indirect assistance was also spread over a larger number of small and medium borrowers than in the preceding year. Thus refinance of industrial loans was sanctioned in respect of 966 applications for Rs. 15.7 crores in 1969-70 as compared to 321 applications for Rs. 14.1 crores in 1968-69. Of this amount, refinance sanctioned in respect of loans granted to small-scale industrial units and small road transport operators was Rs. 6.8 crores in respect of 895 applications. The number of machinery manufacturers who benefited from the Bank's rediscounting scheme increased from 104 in 1968-69 to 121 in 1969-70 and the number of purchaser-users from 335 to 455. The amount of bills rediscounted during 1969-70 at Rs. 24.1 crores was higher than the previous year's figure by Rs. 8.6 crores, bringing the total since inception of the scheme to 61.4 crores. During the period July 1969-June 1970, the IDBI subscribed Rs. 0.5 crore to the debentures of ICICI from its own funds. A feature of operations during the year was the step-up in disbursement of assistance from Rs. 48.7 crores in 1968-69 to Rs. 52.3 crores in 1969-70.

162. The operations of other all-India term-lending institutions on the other hand showed a declining trend during 1969-70 (April-March). Thus, sanctions of the ICICI (rupee and foreign currency loans, underwriting and direct subscriptions) declined from Rs. 37.0 crores in 1968-69 to Rs. 22.4 crores in 1969-70 though its disbursements at Rs. 19.8 crores were higher than in 1968-69 (Rs. 16.2 crores). The decrease in sanctions was almost entirely under foreign currency loans. Total sanctions of the IFCI (rupee and foreign currency loans, underwriting and direct subscriptions) were also lower at Rs. 21.0 crores in 1969-70 as compared to Rs. 22.7 crores in 1968-69 and its

disbursals also declined from Rs. 19.5 crores in 1968-69 to Rs. 17.5 crores in 1969-70.

163. The total loans sanctioned by the 18 State Financial Corporations (including MIIC) during the period April-March increased by 68.4 per cent to Rs. 32.5 crores in 1969-70 from Rs. 19.3 crores in 1968-69. Disbursements during the same period were higher at Rs. 21.5* crores than Rs. 17.4* crores during the previous year. The loans outstanding on March 31, 1970 stood at Rs. 104.6 crores, registering a net increase of Rs. 12.7 crores over March 31, 1969. Of the total sanctions and disbursements at Rs. 32.5 crores and Rs. 21.5 crores during 1969-70, the share of small-scale industries was Rs. 19.8 crores (60.9 per cent) and Rs. 12.1 crores (56.3 per cent), respectively. The effective lending rates of all the SFCs to small-scale industries ranged generally between 7 per cent and 9 per cent per annum, and to other industries between 8 per cent and 9 per cent per annum; the rates were, however, within 8 per cent and $8\frac{1}{2}$ per cent, respectively, if concessional refinance was taken from the IDBI. Slightly higher rates were charged by some SFCs on loans to industries like cold storage, hotel and transport.

164. The IDBI's scheme for direct assistance on softer terms for the setting up of projects in the less developed areas was announced in July 1970. Under this scheme the Bank has decided to extend direct loans to industrial units in specified backward districts/areas at a concessional rate of 7 per cent as against the present normal rate of 8 per cent; extend the initial grace period for repayment of loans from the normal period of 3 years to 5 years; allow longer repayment period of 15-20 years and reduce the commitment charge on the undrawn balance of the loan. In cases of underwriting, the Bank would charge lower underwriting commission and in addition, subscribe relatively heavily to the share capital of projects in backward areas. Concessions under the scheme would be generally available for cases where the total project cost does not exceed Rs. 1 crore; concessional finance for bigger projects would be extended on a selective basis.

* Excluding disbursements on account of guarantees of Rs. 0.5 crore in each of the two years.

165. In order to stimulate the interest of SFCs and banks in fostering the industrial development of the backward regions and to encourage the flow of institutional finance to such regions, the IDBI decided in April 1970 to provide refinance to banks and SFCs, to the full extent, at a concessional rate of $3\frac{1}{2}$ per cent, in respect of all eligible loans in specified backward districts/areas to small and medium-scale units upto Rs. 20.00 lakhs, provided the effective rate charged by the primary lender does not exceed 6 per cent. While deciding its terms of refinance, the IDBI would also take into account incentives, such as dispensing with levy of commitment charge, longer repayment period with an initial moratorium for more than 2 or 3 years, deferment of payment of instalments of principal and interest in the initial years, etc. which the financial institutions might offer to small and medium-sized projects in the backward areas. To enable the SFCs and banks to assist a large number of small-scale units, the IDBI lowered, effective May 13, 1970, the minimum amount of loans to be eligible for refinance to small-scale industrial concerns covered under the Credit Guarantee Scheme from Rs. 20,000 to Rs. 10,000. In the sphere of rediscounting of machinery bills, in order to provide the State Electricity Boards with supplementary finance for carrying out their expansion programmes involving large capital expenditure, the IDBI raised, with effect from March 24, 1970, the maximum yearly limit upto which a single purchaser-user can avail of the facilities under the scheme from Rs. 50 lakhs to Rs. 100 lakhs in respect of State Electricity Boards. As a part of developmental and promotional functions the IDBI has undertaken surveys to identify industrial potential in the backward areas and assess the infra-structure facilities available, supply of raw materials and market prospects for development of industries which could be advantageously located in such areas. The first two surveys of this type, covering the State of Assam and the Union Territory of Tripura, were completed in June 1970. Similar surveys have been planned for other areas also.

166. During the year, the IDBI opened a regional office each at Calcutta, Madras and New Delhi. Besides dealing with re-

quests for direct and refinance assistance upto Rs. 20 lakhs or so, these offices will also rediscount bills/promissory notes arising out of sale of indigenous machinery on deferred payment basis upto Rs. 5 lakhs for each set of bills. Besides, a separate cell has been constituted at the head office in Bombay to attend to requests for refinance and rediscounting assistance, upto the above-mentioned limits emanating from the Western Region. The Bank has also decided to form Regional Committees to help and guide the regional offices and to take decisions for sanction of assistance; a committee for the Calcutta Regional Office has already been constituted. The IDBI has also decided to open small branch offices at the other State Capitals to establish liaison with the State and Central Government agencies, banks and other financing institutions and bodies of industrial interests.

Financing of Small-Scale Industries

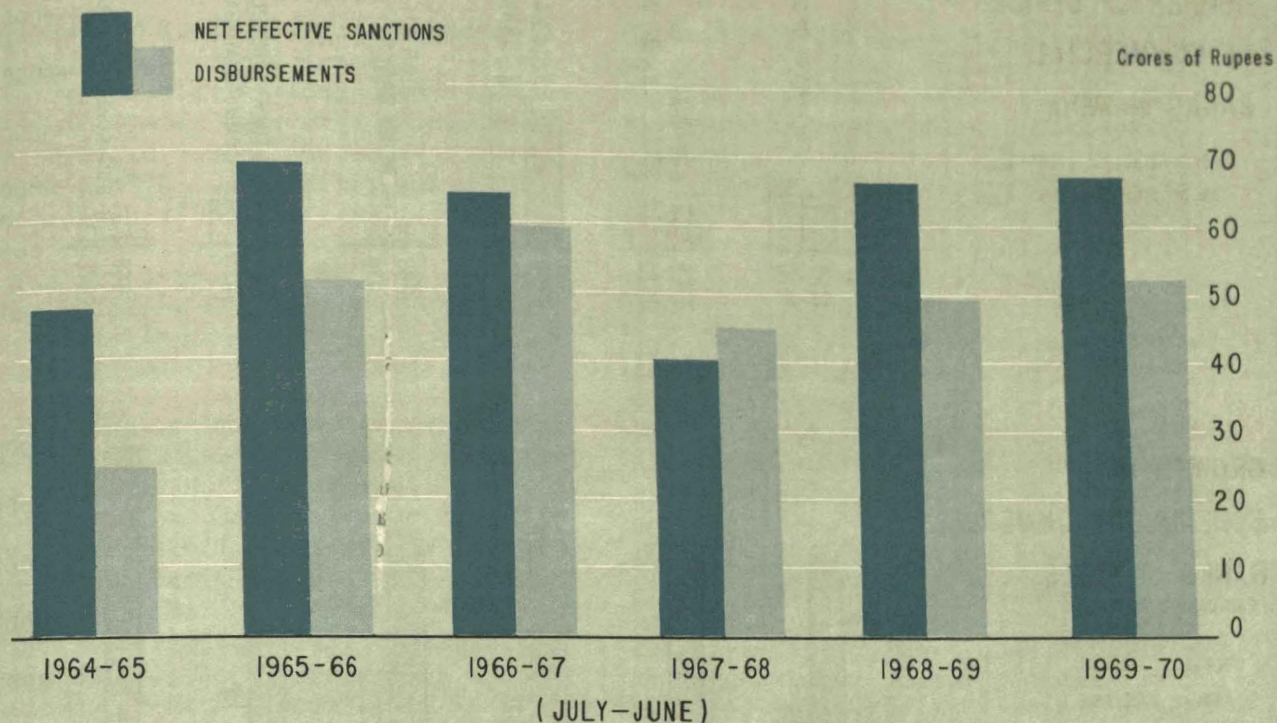
167. The Working Group appointed by the Bank to suggest suitable modifications in Credit Guarantee Scheme submitted its report in October 1969 recommending a system of automatic cover based on principles of insurance. The Government approved the amendments to the Scheme as recommended by the Working Group and the modified provisions were brought into force from February 1, 1970. Under the modified Scheme, the guarantee is made available to all eligible advances on an automatic basis, in terms of an agreement executed by each approved credit institution with the Guarantee Organisation. The credit institutions which join the Scheme are required to report all their eligible advances in quarterly statements which form the basis for charging the guarantee fee at 1/10 of 1 per cent per annum on a quarterly basis. This change in procedure is expected to result in considerable saving of labour for the credit institutions and to expedite the flow of credit to the small-scale sector. So far, 117 approved credit institutions (including all the major commercial banks and the State Financial Corporations) have joined the modified Scheme. The element of automaticity thus introduced in extending guarantees to credit institutions has necessitated test checks of the branches/offices of

credit institutions to verify the correctness of the particulars given in their statements. This work has been taken in hand by the Guarantee Organisation.

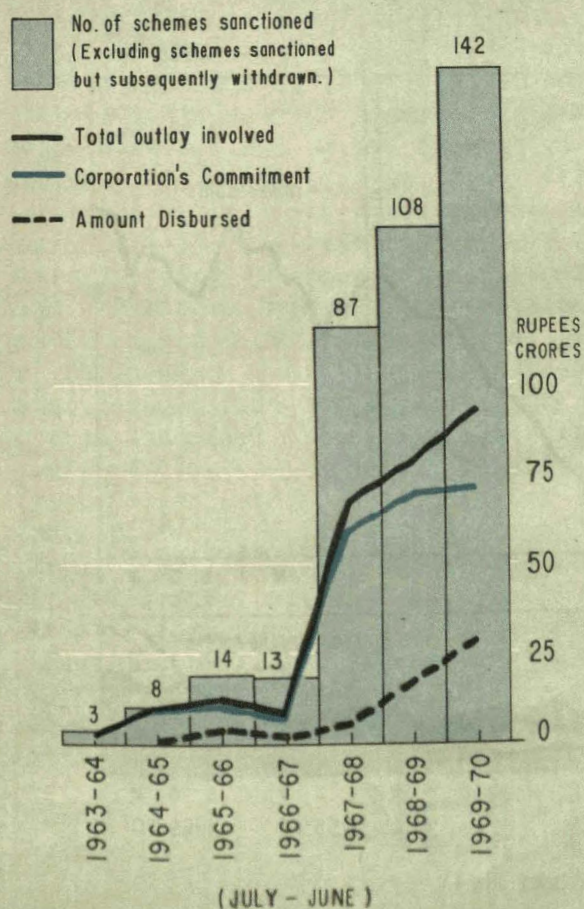
168. The other major changes effected in the scheme are (i) the extension, for the first time, of scope of the guarantee to letters of credit, loan and deferred payments guarantees and acceptance credits opened on behalf of small-scale industrial units, *i.e.* covering all types of credit facilities except performance guarantees, (ii) replacement of extent of guarantee cover, which previously depended on the limit sanctioned, its utilisation and the ultimate amount defaulted by the borrower by a fixed coverage of 75 per cent of the amount defaulted or of the amount guaranteed, whichever is lower, (iii) raising of the maximum amount recoverable from the Guarantee Organisation in respect of guaranteed advances from Rs. 2 lakhs *per account* to Rs. 7.5 lakhs in respect of working capital advances and a further amount of Rs. 2.50 lakhs in respect of term loans *per borrower*.

169. The Scheme has made considerable progress over the years. The amount of outstanding guarantees at the end of March 1970 stood at Rs. 567 crores (provisional) as against Rs. 241 crores on June 30, 1969. The guarantee obligations arose in respect of 164 advances, the Government's share of the amount in default being Rs. 20.81 lakhs, since the inception of the Scheme up to June 30, 1970. The Guarantee Organisation has so far recovered Rs. 5.95 lakhs in respect of claims paid accounts which represent full recoveries in 39 advances aggregating Rs. 3.77 lakhs from the inception of the scheme up to December 1969. The number and amount of advances notified to be in default (*i.e.* advances recalled by the credit institutions but no claims submitted so far) stood at 351 and Rs. 103.13 lakhs, respectively, as at the end of December 1969. In such cases, if in the opinion of the Guarantee Organisation, nursing of the accounts is likely to resuscitate the sick units, efforts are made to impress upon the credit institutions the desirability of nursing the advances granted to them by continuing the existing credit facilities or by extending additional accommodation, wherever necessary. It may

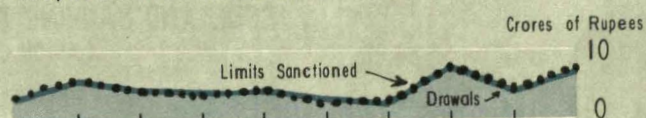
ASSISTANCE SANCTIONED AND DISBURSED BY THE INDUSTRIAL DEVELOPMENT BANK OF INDIA



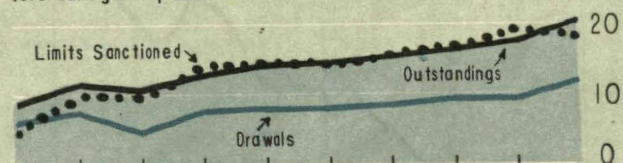
OPERATIONS OF AGRICULTURAL REFINANCE CORPORATION



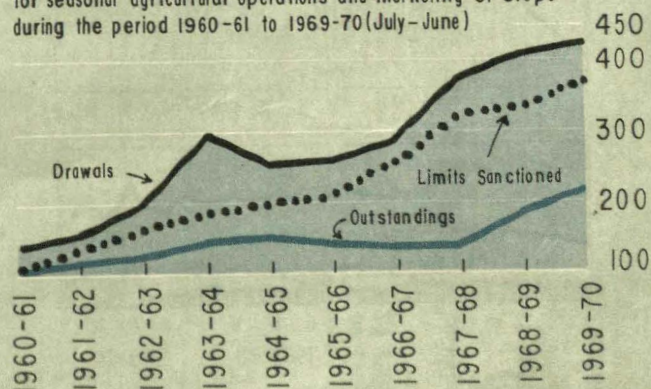
Loans from the National Agricultural Credit (Long-term Operations) Fund to State Governments for contribution to the share capital of co-operative credit institutions 1960-61 to 1969-70 (financial year)



Medium-term loans for agricultural purposes provided by the Reserve Bank of India to state co-operative banks at the concessional rate during the period 1960-61 to 1969-70 (July-June)



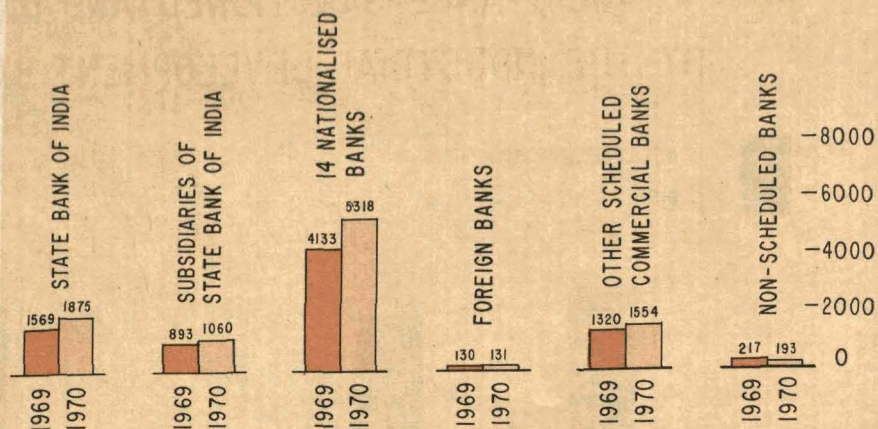
Short-term loans provided by the Reserve Bank of India to state co-operative banks, at the concessional rate of interest for seasonal agricultural operations and marketing of crops during the period 1960-61 to 1969-70 (July-June)



NUMBER OF OFFICES OF COMMERCIAL BANKS IN INDIA

AS ON JUNE 30, 1969

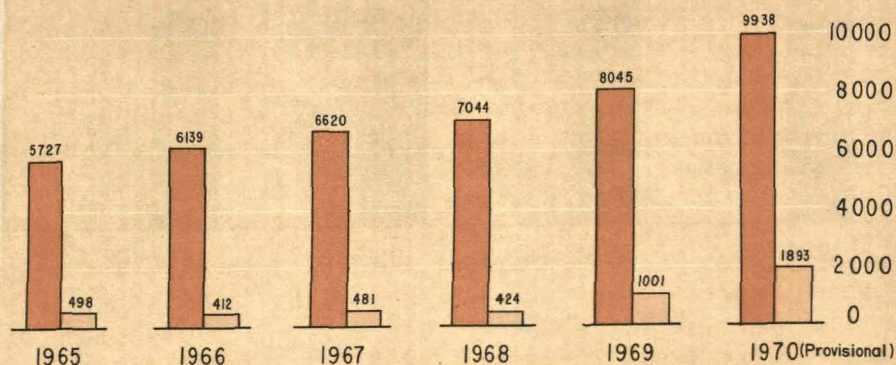
AS ON JUNE 30, 1970



GROWTH IN SCHEDULED COMMERCIAL BANKS' OFFICES (END JUNE FIGURES)

TOTAL

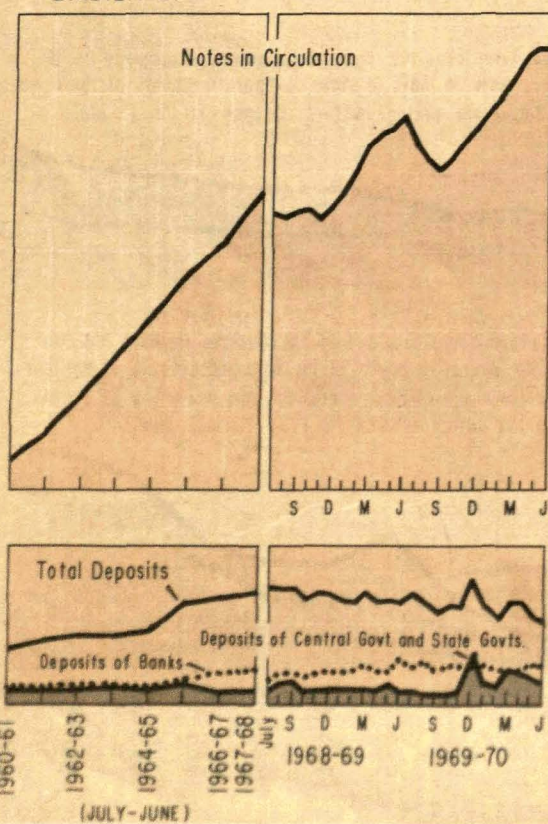
ANNUAL INCREASE



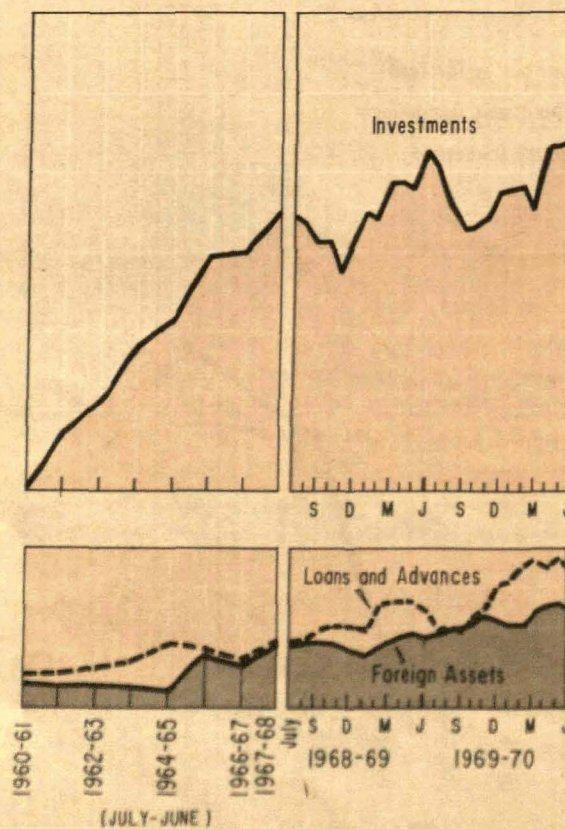
RESERVE BANK OF INDIA ISSUE AND BANKING DEPARTMENTS COMBINED (AS ON LAST FRIDAY)

(CRORES OF RUPEES)

LIABILITIES



ASSETS



be mentioned that the Guarantee Organisation on its part has been extending guarantee cover in respect of advances granted/continued for such purposes. The scope of the Scheme was extended during the year to 'custom service' units (*i.e.* concerns engaged in hiring out agricultural machinery such as crawlers and wheeled tractors, threshers, combine harvestors and equipment for tubewell boring, plant protection, etc.), mining units and units engaged in servicing and repairing of marine diesel engines.

170. During the period of *ten months ending April 1970*, there was a substantial stepping up in the flow of financial assistance from banks to small-scale industries. The total credit limits sanctioned by the scheduled commercial banks to small-scale industries increased by Rs. 161.7 crores to Rs. 754.2 crores as on the last Friday of April 1970, the increase in limits sanctioned in the corresponding period of 1968-69 being Rs. 170.9 crores. The number of units financed increased from 56,983 to 83,805 or by 47 per cent. The amount of outstanding advances aggregated Rs. 397.7 crores as on the last Friday of April 1970 which showed a rise of Rs. 112.1 crores over the end-June 1969 level. The total limits sanctioned by the State Bank of India and its subsidiaries as at the end of April 1970 amounted to Rs. 281.1 crores covering 37,982 units registering an increase of 32 per cent and 47 per cent, respectively, over the position as on the last Friday of June 1969. The total credit extended by the State Bank of India Group to small-scale industries as at the end of April 1970 amounted to Rs. 154.8 crores showing an increase of Rs. 51.8 crores over the level at end of June 1969. This increase was about one and a half times the increase in the corresponding period of the previous year. The bulk of the financial assistance provided by the State Bank of India and its subsidiaries is covered under their 'liberalised Scheme.' The total limits (working capital as well as term finance), sanctioned by the State Bank of India and its subsidiaries under the scheme as at the end of March 1970 amounted to Rs. 260.6 crores recording an increase of Rs. 80.0 crores over the end-March 1969 figures. The total outstanding as at the end of March 1970 amounted to Rs. 146.9 crores showing an increase of Rs. 54.8 crores over

the level as at the end of March 1969. The scheme for extending financial support to craftsmen and other qualified entrepreneurs formulated by the State Bank of India and its subsidiaries in 1967 made further progress during the period under review. The number of units assisted as at the end of March 1970 was 297 for an aggregate limit of Rs. 3.35 crores as against 98 units for limits of Rs. 0.90 crore as at the end of March 1969. The State Bank of India Group has considerably simplified its lending procedure for small-scale units. Thus all small-scale units whose working capital requirements do not exceed Rs. 50,000/- will be granted credit facilities on hypothecation basis on a single account in lieu of several accounts such as the lock and key, mandi type, factory type, overdraft against bills, overdrafts for margins, etc. Further, in order to accelerate the flow of credit to artisans/craftsmen/small units located in Rural Industries Projects, a special scheme has been introduced in terms of which financial assistance upto Rs. 5,000/- at a concessional rate of interest is made available to units located in these areas.

171. The performance of the 14 major banks, which were nationalised in July 1969, was particularly notable in respect of the number of small-scale industrial units financed by them. Between end-June 1969 and end-April 1970, the total number of units financed by these banks recorded an increase of 13,145 as against a rise of 6,787 in the corresponding period of 1968-69. The increase in the amount of outstanding advances by these banks during the ten months ended April 1970 was Rs. 52.2 crores as against Rs. 38.7 crores in the corresponding period of 1968-69.

172. Following the lead given by the State Bank of India and its subsidiaries, a number of banks including Central Bank of India, Punjab National Bank, Bank of India, Bank of Baroda, United Bank of India, Allahabad Bank, Union Bank of India, Syndicate Bank and Bank of Maharashtra have formulated special schemes for providing finance to qualified entrepreneurs, who have requisite technical ability and worthwhile small-scale industrial projects but do not possess necessary financial resources

of their own. Most of the banks have also liberalised their terms and conditions with regard to margin, security, rate of interest, etc. for financing small-scale industries. Some banks have established separate departments/cells to look after the financing of the small-scale industrial sector while all the major banks have also evolved schemes for training their officials in effective financing of small-scale industries.

173. In March 1969, advances to small road transport operators and loans granted for setting up of industrial estates for small-scale industries were made eligible along with lending to small-scale industries, for the purpose of fulfilment of targets prescribed by the National Credit Council. Similarly in February 1970, advances to water transport operators were also included for the purpose of these targets. The total limits sanctioned by the scheduled commercial banks to small road and water transport operators as on the last Friday of April 1970 showed an increase of more than three times as compared with the position as at the end of June 1969. The total sanctions as on the last Friday of April 1970 amounted to Rs. 34.4 crores in respect of 10,669 units as against Rs. 11.1 crores in respect of 3,091 units at end-June 1969; the outstandings were Rs. 28.3 crores and Rs. 8.2 crores, respectively. As regards industrial estates, as on the last Friday of April 1970, eight scheduled commercial banks had sanctioned loans to the extent of Rs. 1.15 crores covering 31 accounts for setting up such estates; the amount outstanding was Rs. 36 lakhs.

174. With a view to bringing together, on a common platform, the representatives of the various agencies catering to the credit and other needs of small industries, it was felt desirable that the State Governments should set up State Level Co-ordination Committee for small-scale industries in each State. At the instance of the Bank, such Committees have been set up by the Governments in Assam, Haryana, Madhya Pradesh, Punjab, Orissa, Rajasthan, Uttar Pradesh and West Bengal and by the Delhi Administration; Bihar has set up a Co-ordination Committee for industry as a whole.

Unit Trust of India

175. The Unit Trust of India recorded a further rise in the sale of units during 1969-70. Sale of units during the year ended June 30, 1970 amounted to Rs. 22.83 crores as compared with Rs. 17.16 crores in the preceding year. Repurchases of units by the Trust were at Rs. 2.04 crores as against Rs. 1.67 crores. As on June 30, 1970, the aggregate value of units sold and outstanding amounted to Rs. 77.44 crores, the total number of unit-holders registered with the Trust being over 3,33,000. The sustained expansion in sales would indicate the growing popularity of units as a medium of investment.

176. In pursuance of its basic objective of promoting savings among various sections of the community, the Unit Trust of India introduced a 'Children's Gift Plan' effective July 1, 1970. The Plan seeks to provide to parents, relatives of a minor child and others a facility whereby units will be issued in favour of a minor child who is the sole beneficiary. Further, the child in whose name the unit certificate has been issued, can deal with the units only from the date on which he completes the age of 21. Meanwhile, the income on the units held will be deemed to have been reinvested in further units. By the time the child attains the age of 21 years, capital in the form of units would have been accumulated in favour of the child in a convenient manner which would be available for major needs such as the beneficiary's marriage, education, etc.

177. There was further expansion in the network of agents who canvass sale of units among the investing public. The number of approved agents as on June 30, 1970 stood at 2,303 as compared with 1,775 a year ago; the corresponding figures for approved stock brokers were 315 and 286. Besides sales over the counter, units are on sale at all branches of leading banks which have contributed to initial capital of the Trust and over 15,000 post offices throughout the country.

178. Total investments of the Trust as on March 31, 1970, aggregated Rs. 84.61

crores. Of these, ordinary shares of corporate enterprises accounted for Rs. 29.23 crores (34.5 per cent), preference shares for Rs. 11.40 crores (13.5 per cent), debentures for Rs. 34.35 crores (40.6 per cent) and Government securities and bonds of financial corporations and electricity boards

for Rs. 4.88 crores (5.8 per cent). The balance of Rs. 4.75 crores (5.6 per cent) represented advance deposits for debentures and preference shares which the Trust had agreed to underwrite, application money for purchase of shares, treasury bills and advance call deposits.

III. BANKING LEGISLATION AND ORGANISATION

179. The major development affecting the banking system was the nationalisation of 14 Indian banks* with effect from July 19, 1969. The Government of India promulgated an Ordinance called the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969 on July 19, 1969 in terms of which the Central Government acquired the undertakings of the 14 major Indian banks which had deposits of not less than Rs. 50 crores each on the last Friday of June 1969. After the take-over, the undertaking of each bank including its assets, liabilities, rights, etc. was transferred to and vested in the corresponding new bank which became a new statutory corporate body. The general superintendence and direction of affairs of each of the nationalised banks was vested in a Custodian who was authorised to exercise all powers that might be exercised by the bank. The Chairman of each of the nationalised banks who was holding office as such immediately prior to the nationalisation was appointed as Custodian for the corresponding new bank.

180. Immediately after the promulgation of the Ordinance, some writ petitions were filed in the Supreme Court and a full bench of 12 Judges passed on July 22, 1969 an interim stay order, pending the disposal of the writ petitions in respect of three matters in

the Ordinance. Under the stay order the Central Government was prevented from appointing any Advisory Board for any of the 14 banks, removing any of the 14 Chairmen of the banks who were given the designation of Custodians, and issuing any directions to any of the 14 banks contrary to the existing provisions of the Banking Regulation Act.

181. A Bill to replace the Ordinance was introduced on July 25, 1969 and was passed with certain amendments by both the Houses and became an Act on August 9, 1969. Immediately after the replacement of the Ordinance by the Act, the Supreme Court vacated on August 11, 1969 the stay order in respect of the Ordinance and issued a fresh stay order on September 8, 1969 following writ petitions filed against the Act. The second stay order did not debar the Government from appointing Advisory Boards but earlier prohibitions in respect of removal of Custodians and issue of directions by Government to any of the 14 banks were reimposed.

182. On February 10, 1970, the Supreme Court, while upholding the legislative competence of Parliament in the matter of acquisition of the undertakings of the banking companies, held firstly that there had been a hostile discrimination against the 14 banking companies insofar as they had been debarred after the acquisition of the undertakings from carrying on banking business when other banks were permitted to do so and secondly, the principles and methods laid down in the Act for determining the quantum of compensation proposed to be paid by the Government were invalid. As the provisions held void by the Court were not severable from the main Act, the entire Act was struck down.

* The Central Bank of India Limited,
The Bank of India Limited,
The Punjab National Bank Limited,
The Bank of Baroda Limited,
The United Commercial Bank Limited,
Canara Bank Limited,
United Bank of India Limited,
Dena Bank Limited,
Syndicate Bank Limited,
The Union Bank of India Limited,
Allahabad Bank Limited,
The Indian Bank Limited,
The Bank of Maharashtra Limited and
The Indian Overseas Bank Limited.

183. The undertakings of the 14 banks which had been acquired by the Central Government with effect from July 19, 1969 under the authority of the Act reverted to those companies following the Act being declared void. A fresh Ordinance was issued on February 14, 1970 which did not contain the offending provisions of the earlier Act. Under this Ordinance, the Government again took over the undertaking of each of these banks with effect from the original date, i.e., July 19, 1969. This Ordinance, unlike the void Act, did not set out any principles for the determination of the compensation to be paid to each of the 14 limited companies whose undertakings were acquired, but fixed a specific amount of compensation to each of the 14 nationalised banks to be paid within 60 days from the date the banking company applies for it. These banking companies were given three options or any mix of these, i.e., in the form of cash, 10-year Central Government securities at par carrying $4\frac{1}{2}$ per cent interest per annum, and 30-year Central Government securities at par carrying interest at $5\frac{1}{2}$ per cent per annum. Of the 14 nationalised banks, two banks (Allahabad Bank Ltd. and the Indian Overseas Bank Ltd.) opted for payment of the entire amount of compensation in cash and the remaining 12 banks opted for payment of compensation, partly in cash and partly in Government securities. In the case of the former two banks, the first instalment of compensation in cash has since been paid and in the case of the latter the entire compensation has been paid.

184. The Banking Companies (Acquisition and Transfer of Undertakings) Bill to replace the Ordinance issued on February 14, 1970 was introduced in Parliament on February 27, 1970 and was passed without any amendment by both the Houses towards the end of March 1970. The Bill received the assent of the President on March 31, 1970.

185. Under Section 9 of the Act, the Central Government is authorised to make a scheme, after consultation with the Reserve Bank for carrying out the provisions of the Act, which may provide, *inter alia*, for the constitution of the Board of Directors of the corresponding new banks, their capital structure, reconstruction and amalgamation. The statute prescribes that each Board of Directors will have to include representatives of em-

ployees and depositors of the bank and such other persons as may represent the interests of farmers, workers and artisans. Pending the constitution of such a broad-based Board of Directors envisaged under the scheme, the Central Government is empowered to appoint, in respect of each of the 14 banks, the first Board of Directors consisting of not more than 7 persons who would continue to hold office till the broad-based Board of Directors is constituted under the scheme. The Act also empowers the Government to issue to nationalised banks directives on matters of policy involving public interest after consultation with the Governor of the Reserve Bank.

186. In view of the uncertainty arising out of the writ petitions, the Government did not consider it advisable to appoint Boards of Directors for the nationalised banks. Pending the constitution of regular Boards of Directors, each of the 14 banks was advised by the Reserve Bank of India in September 1969 to form an Internal Management Committee of senior officials to which all matters that might normally have been brought before the Boards of Directors could be referred. The Bank provided an official nominee for each Internal Management Committee which met a few times every month. Having regard to the responsibilities devolving on the Custodians in the absence of Board of Directors, the Reserve Bank issued a statutory direction on January 22, 1970 requiring each of the 14 banks to obtain the prior approval of the Reserve Bank before putting through certain transactions. Important among these transactions were (i) grant of certain types of advances in excess of Rs. 25 lakhs, (ii) investments in excess of Rs. 1 lakh in shares and debentures of joint stock companies or advances against them above Rs. 5 lakhs, (iii) appointments and extension of services of senior executives, (iv) expenditure on land/buildings above specified amounts and making provisions out of profits for 1969. Even after the promulgation of the Ordinance on February 14, 1970 and the passing of the Act on March 31, 1970, these statutory directions of the Reserve Bank continued to be in force.*

187. On July 18, 1970, the Central Government in consultation with the Reserve Bank of India constituted the first Board of Direc-

* These were withdrawn on August 14, 1970.

tors for each of the nationalised banks. Every Director of the first Board of Directors shall hold office until the broad-based Board of Directors is constituted in accordance with the scheme made under Section 9. The Government in consultation with the Reserve Bank is working out the details of a scheme for constituting a more broad-based Board of Directors.

188. The nationalised banks have also been instructed to take suitable steps for effecting the transfer of the foreign business of the existing banks to the corresponding new banks. While such transfer has been effected in most of the cases, in Uganda, the two nationalised banks concerned, viz., Bank of Baroda and Bank of India, as mentioned in Chapter I, have formed subsidiary companies to comply with the local legal requirements. The Government of Uganda has since acquired majority shares in these subsidiaries. As regards the branches of the nationalised banks in Malaysia where State-owned or State-controlled banks are not permitted to carry on banking business, the matter is engaging the attention of Government and the Reserve Bank of India.

189. The broad aims of nationalisation of banks as stated in the preamble to the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970, are "to control the heights of the economy and to meet progressively and serve better the needs of development of the economy in conformity with national policy and objectives." It will be the endeavour of the nationalised banks to ensure that the needs of productive efforts of diverse kinds irrespective of size and social status of the borrower and, in particular, those of farmers, small-scale industries and self-employed professional groups, are met in an increasing measure. It will also be a primary objective of nationalised banks to foster actively the growth of new and progressive entrepreneurs and to create fresh opportunities for backward areas in different parts of the country.

190. In the context of these objectives, a number of changes in the banks' attitudes and methods of work were called for. Particularly, it became necessary for them to re-orient the concept of security for loans, to pay special attention to the growth potential and

developmental needs of local areas where the branches are situated, to take better care of the requirements of under-developed areas and backward sections of the population, to forge close relations with developmental and term financing institutions, to reach mutual understanding with State Governments, to ensure that large borrowers do not have more access to resources of the bank than is actually required for productive use and to prevent use of credit for speculative and other unproductive purposes. Simultaneously, they were required to intensify their efforts, through a co-ordinated branch expansion programme, for mobilisation of deposits in all parts of the country and from all sections of the people, ranging from affluent businessman to the harassed housewife.

191. During the pendency of the suit the Government refrained from giving any directions to the 14 banks or taking any steps which would constitute interference with the internal management of the banks. The Prime Minister had a meeting with the Chairman of the State Bank and the 14 Custodians on September 30, 1969 and explained to them the Government's general attitude. Further, broad understandings were arrived at between Government officials and banks' management through frequent informal discussions. The Reserve Bank of India also lent its advice and good offices. All these informal approaches have not been unsuccessful. In keeping with the accepted aims and objectives of nationalisation, the nationalised banks continued to make efforts to improve the public relations and identify themselves in a growing measure with viable development in diverse forms.

192. They effected organisational changes to set up different cells or departments to handle proposals for advances to small-scale industries as well as to agriculture. To handle the work, trained staff have been appointed and services of experts have been secured for consultation. Field officers have also been recruited, whose primary function would be to find out prospective customers, contact them for ascertaining their requirements, prepare regular proposals and put them before the cells and, where necessary, arrange to transmit them to head offices.

They would also ensure proper utilisation of advances granted and arrange to effect the recovery of loans as and when due. Arrangements have been made for giving extensive publicity through newspapers and periodicals in regional languages regarding the type of facilities provided by the banks. Powers have been vested in branch managers to sanction as many proposals as possible without reference to higher authorities.

193. For improvement of their working procedure and reaching a better understanding among themselves as well as with public and the State Governments, the chief executives of the public sector banks set up a Co-ordination Committee in which matters of mutual concern and public interest are discussed and examined in depth.

194. With a view to instituting a comprehensive scheme to cover the credit risks incurred by banks and other financial institutions in granting loans to various categories of small borrowers, the Government set up a Committee to evolve a suitable scheme to provide for insurance of such credits. The Committee has submitted its report to the Government and the proposal for establishing a new credit guarantee organisation has been approved by the Government.

195. In order to entrust progressively to the nationalised banks the Government Treasury and other allied business which are handled at present by the State Bank of India and its subsidiaries at places where the Reserve Bank does not have offices, a Committee has been set up to evolve a scheme for this purpose. Details of the scheme for entrusting the conduct of Government Treasury and other allied business to the nationalised banks are being finalised.

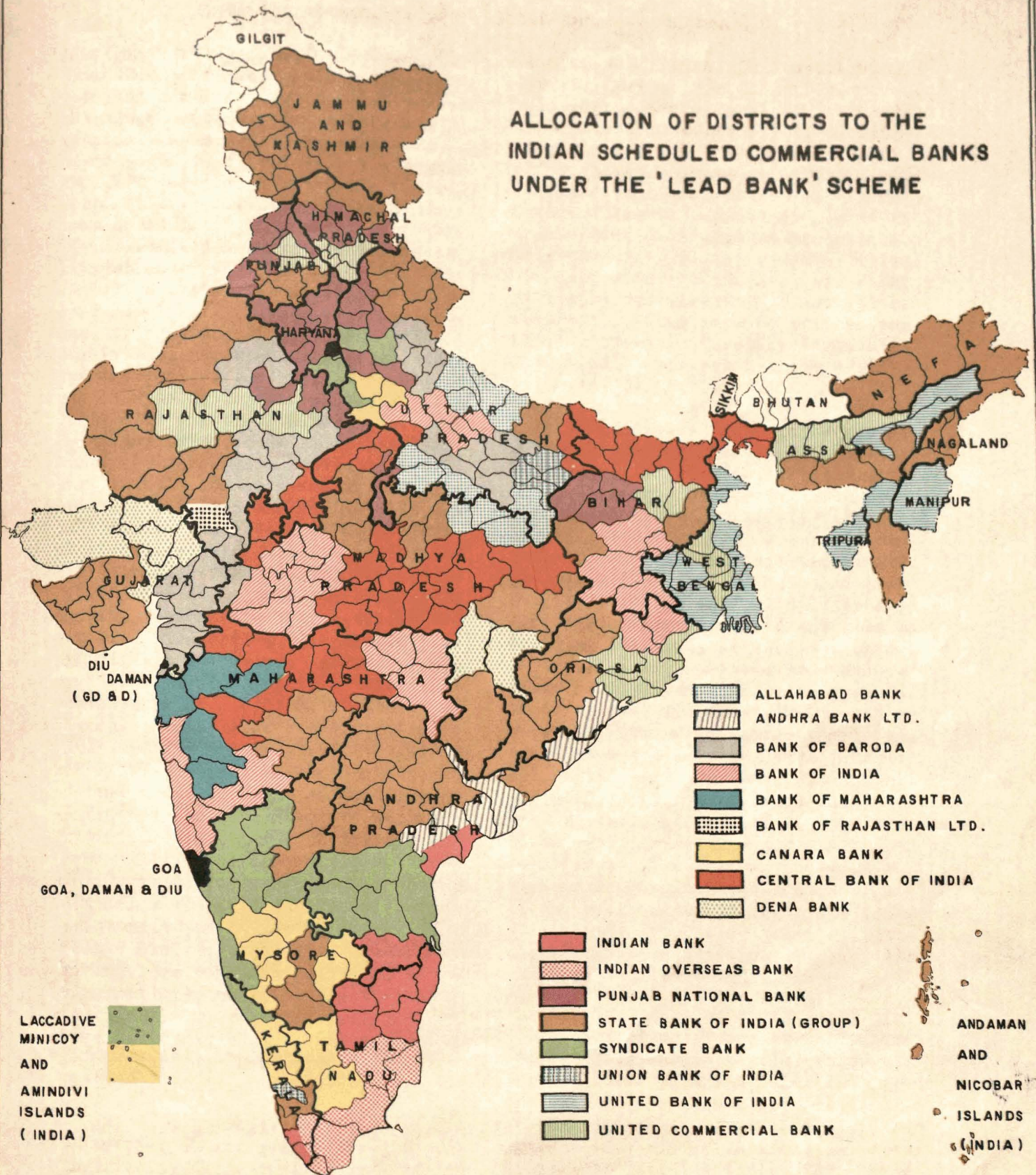
196. An expert committee was set up by the Bank to examine whether it would be desirable to establish a single institution to take over and run all the foreign branches of the public sector banks and whether such institution should handle the entire foreign exchange business of Indian banks. The committee has since submitted its report which is under consideration.

197. In terms of Section 75 of the Assam Reorganisation (Meghalaya) Act 1969, the Reserve Bank of India Act, 1934 was amended to make Section 21A of the latter Act also applicable to the autonomous State of Meghalaya.

Lead Bank Scheme and Branch Expansion

198. The Lead Bank Scheme introduced by the Reserve Bank in December 1969 marks a major step towards the implementation of the two-fold objective of mobilisation of deposits on a massive scale throughout the country and of stepping up of lending to weak sectors of the economy. It may be recalled that a Study Group was constituted in October 1968 with the approval of the National Credit Council under the Chairmanship of Prof. D. R. Gadgil to go into the question of building up of an appropriate organisational framework for the banking system for meeting the problems of credit gaps of the economy. One of the important recommendations of the report of the Study Group published in October 1969 was that an area approach would need to be adopted by the commercial banks to identify and study local problems and evolve an integrated credit plan for the area. The Group was of the view that the lowest unit under the area approach has to be necessarily identified with the district which is the main administrative unit of the country. In August 1969, the Governor of the Reserve Bank of India also appointed a Committee of Bankers, with Shri F.K.F. Nariman as the Chairman, to evolve a co-ordinated programme for ensuring the setting up of adequate banking facilities in the under-banked districts of the country. The Committee in its report, *inter alia*, recommended that banks would be allotted specific districts where they would take the lead in surveying the potential of banking development in extending branch banking and expanding credit facilities. The Reserve Bank accepted these principles and evolved the Lead Bank Scheme, under which districts were allotted to the State Bank Group (State Bank and its 7 subsidiaries), the 14 nationalised banks and 2 other Indian banks. Virtually, the whole of the country, except Greater Bombay, Calcutta and Madras and the Union Territories of Delhi, Chandigarh

ALLOCATION OF DISTRICTS TO THE INDIAN SCHEDULED COMMERCIAL BANKS UNDER THE 'LEAD BANK' SCHEME



The External Boundary of India on the map agrees with the Record Copy certified by the Survey of India.

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and Goa, has been covered in this way. A Lead Bank would be responsible for taking a leading role in surveying the credit needs, development of branch banking and extension of credit facilities in the districts allotted to it. More specifically a Lead Bank in a district would be required : (i) to survey the resources and potential for banking development in its district, (ii) to survey the number of industrial and commercial units and other establishments and farms which do not have banking accounts or which depend primarily on money-lenders, (iii) to examine the facilities for marketing of agricultural produce and industrial production, storage and warehousing space and the linking of credit with marketing in the district, (iv) to survey the facilities for stocking of fertilisers and other agricultural inputs and for the repair and servicing of the equipment, (v) to recruit and train staff for offering advice to small borrowers and farmers and for the follow-up and inspection of end-use of loans, (vi) to assist other primary lending agencies, and (vii) to maintain contacts and liaison residually with Government and quasi-Government agencies. While the other banks are not precluded from opening branches, the Lead Bank is expected to act as consortium leader and invoke the co-operation of other banks operating in the district in mobilisation of deposits, locating actual and potential credit needs and catering for these. In allotting the districts the Bank kept in view a number of important factors such as the contiguity of districts for ensuring viability of operations, provision of control points for developmental work and branch supervision as also a broad correspondence between the responsibilities allocated in terms of number of districts and resource-base of banks concerned. The Reserve Bank has drawn up a detailed proforma for the conduct of the survey by the concerned banks and has circulated it to them for collecting the necessary data. Some of the districts have already been surveyed by the banks and reports have been submitted to the Reserve Bank.

199. The Reserve Bank drew up in December 1969 a fresh programme of branch expansion under which 22 public sector banks and 8 private sector banks are required to open during the year 1970, 1,350

offices of which 1,186 offices would be at unbanked centres. The 22 public sector banks are required to open 1,300 offices out of the total 1,350 offices. This programme covers not only the 453 unbanked towns (as per the 1961 Census classification), but also other unbanked centres which, in the opinion of Reserve Bank of India, should be served by bank offices because of their potential for developing agricultural business or for taking over treasury work. At places which are treasury and sub-treasury centres, banks will take over in due course Government cash work in pursuance of the policy of converting departmentally managed treasuries/sub-treasuries into banking ones.

200. The 30 banks which are covered by this programme have been supplied with a list specifying the names of unbanked towns/centres, treasury centres, etc. where they were required to open offices and each bank has been asked to indicate the names of centres where it proposes to open offices in the first half of 1970. The Bank has laid down that during the first half of 1970 (January-June) the concerned banks should open a minimum 400 offices in unbanked towns/centres. This is in addition to unbanked centres which may be identified by the banks themselves or in the districts allotted to them under the Lead Bank Scheme where they would like to establish their offices. Further, 200 offices were to be opened during this period in centres which need additional banking facilities. Thus, a total number of 600 offices was to be opened in the first half of 1970. The Reserve Bank has issued bulk licences to each of the banks in respect of the centres allotted to them. The banks have actually exceeded the target by opening 875 offices upto the end of June 1970 of which 741 are at unbanked centres.

201. The Bank has also asked the commercial banks to draw up a programme of opening offices in banked centres, including metropolitan centres and port towns for the year 1970. In considering the programme of expansion of offices in urban centres, the Bank kept in view the need to distribute more equitably the burden on banks of opening branches as between the rural and semi-urban centres on the one hand and

the urban centres on the other. If the banks opened a number of offices in rural and semi-urban areas in terms of bulk licences already issued to them, as well as under the Lead Bank Scheme, they should be given sufficient scope for opening offices in urban centres. While choosing urban centres for opening more branches, the banks were required to keep in view the scope for better deposit mobilisation due to increase in business and industrial activities and the rapid development of suburban residential areas. The banks were asked to submit proposals in this regard to the Reserve Bank by the end of March 1970. After considering the proposals received from the various banks and finalising the number of offices to be allotted to each bank, the Bank has decided to issue licences as and when the banks become eligible for opening offices at urban centres. The licences will be issued to them for opening offices at urban centres in the ratio of one office in urban centre for every two offices opened after December 1969 in rural and semi-urban centres in the case of banks which had more than 60 per cent of their offices in rural and semi-urban areas as on December 31, 1969 ; in the case of other banks, the ratio is one office in urban centre for every three offices in semi-urban and rural centres.

202. In 1969-70, commercial banks opened as many as 1873 new offices as against 1024 offices in 1968-69 and 425 offices in 1967-68. Of these, State Bank of India and its Subsidiaries accounted for 425 offices and 14 nationalised Indian banks opened 1185 offices. Of the 1873 offices opened during the year, 1271 were at unbanked centres, the share of State Bank and its Subsidiaries being 312 offices and that of 14 nationalised banks being 821.

Table 30—Number of offices of Commercial Banks in India

	As on June 30, 1969	As on June 30, 1970
1. State Bank of India	1569	1875
2. Subsidiaries of State Bank of India	893	1060
3. 14 Nationalised Banks	4133	5318
4. Foreign Banks	130	131
5. Other Scheduled Commercial Banks	1320	1554
6. Non-Scheduled Banks	217	193
All Commercial Banks	8262	10131

203. Allowing for the change in the number of offices due to amalgamations, mergers, transfer of assets and liabilities, closure of offices, etc., the number of offices of scheduled commercial banks increased by 1893. Offices of non-scheduled banks, however, declined by 24 during the period. At the end of June 1970 the total number of offices of scheduled and non-scheduled commercial banks exceeded the 10,000 mark, the number of scheduled and non-scheduled banks' offices being 9938 and 193, respectively. At the end of June 1969 the corresponding figures were 8045 and 217, respectively (Table 31).

Organisational Matters

204. Mention has already been made of the constitution of Boards of Directors for nationalised banks. Section 10A of the Banking Regulation Act, 1949 which came into force from February 1, 1969, deals with the composition of the Board of Directors of banking companies in the private sector. Out of 9 Indian banks in the private sector with deposits of Rs. 10 crores and above, 8 banks complied with legal provisions while in the case of another, its Board is not in conformity with law. The bank is taking steps to comply with the requisite provisions.

205. As regards banks having deposits below Rs. 10 crores, the Government of India allowed them time to comply with the relevant provisions initially upto February 1, 1970 which date has since been extended upto February 1, 1971. There are at present 39 banks in this category and of these, 20 have reconstituted their Boards of Directors while the matter is being pursued with the remaining 17 banks. Of the other two banks in this category, one is taking steps for transfer of its assets and liabilities to another bank while the other is in a process of self-liquidation.

206. In accordance with Section 10B of the Banking Regulation Act, 1949, 29 Indian banks in the private sector have already appointed whole-time Chairmen with the approval of the Reserve Bank. In respect of 6 other banks, the Reserve Bank has agreed in principle to the proposals for appointment of whole-time Chairmen, while the proposals of 5 other banks are under consideration.

Table 31—Number of Offices opened and closed by Scheduled and Non-Scheduled Commercial Banks in India

	Scheduled Commercial Banks				Non-Scheduled Commercial Banks				All Commercial Banks												
	1967	1968	1969	1970*	1967	1968	1969	1970*	1967	1968	1969	1970*									
	Jan.- June	Jan.- June	Jan.- June	Jan.- June	Jan.- June	Jan.- June	Jan.- June	Jan.- June	Jan.- June	Jan.- June	Jan.- June	Jan.- June									
1. New offices opened ..	207 (36)	196 (47)	222 (37)	443 (50)	565 (24)	772 (65)	1068 (190)	3	--	7	5	11	21	12	210	196	229	448	576	793	1080
2. Changes due to amalgamation, mergers, transfers of assets and liabilities and inclusion in and exclusion from the second schedule to the R.B.I. Act, 1934 ..	+4	+6	+10	+1	+1	+53	+3	-6	-6	-10	-1	-1	-53	-3	-2	--	--	--	--	--	--
3. Existing offices closed ..	-7 (-2)	-6 (-1)	-4 (-1)	-6	-3	-3	--	-2	-1	-3	--	--	-1	--	-9	-7	-7	-6	-3	-4	--
4. Overall variation in the number of offices ..	+204	+196	+228	+438	+563	+822	+1071	-5	-7	-6	+4	+10	-33	+9	+199	+189	+222	+442	+573	+789	+1680
5. Number of offices at the end of the period	6620	6816	7044	7482	8045	8867	9938	216	200	203	207	217	184	193	6836	7025	7247	7689	8202	9051	10131

Note :— 1. Figures within brackets relate to the State Bank of India.
 2. Data exclude administrative, seasonal, temporary, non-banking offices and offices outside India.
 * Provisional.

The remaining 8 banks which have yet to comply with the provisions of this Section have been advised to take early steps in this regard. The Government of India has extended the time limit in this regard upto February 1, 1971 in respect of banks with deposits less than Rs. 25 crores as on February 1, 1969.

Inspection of Banks

207. In pursuance of the Bank's policy of periodical inspections of all banks with a view to assessing their financial position as well as methods of operation, 29 scheduled commercial banks and 7 non-scheduled banks were inspected under Section 35 of the Banking Regulation Act, 1949, during the period July 1969 to June 1970. Three banks were inspected under Section 45Q of the Act for judging whether there were any substantial irregularities in their winding up proceedings. Besides, two banks were inspected for the purpose of issue of a certificate under Section 44(1) of the Banking Regulation Act, 1949.

208. In the context of the wider role assigned to banks following the nationalisation of the fourteen major commercial banks, a re-orientation of the present system of bank inspections was called for. The objectives and mechanism of bank inspections were discussed at a Conference of the Heads of the Department of Banking Operations and Development held at Bombay in March 1970. It was agreed that the objectives of bank inspections should be the evaluation of the overall performance of each bank in different aspects like manpower planning and training, investment and credit portfolio management, profit planning, credit appraisal, industrial relations, control and reporting systems and developmental activities rather than a mere scrutiny of individual transactions. The same standards should not be applied to different categories of banks, i.e., State Bank of India Group, nationalised banks, Indian banks in the private sector and foreign banks. The inspections should aim at strengthening the bank's internal control system with a view to transferring to them in due course the audit element incorporated in the present inspection procedure. It was also generally agreed that the present system of inspection

of banks should be replaced by a system which would provide for an examination of systems and performances and assessment of the financial position as also for *ad hoc* inspections and inspections of branches. To implement the new system of inspection, it was considered necessary to equip officers of the Department by giving them training, wherever necessary, at the Indian Institute of Management, Calcutta/Ahmedabad, National Institute of Bank Management, Bombay and other training institutions including those of the commercial banks. It was also felt that the existing Inspection Manual should be revised in the context of the changed circumstances. This task has been entrusted to a special Cell set up in the Department. The Cell is also entrusted with the responsibility of devising the steps necessary to speed up the process of inspection. It was also decided to open offices of the Department in other States (where there is no office of the Department at present), so as to have closer contact with the local areas, better knowledge and appreciation of their needs as also to facilitate speedier disposal of the cases through adequate decentralisation. Officers of the Reserve Bank who have been appointed as additional directors under Section 36 AB of the Banking Regulation Act, 1949 in banks which are working under directions and are under formal observation, have been instructed to watch the performance in regard to developmental activities of these banks and not merely the progress of the implementation of the directions issued to them. In accordance with the above decisions, the Special Cell set up at the Central Department of the Banking Operations and Development has issued necessary instructions for carrying out centre-wise inspections of branches of commercial banks and has advised the regional offices to conduct such inspections at certain selected centres on an experimental basis.

209. During the period under review, comments/representations/observations were received from 39 banks including 9 banks carried over from the previous year. After examining the comments/representations/observations, directions were issued in 11 cases, while 7 were asked to submit periodical progress reports. Specific steps were advised

in 7 cases. No action was considered necessary in the case of 5 banks. The remaining 9 cases were under consideration. In certain cases, representatives of banks were called for informal discussion with a view to specifically bringing to their notice the main defects in the working of the institutions concerned and impressing upon them the need for taking expeditious steps for removing the major defects in the banks' working. In cases where the findings of the inspection called for stricter control over the affairs of the concerned banks, suitable directions were issued to them for compliance. In the case of banks which are already working under certain directions issued following their earlier inspections, the directions were continued with suitable modifications. With a view to reducing the time-lag between the completion of the inspection and taking final action thereon while forwarding copies of inspection reports, 3 banks were asked to take certain specific steps and to submit quarterly progress reports. There are at present 29 banks (20 scheduled and 9 non-scheduled) working under directions issued by the Reserve Bank and submitting periodical progress reports. Out of these, in 19 cases, observers have been deputed to attend Board/Committee meetings of the banks. Besides the banks working under directions, there are at present 32 other banks which are submitting quarterly progress reports.

210. During the period under review, additional directors under Section 36AB of the Banking Regulation Act, 1949 were appointed in the case of 23 non-nationalised banks which were working under directions and also under formal observation. In the case of 6 banks, the additional directors were later withdrawn consequent on the withdrawal of the directions issued to these banks.

211. The progress made by the banks in the elimination of defects noticed in their structure and methods of operation was maintained during the year July 1969 to June 1970. In the light of improvements effected in their working, the Bank withdrew the directions issued to nine banks during the period while the directions issued to five banks were withdrawn consequent on

their amalgamation with other banks. Consequently, the number of banks working under directions issued by the Reserve Bank declined from 43 to 29. Similarly, the number of banks subject to Reserve Bank's observation, either formal or informal, declined from 42 to 27 during the period under review. It is proposed to withdraw directions and to discontinue the arrangement for observation of the affairs in the case of one more bank. The banks have generally taken the required steps for the rectification of defects noticed in their working.

Bank Mergers

212. The Bank continued the policy of amalgamation or the transfer of liabilities and assets of weaker banks with a view to strengthening the banking structure in the country. During the period July 1969 to June 1970, four commercial banks were absorbed in this manner. The total number of commercial banks operating in the country at the end of June 1970 was 86 of which 72 were scheduled banks.

213. During the year under review, two banks were amalgamated under Section 45 of the Banking Regulation Act, 1949, while two other banks transferred their agreed assets and liabilities to other banks, in terms of Section 293(1) (a) of the Companies Act, 1956 (Table 32).

214. During the period under review (July 1969-June 1970), the Central Government on the application of the Reserve Bank of India passed orders of moratorium on two more banks* under Section 45 of the Banking Regulation Act, 1949. This brings the total number of banks under order of moratorium since September 1960 to 60, with deposits amounting to Rs. 49.95 crores. Both the Bank of Behar Ltd., and the National Bank of Lahore Ltd., which were subject to moratoria, have since been amalgamated with the State Bank of India, with effect from November 9, 1969 and February 23, 1970, respectively.

* (1) Bank of Behar Ltd., and
(2) National Bank of Lahore Ltd.

215. Of the 60 banks which were granted moratoria, 49 were amalgamated with other banks. Among these, depositors of 30 banks were given full credit for the entire deposits outstanding in the books of the transferor banks at the very commencement of the relative schemes of amalgamation. The depositors of 11 other banks received credits in the books of the transferee banks in proportion to the readily realisable assets in addition to the preferential payment made to each depositor of the amount standing to his credit or Rs. 250 whichever was less. Of these

11 banks, the depositors of 4 banks have since received full payment. In the case of the 8 banks which were merged with other banks after the establishment of the Deposit Insurance Corporation in 1962, the depositors received *pro rata* credits to the extent of readily realisable assets of the transferor banks; in cases where the amount of *pro rata* credit was short of Rs. 1,500 or the balance in depositors' account whichever was less, the difference was made good by Deposit Insurance Corporation as provided for in the relative schemes.

Table 32 — Bank Mergers, Amalgamations and Transfers of Assets and Liabilities

Year				Voluntary Amalgamations under Section 44A of the Banking Regu- lation Act, 1949	Compulsory Mergers under Section 45 of the Banking Regu- lation Act, 1949	Other Mergers*	Transfer of Assets and Liabilities under Section 293(1) (a) of the Com- panies Act, 1956	Total
1960	..	..	..	2	—	—	5	7
1961	..	..	..	1	30	2	3	36
1962	..	..	..	3	1	2	5	11
1963	..	..	..	2	1	4	15	22
1964	..	..	..	7	9	1	62	79
1965	..	..	..	5	4	3	21	33
1966	..	..	..	—	—	2	5	7
1967	..	..	..	—	—	3	6	9
Jan. 1968—June 1969	..			—	2	—	2	4
July 1969—June 1970	..			—	2	—	2	4
Total	..	..		20	49	17	126	212

* Banks taken over by the State Bank of India and/or subsidiaries.

216. Out of the remaining 11 banks which were under moratoria but were not amalgamated with other banks, Government of India has (as indicated in the previous report) framed schemes of administration in respect of two foreign banks, viz., the Habib Bank Ltd., and the National Bank of Pakistan whose assets had been vested in the Custodian of Enemy Property for India. According to these schemes, payments are being made to the depositors/creditors at stipulated rates. One bank was allowed to go into voluntary liquidation and three banks were finally ordered to be wound up on an application made by the Reserve Bank of India

under Section 38 of the Banking Regulation Act, 1949. One bank was allowed to amalgamate voluntarily with another bank under Section 44A of the Banking Regulation Act, 1949 while in the case of another a scheme of arrangement was sanctioned by High Court and an order was passed for its dissolution. The Government allowed moratoria to lapse in the case of 2 banks on their directors giving a guarantee undertaking to make payments from their personal assets, if necessary, while in the case of one bank the moratorium was allowed to lapse on its expiry and simultaneously the bank was

refused licence under Section 22 of the Banking Regulation Act, 1949.

217. In terms of the scheme of amalgamation under Section 45 of the Banking Regulation Act, 1949, the shareholders of the transferor banks were required to be paid the surplus amount left with the transferee banks after paying the depositors in full. The shareholders of 10 transferor banks have been paid in full, while *pro rata* payments are being made to the shareholders of the 10 other transferor banks.

218. The Commercial Bank Ltd., Kolhapur, filed a petition in the High Court of Bombay requesting for further extension of time for making payment of the balance (5 per cent) of the fifth and final instalment, which was payable to the depositors under the scheme of arrangement on or before April 1, 1968. The Bank of Karad Ltd., has taken over the New Fund business of the Commercial Bank Ltd. The Commercial Bank Ltd., is now taking steps to transfer the old fund business also to the Bank of Karad Ltd., and the necessary formalities thereto are being complied with. The Sahukara Bank Ltd., which has been working under a scheme of arrangement sanctioned by the High Court of former East Punjab, is expected to wind up the closed fund out of the sale proceeds of the forfeited shares amounting to Rs. 1.10 lakhs. The bank is negotiating with the New Bank of India Ltd. for the transfer of its New Fund business to it. The New Fund business of the Himalaya Bank Ltd., has been acquired by the State Bank of Patiala. A *pro rata* payment to all the creditors of the Old Fund at the rate of 6 per cent, has been made thereby bringing the total amount paid to creditors to 76 per cent out of a sum of Rs. 14,16,033 due to them according to the scheme sanctioned. The Bank of Bhopal Ltd., Bhopal, which was working under the scheme of arrangement sanctioned by the High Court of Madhya Pradesh has transferred the necessary funds, as per provisions of the scheme, to the United Commercial Bank for making payment to the depositors in full. The High Court has passed orders for the dissolution of the scheme and the bank subsequently has proposed to go into voluntary liquidation.

Licensing of Banks

219. During the period under review, four banks were granted licences under Section 22 of the Banking Regulation Act, 1949. No licence granted to banking companies earlier was cancelled, but licence was refused to one bank. Consequently, the number of banks, licences of which have been cancelled remained at 36 and that of banks which have been refused licence increased to 281. During the year the total number of licensed banks increased from 54 to 58 of which 56 were scheduled commercial banks. The 58 banks (including 14 banks which have been nationalised) which have been granted a licence and the 8 scheduled banks (State Bank of India and its seven Subsidiaries) which do not require a licence, together accounted for 98.9 per cent of aggregate deposits of all commercial banks as at the end of June 1970.

Liquidation Proceedings

220. During the year under review, four non-scheduled banks were dissolved by the High Court. Two banks went into voluntary liquidation after obtaining a certificate from the Reserve Bank under Section 44(1) of the Banking Regulation Act, 1949, while two banks went into Court liquidation. Certificates under Section 44(1) of the Banking Regulation Act, 1949 were issued to four non-scheduled banks to enable them to go into voluntary liquidation. The Bank scrutinised 198 returns submitted by the liquidators of banks under Section 45R of the Banking Regulation Act, 1949, with a view to ensuring that the legal requirements were complied with and that the liquidation proceedings were not unduly delayed. During the period under review, a copy each of the Inspection report under Section 45Q of the Banking Regulation Act, 1949 in respect of 8 banks in liquidation was forwarded to the Central Government and the respective High Courts.

Credit Authorisation Scheme

221. Since November 1965, a Credit Authorisation Scheme has been in operation as part of the Reserve Bank's credit policy. In terms of this Scheme, all scheduled commercial banks are required to obtain the

Reserve Bank's prior authorisation before sanctioning any fresh credit limit (including commercial bill discounts but excluding letters of credit and guarantee limits) of Rs. 1 crore or more to any single party or any limit that would take the total limit enjoyed by such party *from the entire banking system* (including co-operative sector) to Rs. 1 crore or more, on secured and/or unsecured basis. During the year, there has been a re-structuring of the Scheme as part of the effort at aligning bank credit with Plan priorities. Hitherto, the main criterion for authorisation has been the purpose for which the applicant sought credit. With a view to ascertaining the end-use of credit more closely and ensuring proper use and dispersal of bank credit, a comprehensive system for appraisal of credit including such aspects as excessive inventory build-up, inter-corporate lending/investments, diversion of short-term funds for long-term purposes, etc., is being evolved. With this end in view, the Bank has introduced certain forms designed to collect the requisite information for a proper evaluation and financial appraisal of credit proposals.

222. During the year, 908 applications were received from banks for authorisation of credit limits under the Scheme ; 30 applications received during the previous year (i.e., 1968-69) were also pending. The credit limits covered by most of the proposals were for the purpose of meeting the working capital requirements and for financing expansion/modernisation, etc. of concerns engaged in defence/export-oriented and other priority industries. In all, 871 applications were disposed of during the year and in respect of 41 applications, further particulars called for from banks were awaited and 26 applications were under scrutiny.

Credit Information

223. The Credit Information Division of the Reserve Bank continued to collect information from banks and other notified financial institutions, in respect of credit facilities allowed by them to their customers. The required information was furnished in a consolidated form in respect of individual customers to the institutions which applied for it. During the period July 1969 to

June 1970, the Division furnished credit information in respect of 1,938 applications to 30 applicant banks.

Clearing House Facilities

224. During the period under review, the clearing house facilities were further expanded as part of the Bank's policy of extension of banking facilities in the country. Thus during the period (July-June) six clearing houses were established, bringing the total number of clearing houses functioning in the country to 105. Of these, 9 are managed by the Reserve Bank of India, 78 by the State Bank of India, and 18 by the Subsidiaries of the State Bank of India.

Working Group on Jute Industry

225. Reference was made in the previous year's Report to the constitution of a Working Group in March 1969 to look into the problems of short-term credit needs of the jute industry for production and exports. Subsequently, the Group was also requested to examine certain complaints regarding the alleged abuses of the system of trading in jute goods through the medium of jute Pucca Delivery Orders (PDOs) and the availment of bank credit facilities against them. The Group has since submitted its Report and its recommendations are under consideration.

Control over Non-Banking Companies

226. There was no important development during the year in regard to the regulation and control of deposits in the corporate non-banking sector. There has, however, been some increase in recent years in the number of chit funds and latterly a number of "finance corporations," which are really partnership firms, have been promoted and they have also been accepting deposits from the public. These firms are mostly confined to Mysore State, but a few of them also operate in Andhra Pradesh and Tamil Nadu.

227. The question of protecting the interests of subscribers to the chit funds, was

taken up suitably with the State Governments concerned. At the instance of the Reserve Bank, the Tamil Nadu Government has extended the local Chit Funds Act, 1961 to all the districts in that State. Andhra Pradesh and Mysore have been considering the question of enacting local legislation for this purpose and in Kerala, where chit funds and kuries have been traditionally very common and popular, a public sector corporation was constituted in November 1969 to run chitties and kuries in competition with other private companies and individuals in the State.

228. The provisions of the directions issued by the Department of Non-Banking Companies in regard to deposits are not applicable at present to partnership firms and it is not also legally possible for the Bank to issue any directions to any firm with a subscribed capital of one lakh of rupees or less. The "finance corporations" are, however, governed by the provisions of the Moneylenders Acts as they are in force in the respective States. The question of enforcing the provisions of these Acts is being considered in consultation with the State Governments.

Deposit Insurance Corporation

229. The number of insured banks declined to 83 at the end of June 1970 from 87 at the end of June 1969 as a result of transfer by two banks of the deposit liabilities and equivalent assets to other insured banks and amalgamation of two banks with State Bank of India. During the year, no new bank was registered as an insured bank. The liability of the Corporation in respect of the insured deposits arose in the case of the two amalgamated banks, namely, the National Bank of Lahore and the Bank of Behar. In the case of one of these banks, the Corporation's liability was determined and paid, while in the case of the other bank, it will be determined after the scrutiny of the list of depositors of the bank. The claims met by the Corporation since its inception in 1962 to the end of June 1970 aggregated Rs. 103.44 lakhs as against the receipt by way of reimbursement from the concerned banks to the extent of Rs. 36.11 lakhs.

230. With the previous approval of the Government, the Corporation has increased, with effect from April 1, 1970, the limit of insurance cover in respect of amounts due to any one depositor at a registered commercial bank from Rs. 5,000 to Rs. 10,000. As a result of this increase, the percentage of fully protected accounts to the total number of deposit accounts is estimated to have increased from 90.8 to 96.8 and that of insured deposits to the total assessable deposits from 50.8 to 61.0. The rate of premium payable by insured banks remains unchanged at 5 paise per Rs. 100 of insured deposits per annum. Consequent on the nationalisation of 14 major commercial banks on July 19, 1969, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 provides for the continuance of the corresponding new banks as insured banks.

231. The provisions of the Deposit Insurance Corporation (Amendment) Act, 1968 to which a reference was made in the last year's Report, have not been brought into force, pending enactment of the necessary legislation by the various States so as to make the co-operative banks in the respective States eligible for deposit insurance cover. The States of Andhra Pradesh, Maharashtra and Madhya Pradesh and Goa, Daman and Diu have since passed the necessary legislation and the Reserve Bank of India is actively pursuing the matter with other State Governments.

Banking Commission

232. In the previous Report, mention was made of the appointment of the Banking Commission and its terms of reference. The Commission which started functioning in March 1969 sent questionnaires in stages to commercial banks, co-operative banks, State Governments and Union Territories, borrowers from medium and small-scale industries and traders engaged in domestic and foreign trade. The Commission has constituted five Study Groups to report on banking, viz., (a) banking costs, (b) legislation affecting banking, (c) indigenous bankers, (d) bank procedures and (e) non-banking financial intermediaries. These Study Groups include experts in their respective fields and professional bankers. The Study Group on

legislation affecting banking has issued two sets of its questionnaires. A survey of bank services to depositors has been entrusted to the National Council of Applied Economic Research and another survey of small-scale industries and small borrowers has been undertaken on behalf of the Banking Commission by Universities and other academic bodies at 21 centres all over the country. A study of the portfolio behaviour of banks is being made by the Institute of Economic Growth. A sample survey of banking facilities in rural areas was completed by the Division of Rural Economics of the Economic Department, Reserve Bank of India. Two similar studies have been undertaken by two Universities. The National Institute of Co-operative Management has undertaken a study of several aspects of working of co-operative banks including personnel management.

233. The Commission has visited the States of Tamil Nadu, Kerala, Andhra Pradesh, Orissa, Assam, Meghalaya, Mysore, Punjab, Haryana, Madhya Pradesh and the Union Territory of Himachal Pradesh so far and held discussions with the State Governments, commercial and co-operative banks, chambers of commerce, representatives of industry, large and small, and other interests concerned with banking. The Commission also met the official representatives of the Government of Nagaland during its visit to Assam.

National Credit Council

234. A mention was made in the last year's Report about the appointment by the National Credit Council of 5 Study Groups and the recommendations of the Study Groups on Deposit Mobilisation and Credit Facilities for Road Transport Operators. The Study Group (with Prof. D. R. Gadgil as its Chairman) on Organizational Framework for Implementation of Social Objectives referred to the geographical and functional credit gaps in the economy and submitted its Report in October 1969. (The Group made a rough assessment of the credit requirements of the major economic sectors and the extent to which the institutional credit facilities were not available to meet them and focussed

attention, with the help of several case studies, on the virtual non-availability of institutional credit to certain types of borrowers, particularly small borrowers and weaker sections of the community. Attention was drawn to the uneven geographical distribution of credit as between different States and between different regions in a State and the necessity to make detailed plans for the development of credit and banking in the country on the basis of local conditions was emphasised. For this purpose the Group recommended the adoption of an area approach. The district, according to the Group, should be the lowest unit under an area approach because it is the unit in relation to which the co-operative credit structure is at present organised.

235. Each district plan to be formulated will have three aspects : (i) that of establishment of branches or new units at particular places, (ii) that of formulating relationships within a structure or as between structures, and (iii) the formulation of proper policies and procedures.

236. In regard to aspect (i), the Group recommended that new branches would have to be opened by the named nationalised or non-nationalised banks as well as by co-operative banks. In addition, new banking units both in rural and urban areas may have to be started where conditions so warrant. Apart from primary co-operative societies the plan should include a programme for formation of marketing and processing societies and these should be allowed as a transitional measure to extend credit for production where the primary societies are not strong.

237. In regard to aspect (ii) of the plan, the general principle according to the Group, should be that the relations within co-operative structure would be maintained on the normal lines wherever the appropriate units in the structure are sufficiently strong. Where this is not the case, the functions expected to be performed by non-existent or weak co-operative institutions will have to be undertaken by corresponding commercial banking units. In addition, where it is deemed necessary, district co-operative banks should be allowed to deal with individuals as an interim measure till such time as commercial banks or strong

primary societies are established. The credit plan for a district will have to pay attention to integration of credit and banking business with the other activities.

238. In regard to aspect (iii), the Group emphasised the necessity of a shift on the part of all credit institutions in the emphasis from tangible security to operational viability. The Group also stressed the special responsibility of nationalised banks in formulating and implementing the district plans.

239. The two pre-conditions required for making finance available on a larger scale and to weaker sections are : (i) integrating the lending business with sale, production and marketing activities, and (ii) making it possible for everybody to build up some kind of minimum financial asset in the shape of provident funds, insurance, bonus expectations or savings deposit schemes on which the initial advance could be made.

240. The Group was of the view that in order to implement its recommendations, an apparatus should be immediately evolved. For this purpose, district or zonal committees should be formed preferably at the initiative of the State Governments. Simultaneously, an all-India machinery should be constituted which may be called the Standing Advisory Committee on Credit Assistance. It should consist of senior representatives of the Ministry of Finance, the Reserve Bank, Planning Commission, nationalised commercial banks and co-operative banks as well as borrowers including small borrowers. The Reserve Bank will be the executive arm of this committee and for this purpose the Group has recommended the establishment of a specialised Department of Credit Planning in the Reserve Bank of India.

241. As mentioned earlier, the Reserve Bank kept in view the recommendations of the Group in formulating the Lead Bank Scheme introduced in December 1969. As regards Study Group's recommendation that commercial banks should finance primary agricultural credit societies in areas where central co-operative banks are financially weak, the Reserve Bank has introduced a scheme initially in 52 districts of the 5 States,

viz., Andhra Pradesh, Mysore, Uttar Pradesh, Haryana and Madhya Pradesh. The Reserve Bank has also set up a Credit Planning and Banking Development Cell to formulate guidelines for meeting credit gaps.

242. The Study Group appointed under the Chairmanship of the late Shri V. T. Dehejia to study the extent to which the credit needs of industry and trade are likely to be inflated and how such trends could be checked, submitted its report in September 1969.

243. A major finding of the Group was that there was a tendency on the part of a number of industrial units to utilise short-term bank credit and other current liabilities for acquisition of non-current assets. This was, in the opinion of the Group, due to the general sluggish conditions in the capital market since 1962 and the limited nature of the appraisal of applications for short-term loans as compared to medium-term loans and stipulation of repayment scheduled for medium-term loans. According to the Group, the prevalent lending system of banks appeared to have greatly assisted certain units in industry on increased reliance on short-term debt to finance their non-current investment. The working capital advances of banks are granted by way of cash credit limits which are only technically repayable on demand. The system was found convenient in view of the emphasis placed by banks on the security aspect. These short-term advances though secured by current assets were not necessarily utilised for short-term purposes. The result was that cash credit advances no longer remained short-term or self-liquidating. Thus a substantial part of the working capital advances is permanently needed by the units to carry on their operations. Therefore, in the financial planning of the borrowing unit it is necessary to see what would be its permanent lock-up of funds in working capital as distinct from its purely temporary requirements and to arrange for term finance subject to observance of a proper debt-equity ratio. The Group was of the view that unless measures are taken now to check this tendency for diversion of bank credit for acquiring long-term assets it would assume wider dimension in the

next few years and recommended the following measures for checking this tendency :—

(a) Appraisal of credit applications should be made with reference to the total financial situation, existing and projected, as shown by cash flow analysis and forecasts submitted by borrowers.

(b) Outstandings in cash credit accounts should be distinguished as between (i) "the hard core" which would represent the minimum level of raw materials, finished goods and stores which the industry is required to hold for maintaining a given level of production and (ii) the strictly short-term component which would be the fluctuating part of the account. The latter part of the account would represent the requirements of funds for temporary purposes, e.g. short-term increases in inventories, tax, dividend and bonus payments etc., the borrowings being adjusted in a short period out of sales. Where the company's debt-paying capacity is good and its other ratios not unhealthy, the hard core element in the cash credit borrowings could be segregated and put on a formal term loan basis and subject to repayment schedule. Where the financial position is not too good or the size of the hard core is large, the possible solutions to be attempted would be : additional issue of equity or preference capital, a debenture issue with a long maturity, the bringing of long-term deposits and unsecured loans by the promoters and their friends. Where the hard core is to be placed on a formal term loan basis, the proposal should be subject to a detailed appraisal. The documents should contain covenants in regard to the end-use of the loan, maintenance of minimum financial ratios, repayment obligations, restrictions on investments in shares and debentures, etc. As the determination of the hard core element of the cash credit account may present some practical difficulties to banks, it would be worthwhile to attempt a study of industry-wise norms for minimum inventory levels. The intention in suggesting this type of lending on a term basis for working capital is not to deny credit assistance to expanding industrial units or to bring down immediately the present level of bank credit to industry. The borrower would only be subject to a greater financial discipline and a repayment of such

loans over a period of time ; this will provide a more effective use of bank's funds. The proposed changes in the cash credit/overdraft accounts of banks would have little impact on a majority of units in the corporate sector. Only units which witnessed a deterioration in the current ratio resulting now in a negative ratio or a current ratio of 1.5 and below are likely to be affected. As a complementary measure to check the extension of extra bank credit, it would be desirable to levy a commitment charge on the unutilised limits in cash credit accounts coupled, if necessary, with minimum interest clause. Also, banks should promote the practice of culminating credit sales by issue of usance bills. This would not only impose financial discipline on the purchaser but also help the supplier or producer to plan his financial commitments in a realistic manner. With a view to encouraging the development of bill market, the Central Government should consider reduction in the stamp duty on usance bills.

244. The Co-ordination Committee of Public Sector banks considered the question of a commitment charge on credit limits at its meetings held on January 13, 1970 and March 20, 1970 and there was a general agreement on the need to levy a commitment charge on credit limits. On March 28, 1970, the Reserve Bank issued a directive to scheduled commercial banks requiring them to levy a commitment charge on the unutilised portions of credit limits of Rs. 10 lakhs and above, at the rate of 1 per cent per annum with effect from April 1, 1970 (referred to in Chapter I). The Reserve Bank's credit authorisation procedures have been streamlined to achieve proper end-use of credit, details of which are given earlier. A Group consisting of officers of commercial banks and the Reserve Bank was constituted in February 1970 to consider the questions relating to enlarging the use of bills of exchange as an instrument for providing credit to trade and industry. The Study Group has submitted its report which is under the consideration of the Reserve Bank. It is also proposed to appoint a Study Group for each major industry which would work out inventory norms in consultation with the asso-

ciations representing the industry. These Study Groups are being set up.

245. The Study Group (with Shri P. N. Damry as the Chairman) on area/project approach in implementing schemes for extending commercial banks' credit to agriculture, recommended an area/district-wise approach in financing agriculture and that commercial banks should plan in a co-ordinated manner along with other lending institutions in this field to identify the credit gaps. The Group, after examining the State enactments relating to land tenure and tenancy reforms, ceilings on land holdings, agricultural debt relief, regulation of money lending, etc., stated that some of the provisions in these enactments were outmoded in the light

of current requirements of the agricultural economy and recommended that an expert group might be constituted to examine these enactments and make suggestions with a view to enlarging the commercial banks' participation in agriculture. The Seminar on Financing of Agriculture by Commercial Banks held by the Reserve Bank in December 1968, to which a reference was made in last year's Report, had also made a similar recommendation. In pursuance of this recommendation, the Governor of the Reserve Bank set up an expert group with Shri R. K. Talwar as Chairman, and representatives of commercial banks, co-operative banks, Reserve Bank of India and State Governments as its members to examine the State Government enactments.

IV. DEVELOPMENTS IN CO-OPERATIVE BANKING

246. In pursuance of its policy to bring about a financially and economically viable co-operative banking structure, the Bank continued to (i) pay special attention towards rehabilitating and revitalising the weaker units in the co-operative credit structure, (ii) make transitional arrangements for maintaining the flow of production and investment credit for agriculture in the areas of weak central co-operative banks by involving the commercial banks to finance the primary agricultural credit societies in such areas, (iii) endeavour in bringing about a greater degree of discipline and improvement in the lending policies and operational efficiency of co-operative credit institutions including land and development banks, (iv) widen scope and range of the Bank's financial accommodation to the co-operative credit institutions and (v) introduce a number of special training courses at the Bank's Co-operative Bankers' Training College for the personnel of State/Central/urban banks.

247. Based on the interim recommendations of the All-India Rural Credit Review Committee mentioned in the last year's Report, the proposals concerning the Small Farmers' Development Agency, the Rural Electrification Corporation and the Agricultural Refinance Corporation have been included in the Fourth Five-Year Plan. The Rural

Electrification Corporation which, among others, will finance rural electric co-operatives was set up in July 1969 and the schemes for establishing eight small farmers' development agencies in four States have also been approved.

248. The Review Committee submitted its final Report in July 1969. Emphasising the need for the Bank continuing its role in the sphere of rural credit, the committee recommended that the formulation, review and modification of the Bank's policies in this sphere should be placed in the hands of a high-powered body with appropriate status. Pending amendment to the Reserve Bank of India Act in this regard, the Standing Advisory Committee on Rural and Co-operative Credit was required to be suitably reconstituted as the proposed Agricultural Credit Board. Accordingly, the Committee has been reconstituted in February 1970 as the Agricultural Credit Board of the Bank with the Governor as Chairman, the Deputy Governor in charge of rural credit as its Vice-Chairman, the Chief Officer of the Agricultural Credit Department as the Member-Secretary and eleven members. The other recommendations of the Committee which, among others, related to the adoption of various progressive measures both by the Reserve Bank and other agencies of development for ensuring the timely and adequate

flow of production and investment credit for agriculture, are proposed to be placed before the Credit Board for its consideration.

249. In pursuance of the recommendations of the Working Group on Industrial Financing through Co-operative Banks, a reference to which was made in the last year's Report, the State and central co-operative banks have been advised (i) that they could invest 15 per cent of their disposable long-term resources or 5 per cent of their total deposit resources, whichever is more, in providing block capital loans to co-operative processing societies, and (ii) that they liberalise the standards as related to the societies' owned funds adopted in providing clean advances to marketing-cum-processing societies and to processing societies. Measures to bring about the reorganisation of the existing industrial co-operative societies with a view to making them viable units as recommended by the Working Group, have also been initiated by taking up appropriate field studies for the purpose. Following the discussions with the Khadi and Village Industries Commission, it was agreed to implement the scheme of providing working capital to the Khadi and Village Industries Co-operatives through central co-operative banks on a pilot basis, in Maharashtra.

Transitional Arrangements for Agricultural Credit

250. The weaknesses of the co-operative credit structure, more particularly in certain parts of the country, resulted in a large number of agriculturists experiencing shortage of credit especially in the context of the technological developments taking place in agricultural production. This highlighted the need for meeting their credit needs even for a temporary period, through other institutional sources, till such time as the co-operative credit structure itself could be effectively strengthened to fill in the credit gaps. Action was therefore taken to seek the aid of the commercial banks in sponsoring a scheme for financing the primary agricultural credit societies.

Financing of Primary Agricultural Credit Societies by Commercial Banks

251. In areas where the central co-operative banks were financially weak and unable

to meet the huge demand for production and investment credit, a scheme of financing the primary agricultural credit societies by commercial banks was proposed by the Reserve Bank for implementation in certain districts in five States *viz.*, Andhra Pradesh, Haryana, Madhya Pradesh, Mysore and Uttar Pradesh. This proposal was endorsed by the Study Group of the National Credit Council and the Working Group of the nationalised banks as well and also agreed to by the State Governments and the co-operative banks concerned for implementation. Under the scheme, branches of commercial banks in the selected districts will finance primary agricultural credit societies in compact areas within a radius of about 10 to 15 miles of the branch offices. While the immediate objective of the scheme is to fill in, to the extent possible, the large credit gaps in this sphere, the long-term objective is to ensure that in the process of active involvement of the commercial banks, the co-operative system is under no circumstances weakened and, therefore, the State Governments have been asked to draw up a positive programme for rehabilitation of central co-operative banks and revitalisation of primary agricultural credit societies. This programme is to be implemented simultaneously as an integral part of the scheme. Upto June 1970, 20 commercial banks including the State Bank of India group and 12 other public sector banks have selected 2,121 primary agricultural credit societies in 50 districts of the five States through their 326 branches. In some cases the banks have commenced financing of *kharif* 1970 operations under the scheme. The scheduled commercial banks financing the societies under the scheme are eligible for refinance facility from the Bank at a concessional rate of interest of 4½ per cent.

Co-operative Development

252. As the measures mentioned above were only transitional expedients in the larger interest of agricultural production, the long-term objective was to draw up and implement simultaneously a positive programme of rehabilitation of the central co-operative banks and speeding up of the schemes of reorganisation and revitalisation of the primary credit societies. The State Governments have been

advised to draw up special schemes in respect of each of the central banks so as to provide, among others, specifically for (i) a concerted drive under the guidance of the State Government for the recovery of overdues, (ii) strengthening the administrative and supervisory arrangements for timely recovery of loans, (iii) rationalisation of loaning policies and procedures, (iv) strengthening of the resources of the banks, wherever appropriate, by loan-cum-deposits and additional share capital contribution from State Government, and (v) action to stimulate mobilisation of deposits through a programme of branch expansion. The Bank has agreed to consider sympathetically the loan applications of State Governments for share capital contribution to central co-operative banks and primary agricultural credit societies in the areas of retarded growth in the co-operative sphere. As mentioned elsewhere in the Report, the Bank has also been trying to secure the benefit of insurance to the deposits of co-operative banks, which is expected to serve as an important incentive to deposit mobilisation. The services of the Regional Offices of the Bank's Agricultural Credit Department were also made available in assisting the co-operative banks in their efforts in rehabilitation and reorganisation.

253. Between January and June 1970, the Deputy Governor in charge of rural credit held annual discussions on all aspects of problems relating to the co-operative movement and development with the representatives of Andhra Pradesh, Assam, Bihar, Goa, Gujarat, Haryana, Jammu and Kashmir, Kerala, Madhya Pradesh, Maharashtra, Manipur, Mysore, Punjab, Rajasthan, Tamil Nadu, Tripura and Uttar Pradesh States. In the context of the schemes of financing the primary agricultural credit societies by commercial banks and to ensure better and closer co-ordination of the activities of co-operative and commercial banks in the sphere of agricultural credit, the representatives of commercial banks were also invited to attend the Deputy Governor's discussions this year in respect of some of the States. The persisting weakness and the remedial measures suggested during such discussions related to mobilisation of deposits by co-operative banks, mounting overdues, adoption of the crop loan

system with such modifications as were considered necessary in the context of local conditions, reorganisation of the structure at the primary level on the accepted pattern, co-ordination between the working of co-operative banks and commercial banks since the latter had come forward in a fairly large way in financing the agricultural sector, etc.

Co-operative Credit : Policy, Procedures and Operations

254. The basic policy followed by the Bank in regard to the provision of short-term financial accommodation to the State co-operative banks for financing seasonal agricultural operations and marketing of crops continued to be the same during the year as in the last year. The total credit limits sanctioned by the Bank to the State co-operative banks for financing seasonal agricultural operations and marketing of crops at the concessional rate of interest of 2 per cent below the Bank rate increased from Rs. 337.52 crores in 1968-69 to Rs. 370.16 crores during 1969-70. Drawals aggregated Rs. 425.09 crores as against Rs. 411.15 crores in 1968-69 while repayments were Rs. 394.06 crores as against Rs. 365.23 crores in 1968-69. The outstandings as on June 30, 1970 stood at Rs. 214.11 crores as compared with Rs. 183.09 crores as on June 30, 1969. The special short-term credit limits sanctioned to two State co-operative banks for financing the marketing of cotton and *kapas* during 1969-70 were Rs. 7.75 crores as against Rs. 8.35 crores during 1968-69. The drawals were Rs. 9.33 crores, repayments Rs. 8.24 crores, and the outstandings as on June 30, 1970 Rs. 1.99 crores. The corresponding figures for 1968-69 were Rs. 7.20 crores, Rs. 7.50 crores and Rs. 0.90 crore, respectively. In addition to the accommodation for financing seasonal agricultural operations and marketing of crops, the Bank provided short-term finance amounting to Rs. 23.46 crores as against Rs. 23.05 crores in 1968-69 at the Bank rate to two State co-operative banks for general banking purposes and the outstandings under this head as on June 30, 1970 stood at Rs. 0.23 crore. The Bank continued to sanction credit limits for financing the stocking and distribution of chemical fertilisers at the Bank rate against Govern-

ment guarantee under Section 17(4)(c) of the Reserve Bank of India Act. During the calendar year 1969, the limits sanctioned, drawals and outstandings at the end of the year were Rs. 31.00 crores, Rs. 40.57 crores and Rs. 14.06 crores, respectively. The corresponding figures for 1970 upto the end of June 1970 were Rs. 11.00 crores, Rs. 2.35 crores and Rs. 2.35 crores. With the emergence of commercial banks as a significant source of credit for the distribution of agricultural inputs, the Bank had advised the co-operative banks and marketing federations in December 1969 to approach commercial banks for financing the business in chemical fertilisers and the Bank had continued its advances for the purpose only where any specific difficulty was experienced in obtaining the required finance from commercial banks. During the year under report, the Bank sanctioned for the first time a short-term credit limit of Rs. 2 crores to the Agricultural Refinance Corporation against trustee securities at Bank rate under Section 17(4E) of the Reserve Bank of India Act. The limit was availed to the extent of Rs. 1.65 crores by the Corporation and the entire amount was repaid in April 1970 leaving no amount outstanding as on June 30, 1970.

255. In the sphere of medium-term agricultural credit the general policy adopted by the Bank was to encourage loans for such identifiable purposes as wells, pump-sets, etc., and to discourage an undue expansion of credit for purposes such as bunding, reclamation, purchase of bullocks, etc., particularly where the arrangements for verification of utilisation were not satisfactory. In determining the reasonableness of the norms for medium-term finance for various agricultural purposes, the Bank had drawn on the useful studies conducted by the Agricultural Refinance Corporation wherever available, regarding the economic and technical feasibility of the schemes involving the medium-term investment. Following the recommendations of the Standing Advisory Committee on Rural and Co-operative Credit, certain relaxations in regard to the security for medium-term loans for agricultural purposes issued out of funds availed of from the Bank, were made in August 1969. Accordingly medium-term loans between Rs. 1,501 and

Rs. 3,500 for the purchase of electric pump-sets, oil engines and for digging of wells could be issued without insisting on mortgage of land but subject to certain other conditions such as hypothecation, margin money, etc. During the year the Bank had extended the facility of granting medium-term advances to State co-operative banks under Section 17(4AA) read with Section 46A(2)(b) of the Act for financing agriculturists for the purchase of shares in co-operative marketing societies/federations for setting up or acquiring shares in the processing units such as cotton ginning and pressing, groundnut oil mills and rice mills. In view of the increase in the capital outlay in the sugar factories and the consequent need for larger contribution from members, the Bank had decided to enhance in October 1969 the individual ceiling of loans for purchase of shares in co-operative sugar factories from Rs. 1,125 to Rs. 2,250 under certain conditions. The medium-term loans sanctioned by the Reserve Bank during the year at a concessional rate of $1\frac{1}{2}$ per cent below the Bank rate amounted to Rs. 18.30 crores against Rs. 19.00 crores sanctioned last year. Drawals were Rs. 11.48 crores against Rs. 9.02 crores during the previous year. No medium-term loans were sanctioned at the Bank rate. The outstandings as on June 30, 1970 were Rs. 20.45 crores inclusive of those under medium-term limits sanctioned at Bank rate (Rs. 0.08 crore) as against Rs. 17.60 crores as on June 30, 1969.

256. With the inclusion of 22 broad groups of industries in the list of 'approved' cottage and small-scale industries for accommodation under Section 17(2)(bb) of the Reserve Bank of India Act at the Bank rate for financing their production and marketing activities, the maximum amount of credit limit that can be sanctioned to a district industrial co-operative bank or primary (urban) co-operative bank for the purpose had been increased to four times its owned funds. The terms and conditions relating to the financial accommodation under Section 17(2)(bb) or (4)(c) of the Reserve Bank of India Act to primary (urban) co-operative banks for financing the production and marketing activities of the approved cottage and small-scale industries owned by the individual

firms and joint stock companies, etc., were finalised and circulated during the year under report.

257. During the financial year ended March 31, 1970, eleven State co-operative banks were sanctioned credit limits aggregating Rs. 8.18 crores as against Rs. 7.37 crores to 9 State co-operative banks last year under Section 17(2) (bb) or (4)(c) of the Reserve Bank of India Act, at $1\frac{1}{2}$ per cent below the Bank rate for financing the production and marketing activities of handloom weavers' co-operative societies (cotton, silk and woollen) and powerloom societies. The drawals amounted to Rs. 9.49 crores as against Rs. 8.12 crores during the previous year and the outstandings at the end of the financial year 1969-70 stood at Rs. 6.42 crores as against Rs. 5.63 crores at the end of the previous financial year. Four State co-operative banks were sanctioned credit limits aggregating Rs. 0.69 crore under Section 17(2) (a) or (4) (c) of the Reserve Bank of India Act for financing commercial and trade transactions of apex handloom weavers' societies as against Rs. 1.02 crores sanctioned last year. Drawals aggregated Rs. 0.11 crore and the outstanding balance at the end of the financial year was Rs. 0.06 crore. The Bank had so far no occasion to sanction credit limits to State co-operative banks for financing industrial units coming under the 22 approved groups.

258. Following the introduction of the revised credit guarantee scheme from February 1, 1970, the Bank advised the State and Central co-operative banks to take advantage of the guarantee facilities available under the revised scheme.

259. Due to the occurrence of natural calamities in certain parts of the country, the Bank sanctioned medium-term credit limits to the extent of Rs. 11.40 crores at $1\frac{1}{2}$ per cent below the Bank rate to 5 State co-operative banks, out of the National Agricultural Credit (Stabilisation) Fund for conversion of short-term loans into medium-term loans under Section 17(4AA) read with Section 46B(2) of the Act. The drawals made by 4 banks aggregated Rs. 3.01 crores and the outstandings as on June 30, 1970

were Rs. 4.35 crores as against Rs. 5.18 crores as on June 30, 1969. Besides, 2 State co-operative banks were sanctioned credit limits aggregating Rs. 1.88 crores at the Bank rate under Section 17(4) (a) against Government and trustee securities representing the investments of their Agricultural Credit Stabilisation Funds to enable them in turn to convert short-term loans due from central co-operative banks into medium-term loans. The pattern of assistance by way of 75 per cent grant and 25 per cent loan to State Governments to build up stabilisation funds of the State co-operative banks as indicated in the last year's Report continued for the year under review. During the financial year 1969-70, the Government of India made a provision of Rs. 2.01 crores as against Rs. 5.00 crores in 1968-69 by way of central assistance to State Governments. The stabilisation funds of State and central co-operative banks were permitted to be utilised for granting conversion facilities to the instalments of medium-term loans as well in times of natural calamities under certain conditions but without recourse to the National Fund of the Bank. All the State Governments have set up the Agricultural Credit (Relief and Guarantee) Funds. An aggregate provision of Rs. 1.98 crores was made in the State Plans for the Fourth Plan—1969-74. The contributions to the funds during 1969-70 were Rs. 0.10 crore and the total amount to the credit of the funds stood at Rs. 1.66 crores as on March 31, 1970.

260. Some State Governments had proposed charging guarantee commission/fees for the guarantees extended by them on behalf of co-operative institutions. The fees proposed were as high as $\frac{1}{2}$ per cent of the guaranteed amounts in respect of certain advances. Levy of guarantee fees in respect of the guarantees extended by the State Governments for and on behalf of co-operative credit institutions, viz., the State co-operative banks and the State land development banks, would make borrowings of the latter costlier and consequently result in an increase in the rate of interest charged to the ultimate borrowers. The Bank had, therefore, advised the State Governments not to charge any guarantee fee in respect of guarantees extended on behalf of co-operative institutions. Following this advice, 10 State Governments have in-

icated that they have no intention of charging any guarantee fee.

261. In the context of the increase in the guarantee business of the State co-operative banks, the Bank issued certain guidelines for such business in December 1969. A ceiling was suggested for the aggregate amount of guarantees to be executed by a State co-operative bank and that such aggregate should not exceed one time its owned funds, while the total of unsecured guarantees should not exceed 25 per cent of its owned funds.

262. The scope of loans from the National Agricultural Credit (Long-Term Operations) Fund of the Reserve Bank of India to the State Governments was extended during financial year 1969-70 to cover State participation in the share capital of primary land development banks and, on a very selective basis, in primary (urban) co-operative banks. Only such of those primary (urban) co-operative banks as had already undertaken the financing of small-scale industries or had a definite programme in that behalf were eligible for share capital contribution. The decision in respect of the primary land development banks was taken on the recommendation of the Standing Advisory Committee on Rural and Co-operative Credit and in respect of the urban banks as recommended by the Working Group on Industrial Financing through Co-operative Banks. Loans amounting to Rs. 7.29 crores (excluding renewal of Rs. 0.20 crore) were sanctioned to 14 State Governments during the financial year 1969-70 out of the National Agricultural Credit (Long-term Operations) Fund under Section 17(4) (AA) read with Section 46A(2)(a) of the Reserve Bank of India Act for contribution to the share capital of 2 State co-operative banks, 70 central co-operative banks, 2,624 primary agricultural credit societies, 6 central land development banks, 254 primary land development banks and 4 primary (urban) co-operative banks. The aggregate of drawals of the State Governments during the financial year 1969-70 amounted to Rs. 6.80 crores as against Rs. 3.92 crores during 1968-69. The total amount outstanding against the State Governments on this account was Rs. 33.83 crores as on March 31, 1970 as against Rs. 31.19 crores as on March 31, 1969.

263. As in previous years, a meeting of the representatives of Central Land Development banks, Government of India, etc. was convened by the Bank in January 1970 to discuss and decide the debenture programme of land development banks for the year 1970-71. A programme of Rs. 141.20 crores was approved for 1970-71 as compared to Rs. 113.00 crores for 1969-70. The support from public sector institutions as well as of the Government of India had been placed at Rs. 44 crores. The commercial banks were expected to provide Rs. 30 crores to the debenture programme. In view of the arrangements made for ensuring adequate support to the debenture programmes of land development banks, the Bank continued to lay emphasis on the purposes for which loans would be disbursed by the land development banks and on their financial and operational soundness. The conditions that 90 per cent of the loans advanced should be for productive purposes of which 70 per cent for easily identifiable productive purposes, and that eligibility for support would depend on the recovery performance as laid down in the previous year, were continued during 1969-70 also. Land development banks with overdues of 15 per cent of the demand or less at primary level (or apex level where there are no primaries) were eligible for full support while those with higher overdues were eligible for lower support on a graded scale. The central land development banks floated during the financial year 1969-70, ordinary debentures of Rs. 113.75 crores to which the contributions from commercial banks were of the order of Rs. 31.84 crores as against Rs. 22.86 crores in 1968-69. The Bank's contributions for the ordinary debentures were Rs. 4.20 crores and those of Government of India, Life Insurance Corporation of India, State Bank of India and State Governments were Rs. 52.36 crores. During the financial year 1969-70, the central land development banks also floated rural debentures aggregating Rs. 5.10 crores, the Bank's contribution during the period being Rs. 1.16 crores. The Bank's total holdings of ordinary and rural debentures were Rs. 30.80 crores and Rs. 9.57 crores as on June 30, 1970 as against Rs. 28.52 crores and Rs. 8.97 crores, respectively, as on June 30, 1969.

264. The Bank had considerably expanded the scope of its inspections of the land development banks with a view to keeping a close watch on their working and operations which have increased considerably in recent years. Detailed guidelines issued in this regard aim at orientation of their lending policies, better management of the resources, appointment of adequate staff for supervision, creation of technical cells, etc.

Co-operative Banking Regulation

265. As on June 30, 1970 there were 1,317 co-operative banks—28 State, 366 central and 923 primary—coming under the purview of the Banking Regulation Act as against 1,348 co-operative banks at the beginning of the year. The decline in the number of co-operative banks was mainly due to the deletion of certain non-agricultural credit societies from the list of primary co-operative banks. During the year 1969-70, 10 co-operative banks—2 central and 8 primary co-operative banks—were issued licences to commence banking business in India under Section 22 of the Banking Regulation Act, 1949 (as applicable to co-operative societies) raising the total number of licensed co-operative banks to 24. The number of offices of the co-operative banks which stood at 4,137 as on June 30, 1969 increased to 4,399 as on March 31, 1970. During the period July 1, 1969 to June 1, 1970 State and primary co-operative banks were granted 51 licences for opening new offices as against 35 licences granted during 1968-69. Another licence issued to the Madhya Pradesh State Co-operative Bank during the year was for shifting its Head Office from Jabalpur to Bhopal. Five co-operative banks were granted exemption by the Government of India under Section 53 of the Banking Regulation Act, 1949 from complying with the provisions of Section 11(1) of the Banking Regulation Act for a period of one year upto February 28, 1970 and 6 co-operative banks were given similar exemption for a period of 2 years with effect from March 1, 1969. Of the 28 co-operative banks whose period of exemption expired on February 28, 1970, 3 were granted exemption for a further period of one year with effect from March 1, 1970. 7 co-operative banks have since complied with the provisions of Section 11(1) of the Banking Regulation

Act, one has been amalgamated and another is under liquidation. The applications from six co-operative banks had been recommended for exemption to the Government of India and the remaining are under consideration of the Bank.

266. A reference was made in the last year's Report to a directive to the State and central co-operative banks imposing a limited control on the advances against the security of cotton and *kapas*. During the year under report the directive has been modified according to which the aggregate level of credit is computed in terms of certain percentage of liabilities in India on the last Friday of October 1969 instead of last Friday of October 1968 as was done previously.

267. Mention was made in the last year's Report about the enactment of the Deposit Insurance Corporation (Amendment) Act, 1968. The Co-operative Societies Acts in the States of Andhra Pradesh, Maharashtra, Madhya Pradesh and Goa, Daman and Diu have been amended with a view to vesting in the Reserve Bank, powers relating to the supersession, reconstruction, amalgamation and liquidation, etc., of the co-operative banks. The Bank is pursuing with other State Governments the question of amending the Co-operative Societies Acts so as to extend the benefit of the deposit insurance to the co-operative banks in these States.

268. Thirteen State co-operative banks, 246 central co-operative banks, 2 State industrial co-operative banks, 9 district industrial co-operative banks and 568 primary co-operative banks were inspected under Section 35 of the Banking Regulation Act, 1949 during the period under review. Out of 568 primary co-operative banks, 101 were inspected by the officers of the State co-operative banks on behalf of the Reserve Bank under Section 35(1) of the Banking Regulation Act, 1949. Besides, 18 central land development banks, 4 apex handloom weavers' co-operative societies and 1 apex marketing co-operative society were inspected on a voluntary basis. Copies of inspection reports of 17 State co-operative banks, 391 central co-operative banks, 3 State industrial co-operative banks and 19 district

industrial co-operative banks were furnished to the banks concerned. Inspection reports relating to 18 central land development banks, 3 State handloom weavers' societies and 3 apex marketing societies were also furnished to the concerned institutions during the year under Report.

Agricultural Refinance Corporation

269. During the year 1969-70, the Corporation sanctioned refinance in respect of 142 schemes of agricultural development such as minor irrigation (62), land development (11), farm mechanisation (7), development of plantation and horticulture (54), development of poultry (1), dairy (1) and fishery (3), and construction of godowns (3). The total financial outlay involved in these schemes was of the order of Rs. 92.78 crores, the Corporation's commitments being Rs. 70.92 crores. This excludes five schemes sanctioned during the year but subsequently withdrawn by the financing institutions.

270. Out of 142 schemes sanctioned during the year under review, 85 schemes are to be implemented through the central land development banks, the refinance provided in their cases being in the form of contribution towards the special development debentures to be floated by the concerned banks. Seven schemes are to be implemented through State co-operative banks and the remaining 50 by scheduled commercial banks, the refinance in their cases being in the form of loans.

271. During the year the Corporation approved reduction in the financial outlays in respect of some schemes sanctioned earlier as also the re-phasing of some schemes so as to extend the period of floatation of the special development debentures. Taking into consideration the changes in the outlay of some schemes sanctioned earlier as a result of re-phasing etc., the total number of schemes sanctioned by the Corporation during its seven years of working ended June 30, 1970 is 371, the total outlay and Corporation's commitment being Rs. 259.51 crores and Rs. 214.89 crores, respectively.

272. The disbursements made by the Corporation during the year amounted to

Rs. 28.60 crores, raising the total disbursements as at the end of June 1970 to Rs. 59.09 crores. Out of the amount of Rs. 28.60 crores disbursed during the year, a sum of Rs. 26.75 crores was disbursed to the central land development banks, Rs. 1.29 crores to State co-operative banks and Rs. 0.56 crore to scheduled commercial banks. During the year 3 scheduled commercial banks and 1 State co-operative bank made repayments towards principal amounting to Rs. 1.88 lakhs and Rs. 9.11 lakhs, respectively. The first series of bonds under the caption 5½ per cent Agricultural Refinance Corporation Bonds, 1982 was issued by the Corporation for the first time on January 5, 1970 for Rs. 10 crores with the provision to retain the subscriptions received upto 10 per cent in excess of the sum of Rs. 10 crores. Out of the subscription of Rs. 11 crores received towards these Bonds, a sum of Rs. 6,23,000 received on account of subscription from the various Provident Fund Trusts was refunded to them since the bonds in respect of these applications could not be issued in the personal name of their Trustees or their bankers as asked for. The final allotment made was Rs. 10,93,77,000.

273. During the period from July 1, 1969 to June 30, 1970 the Corporation borrowed a sum of Rs. 19.00 crores from the Government of India thus raising the total borrowings to Rs. 44.75 crores.

274. A noteworthy feature of the working of the Corporation during the year was its active association with the International Bank for Reconstruction and Development (IBRD) and its affiliate the International Development Association (IDA), in financing capital investment for modernizing and increasing the productive capacity of agriculture. Three Projects, viz., the Tarai Seeds Project (IBRD) and the Gujarat Agricultural Credit Project (IDA) and the Punjab Agricultural Credit Project (IDA) have been approved. Under the agreements between IBRD/IDA, the Government of India, the Corporation and the financing institutions concerned, the IBRD will provide loans to the Government of India for the Tarai Project to the extent of \$13.00 million (Rs. 9.75 crores), of which Rs. 6.75 crores will be made available through the Corporation.

IDA will provide loans to the Government of India to the extent of \$ 35 million (Rs. 26.25 crores) for the Gujarat Project and \$ 27.5 million (Rs. 20.63 crores) for the Punjab Project, the amounts to be made available through the Corporation being Rs. 26.03 crores and Rs. 20.63 crores, respectively. The Corporation will receive these amounts as loans from the Government of India, on usual terms and conditions.

275. During the year the following important changes in regard to the policy and procedure for the sanction of refinance were made :

(a) The special concession of 10 per cent contribution by State Governments to the special development debentures floated by central land development banks in respect of minor irrigation schemes was further extended upto June 30, 1971.

(b) Consequent to the nationalisation of 14 scheduled commercial banks it was decided that these banks need not register charges such as sub-mortgage, sub-hypothecation, etc. created in favour of the Agricultural Refinance Corporation as they were earlier required to do in compliance with Sections 125 and 135 of the Companies Act, 1956.

(c) With a view to helping commercial banks in obtaining refinance as quickly as possible the Corporation decentralised the work of scrutiny of schemes received from commercial banks. Effective from November 1969, scrutiny of schemes which involve refinance facilities from the Corporation for an amount not exceeding Rs. 5 lakhs is being done by the Corporation's Regional Offices. The form in which a scheme of development of plantation *i.e.*, tea, coffee, rubber and cardamom involving a sum of Rs. 5 lakhs or

less is to be submitted has also been simplified to suit the needs of small planters.

(d) The Corporation had been providing since July 1968, refinance for sporadic advances given by scheduled commercial banks through their various offices for purchase of farm equipment including pump-sets, tractors, etc. subject to certain conditions without insistence on an area development approach. This facility was provided as a temporary measure at a time when commercial banks had practically no experience in preparing schemes on an area development basis, to stimulate interest among commercial banks in the refinance facilities offered by the Corporation. As commercial banks have now acquired sufficient experience in formulating schemes on a project basis, the Corporation decided in March 1970 to withdraw the facility of providing refinance for sporadic advances granted by scheduled commercial banks for purchase of farm equipments, etc. The Corporation would continue to refinance schemes formulated by commercial banks on an area development basis.

(e) In view of the difficulties experienced by the banks, the Corporation has decided not to insist on the borrowers taking a comprehensive insurance policy for the pump-sets financed under refinance facility from the Corporation which are also offered as security.

276. In addition to the seven regional offices at Bangalore, Calcutta, Chandigarh, Coimbatore (since shifted to Madras), Hyderabad, Kanpur and New Delhi, the Corporation during the period July 1, 1969 to June 30, 1970 opened regional offices at Ahmedabad, Bhopal, Bhubaneswar, Jaipur, Patna and Trivandrum and a separate unit at Bombay to look after schemes from Maharashtra.

V. DEVELOPMENTS IN EXCHANGE CONTROL

277. In the sphere of Exchange Control, the process of liberalisation of the Rules relating to travel, studies, etc. initiated last year was further carried forward during the year under review. Under the Foreign Travel Scheme, 1970, introduced with effect from

1st March 1970 residents of India can now undertake one trip abroad of their choice without complying with 'P' form formalities provided they have not visited any place outside India (other than Nepal, Ceylon and Mauritius) during the period of three

years immediately preceding the date of the journey to be undertaken. Passages under the Scheme can be booked for travel by any airline or shipping line but those who travel on the services of Air-India or by any of the ships of the Shipping Corporation of India and the Moghul Line (excepting those going on Haj pilgrimage) will be entitled to release of exchange of U.S. \$ 100. About 11,000 persons availed of this Scheme upto June 1970.

278. In the matter of travel abroad to attend conferences in future no restriction on numbers would be imposed in cases where there is hospitality from the institutional source in respect of the expenses of the stay abroad.

279. It has also been decided to permit authorised dealers to issue U.S. dollar travellers cheques to travellers who desire to have them irrespective of the currency in which the amount released is expressed or the countries to be visited as specified in the permit subject to certain exceptions.

280. The Rules relating to release of exchange for studies abroad have also been liberalised. The qualifying marks which were 60 per cent in a degree examination in India previously, have been lowered to 55 per cent. For all those fields of study where a degree course does not exist in India nor is an adequate diploma course available, foreign exchange will be released without insisting that the student concerned should be a graduate.

281. Where the annual value of the foreign scholarship secured by a student is £300/- or its equivalent or less, no adjustment in the exchange quota admissible to the student will be made as was the practice previously; where the scholarship exceeds £300/- or its equivalent the adjustment will be made only in respect of the excess over £300/-.

282. Powers have also been delegated to the State Bank of India to release exchange for studies at some of their own offices as well as at the offices of some of their subsidiaries.

283. The policy governing the issue of money changers' licences to hotels has also been liberalised this year. Restricted money changers' licence will be issued to any hotel

(or other lodging and boarding establishment such as Y.M.C.A. or Y.W.C.A.) applying for it without insisting on an undertaking or guarantee for a minimum turnover.

284. A new type of non-resident account styled the Non-resident (External) Account has been introduced this year. A noteworthy feature of the Non-resident (External) Account is that funds held in such an account can be remitted abroad by the authorised dealer on receipt of instructions from the account-holder without obtaining any further approval of the Reserve Bank of India. The interest earned on the funds in the account is exempt from Indian Income-tax.

285. The Sultanate of Muscat and Oman, the only Persian Gulf State in which Indian Rupee Special Notes were in circulation after 1966, has introduced its own currency known as the Rial Saidi with effect from the 8th May 1970. Arrangements have, therefore, been made to retire the Indian currency notes which were in circulation in the Sultanate. With the introduction of a new currency in Muscat and Oman, Indian Rupee is no longer in circulation anywhere outside India.

286. The following table gives data relating to release of foreign exchange and grant of 'P' form clearance for travel abroad for various purposes during the year ended June 1970.

I. Foreign Exchange Permits

Purpose of Travel	No. of Permits	Amount of Exchange Sanctioned (Rs. lakhs)
Business	9,840	634
Higher studies/training	6,578	906
Medical treatment	479	47
Study tours	667	32
Attending conferences	848	18
Miscellaneous	7,893	136
TOTAL	26,305	1,773

II. 'P' Forms

Purpose of Travel	No. of 'P' Forms Approved
Joining head of family	10,753
Visits to relatives/friends	14,003
Export promotion	369
Employment	4,675
Emigration	6,557
Studies/training	5,873
Miscellaneous	15,865
TOTAL	58,095

VI. SEMINARS AND SURVEYS ORGANISED BY THE RESERVE BANK

287. In February 1970, the Bank sponsored a four-day international seminar on Banking and Development. The participants in the Seminar included Governors, Deputy Governors and a number of senior officials of several Central Banks, bankers and economists from developed and developing countries. The object of the Seminar was to obtain an exchange of views and a comparison of mutual experience and problems that arose in the process of adaptation and orientation of the banking and financial system in developing countries to the new and varied needs of development. There was no attempt at the Seminar to draw agreed conclusions. After the inaugural session, the Seminar discussed the theme of Banking and Development in terms of (i) Commercial Banking and Development, (ii) Specialised Financing Agencies and (iii) Central Banking and Development.

288. The proceedings of and the papers presented at the Seminar have been published in a book form by the Bank.

289. In pursuance of the suggestions made by the Seminar on Financing of Agriculture by Commercial Banks and by a study group of the National Credit Council, the Governor of the Bank has set up in September 1969, an Expert Group on State Enactments having a bearing on commercial banks' lending to agriculture. The report is being finalised.

290. The Fourteenth Conference of the representatives of the SFCs was convened in Bombay in March 1970 by the Reserve Bank for exchange of views between the Bank and representatives of the SFCs and other lending institutions on the problems confronting them in their operations and other matters of vital interest. Some of the important subjects considered by the Conference included the question of co-ordination of the activities of banks and SFCs and mobilisation of resources and ways of increasing profitability of SFCs. In the light of discussions, the Bank set up two working groups, of which one would be concerned with suggesting measures for strengthening the financial position of the SFCs and the other with studying the problem of financing industrial estates (other than in the public sector).

Another important item discussed was the provision of credit on soft terms to units located in backward areas in order to promote development of these areas. The other items discussed included methods of increasing SFCs' assistance to small-scale industries through the fixation of certain targets to be achieved, setting up of separate cells for small units, undertaking surveys, simplification of procedures, etc.

291. Field studies were undertaken by the officers of the Agricultural Credit Department in the month of April 1970 in Aurangabad and Poona districts of the Maharashtra State to find out whether the assessment of the repaying capacity on the basis of incremental income as envisaged by the Standing Advisory Committee of the All-India Central Land Development Banks Co-operative Union would be of practical utility in regard to the issue of long-term loans by Land Development Banks. With a view to making a qualitative assessment of the Crop Loan System, special studies were also undertaken by the regional offices of the Department in the States of Maharashtra, Gujarat, Andhra Pradesh, Tamil Nadu, Punjab and Madhya Pradesh.

292. The Department of Statistics had carried out in August 1968 a survey of current industrial situation and likely developments in the near future. The report on the study was published in the April 1969 issue of the Bank's Bulletin. Similar study was carried out in 1969 and a report of this second study was published in March 1970 issue of the Bank's Bulletin.

293. At the instance of the Banking Commission, the Division of Rural Surveys of the Economic Department conducted a Field Study on Banking Facilities in one district each in twelve selected States and submitted a Report embodying the main findings to the Commission. The object of the study was to assess the extent of banking services provided by commercial and co-operative banks and primary agricultural credit societies in semi-urban and rural areas and to indicate the scope for extending as well as improving the services provided by these institutions. At the instance of the Agricultural Credit Department, the Division also conducted a field study

in two major sugarcane growing areas in Ahmednagar district in Maharashtra State. The object of the study was to examine whether it was necessary for the Bank to provide medium-term credit in place of short-term credit, as at present, for financing the cultivation of sugarcane in that district. During the period under review, the Division initiated a field study to inquire into the concentration of a large number of tractors in a single village in Jodhpur district in Rajasthan. The purpose of the study is to assess the output-raising and cost-saving effects of tractors on the farm business of both the owners and hirers of tractors. The impact of tractors on the village economy, especially on agricultural labourers is also proposed to be studied. Besides, the Division continued its regular surveys including the Survey of Co-operative Bank Advances and Deposits. It also brought out a publication entitled "Bank Credit to Farmers for Irrigation Development: Studies in Micro-analysis of Feasibility" based on eight field studies conducted during the years 1964-68.

294. During the year 1969-70, the Division of Fiscal Analysis, Economic Department, consolidated the data on Survey of Finances of Local Authorities, 1965-66 and 1966-67. The article analysing the results of the Survey is under preparation for publication in the Reserve Bank of India Bulletin. The next Survey covering 1967-68 and 1968-69 has also been initiated during the period. In respect of the annual Survey of Ownership of Central and State Government Securities the data received for the Survey as on March 31, 1969 are being processed.

295. The results of the survey, undertaken by the Division of International Finance,

Economic Department, of unclassified receipts (*i.e.*, receipts in amounts below Rs. 10,000 or its equivalent for which no purpose-wise details are required to be reported to the Exchange Control Department by the authorised dealers) referred to in last year's Report were finalised during the year and an analysis of the results was published in the March 1970 issue of the Bank's Bulletin. The purpose-wise pattern thrown up by the survey results is now being used for attempting the purpose-wise distribution of these receipts in the balance of payments statistics. With a view to keeping up-to-date the purpose-wise pattern, the survey has been placed on a continuing basis covering one quarter of a year. Accordingly, for the year 1969, the survey conducted covered the quarter October-December, the results of which are currently being processed. For the year 1970, the survey covering the quarter July-September is in progress. The survey of freight and passage fare payments and receipts relating to Indian and foreign shipping and airline companies continued to be undertaken on an annual basis.

296. The Division also continued to call for quarterly foreign investment survey reports from branches of foreign companies and Indian joint stock companies. Based primarily on these reports, an article on "India's International Investment Position in 1965-66 and 1966-77" was published in the August 1969 issue of the Bank's Bulletin. Besides reviewing the international investment position, the article presented the new series of balance of payments account for the two years, which is in continuation of the series published in the November 1967 issue of the Bank's Bulletin.

VII. EDUCATION AND TRAINING

297. The National Institute of Bank Management (NIBM) took the initial steps towards establishing its capabilities in areas of training, research and consultancy. Ten faculty members in various disciplines have already joined and the number is expected to reach twenty-five by the end of 1970. The NIBM has reviewed the training needs of the banking industry and is developing a compre-

hensive training system in collaboration with the Staff Training Colleges of the banks. Steps are now being taken to implement these schemes in the individual banks by strengthening the Staff Training Colleges and establishing regional training centres. Preparations have been completed for Executive Development Courses which are expected to cover approximately 250 senior executives

during 1970-71. Several research projects have been initiated, using modern management techniques, and consultancy service is being provided to individual banks. The NIBM organised six workshops, on urgent issues facing the banking industry viz., "Financing Small-scale Industry," "Financing Agriculture," "Deposit Mobilisation," "Customer Service," "Management Development in the Banking Industry" and "Financing Exports." Senior bankers and Chairmen/Custodians of banks participated in these programmes which helped to forge an industrywide approach to these issues.

298. The Bank continued to sponsor and organise the training courses for the supervisory staff of commercial banks to equip themselves to shoulder responsibilities devolving on them. During the period under review, the Bankers' Training College at Bombay conducted three Senior Courses, two Intermediate Courses, two courses on Agricultural Finance, one course each on Foreign Exchange, Personnel and Organisation and Industrial Finance. A new course on Organisation and Methods was introduced at the College during the period under review. The course is intended for the officers of commercial banks who are at present working in the Organisation and Methods Department or are likely to be entrusted with Organisation and Methods assignments. The total number of bank officials who received training in the College during the period is 361 (including 6 officials from foreign countries). Since the inception of the College in 1954, 3,573 officials have received training in the different courses conducted for the supervisory staff of commercial banks. A new course called Central Banking Course I, is being instituted for the Staff Officers Grade I of the Bank at the Bankers' Training College, Bombay. The first course is expected to start in November 1970. The objectives of the course are : (a) to develop amongst Staff Officers Grade I of the Bank the capacity to appreciate the nature of the economic processes in a developing country, (b) to refresh them in the theory and practice of Central Banking with particular reference to the operations of the Reserve Bank of India and (c) to expose them to the modern techniques of management and to give them the basic understanding of the job carried

out in the different Departments of the Bank in order to foster inter-group mobility.

299. The Bank also continued to arrange courses on co-operative banking for the managerial staff of State, central and urban co-operative banks. In the absence of suitable accommodation, courses were conducted in the past at the Bankers' Training College, Bombay. However, in September 1969 the Co-operative Bankers' Training College started functioning at the Bank's newly constructed premises at Poona. So far the Bank has been conducting courses mainly for the higher personnel (*i.e.*, executives at the headquarters) of the State, central and urban co-operative banks. It has been the Bank's intention to run courses for Branch Managers of State/central co-operative banks, land development banks, etc. With the inauguration of the Co-operative Bankers' Training College, introduction of these courses has been possible. During the period under review two courses were conducted for the managerial staff of State and central co-operative banks, one course at the Bankers' Training College, Bombay and the other at the Co-operative Bankers' Training College, Poona and three courses were conducted for the managerial staff of urban co-operative banks, one course at the Bankers' Training College, Bombay and two at the Co-operative Bankers' Training College, Poona. The number of officials who participated in these two courses was 66 and 79, respectively (including 2 officials from foreign countries). The total number of officials who received training in the above courses so far was 277 and 194, respectively.

300. The following new courses were introduced at the Co-operative Bankers' Training College, Poona during the period under review :—

- (a) two courses of 3 weeks each were conducted in Project Planning and Appraisal for the personnel of the Land Development Banks ;
- (b) a course for Branch Managers of State/central co-operative banks for a period of 6 weeks ; and
- (c) a course on agricultural finance for middle level personnel of commercial

banks, viz., agents, managers, accountants and field inspectors who are actually handling agricultural finance in the rural branches of the commercial banks, for a period of 8 weeks.

301. The courses conducted by the Bank for the managerial personnel of co-operative banks cover essentially 'banking policies, practices and procedures'. Since an executive of a co-operative bank has to be both a banker and a manager, the Bank entered into a collaboration agreement with the Vaikunth Mehta National Institute of Co-operative Management, Poona so as to include besides 'banking', 'business management' and 'co-operative principles' in the training ingredients. The Vaikunth Mehta National Institute of Co-operative Management has been housed in the Co-operative Bankers' Training College campus to enable a reciprocal arrangement for talks by the faculty of one institution in the courses of the other. The Director, Vaikunth Mehta National Institute of Co-operative Management who has been appointed as the Director of the Co-operative Bankers' Training College as well will co-ordinate the activities of the two institutions.

302. The Staff Training College, Madras continued to conduct the General Course on central banking for junior supervisory staff and the Inspection Course for officers and supervisory staff of the Department of Banking Operations and Development and the Agricultural Credit Department on a regular basis. Recently, a special course in central banking entitled "General Course for Staff Officers Grade II (Direct Recruits) on completion of departmental training," was introduced at the College. The objective of the Course was to expose the Staff Officers *inter alia* to the modern concepts of management including human relations. The total number of officers and supervisory staff who have so far received training in the College is 2,549. Except at Calcutta, the Zonal Training Centres at all other places viz., Bombay, Madras and New Delhi continued to conduct courses for the junior and senior clerks of the Bank. The Calcutta Centre is expected to be reopened shortly. The total

number of clerical staff who have so far received training in the various Zonal Training Centres is 5,263. Under the standing arrangements with the Administrative Staff College of India, Hyderabad, officers were also sent to the management development courses conducted by the College. Officers are also sent to the banking and other courses conducted in the Bankers' Training College for the managerial staff of commercial banks and also to the short-term courses on management development organised by the All-India Management and State Level Associations, Productivity Councils, Management Institutes and similar other bodies. Officers are also sent to the central banking course conducted jointly by some of the Central Banks (called the SEANZA Course) and the course conducted by the Bank of England, and other courses of interest to the Bank, organised by some foreign institutes. The Bank has also been sending officers for training in banking institutions in U.S.A., U.K., Australia, West Germany, etc. Institution of a residential training course in Central Banking and Management techniques for the present and the prospective Senior Staff Officers Grade III is also under contemplation. The formulation of this course will be taken up after the Bank has gained experience in conducting the Central Banking Course for Staff Officers Grade I.

303. During the year, the Bank brought out Hindi version of the Annual Report of the Bank 1968-69 and abridged Hindi versions of the Report on Currency and Finance, 1968-69 and the Survey Report on Foreign Collaboration in Indian Industry, 1968. The Bank also undertook the work of translating the Annual Reports of Agricultural Refinance Corporation, Deposit Insurance Corporation, Industrial Development Bank of India and Unit Trust of India into Hindi. In order to comply with the provisions of the Official Languages Act, 1963 as amended in 1967, the Bank issued Press Communiques/Notes/Releases/Summaries, Notices and Notifications simultaneously in Hindi and English. Letters and communications received in Hindi from the public, the Central Government and the State Governments were entertained and replied to in Hindi, wherever necessary. Hindi classes continued to be conducted by the Bank at

various centres on a voluntary basis for the benefit of the Bank's staff. As an incentive to the Staff for acquiring proficiency in Hindi, (a) text books prescribed for the courses for which classes were conducted by the Bank, were made available to them and (b) an honorarium of Rs. 100/- was paid to the employees for passing different examinations

in Hindi. The employees who were not able to attend such classes, were encouraged to join the correspondence courses in Hindi organised by the Central Hindi Directorate of the Government of India and, as an incentive, reimbursement of the fees for such courses was also permitted in the case of the members of the staff belonging to Class III.

VIII. ACCOUNTS AND OTHER MATTERS

304. During the accounting year ended the 30th June 1970, the Bank's income, after making statutory and other provisions, amounted to Rs. 105.45 crores as against Rs. 99.35 crores in the previous year. The total expenditure for the year amounted to Rs. 30.45 crores as against Rs. 29.35 crores in the previous year. The net profit set aside for payment to Central Government was Rs. 75 crores as against Rs. 70 crores paid last year.

305. The contributions to the National Agricultural Credit (Long-term Operations) Fund, the National Agricultural Credit (Stabilisation) Fund and the National Industrial Credit (Long-term Operations) Fund were Rs. 17 crores, Rs. 2 crores and Rs. 20 crores, respectively, as against Rs. 12 crores, Rs. 2 crores and Rs. 20 crores, respectively, during 1968-69.

306. The rise of Rs. 6.10 crores in the income during 1969-70 was mainly due to increased interest earned on investments in securities, foreign currency holdings, loans and advances to banks, State Governments, etc. as also larger discount on Rupee and Foreign Treasury Bills. The increase of Rs. 1.10 crores in the expenditure was mainly on account of establishment charges owing to payment of (i) dearness allowance at enhanced rates to the award staff, (ii) arrears of compensatory allowance to the Graduates/C.A.I.B. Employees in Class III and (iii) house rent allowance at higher rate to the Staff Officers opting for transferability. Depreciation charged this year on properties acquired in the previous year and a rise in the agency charges paid to State Bank of India and its subsidiaries also accounted for the increase in the expenditure for 1969-70.

Auditors

307. The accounts of the Bank have been audited by M/s. A. F. Ferguson & Co., Bombay, M/s. Brahmayya & Co., Madras and M/s. Ray & Ray, Calcutta who were appointed by Government of India as auditors of Reserve Bank of India by the notification No. F. 3(50)-BC/69 dated the 5th December 1969 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

The Central Board

308. Shri L. K. Jha relinquished charge of the office of Governor of the Bank as from the forenoon of the 4th May 1970 on his appointment as India's Ambassador to the U.S.A. Deputy Governor, Shri B. N. Adarkar, succeeded him as Governor with effect from the same date and held that post till his retirement from the Bank on the 15th June 1970. Consequent upon his appointment as the Secretary to the Government of India, Department of Banking, Ministry of Finance, Shri A. Baksi ceased to be a Deputy Governor of the Bank under the provisions of sub-section (1) of Section 11 of the Reserve Bank of India Act, 1934, with effect from the afternoon of 8th September 1969. Shri J. J. Anjaria whose term of appointment as Deputy Governor of the Bank expired on the 31st January 1970, was granted an extension by the Central Government for a month till the end of February 1970. The Board would like to take this opportunity of placing on record its appreciation of the eminent services rendered by Sarvashri L. K. Jha, B. N. Adarkar and J. J. Anjaria during their association with the Bank. The Central Board regrets to record the sudden death of Shri J. J. An-

jaria on 10th April 1970 shortly after he retired as Deputy Governor of the Bank.

309. Shri S. Jagannathan assumed charge as Governor with effect from the forenoon of the 16th June 1970 for a period of five years. Dr. R. K. Hazari assumed charge as Deputy Governor of the Bank on the forenoon of 27th November 1969 for a period of five years.

310. Shri N. A. Palkhivala and Prof. C. N. Vakil retired as Directors of the Central Board of the Bank on expiry of their terms of appointment on the 14th January 1970 and 23rd January 1970, respectively. The Board wishes to place on record its appreciation of the services rendered by the retired Directors.

311. Shri A. Baksi was nominated as Director of the Central Board in terms of Section 8(1)(d) of the Reserve Bank of India Act, 1934, with effect from the 25th October 1969 *vice* Dr. I. G. Patel. Shri P. B. Gajendra-gadkar and Dr. A. M. Khusro were nominated as Directors of the Central Board of the Bank under Section 8(1)(c) of the Reserve Bank of India Act, 1934, with effect from the 28th February 1970.

312. Seven meetings of the Central Board were held during the year, two of which were held in Bombay and one each in Madras, Calcutta, New Delhi, Jaipur and Patna. The Committee of the Central Board held fifty-two meetings, of which five were held in New Delhi, one each in Madras and Calcutta and the rest in Bombay.

313. Shri V. G. Pendharkar has been appointed as Executive Director with effect from the 1st March 1970. Executive Director Shri K. C. Mittra left India on the 28th June 1970 to take up an assignment under the I.M.F. Technical Assistance Programme to assist the authorities in Yemen Arab Republic in establishing a Central Bank there.

Local Boards

314. Shri J. D. Sethi resigned his office as a Member of the Northern Area Local Board, New Delhi with effect from the 14th January 1970.

Opening and Closing of Offices and Changes in the Organisation and Management

315. A full-fledged office of the Issue Department was set up at Hyderabad from November 3, 1969 with Andhra Pradesh as its Currency Jurisdiction.

Bank's Premises

A. Office Premises

316. The annexe building at Madras has been completed, while the annexe building at Nagpur is nearing completion. The construction of the main office building at Bangalore has been taken up and the proposed office buildings and annexes at Jaipur, Bhubaneswar and Trivandrum and the main office building at Hyderabad and office building in the Mint compound at Bombay are in the planning stage. Arrangements are in progress for taking on lease a building at Ahmedabad and a portion of a State-owned building at Bhubaneswar for opening Sub-offices of the Issue Department and Sections of the Banking Department. At Ernakulam, premises have been taken for opening a branch of the Exchange Control Department.

B. Residential Quarters

317. Every effort is being made to provide residential quarters, which are heavily subsidised, for the various categories of staff at all important centres. The Bank has so far provided 149 quarters for Staff Officers Grade I, 366 for Staff Officers Grade II, 1,376 for clerical staff and 432 for subordinate staff at Bombay, Calcutta, New Delhi, Madras, Nagpur, Patna and Kanpur, covering approximately 14 per cent of the total staff at these centres.

318. The construction of a colony of 120 flats for subordinate staff has been completed at Madras and other colonies of 12 flats for Staff Officers Grade I at Madras and 240 for clerical staff and 192 for subordinate staff at Bombay are nearing completion. Construction of 272 flats at New Delhi and 456 flats at Calcutta for clerical and subordinate staff has since commenced, while construction of 56 flats at Bangalore for Staff Officers

Grade I and Grade II and 224 flats at Kanpur and 104 flats at Nagpur for the clerical and subordinate staff is expected to commence within a few months. Further construction of colonies for Staff Officers Grade I and II at New Delhi and Bombay and for Class III and IV staff at Bhubaneswar, Madras and Bangalore is in the planning stage. Proposals for appointment of architects for the proposed quarters for Staff Officers Grade I and II at Kanpur and clerical and subordinate staff at Hyderabad and Madras are under consideration.

319. The Bank is continuing its efforts to secure suitable land for construction of Staff quarters at centres where no plot has been secured or where the number of quarters provided is inadequate.

320. The scheme of taking flats on company lease for staff officers continues as there is no improvement in the housing situation in the cities where offices of the Bank are located.

Employer-Employee Relations

321. The extended period of operation of the Award of the Arbitrator in respect of workmen employees in Class II and III in Reserve Bank expired on 5th April 1970. Negotiations are being held with effect from 1st June 1970 between the management of the Reserve Bank and the All-India Reserve Bank Employees' Association representing the workmen employees in Class II and III for revision of pay scales and allowances, leave fare concessions, medical aid, etc. The agreement between the management of the Reserve Bank and the All-India Reserve Bank Workers' Federation governing pay scales, allowances and other service conditions of Class IV employees expired on 31st De-

cember 1968. The Federation has since submitted a Charter of Demands and negotiations thereon have commenced with effect from 12th June 1970.

Employees' Housing Loans Scheme

322. During the year under report Housing Loans were sanctioned as under :

	No. of Societies	Amount Rs.
A. New Co-operative Housing Societies	11	59,43,065
Additional loans to Co-operative Housing Societies already formed	8	2,37,690
Total		61,80,755
B. Individual members of Staff	No. of Employees	
New loans	69	13,69,830
Additional loans to employees who had already availed of loans earlier	24	66,672
Total		14,36,502

The total amount of 'Society' and 'Individual' loans sanctioned since the introduction of the scheme in 1961 amounts to Rs. 2,07,80,355.00 and Rs. 50,97,455.00, respectively. In all 1,227 employees have availed themselves of this facility.

RESERVE BANK OF INDIA
BALANCE SHEET AS AT JUNE 30, 1970
ISSUE DEPARTMENT

LIABILITIES				ASSETS			
	Rs.	P.	Rs.	P.		Rs.	P.
Notes held in the Banking Department ..	14,03,72,578	00			Gold Coin and Bullion :—		
Notes in circulation ..	4026,53,93,366	50			(a) Held in India ..	182,53,10,862	72
Total Notes issued ..			4040,57,65,944	50	(b) Held outside India ..		
					Foreign Securities ..	396,41,99,950	11
					Total ..		578,95,10,812
					Rupee Coin ..		54,08,40,185
					Government of India Rupee Securities ..		3407,54,14,946
					Internal Bills of Exchange and other Commercial Paper ..		30
Total Liabilities			4040,57,65,944	50	Total Assets		4040,57,65,944

BANKING DEPARTMENT

LIABILITIES				ASSETS			
	Rs.	P.	Rs.	P.		Rs.	P.
Capital Paid-up ..	5,00,00,000	00			Notes ..	14,03,72,578	00
Reserve Fund ..	150,00,00,000	00			Rupee Coin ..	1,43,563	00
National Agricultural Credit (Long-Term Operations) Fund ..	172,00,00,000	00			Small Coin ..	4,55,261	27
National Agricultural Credit (Stabilisation) Fund ..	37,00,00,000	00			Bills Purchased and Discounted :—		
National Industrial Credit (Long-Term Operations) Fund ..	95,00,00,000	00			(a) Internal ..		
Deposits :—					(b) External ..		
(a) Government					(c) Government Treasury Bills ..	12,95,49,600	96
(i) Central Government ..	58,13,22,772	04			Balances held Abroad* ..	98,48,79,980	21
(ii) State Governments ..	16,21,55,803	40			Investments** ..	124,53,55,153	90
(b) Banks					Loans and Advances to :—		
(i) Scheduled Commercial Banks ..	186,94,83,593	84			(i) Central Government ..		
(ii) Scheduled State Co-operative Banks ..	14,40,34,831	91			(ii) State Governments@ ..	31,65,00,000	00
(iii) Non-Scheduled State Co-operative Banks ..	79,01,125	01			Loans and Advances to :—		
(iv) Other Banks ..	32,28,422	36			(i) Scheduled Commercial Banks† ..	308,32,05,000	00
(c) Others ..	166,98,04,194	93			(ii) State Co-operative Banks †† ..	224,09,53,540	61
Bills Payable ..	22,62,49,363	71			(iii) Others ..	2,72,41,993	32
Other Liabilities ..	56,75,37,035	32			Loans, Advances and Investments from National Agricultural Credit (Long-Term Operations) Fund		
Total Liabilities			982,17,17,142	52	(a) Loans and Advances to :—		
					(i) State Governments ..	34,32,24,745	48
					(ii) State Co-operative Banks ..	20,28,30,736	98
					(iii) Central Land Mortgage Banks ..		
					(b) Investment in Central Land Mortgage Bank Debentures ..	9,57,02,235	00
					Loans and Advances from National Agricultural Credit (Stabilisation) Fund		
					Loans and Advances to State Co-operative Banks ..	4,34,96,520	00
					Loans, Advances and Investments from National Industrial Credit (Long-Term Operations) Fund		
					(a) Loans and Advances to the Development Bank ..	26,26,71,044	00
					(b) Investment in bonds/debentures issued by the Development Bank ..		
					Other Assets ..	70,51,35,189	79
Total Assets					Total Assets		982,17,17,142

Contingent liability on partly paid shares Rs. 8,99,992.80 (Sterling Investments of £50,000 converted @ Rs. 100 = ₹5.5556).

* Includes Cash, Fixed Deposits and Short-term Securities.

** (i) Excluding Investments from the National Agricultural Credit (Long-Term Operations) Fund and the National Industrial Credit (Long-Term Operations) Fund.

(ii) Includes ₹50,000 and U.S. \$4,947,500 held abroad (equivalent of Rs. 3,80,06,242.80).

@ Excluding Loans and Advances from the National Agricultural Credit (Long-Term Operations) Fund.

† Includes Rs. 157,45,80,000 advanced to scheduled commercial banks against usance bills under Section 17(4)(c) of the Reserve Bank of India Act.

†† Excluding Loans and Advances from the National Agricultural Credit (Long-Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund.

R. C. SACHDEVA,
Chief Accountant.
Dated. the 23rd July. 1970.

S. JAGANNATHAN, Governor.
P. N. DAMRY, Deputy Governor.
R. K. HAZARI, Deputy Governor.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 1970

INCOME		Rs.	P.
Interest, Discount, Exchange, Commission, etc.†	..	105,44,62,572	48
EXPENDITURE			
Establishment	.. .. .	14,84,25,555	34
Directors' and Local Board Members' Fees and Expenses	.. .. .	80,418	98
Auditors' Fees	.. .. .	37,500	00
Rent, Taxes, Insurance, Lighting, etc.	.. .. .	86,14,192	57
Law Charges	.. .. .	1,15,500	31
Postage and Telegraph Charges	.. .. .	9,51,349	58
Remittance of Treasure	.. .. .	62,30,611	32
Stationery, etc.	.. .. .	25,11,268	94
Security Printing (Cheque, Note Forms, etc.)	.. .. .	4,73,48,430	99
Depreciation and Repairs to Bank Property	.. .. .	1,24,38,485	83
Agency Charges	.. .. .	6,99,48,774	92
Contributions to Staff and Superannuation Funds	.. .. .	7,32,000	00
Miscellaneous Expenses	.. .. .	70,28,204	49
Net available balance	.. .. .	75,00,00,279	21
Total	..	105,44,62,572	48
Surplus Payable to the Central Government	.. ..	75,00,00,279	21

RESERVE FUND ACCOUNT

By Balance on 30th June, 1970	.. ..	150,00,00,000	00
By transfer from Profit and Loss Account	.. ..	Nil	
Total	.. ..	150,00,00,000	00

† After making usual or necessary provisions in terms of Section 47 of the Reserve Bank of India Act.

R. C. SACHDEVA,
Chief Accountant.

S. JAGANNATHAN, Governor.
P. N. DAMRY, Deputy Governor.
R. K. HAZARI, Deputy Governor.

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA,

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Bank as at 30th June, 1970.

We have examined the above Balance Sheet with the Accounts, Certificates and Vouchers relating thereto of the Central Office and of the Offices at Calcutta, Bombay and Madras and with the Returns submitted and certified by the Managers of the other Offices and Branches, which Returns are incorporated in the above Balance Sheet, and report that where we have called for explanations and information from the Central Board such information and explanations have been given and have been satisfactory. In our opinion, the Balance Sheet is a full and fair Balance Sheet containing the particulars prescribed by and in which the assets have been valued in accordance with the Reserve Bank of India Act, 1934 and Regulations framed thereunder and is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of our information and the explanations given to us, and as shown by the Books of the Bank.

BRAHMAYYA & CO.,
RAY & RAY
A. F. FERGUSON & CO., } Auditors.

Dated, the 23rd July, 1970.