1972-73

Annual Report and Trend and Progress of Banking in India

Supplement to the Reserve Bank of India Bulletin, August

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, 1973. 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 1972-73

CENTRAL BOARD OF DIRECTORS
(As on June 30, 1973)

Governor

SHRI S. JAGANNATHAN

Deputy Governors

DR. R. K. HAZARI
SHRI V. V. CHARI
SHRI S. S. SHIRALKAR
SHRI R. K. SESHADRI*

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

PROF. M. L. DANTWALA
SHRI A. N. HAKSAR
DR. BHARAT RAM
SHRI C. RAMAKRISHNA

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

DR. P. B. GAJENDRAGADKAR
DR. A. M. KHUSRO
DR. BHABATOSH DATTA
SHRI C. P. SRIVASTAVA
DR. K. KANUNGO
DR. V. KURIEN
SHRI G. PARTHASARATHI
SHRI M. P. CHITALE

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

SHRI N. C. SEN GUPTA

Secretary,
Government of India,
Ministry of Finance,
Department of Banking.

MEMBERS OF LOCAL BOARDS

WESTERN AREA

PROF. M. L. DANTWALA
SHRI K. C. MAITRA
SHRI CHARLES M. CORREA
SHRI M. S. PADMANABHAN

NORTHERN AREA

DR. BHARAT RAM
SHRI K. N. SAPRU
SHRI PREM PANDHI
DR. RAMA MOHAN LALL

EASTERN AREA

SHRI A. N. HAKSAR
DR. SADASIV MISRA
SHRI G. SAHA
SHRI G. C. PHUKAN

SOUTHERN AREA

SHRI C. RAMAKRISHNA
SHRI M. V. ARUNACHALAM
SHRI C. R. RAMASWAMY
SHRI M. K. RAMACHANDRA

* Appointed with effect from 26th July 1973.

OFFICES/BRANCHES OF THE ISSUE AND BANKING DEPARTMENTS

ISSUE DEPARTMENT

BANGALORE

BOMBAY (FORT)

BYCULLA (BOMBAY)

CALCUTTA

HYDERABAD

KANPUR

MADRAS

NAGPUR

NEW DELHI

PATNA

BANKING DEPARTMENT

AHMEDABAD

BANGALORE

BOMBAY (FORT)

BYCULLA (BOMBAY)

CALCUTTA

HYDERABAD

KANPUR

MADRAS

NAGPUR

NEW DELHI

PATNA

LETTER OF TRANSMITTAL

Reserve Bank of India,
Central Office,
Bombay.

August 13, 1973

Sravana 22, 1895 (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 1973 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 1973.

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, 1972—June 30, 1973

I. TRENDS IN THE ECONOMY

The most disquieting aspect of the Indian economic scene during 1972-73 (July-June) was the severe and unabated pressure on the general price level. While the upsurge in the price level was undoubtedly a consequence of the set-back in farm production for the second year in succession, resulting in severe shortage of a variety of wage goods particularly those originating in the agricultural sector, an important contributing cause of it was the excess demand in the economy. Other factors on the supply side which sustained and accentuated the price rise, particularly of food-grains, were poor market arrivals and inadequate *kharif* and *rabi* procurement in relation to the demands of the public distribution system, at a time when food stocks with Government were being drawn down rapidly. World wide shortage of cereals which had already set in before India's entry as an importer made it difficult for this gap in supply to be made up through imports. The problems arising from supply shortages were compounded by a very substantial increase in money supply during the year, on top of the large monetary expansion that had occurred during 1971-72. Even the improvement noticed in the growth rate of industrial output during the earlier part of the year could not make any noticeable impact on the large imbalance between the aggregate demand and the aggregate supply.

2. The price rise was due partly to the lagged effects of large increases in domestic expenditure especially by the Government, in 1971-72. But the major element in raising the level of domestic demand has been expenditure undertaken by the Government during the year under review. Total spending by the Central and State Governments for all purposes amounted in 1972-73 to Rs. 11,942 crores, or 13·6 per cent more than in 1971-72. A part of the increase in expenditure was undoubtedly unforeseen, such as disbursements on drought relief and emergency agricultural programmes. But as will be explained later, this went with a large increase in respect of regularly budgeted items of expenditure in the revenue and capital accounts. Despite the fact that actual receipts exceeded budget estimates, there was a big gap between receipts and expenditures which had to be covered through recourse to borrowings from the Reserve Bank. Simultaneously, with expansion in Government spending, expenditures in the private sector also grew as a consequence of larger money incomes, higher prices and the development of a scarcity psychosis. In the event, the overall price index recorded an unprecedented rise of 21·5 per cent during the year July 1972 - June 1973.

3. If the economy is disaggregated into its components the pattern of changes would be seen to vary from sector to sector, since the general position mentioned above has been modified by the special forces at work in each sector. On the basis of some broad indicators, the main features are summarised here leaving an assessment of the performance in detail to later paragraphs. While reliable information on private consumption is not available, the data on household savings in the form of financial assets such as bank deposits, life insurance premia, provident fund contributions etc. indicate that the ratio of such savings to national income at current prices has increased as compared to the previous year. On household savings in the shape of physical assets, including inventories, little statistical information is available. But from circumstantial evidence—such as availability and prices of construction materials, incentives provided for capital formation in the agricultural and small-scale sectors and easy access to liquid funds — it may be reasonable to infer that such savings in absolute terms did not diminish. The private corporate sector has been able to record an improvement in its

savings in relation to the 1971-72 level. Similarly, available data show that there has been a considerable step-up in the net savings on revenue account of the Central Government ; this is mainly due to a buoyancy in tax revenues, coupled with a somewhat slower increase in the consumption expenditure of Government. From these indicators, it would appear that the ratio of domestic savings to national income at current prices has increased fractionally in 1972-73. Since the inflow of foreign resources is estimated to be less than in 1971-72, the ratio of aggregate net investment to national income at current prices in 1972-73 remained approximately at the same level as last year. In other words, aggregate net investment increased more slowly than domestic saving. Moreover, as the investment goods prices were higher than in the previous year, the achievement in real terms was less than that reflected in terms of percentage of national income. The summary position is shown in Table 1 below.

Table I :—Provisional Estimates of Saving and Investment as per cent of National Income at current prices

	1970-71	1971-72	1972-73
1. Net Domestic Saving ..	10.6	11.3	11.7
*2. Inflow of foreign resources..	1.1	1.3	0.9
3. Investment (1+2) ..	11.7	12.6	12.6

4. Unlike in the previous year when the expansion in money supply was largely accounted for by deposit money, during 1972-73 the currency component accounted for a greater proportion (64·6 per cent) of the rise in money supply. This monetary expansion was accompanied by slackness in demand for credit by the commercial sector during the major part of the year 1972, and the credit-deposit ratio came down to 66 per cent at the end of December 1972, from 72 per cent at the end of June 1972. The situation of surplus funds with the banking system was utilised by the Government to borrow from that sector for financing Government expenditure on capital formation, relief, etc. which had to be undertaken in the wake of the drought. Since the beginning of 1973, excess liquidity in the banking system has come down substantially, as a result of the busy season expansion in bank lending to the commercial sector ; consequently the credit-deposit ratio rose to about 70 per cent at the end of June, 1973. The expansion in commercial bank credit of Rs. 819 crores in the period July 1972 - June 1973 has largely been due to increased borrowing for purposes other than financing of food stocks. This might render the return of funds to the banks during the current slack season somewhat slower than usual. Altogether, from the trends in aggregate monetary resources, it was obvious that the community commanded at the end of June 1973 a large volume of potential demand, while the prospects of additional supplies of essential goods and services were, to say the least, uncertain.

5. It is against this background that the Reserve Bank found it necessary to tighten the availability of credit, through an increase in the Bank rate and imposition of a series of restrictions on commercial banks' access to loanable funds including an increase in the reserve requirements.* Simultaneously, the Government also initiated steps to bring about economies in Plan and non-Plan expenditures. All of these measures have yet to have their impact on the demand-supply imbalance and on price inflation.

6. Concurrently with these developments within the economy, the international monetary scene continued to bristle with uncertainties. The pressure on the U.S. dollar continued unabated, culminating in its devaluation for the second time in February 1973. Several of the World's major currencies including the pound sterling continued to float and in this situation, the progress towards the creation of a viable international monetary system has been very slow. The rupee maintained its rate of exchange with the pound sterling and currencies linked with it and has depreciated in relation to most European currencies and the Japanese yen. It appreciated *vis-a-vis* the U.S. dollar and currencies linked with it for

*The reserve requirements were raised from 3 per cent to 5 per cent of the total of demand and time liabilities for each bank with effect from June 29, 1973. On August 14, 1973, the Reserve Bank announced a further increase in these reserves to 7 per cent, with effect from September 22, 1973. In both cases, the addtional deposits are to be kept for a year and to be paid an interest of 4·75 per cent per annum.

the greater part of the year but latterly its effective value in terms of these currencies has been fluctuating around Rs. 7·50 per U.S. dollar.

7. It is difficult to assess precisely the extent to which these changes have affected India's balance of payments. DGCIS data showed a marginal decline in imports, while a remarkable buoyancy was experienced in our exports. This increase in exports was led by the traditional items like cotton textiles, jute goods, hides and skins, tobacco, etc. stimulated by an increase in world demand for them as well as by smaller supplies from certain competing sources. It also spread to engineering goods in the latter part of the year. Because of this combination of circumstances, there was a trade surplus for the first time in many years. The debt service burden also was lightened by the re-scheduling arrangement worked out with the Aid India Consortium. It is further probable that with the narrowing down of the difference between Indian and international prices of gold, some of the loss in foreign exchange arising from smuggling was reduced. Altogether, India's foreign exchange resources during the year showed an increase of Rs. 37 crores* compared to that of Rs. 58 crores in the previous year. It is, however, to be noted that in 1971-72, reserves benefited from an allocation of Rs. 75 crores worth of SDRs, while there was no such allocation in 1972-73. Rupee values of some of the foreign currency assets held in reserves have also appreciated consequent to exchange rate adjustments. If allowance is made for these factors, the rise in reserves during 1972-73 would work out to Rs. 2 crores as compared to the decline of Rs. 33 crores in 1971-72.

8. But it does not follow that the prospects on this front for the coming year are comfortable. The shortages in the domestic market are likely both to raise imports and reduce exports. Higher prices of imports now prevailing in the world markets would be an additional factor affecting the balance of payments. With aid commitments, virtually reaching a plateau (around $ 1200 million gross), these trends can result in a quick using-up of the margin available in reserves. This is a situation that needs to be incessantly watched, so that suitable steps for shoring up the reserves may be taken in good time.

* Provisional.

Output, Prices and Policy Measures

National Income

9. We may now take a closer look at developments on the production side in the period July 1972 to June 1973. Although official estimates of national income for 1971-72 and 1972-73 are not yet available, it would seem from the available data that national income growth in each of these years was considerably less than 2 per cent. This compares with the increases of 7·3 per cent, and 4·6 per cent in the years 1969-70 and 1970-71, respectively. Given these shortfalls, it is obvious that the target rate of 5·5 per cent *average* growth envisaged for the Fourth Plan period can only be reached if there is a phenomenal increase in national income during 1973-74.

Agricultural Output and Supply

10. The relative stagnation in the growth of national income was principally attributable to the poor performance of commodity sectors. For the second year in succession, agricultural output suffered from unfavourable weather conditions in many parts of the country in the 1972 *kharif* season. Agricultural output which declined by 1·7 per cent in 1971-72 is likely to show an even larger decline in 1972-73, despite the crash *rabi* programme launched during 1972-73. The output of foodgrains during 1972-73 might at best be of the order of 100 million tonnes as against 104·7 million tonnes (final estimates) in 1971-72. While the output of wheat is likely to be somewhat higher (26·5 million tonnes) than in the previous year, that of rice is expected to show a decline from 42·7 million tonnes in 1971-72 to around 40 million tonnes in 1972-73. Outputs of coarse grains and pulses, as also of various other commercial crops are estimated in 1972-73 to be smaller than in the preceding year ; however, sugarcane output is expected to be marginally higher.

11. Following the shortfall in *kharif* output and consequential reduction in the market availability of foodgrains, releases through the public distribution system had to be stepped up. During the lean months of

August-October 1972, the average monthly offtake from the public distribution system was 11·6 lakh tonnes as against 7·3 lakh tonnes during the corresponding period of 1971 ; the total offtake during July 1972-March 1973 at 8·9 million tonnes, was thus substantially higher than that in the corresponding period of 1971-72 (7·0 million tonnes). With lower procurement and lower imports these heavy releases inevitably meant a rapid depletion of stocks with the Central and State Governments. These stocks which stood at 8·9 million tonnes at the end of June 1972 declined steadily to 4·4 million tonnes by the end of June 1973. In this situation of supply shortage, the Government arranged in late 1972 for import of about 2 million tonnes of foodgrains comprising 1·5 million tonnes of wheat and 0·5 million tonnes of milo. By end-June 1973 about 1·4 million tonnes of these imports had arrived but this did not materially ease the strain on the public distribution system.

12. With the approach of the *rabi* harvest, the Government decided to take over the wholesale trade in wheat with a view to absorbing the marketed supply for controlled distribution. In accordance with this policy, wholesale trade in wheat was entrusted to the Food Corporation of India and/or specific authorities designated by State Governments in all the States. However, the move met with both overt and covert opposition from several sections of the community ; and in consequence there has been a fall in the 'marketed surplus' and therefore in procurement. Upto end-June 1973, Government had procured only 4·1 million tonnes against the original target of 8·1 million tonnes and the revised target of 6 million tonnes. This inadequacy of procurement had the effect not only of continuing the strains on the public distribution system but also of generating fears of a further price increase in the lean season.

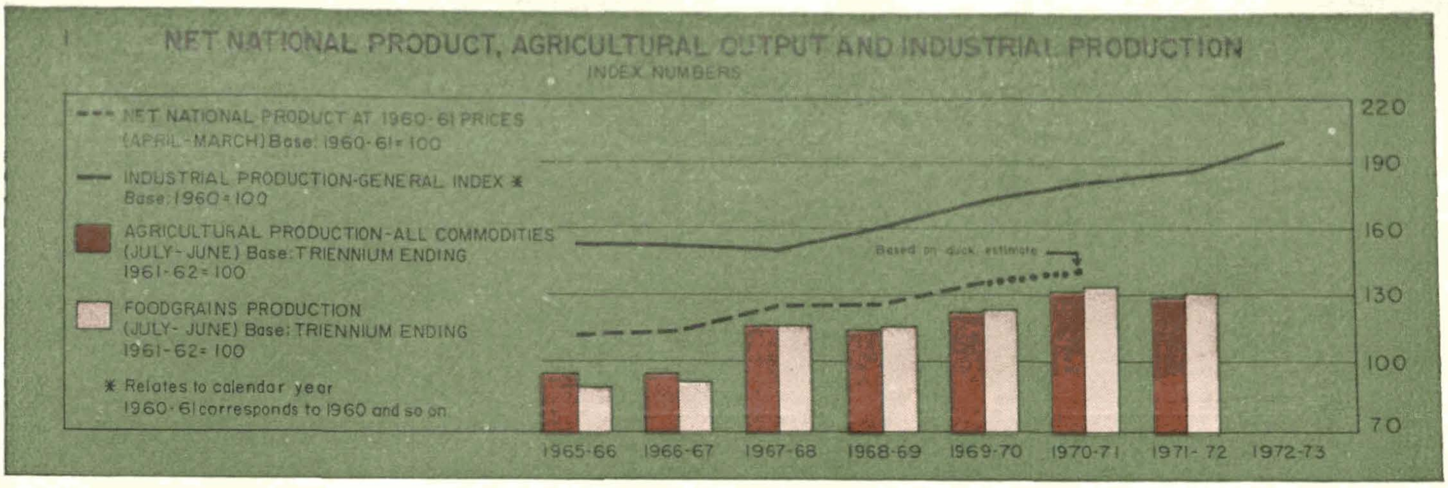
13. While the foodgrains supply situation was causing serious concern, the position regarding output of commercial crops was not altogether comfortable. Raw cotton output which touched the record level of 6·5 million bales in 1971-72 is expected to be 6·2 million bales in 1972-73; but the total supply position remained comfortable, principally because of large carry-over stocks. Production of jute and mesta estimated at 6·1 million bales during 1972-73 was also lower than the previous year's level of 6·8 million bales. Output of five major oilseeds which declined by one million tonnes in 1971-72 to 8·3 million tonnes declined further to about 7·0 million tonnes in 1972-73, almost wholly due to shortfall in groundnut output, which is expected to touch 3·9 million tonnes in 1972-73, the lowest level since 1955-56. This has resulted in a sharp rise in prices and a number of measures, including imports, have had to be taken to meet the situation. It is only the production of sugarcane (in terms of gur) that is expected to show some improvement, at 12·0 million tonnes as compared to 11·7 million tonnes in 1971-72.

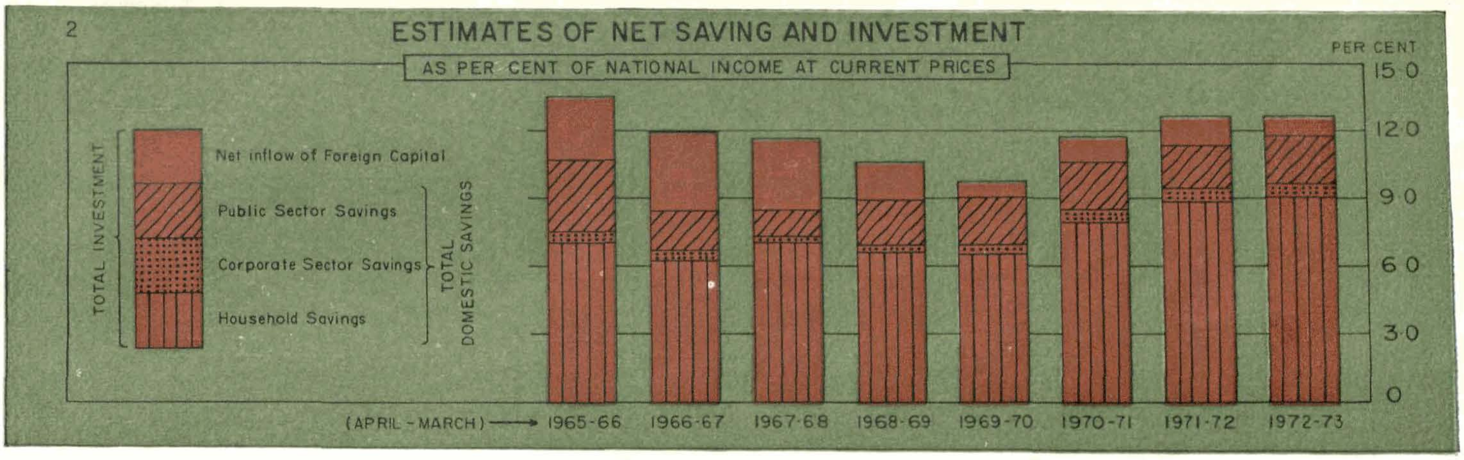
14. The implication of these events is that despite the massive investment that has already been made for developing as well as extending the new agricultural strategy, agricultural output remains, by and large, a variable dependent on the monsoon. The new agricultural strategy still remains to be exploited in many States in respect of cereals and its potential has yet to be established in respect of other foodgrains and commercial crops. In particular, two successive droughts underline the need to evolve an integrated programme for spreading the use of scientific dry farming methods as well as exploitation of ground water resources.

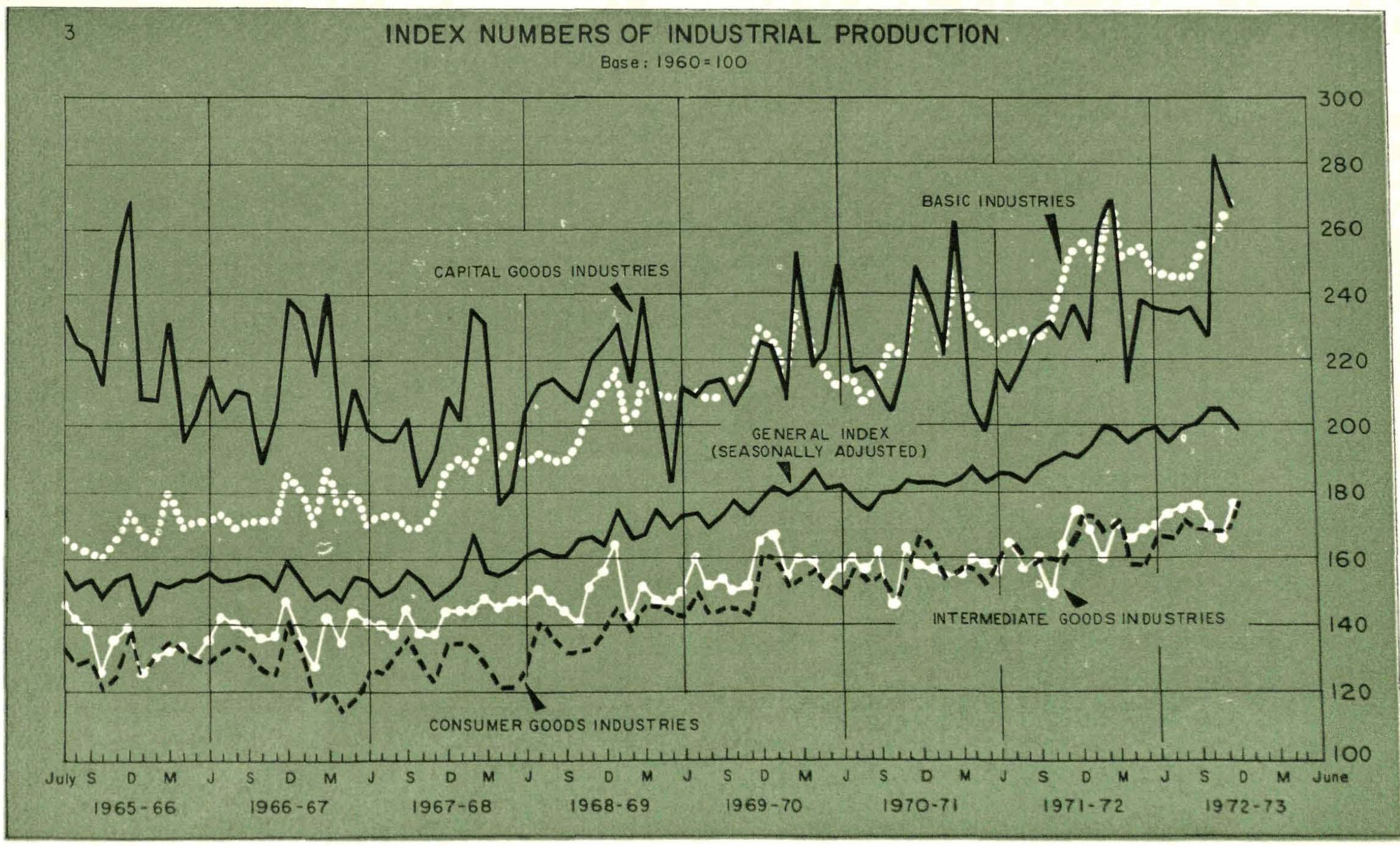
Industrial Output

15. In the industrial sector, there was a welcome reversal of the decline in the growth rate of industrial output which was evident during the last two years. The growth in industrial output in 1972 was 7·1 per cent as against 2·9 per cent recorded in 1971, and 4·8 per cent in 1970. Nonetheless, it was still below the targeted growth rate of 8-10 per cent postulated in the Fourth Five-Year Plan.

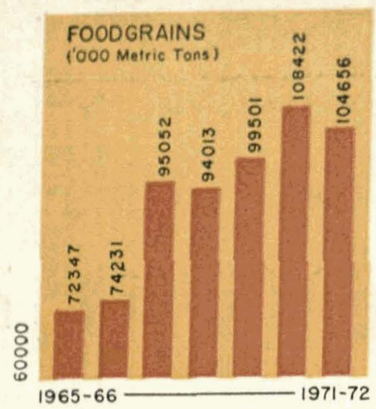
16. If industries are classified according to variations in their output, it is observed that those showing increase in output rose to 87 per cent (by weightage) of the total in 1972 from 60 per cent in 1971 (Table 2). Correspondingly, the weightage of industries showing declines in output came down from 38

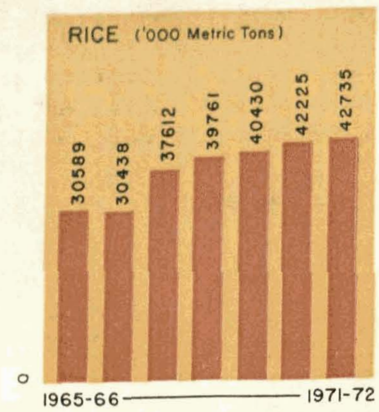

1
NET NATIONAL PRODUCT, AGRICULTURAL OUTPUT AND INDUSTRIAL PRODUCTION
INDEX NUMBERS
NET NATIONAL PRODUCT AT 1960-61 PRICES (APRIL-MARCH) Base: 1960-61=100
INDUSTRIAL PRODUCTION-GENERAL INDEX * Base: 1960=100
AGRICULTURAL PRODUCTION-ALL COMMODITIES (JULY-JUNE) Base: TRIENNIUM ENDING 1961-62=100
FOODGRAINS PRODUCTION (JULY-JUNE) Base: TRIENNIUM ENDING 1961-62=100
* Relates to calendar year 1960-61 corresponds to 1960 and so on
Based on quick estimate
220
190
160
130
100
70
1965-66
1966-67
1967-68
1968-69
1969-70
1970-71
1971-72
1972-73

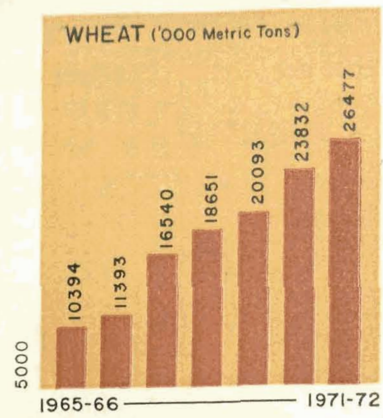

2
ESTIMATES OF NET SAVING AND INVESTMENT
AS PER CENT OF NATIONAL INCOME AT CURRENT PRICES
PER CENT
TOTAL INVESTMENT
Net inflow of Foreign Capital
Public Sector Savings
Corporate Sector Savings
Household Savings
TOTAL DOMESTIC SAVINGS
15.0
12.0
9.0
6.0
3.0
0
(APRIL-MARCH)
1965-66
1966-67
1967-68
1968-69
1969-70
1970-71
1971-72
1972-73

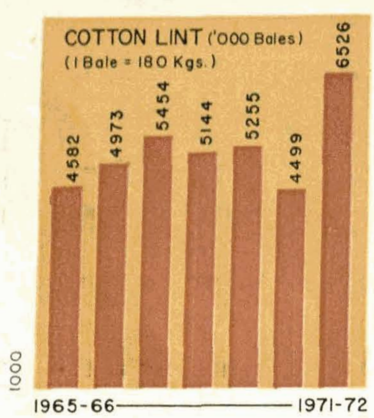

3
INDEX NUMBERS OF INDUSTRIAL PRODUCTION
Base: 1960=100
BASIC INDUSTRIES
CAPITAL GOODS INDUSTRIES
GENERAL INDEX (SEASONALLY ADJUSTED)
INTERMEDIATE GOODS INDUSTRIES
CONSUMER GOODS INDUSTRIES
300
280
260
240
220
200
180
160
140
120
100
July S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M June
1965-66
1966-67
1967-68
1968-69
1969-70
1970-71
1971-72
1972-73

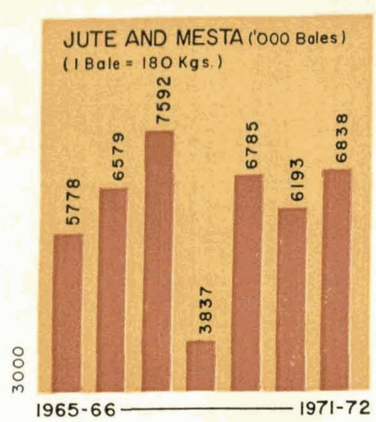
4 AGRICULTURAL PRODUCTION

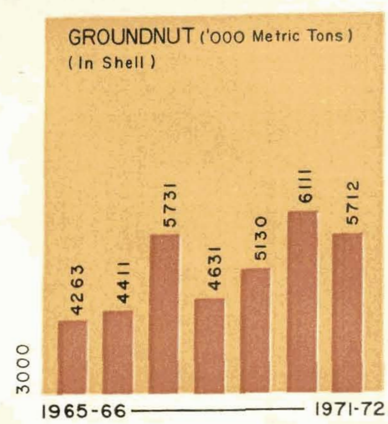






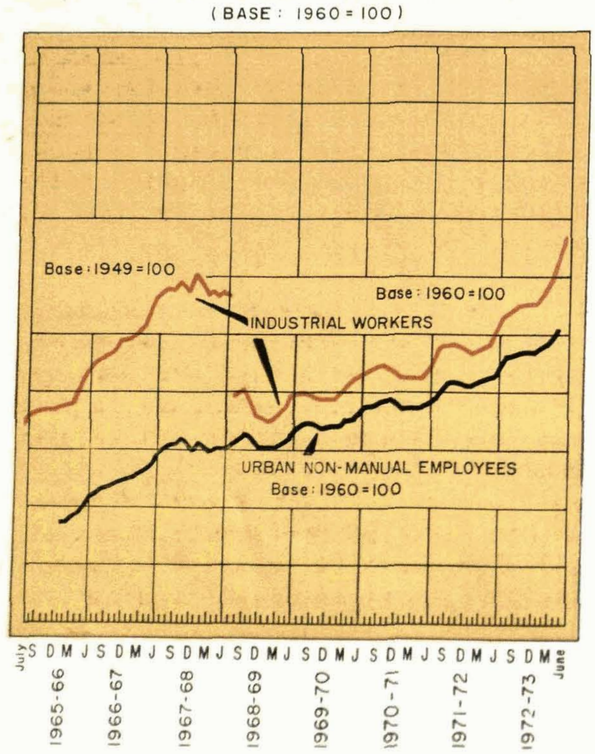






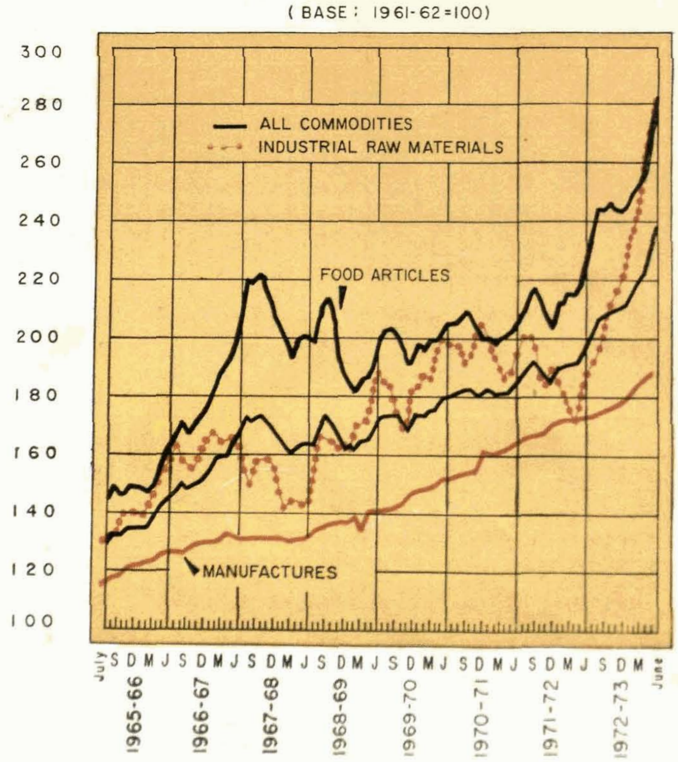
5 CONSUMER PRICE INDEX NUMBERS ALL-INDIA

(BASE: 1960 = 100)



6 INDEX NUMBERS OF WHOLESALE PRICES BY GROUPS

(BASE: 1961-62 = 100)



per cent to 10 per cent. The increase in production was, in other words, spread over a wide range of industries indicating a general improvement in the availability of non-wage goods and some wage goods produced by the industrial sector.

Table 2 :—Classification of Industries by their Growth Rates

Range of Growth Rates@	In terms of Weights in the General Index (1960 = 100)				
	1968	1969	1970	1971	1972£
Increase					
Moderate : Less than 5 per cent	23.81	26.69	27.78	27.99	31.98
Marked : 5 per cent and above	50.24	42.07	38.40	31.96	55.16
Of which :					
(i) 10 per cent and above	*25.68*	*28.10*	*22.42*	*15.72*	*15.89*
	74.05	*68.76*	*66.18*	*59.95*	*87.14*
Decline					
Moderate : Less than 5 per cent	4.43	16.61	16.10	19.98	5.53
Marked : 5 per cent and above	19.04	12.15	13.24	17.59	4.85
Of which ;					
(i) 10 per cent and above	*9.18*	*9.79*	*6.13*	*5.30*	*1.99*
	23.47	*28.76*	*31.34*	*37.57*	*10.38*
Total Weight	**97.52***	**97.52***	**97.52***	**97.52***	**97.52***

@ Growth Rates represent percentage increases in output over the respective preceding years.
£ Provisional.
* C.S.O. does not regularly publish the index of industries with the balance of 2.48 percentage points of weightage.

17. Industries which showed marked increases were cotton spinning, mining and quarrying, iron and steel, railroad equipment, and fine and pharmaceutical chemicals. Among industries which showed moderate increases, the notable ones were cotton textiles, food manufacturing and cement. Industries with nominal declines (of less than 5 per cent) constituted less than 6 per cent of the total in 1972 compared with 20 per cent in 1971, and included motor vehicles, non-metalic mineral products and communication equipment. Industries where the decline was more than 5 per cent accounted for less than 5 per cent of the total weight as against 18 per cent in 1971 ; important among them were cigarettes and miscellaneous manufacturing industries.

18. Several factors contributed to this overall improvement in industrial output in 1972. First, better supply position of raw cotton and raw jute, assisted larger production of textiles which have a weightage of 27 per cent in the index of industrial production. Likewise, steel-using industries benefited from a 4 per cent increase in the output of steel from both public and private sector steel plants and the continuation of imports. Secondly, larger investment in various industries led to a higher demand for cement and other construction materials, transport services and certain investment goods. Thirdly, selective liberalisation of industrial licensing policy appears to have encouraged industrial activity. Lastly, an improvement in industrial relations in some key industries that occurred in 1972 probably had a favourable impact on industrial capacity utilisation.

19. There were, however, some industries which had under-utilised capacity like railway wagons, mining machinery, steel castings, machine tools and heavy structures. In most cases, this stemmed from continued sluggish demand for their products. Utilisation of capacity in the motor vehicle group, however, was affected by paucity of supplies from ancillary units, caused by labour strikes and/or inadequate supply of inputs. Likewise, the vanaspati industry continued to work below

capacity for lack of adequate supply of oil-seeds/oils.

20. Despite the set-back suffered in the early part of 1973, there are possibilities of continuation of, if not an acceleration in, the growth rate of 7·1 per cent recorded in 1972. The realization of this possibility depends on a favourable monsoon and a consequential improvement in the supply position of power and of raw materials like raw cotton, raw jute, oilseeds, sugarcane, etc. It is in respect of industrial raw materials that specific measures to augment supplies and keep down costs will be required. Further additions to capacity and imports would help in some cases; in respect of others, it will be necessary to streamline the distribuiton machinery and perhaps permit some price increases. Overall industrial activity has to be supported by better production and management in the public utilities sector, especially electric power where supply has been severely impaired.

Price Situation

21. As already observed, the continuation of reduced supplies of agricultural products and rapid expansion of monetary resources resulted in a sharp deterioration of the price situation. Between end-June 1972 and end-June 1973, the wholesale price index showed a record rise of 21·5 per cent as against a much smaller increase of 6·8 per cent in 1971-72. Apart from this being the largest increase in a single year in the recent past, it was also remarkable for the rapidity of increase during the period since January 1973—despite the realization of a *rabi* output at least as good as in the 1972 season. While the rise during the slack season (May-October 1972) was of the order of 9·1 per cent, there was a rise of 7·6 per cent in the busy season (November-April) 1972-73. Since end-April 1973, the price index has moved up further by 6·8 per cent.

22. All the major groups have shared in the price rise. In the foodgrains group, particularly, price increases continued to be sharp in respect not only of coarse grains and pulses, whose output had fallen consecutively for the past three years but also of wheat the output of which had recorded some increase in 1972-73. Prices of bajra and jowar in 1972-73 went up by 56·5 per cent and 28·3 per cent on top of a rise of 45·1 per cent and 20·9 per cent, respectively, in 1971-72. This situation in the coarse grains market inevitably led to the shift of some demand to the wheat and rice markets; and combined with poor market arrivals in those markets, pressed on their prices. Despite the absence of any fall in current output, and notwithstanding larger issues from stocks, wheat prices rose by 9·5 per cent as against a rise of 3·8 per cent last year. Rice prices also went up by 16·9 per cent as against a rise of 10·1 per cent in the preceding year.

23. Among other essential commodities, there was a phenomenal rise of 64·3 per cent in edible oils as compared to a modest rise of 3·8 per cent last year; the price of sugar increased at a slower rate of 6·5 per cent as compared to the rise of 27·5 per cent registered in the preceding year. Due to lower imports of raw cotton and higher export demand for cotton textiles, the supply position of raw cotton turned somewhat tighter in general but significantly in respect of long staple varieties; the price of raw cotton consequently rose by 58·5 per cent in comparison with a decline of 31·3 per cent during the last year. The prices of most of the industrial raw materials increased in varying degrees during the year under review ignoring seasonal influences. In the manufactured articles group also, with the exception of jute manufactures, prices of other articles, notably cotton manufactures, metal products and leather products registered significant increases. Prices of intermediate products like cotton yarn, linseed oil, semis and non-ferrous metal products showed sharp increases reflecting the immediate impact of price increases of their respective raw materials.

24. Consistent with reduced availability of wage goods and uptrend in the general price level, especially in the price of foodgrains, edible oils and sugar, consumer price index numbers (*Base*: 1960=100) represented by the All-India Consumer Price Index Numbers for Industrial Workers and Consumer Price Index Numbers for Urban Non-Manual Employees too have risen disconcertingly during the year. The average index for Industrial Workers increased from 192 in 1971-72 (July-June) to 214 in 1972-73 recording a rise

of 11·5 per cent as compared to a rise of 3·2 per cent in 1971-72 over 1970-71. The average Index for Urban Non-Manual Employees also rose by 7·1 per cent in 1972-73 (July-April) over 1971-72 as against a rise of 4·0 per cent in 1971-72 (July-April) over 1970-71. This must be viewed with concern as many establishments in the public and private sectors have clauses linking their wage bill to variations in the cost of living. This would tend to strengthen the pressure of cost elements on the inflationary situation.

25. In a situation of rising prices of foodgrains the strategy for timely augmentation of food supplies through procurement and imports so as to bring about an effective and equitable distribution of available supplies is a major desideratum. The actual procurement during 1972-73 fell far short of the target for a variety of reasons. The take-over of wholesale trade in wheat, which was expected to benefit procurement and distribution, was not fully effective. Government purchases were much less than needed for meeting the requirements of the public distribution system. Import of foodgrains also did not entirely remedy the situation.

26. In the context of the difficulties and problems encountered in the take-over of wholesale trade in wheat it would be necessary to prepare a well thought out strategy for procurement of rice. The problem of rice procurement would be more complicated as procurement has to be undertaken in practically all the States, unlike in the case of wheat where a few States accounted for the bulk of procurement. Moreover, for procurement of rice, on a large scale, a levy system covering rice mills as well as others may have to be implemented effectively. In case there are difficulties involved in operating such a system, it may be necessary to consider other supplementary schemes as well. Whatever the method adopted, what is important is that procurement plans should be formulated in advance both at expert and administrative levels and their effective implementation ensured.

BUDGETARY OPERATIONS@

Combined Position of Central and State Governments

27. The price situation, it was stated earlier, was aggravated considerably by large increases in domestic expenditure which were reflected in monetary expansion. A prime factor contributing to this expansion on the monetary side was increased Government spending in the wake of the drought. However, the full measure of expansionary impact of Government expenditure is not reflected in the revised estimates which show a combined deficit of only Rs. 701 crores* in 1972-73, or less than the overall deficit of Rs. 808 crores recorded in 1971-72. More recent data show that the combined deficit was Rs. 868 crores—or a little less than four times the 1972-73 budget estimates of Rs. 231 crores. Deterioration in the budgetary position has occurred notwithstanding the buoyancy in aggregate receipts. Budgetary provision for 1973-74, however, is for reversal of the situation and consequent reduction of the combined deficit around Rs. 283 crores (Table 3).

Trends in Receipts

28. Mainly because of improved receipts on capital account, aggregate receipts increased by 15·9 per cent as against a rise of 7·1 per cent in terms of the budget estimates. Aggregate tax receipts which had shown a rise of 17·5 per cent in 1971-72 increased by 15·1 per cent in 1972-73. Even so, tax revenue in 1972-73 at Rs. 6408 crores would constitute about 16·2 per cent of national income (at current prices) as against 13·2 per cent in 1969-70. With an increase of 12·0 per cent in tax revenue estimated for 1973-74, this proportion should go up still further.

@ Figures in this section relate to fiscal years; figures for 1972-73 refer to revised estimates, unless mentioned otherwise.

* In the case of the Centre the combined deficit is measured by net increase in outstanding Treasury bills and withdrawal from cash balances and in the case of States decline in cash balances, net sales of securities held by States in their cash balance investment accounts, net transfer from revenue reserve funds and net increases in RBI credit in the form of ways and means advances and overdrafts (repayable within 7 days with effect from May 1, 1972) as presented in State budgets in the case of States.

Table 3 :—Combined Receipts and Disbursements of Central and State Governments

(Amounts in Rupees Crores)

	1969-70 (Accounts)	1970-71 (Accounts)		1971-72 (Accounts)		1972-73 (Budget Estimates)*@		1972-73 (Revised Estimates)		1973-74 (Budget Estimates)*	
	Amount	Amount	Per cent increase (+)/ decrease (—) over the previous year	Amount	Per cent increase (+)/ decrease (—) over the previous year	Amount	Per cent increase (+)/ decrease (—) over the previous year	Amount	Per cent increase (+)/ decrease (—) over the previous year	Amount	Per cent increase (+)/ decrease (—) over the previous year
	1	2	3	4	5	6	7	8	9	10	11
I. Total Receipts (A+B)	8111	8421	+ 3.8	9703	+ 15.2	10393	+ 7.1	11241	+ 15.9	12033	+ 7.0
A. Revenue Receipts	5273	5810	+ 10.2	6840	+ 17.7	7663	+ 12.0	7811	+ 14.2	8505	+ 8.9
Of which ;											
Tax Receipts	4182	4735	+ 13.2	5565	+ 17.5	6319	+ 13.5	6408	+ 15.1	7175	+ 12.0
B. Capital Receipts	2838	2611	— 8.0	2863	+ 9.7	2730	— 4.6	3430	+ 19.8	3528@@	+ 2.9
II. Total Disbursements	8098	8847	+ 9.2	10511	+ 18.8	10624	+ 1.1	11942	+ 13.6	12316	+ 3.1
Of which ;											
A. Developmental Outlay (a+b) ..	3020	3443	+ 14.0	4242	+ 23.2	4454	+ 5.0	4862	+ 14.6	5124	+ 5.4
(*a*) Revenue	1984	2254	+ 13.6	2635	+ 16.9	2940	+ 11.6	3128	+ 18.7	3478	+ 11.2
(*b*) Capital	1036	1189	+ 14.8	1607	+ 35.2	1514	— 5.8	1734	+ 7.9	1646	— 5.1
B. Non-Developmental Outlay (a+b)	3281	3674	+ 12.0	4437	+ 20.8	4286	— 3.4	4939	+ 11.3	5338	+ 8.1
(*a*) Revenue	3157	3366	+ 6.6	4260	+ 26.6	4212	— 1.1	4876	+ 14.5	5164	+ 5.9
(*b*) Capital	124	308	+148.4	177	+ 42.5	74	— 58.2	63	— 64.4	174	+176.2
Overall Surplus (+) or Deficit (—)(I—II)	+13	—426		—808£		—231		—701		—283‡	

Notes : 1. Figures are adjusted for inter-Governmental transfers. The combined overall position, however, remains unchanged.

2. Figures given here are not comparable with those given in earlier Annual Reports mainly because of the change in treatment of net contribution of departmental undertakings in the case of States ; besides, net ways and means advances and overdrafts from RBI (as per State Budgets) which were shown as part of States' capital receipts under floating debt are treated as financing items from 1971-72 Report.

* Includes effects of Budget proposals.

£ This deficit will be reduced by Rs. 1 crore if Jammu and Kashmir Government's net repayment of overdrafts with Jammu and Kashmir Bank Ltd. is taken into account.

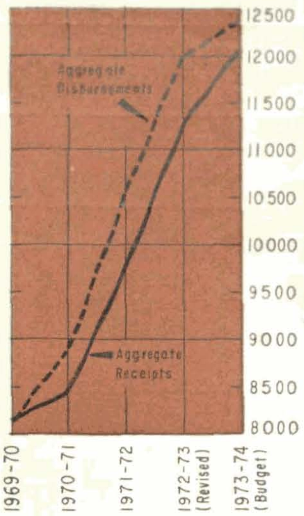
@ In the case of Punjab, supplementary estimates presented during 1972-73 are excluded. If they are taken into account the overall deficit will increase by Rs. 11 crores.

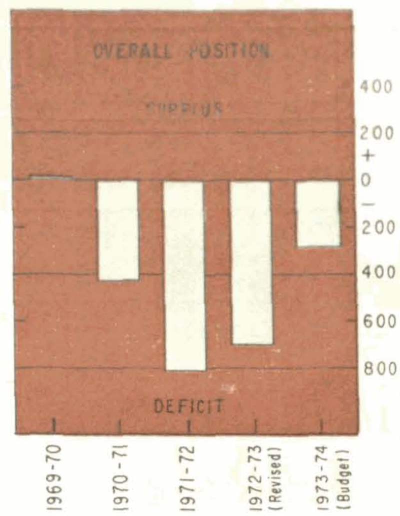
@@ Excludes market borrowings (Rs. 3 crores) by Jammu and Kashmir Electricity Board.

‡ This deficit will be higher by about Rs. 2 crores as a result of tax concessions announced by the Union Finance Minister subsequent to the presentation of the Central Government Budget.

COMBINED BUDGETARY POSITION OF CENTRAL AND STATE GOVERNMENTS

REVENUE AND CAPITAL ACCOUNTS



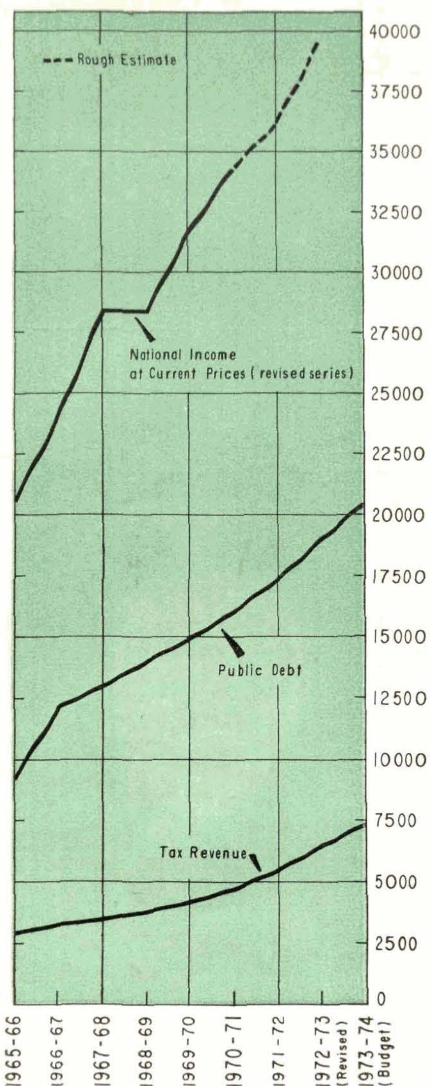


AGGREGATE RECEIPTS, DISBURSEMENTS AND OVERALL SURPLUS OR DEFICIT

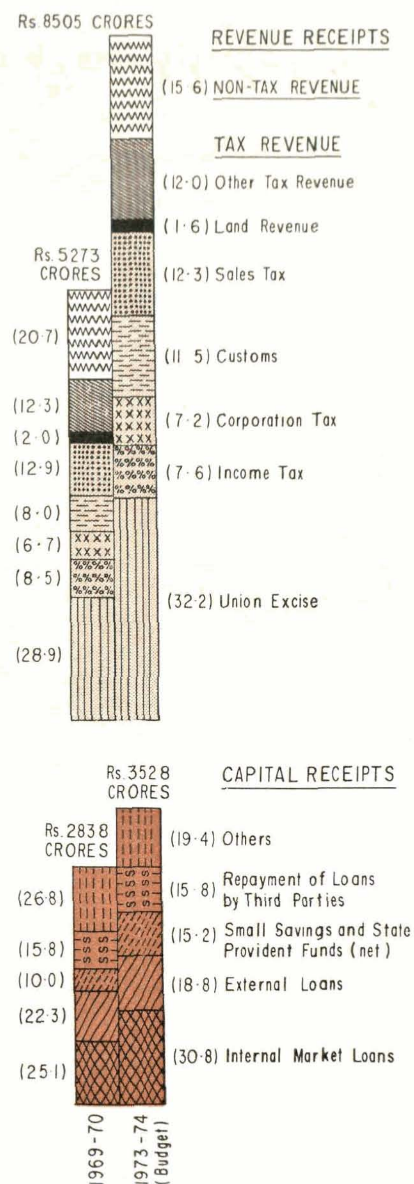
(CRORES OF RUPEES)

TRENDS IN NATIONAL INCOME, TAX REVENUE AND PUBLIC DEBT

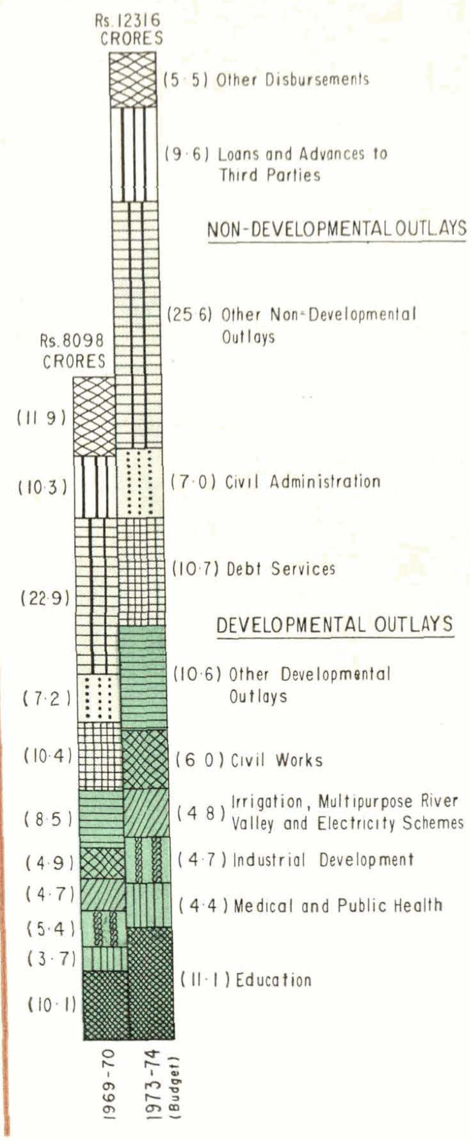
(Crores of Rupees)



PATTERN OF RECEIPTS



PATTERN OF DISBURSEMENTS

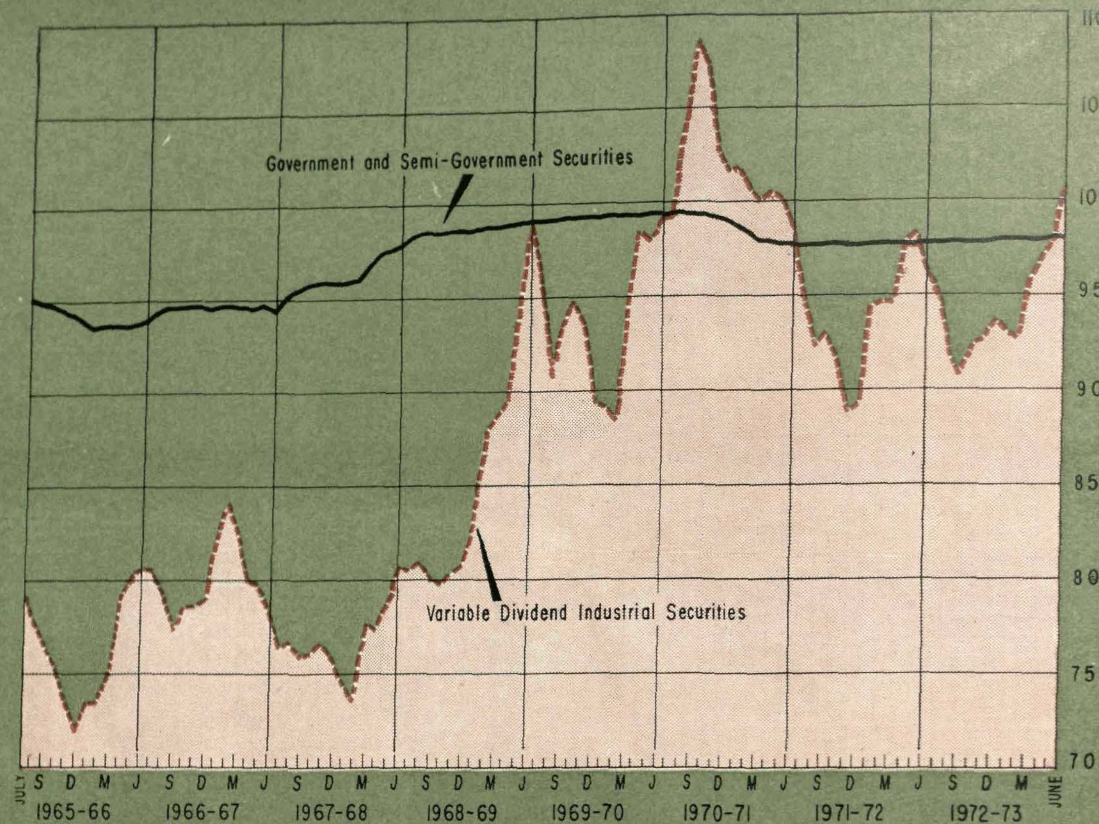


Figures in Brackets are Percentages to Total

8

INDEX NUMBERS OF SECURITY PRICES ALL-INDIA

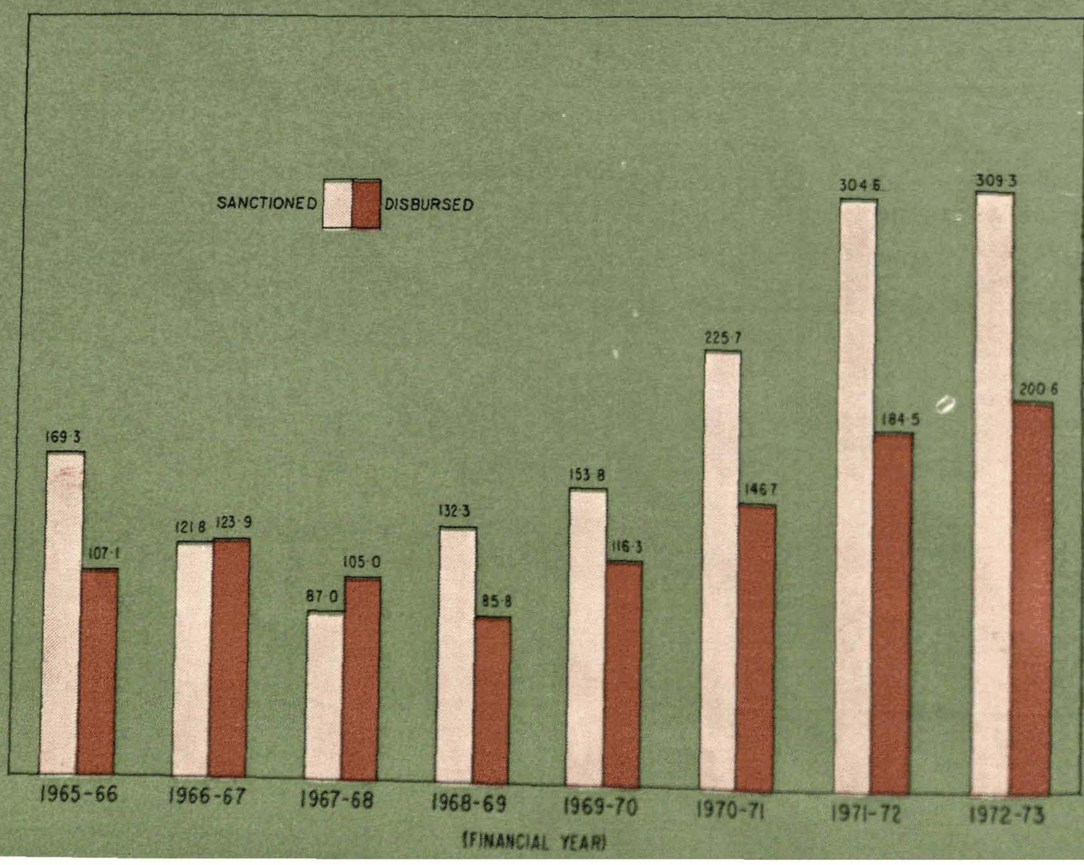
Base: 1961-62=100
(As on last Saturday)



9

ASSISTANCE SANCTIONED AND DISBURSED BY TERM-LENDING FINANCIAL INSTITUTIONS

(I.D.B.I., I.F.C.I., I.C.I.C.I., S.F.Cs and S.I.D.Cs)
(CRORES OF RUPEES)



Trends in Disbursements

29. Total disbursements (including loans and advances) showed a rise of 13·6 per cent in 1972-73. A large part of the rise was accounted for by developmental outlays which, in terms of the budget proposals, were to rise by 5 per cent but actually went up by 14·6 per cent. This was largely on account of the provision of Rs. 147 crores in the Central Plan for emergency agricultural production programme, and increase in States' expenditure on agriculture, irrigation, education, public health, etc.

Centre's Budgetary Position

30. While there was an increase in disbursements both of the Central and State Governments, the deterioration in overall position compared to budget estimates was very considerable in the case of the Central Government. The Centre's deficit which was originally budgeted at Rs. 251 crores and placed at Rs. 550 crores in the revised estimates has turned out to be Rs. 882 crores. This excludes the net amount of Rs. 421 crores given as ways and means advances by the Centre to the States in 1972-73 for clearing their overdrafts with the Reserve Bank of India.* While increase of about 29 per cent in Centre's total disbursements over the budget estimates was on account of expenditure on gross capital formation, the balance of the rise was due to additional expenditure for purposes other than capital formation. Defence and assistance for natural calamities each accounted for about one-fifth of the rise in the total expenditure. It was largely because of these increases that Centre's expenditure could not be contained within the available resources inspite of buoyancy in aggregate resources.

31. Consumption expenditure of the Centre increased by 6·5 per cent (as against a decline of 4·3 per cent in terms of budget estimates) mainly because of the rise in defence spending and grant of interim relief to Government employees. At the same time, capital formation expenditure which had increased by 17 per cent and 15 per cent, respectively, during 1970-71 and 1971-72, rose by as much as 26 per cent in 1972-73. This sharp rise is attributable to (*i*) a sizeable rise in Central assistance to States mainly for financing Plan schemes, including the emergency agricultural production programme covered under the Central Plan and (*ii*) assistance to non-departmental undertakings. Such increased financial assistance accounted for 72·7 per cent of the total increase of Rs. 557 crores in capital formation expenditure in 1972-73 over 1971-72. In respect of these investment expenditures while there would by and large be creation of productive assets and an increase in flow of goods and services in future, the immediate effect was to add to the inflationary pressures by enlarging the budget deficit.**

32. A clearer picture of the impact of Centre's budgetary operations on the economy can be had from a review of the sources and uses of funds. In 1971-72, of the total expenditure, current expenditure (56·3 per cent) and other expenditure not resulting in capital formation (11·5 per cent) accounted for 67·8 per cent ; expenditure on gross capital formation accounted for the balance of 32·2 per cent. In 1972-73, despite an increase in the magnitude of current expenditure, its proportion to the total declined to 51·5 per cent. On the other hand, due to larger transfer of resources to States, there was an increase of 2·5 percentage points in the proportion of gross capital formation to total expenditure, thus raising its share to 34·7 per cent in the total. A little more than one-fifth of the gross capital formation expenditure in 1972-73 (Rs. 2718 crores) was financed by gross savings of the Government (Rs. 572 crores) which reflect (*a*) the excess of revenue receipts over current expenditure and (*b*) the internal resources of departmental commercial undertakings. Current receipts increased by Rs. 558 crores. However, since current expenditure increased by Rs. 262 crores, the increase in gross savings was limited to Rs. 303 crores (including an increase of Rs. 7 crores in the internal resources of the departmental commercial undertakings). An increase in

* It is not included for the purpose of the account here because the transfer of the liability in the books of the Reserve Bank from that of States to the Centre has no monetary impact.

** A part of the increase in capital formation expenditure was on account of compensation payments arising from the nationalisation of coking and non-coking coal mines and General Insurance Companies. These payments increased resources available to the private sector without a compensating benefit of addition to productive capital assets.

consumption expenditure referred to earlier, brought down the level of net savings (*i.e.* gross savings *minus* expenditure on renewals and replacements) to Rs. 458 crores as against budget anticipation of Rs. 621 crores (Table 4). Nevertheless, net savings in 1972-73 were much higher than the Rs. 178 crores achieved in 1971-72. While these savings represent a transfer of resources from the private sector to the Government, they re-enter the expenditure stream through financing capital formation.

Table 4 :—Savings of the Central Government

(Amounts in Rupees Crores)

	1969-70 (Accounts)	1970-71 (Accounts)	1971-72 (Accounts)	1972-73 (Budget Estimates)	1972-73 (Revised Estimates)	1973-74 (Budget Estimates)	Percentage Variation of col. (5) over col. (3)	Percentage Variation of col. (6) over col. (5)
	1	2	3	4	5	6	7	8
1. Revenue Receipts of Government Administration (i+ii)	2882	3133	3817	4210	4375	4815	+ 14.6	+ 10.1
(i) Tax Revenue ..	2189	2434	2903	3320	3450	3915	+ 18.8	+ 13.5
(ii) Non-tax Revenue ..	693	699	914	890	925	900	+ 1.2	— 2.7
2. Current Expenditure ..	7640	2909	3777	3724	4039	4110	+ 6.9	+ 1.8
3. Savings of the Government Administration (1—2) ..	242	224	40	486	336	705	+740.0	+109.8
4. Depreciation Provision and Retained Profits of Departmental Commercial Undertakings (i + ii)	160	179	229	255	236	278	+ 3.1	+ 17.8
(i) Depreciation Provision	115	123	128	137	136	148	+ 6.3	+ 8.8
(ii) Retained Profits ..	45	56	101	118	100	130	— 1.0	+ 30.0
5. Gross Savings of the Central Government (3 + 4)	402	403	269	741	572	983	+112.6	+ 71.9
6. Expenditure on Renewals and Replacements	75	91	91	120	114	137	+ 25.3	+ 20.2
7. Net Savings (5 — 6) ..	327	312	178	621	458	846	+157.3	+ 84.7
8. Net Investment	318	428	506	604	635	759	+ 25.5	+ 19 5
9. Excess (+) or shortfall (—) of Net Savings over Net Investment (7 — 8)	+ 9	—116	—328	+ 17	—177	+ 87		
10. Item 3 as per cent of Item 1	8.4	7.1	1.1	11.5	7.7	14.6		

33. A measure of the gap which had to be met from internal and external borrowings and indebtedness to the Reserve Bank is furnished by the excess of total expenditure over total receipts comprising current receipts, capital transfers, repayment of loans and internal resources of departmental undertakings. In 1972-73, the total expenditure of the Central Government at Rs. 7840 crores exceeded total receipts by Rs. 2006 crores. This was financed to the extent of Rs. 1147 crores by domestic borrowings and Rs. 309 crores by external borrowings, leaving an uncovered gap of Rs. 550 crores to be financed by budgetary deficit* *i.e.,* borrowings from the Reserve Bank against Treasury bills and drawal on cash balances. (Table 5).

* As mentioned earlier, budgetary deficit is now placed at Rs. 882 crores.

Table 5 :—Sources and Uses of Funds: Central Government

(Amounts in Rupees Crores)

Sources of Funds

	1969-70 (Accounts)	1970-71 (Accounts)	1971-72 (Accounts)	1972-73 (Budget Estimates)	1972-73 (Revised Estimates)	1973-74 (Budget Estimates)
1. Current Receipts (a+b)	2882	3133	3817	4210	4375	4815
(a) Tax Receipts ..	2189	2434	2903	3320	3450	3915
(b) Income from property, enterprises and miscellaneous receipts ..	693	699	914	890	925	900
2. Capital Transfers ..	46	55	32	31	39	33
3. Internal Resources of Departmental Undertakings	160	178	229	254	236	278
4. Repayment of Loans..	847	893	1054	1008	1184	1130
Total Receipts (1 to 4)	**3935**	**4259**	**5132**	**5503**	**5834**	**6256**
Excess of Total Expenditure over Total Receipts	990	1317	1578	1366	2006	1386
Financed by ;						
1. Net Domestic Borrowings	384	648	793	753	1147	864
Of which ; Net Market Borrowings@	143	144	293	215	477	326
2. Net External Borrowings	539	343	325	361	309	437
3. Budgetary Deficit (a+b)	67	326	460	252	550	85
(a) Net RBI holdings of Treasury bills‡	84	400	290	252	545	85
(b) Increase (—) or Decrease (+) in Cash Balances ..	—17	—74	+170	—	+ 5	—

Uses of Funds

	1969-70 (Accounts)	1970-71 (Accounts)	1971-72 (Accounts)	1972-73 (Budget Estimates)	1972-73 (Revised Estimates)	1973-74 Budget Estimates)
1. Expenditure for Capital Formation (a+b)..	1612	1888	2161	2441	2718	2883
(a) Gross Capital Formation ..	1649	1854	2130	2474	2729	2899
(b) Increase in Inventories ..	—37	34	31	—33	—11	—16
2. Expenditure for purposes other than Capital Formation (a+b) ..	3313	3688	4549	4428	5122	4759
(a) Current Expenditure (i+ii) ..	2640	2908	3778	3725	4039	4110
(i) Consumption Expenditure ..	1477	1669	2055	1966	2188	2269
(ii) Current Transfers ..	1163	1239	1723	1759	1851	1841
(b) Other Expenditure	673	780	771	703	1083	649
Total Expenditure .. (1+2)	**4925**	**5576**	**6710**	**6869**	**7840**	**7642**

Note ; Savings of the Government administration = Current Receipts *minus* Current Expenditure.

@ Comprised market loans (net), small savings (net), provident funds (net), other debt (net), net increase in holdings of Treasury bills other than to RBI, etc.

‡ Ignores funding of Treasury bills into long-dated securities.

Source : Economic and Functional Classification of the Central Government Budgets 1971-72, 1972-73 and 1973-74.

Table 6 :—Developmental and Non-Developmental Expenditure of the Central Government

(Amounts in Rupees Crores)

	1969-70 (Accounts)		1970-71 (Accounts)		1971-72 (Accounts)		1972-73 (Budget Estimates)		1972-73 (Revised Estimates)		1973-74 (Budget Estimates)	
	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year
	1	2	3	4	5	6	7	8	9	10	11	12
Total Expenditure (A+B)	4925 (100.0)	+ 8.8	5576@ (100.0)	+13.2	6710 (100.0)	+20.3	6869 (100.0)	+ 2.4	7840 (100.0)	+16.8	7642 (100.0)	— 2.5
A. Developmental Expenditure (i+ii) ..	2352 (47.8)	+ 5.2	2659 (47.7)	+13.1	3126 (46.6)	+17.6	3544 (51.6)	+13.4	4025 (51.3)	+28.8	4056 (53.1)	+ 0.8
(i) Social Services	304 (6.2)	+10.5	364 (6.5)	+19.7	452 (6.7)	+24.2	663 (9.7)	+46.7	679 (8.6)	+50.2	746 (9.8)	+ 9.9
(ii) Economic Services*	2048 (41.6)	+ 4.5	2295 (41.2)	+12.0	2674 (39.9)	+16.5	2881 (41.9)	+ 7.7	3346 (42.7)	+25.1	3310 (43.3)	— 1.1
B. Non-Developmental Expenditure (i+ii)	2573 (52.2)	+12.3	2917 (52.3)	+13.4	3584 (53.4)	+22.9	3325 (48.4)	— 7.2	3815 (48.7)	+ 6.4	3586 (46.9)	— 6.0
(i) General Services	1492 (30.3)	+ 6.4	1777 (31.9)	+19.2	2018 (30.1)	+13.6	1909 (27.8)	— 5.4	2264 (28.9)	+12.2	2146 (28.1)	— 5.2
(ii) Unallocable	1081 (21.9)	+21.6	1140 (20.4)	+ 5.5	1566 (23.3)	+37.4	1416 (20.6)	— 9.6	1551 (19.8)	— 1.0	1440 (18.8)	— 7.2

Note : Figures in brackets are percentages to total expenditure.

@ Includes compensation paid to nationalised banks estimated at Rs. 84 crores and additional subscription to the IMF and IBRD paid in the form of non-negotiable, non-interest bearing rupee securities estimated at Rs. 114 crores.

* Include Block grants and loans.

Budget for 1973-74— Centre

34. In contrast to the enlargement of expenditures that occurred in 1972-73, the budget for 1973-74 has provided for a decline of 2·5 per cent (as compared with the revised estimates for 1972-73) in total expenditure. Developmental expenditure (comprising social and economic services) which had increased by 29 per cent during 1972-73 is expected to show a marginal rise of about 1 per cent. Non-developmental extenditure *i.e.*, general services and unallocable items, which had increased by 6 per cent in 1972-73 is anticipated to decline by the same percentage (Table 6). At the same time, tax proposals have been introduced to yield as much as Rs. 292 crores** (of which Rs. 42 crores would be States' share). This has helped to limit the deficit as estimated to a modest amount of Rs. 85 crores. Whether the Government would be able to contain the deficit to the budgeted figure will depend on a number of factors. Additional expenditure may have to be incurred on account of the recommendations of the Third Pay Commission. Also, the budget has not made adequate provisions for additional subsidies on imported foodgrains. In view of these factors, the Government has recently announced a programme for reducing total outlay in 1973-74, including assistance to States, by Rs. 400 crores.

35. Consumption expenditure of the Centre is estimated to rise in 1973-74 by 3.7 per cent as against an increase of 6.5 per cent in 1972-73 over 1971-72. The actual increase may be slightly higher for the reasons mentioned in the previous paragraph. In respect of capital formation, expenditure by the Centre which had increased by 26 per cent in 1972-73 is likely to record a further rise of 6 per cent (Table 7). The provision for capital formation in 1973-74 would constitute 38 per cent of the total expenditure reflecting the continuation of the uptrend in this ratio which was 33 per cent in 1969-70.

Table 7 :—Expenditure on Capital Formation by Government of India

(Amounts in Rupees Crores)

	1968-69 (Accounts)	1969-70 (Accounts)	1970-71 (Accounts)	1971-72 (Accounts)	1972-73 (Budget Estimates)	1972-73 (Revised Estimates)	1973-74 (Budget Estimates)
I. Gross Direct Fixed Capital Formation	449	430	485	566	757	760	913
II. Increase in Inventories	—173	— 37	34	31	— 33	— 11	— 16
III. Net Direct Capital Formation (Gross Direct Fixed Capital Formation *minus* expenditure on renewals and replacements *plus* increase in inventories) ..	193	318	428	506	604	635	759
IV. Financial Assistance for Capital Formation (a+b+c)	1384	1219	1285 (1369)*	1564	1717	1969	1986
(*a*) States and Union Territories	709	692	740	885	899	1074	1167
(*b*) Non-Departmental Commercial Undertakings (1+2)	623	444	448 (532)*	545	674	750	676
1. Financial Concerns ..	69	42	70 (154)*	63	103	144	117
2. Others	554	402	378	482	571	606	559
(*c*) Other Parties@	52	83	97	134	144	145	143
Total (I + II + IV) ..	**1660**	**1612**	**1804 (1888)***	**2161**	**2441**	**2718**	**2883**

Note :—In this table expenditure on capital formation is shown on gross basis.
* Including compensation paid to nationalised banks.
@ Comprising assistance to local authorities and others.

** This amount would be reduced by about Rs. 2 crores on account of tax concessions referred to earlier.

Capital Formation Expenditure

36. Under capital formation, the expenditure for economic services (excluding block grants and loans) showed a modest rise of 2·0 per cent from Rs. 1896 crores in 1972-73 to Rs. 1933 crores in 1973-74. This increase is mainly attributable to the provision of Rs. 150 crores as advance action for the Fifth Plan which is treated as capital formation. On the other hand, the expenditure under agriculture, industry and transport and communications in 1973-74 is budgeted lower than in 1972-73. In the case of agriculture, the reduction in the provision may be due partly to the fact that last year there was a spurt in loans advanced to the States for emergency agricultural production programme. With regard to industry, the decline is explained by the fact that the revised estimates of 1972-73 included the compensation payments referred to earlier. The smaller provision for transport and communications is mainly because of an anticipated decline of Rs. 10 crores in the level of inventories in 1973-74 as against an addition of Rs. 22 crores in 1972-73.

Budgetary Operations of State Governments 1972-73

37. The revised estimates for 1972-73 show that the combined budgetary position of all States was surplus* to the extent of Rs. 270 crores as against a small surplus of Rs. 20 crores@ anticipated in the budget estimates (Table 8). This sharp improvement in the revised estimate of State finances was due mainly to the substantial loan assistance from the Centre, Rs. 511 crores** of which was provided to clear their outstanding overdrafts with the Reserve Bank of India. The States have repaid Rs. 90 crores of this amount and the remaining Rs. 421 crores have been subsequently converted into a medium-term loan. The surplus of Rs. 270 crores mentioned above appears in the revised estimates (Table 8) because of the fact that the transactions connected with the clearance of overdrafts with the Reserve Bank in April 1972 have not been fully taken into account on the capital disbursements side. In actual fact, however, the budgetary transactions of the State Governments seem to be, on the basis of more recent data, one of net surplus of about Rs. 14 crores,† which was very close to the budget anticipations.

38. Aggregate disbursements of State Governments (Rs. 7036 crores) exceeded their aggregate receipts (Rs. 6885 crores). Aggregate receipts which were to rise by 10 per cent over 1971-72 actually showed an increase of about 17 per cent. This was despite the fact that States' own tax receipts which were estimated to rise by 13 per cent rose only by 10·5 per cent. This shortfall was largely made good by transfers from the Centre, by way of States' share in Central taxes, grants and loans. The total of grants-in-aid and share in Central taxes went up by more than 13 per cent while loans from the Centre rose by 18·6 per cent. Of the increase over budget estimates of Rs. 431 crores in aggregate receipts, as much as 69 per cent was accounted for by capital receipts, the major portion of which came by way of loans from the Centre.

39. The effect of drought conditions was reflected in the aggregate disbursements of State Governments. Disbursements which according to budget estimates would have risen by 4·4 per cent over 1971-72, in fact, went up by 14·2 per cent. Non-developmental expenditure which was to go up by 3·8 per cent showed a rise of more than 20 per cent, principally because of a large increase in current expenditure under famine relief. The effect of scarcity conditions prevailing in a number of States was also reflected in an increase in State Governments' loan assistance to third parties, in particular to cultivators. Such loan assistance actually went up by 23 per cent. There was also an increase in their developmental expenditure which was 20 per cent higher than in 1971-72, and 8·6 per cent higher than the budget estimates for 1972-73.

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* The overall surplus or deficit as measured by increase/decrease in cash balances, net purchase/sale, reserve funds and net decrease/increase in Reserve Bank of India credit in the form of ways and means advances and overdrafts (repayable within 7 working days with effect from May 1, 1972) as presented in the State budgets.

@ This figure would slightly differ from that given in the last year's Annual Report as it excludes the effect of supplementary estimates presented during 1972-73 by the Punjab Government.

** This includes Rs. 8 crores given to the Government of Jammu and Kashmir as a part of non-Plan loan for meeting the gap in resources in 1972-73.

† As measured by variations in cash balances, ways and means advances from the Reserve Bank and holdings of Treasury bills as per the Reserve Bank records.

Table 8:—Overall Budgetary Position of States

(Amounts in Rupees Crores)

	1969-70 (Accounts)	1970-71 (Accounts)	Percentage increase of (2) over (1)	1971-72 (Accounts)‡	Percentage increase of (4) over (2)	1972-73@ (Budget)‡	Percentage increase of (6) over (4)	1972-73 (Revised)‡	Percentage increase of (8) over (4)	1973-74 (Budget)‡	Percentage increase of (10) over (8)	
	1	2	3	4	5	6	7	8	9	10	11	
I. Aggregate Receipts (A+B) ..	4889	5071	+ 3.7	5873	+15.8	6454	+ 9.9	7396 (6885)	+25.9 (17.2)	7230 (7312)	— 2.2 (— 1.1)	[+ 5.0] [+ 6.2]
A. Revenue Receipts (i + ii) ..	3053	3371	+10.4	4045	+20.0	4400	+ 8.8	4534	+12.1	4899 (4981)	+ 8.1 (+ 9.9)	
(i) States' Own Revenue Receipts	1896	2049	+ 8.1	2250	+ 9.8	2536	+12.7	2504	+11.3	2639 (2679)	+5.4 (+ 7.0)	
Of which : Tax Receipts	1356	1528	+12.7	1695	+10.9	1914	+12.9	1873	+10.5	2013 (2052)	+ 7.5 (+ 9.6)	
(ii) Resources transferred from the Centre (a+b) ..	1157	1322	+14.3	1795	+35.8	1864	+ 3.8	2030	+13.1	2260 (2302)	+11.3 (+13.4)	
(a) Shared Taxes ..	625	756	+21.0	942	+24.6	1058	+12.3	1063	+12.8	1146 (1188)	+ 7.8 (+11.8)	
(b) Grants from the Centre	532	566	+ 6.4	853	+50.7	806	— 5.5	967	+13.4	1114	+15.2	
B. Capital Receipts (i + ii) ..	1836	1700	— 7.4	1828	+ 7.5	2054	+12.4	2862 (2351)	+56.6 (+28.6)	2331*	—18.6	[—0.9]
(i) States' Own Capital Receipts	806	695	—13.8	636	— 8.5	853	+34.1	937	+47.3	1036	+10.6	
Of which : Market Borrowings (gross) ..	173	165	— 4.6	177	+ 7.3	188	+ 6.2	217	+22.6	193*	—11.1	
(ii) Loans from the Centre (gross)	1030	1005	— 2.4	1192	+18.6	1201	+ 0.8	1925 (1414)	+61.5 (18.6)	1295	—32.7	[—8.4]
II. Aggregate Disbursements ..	4830	5212	+ 7.9	6162	+18.2	6434	+ 4.4	7126 (7036)	+15.6 (+14.2)	7510	+ 5.4	[+6.7]
Of which : (a) Developmental Outlay* ..	2130	2428	+14.0	2861	+17.8	3157	+10.3	3427	+19.8	3798	+10.8	
(b) Non-Developmental Outlay ..	1483	1518	+ 2.4	1845	+21.5	1915	+ 3.8	2218	+20.2	2335	+ 5.3	
(c) Repayment of Loans to the Centre	608	634	+ 4.3	802	+26.5	785	— 2.1	671 (581)	—16.3 (—27.6)	769	+14.6	[+32.4]
(d) Loans and Advances to Third Parties	432	491	+13.7	555	+13.0	453	—18.4	683	+23.1	549	—19.6	
(e) Repayment of Market Loans	85	59	—30.6	73	+23.7	84	+15.1	87	+19.2	1	—98.9	
III. Overall Surplus (+) or Deficit (—) (I — II)	+ 59	— 141		—289£		+ 20		+270 (—151)		—280 (—198)		

Notes : 1. Figures given here are not comparable with those given in earlier Annual Reports mainly because of the change in treatment of net contribution of departmental undertakings; besides, net ways and means advances and overdrafts from RBI (as per State Budgets) which were shown as part of States' capital receipts under floating debt are treated as financing items from 1971-72 Report.

2. Figures in brackets for 1973-74 (Budget) are after taking into account estimated yield from budget proposals by State and their share in additional taxation proposed by the Centre during 1973-74.

3. Figures in brackets for 1972-73 (Revised) relating to aggregate receipts, capital receipts and loans from the Centre exclude Rs. 511 crores of ways and means assistance received from the Centre to clear States' outstanding overdrafts with the Reserve Bank of India; aggregate disbursements and repayments of loans to the Centre exclude Rs. 90 crores *i.e.*, part repayment of the abovementioned amount. The overall surplus/deficit is adjusted accordingly.

4. Figures in square brackets indicate percentage growth rate of 1973-74 (B. E.) over bracketed figures for 1972-73 (R. E.).

@ Includes the effect of budget proposals. In the case of Punjab, supplementary estimates presented during 1972-73 are excluded. If these are taken into account the overall surplus would come to Rs. 9 crores.

‡ Figures in the case of Andhra Pradesh and Orissa are provisional.

£ This deficit will go down by Rs. 1 crore if the net repayment of overdrafts by Jammu and Kashmir Government to Jammu and Kashmir Bank Ltd. is taken into account.

* To ensure uniformity in the presentation of data the market borrowings of Rs. 3 crores by Jammu and Kashmir Electricity Board are excluded from States' capital receipts.

Budgetary Operations of State Governments 1973-74

40. A notable feature of the State Governments' 1973-74 budgets was the stepping up of their Plan outlay by Rs. 234 crores (14·6 per cent) to Rs. 1836 crores. This was not, however, accompanied by an equivalent intensification of State Governments' efforts at mobilising additional resources. As against the fresh tax efforts of Rs. 69 crores† undertaken in 1972-73 the measures announced by the State Governments, in 1973-74 are expected to yield an additional revenue of only Rs. 40 crores. Of this, Rs. 18 crores are expected to accrue from the retention of the levies which were initially imposed for refugee relief.

41. Aggregate receipts of all State Governments at Rs. 7230 crores (at 1972-73 rates of taxation) are expected to be lower by Rs. 166 crores over the revised estimates for 1972-73. However, adjusting for the special ways and means assistance received by the State Governments in 1972-73, mentioned earlier, aggregate receipts would show an increase of Rs. 345 crores (5·0 per cent). Total receipts would go up to Rs. 7312 crores if credit is taken for the expected yield from the measures taken by State Governments for raising additional resources together with their share in Centre's fresh tax efforts during the year. The pattern of States' aggregate receipts reveals that the budgeted increase in States' own tax receipts of 9·6 per cent (including additional resource mobilisation) would show a growth which is smaller than in any year during the entire Fourth Plan period. Over the past few years the rate of increase in States' tax yields shows a decline from about 12·7 per cent in 1970-71 to 9·6 per cent in 1973-74. Resources transferred from the Centre in the form of shared taxes and grants-in-aid, on the other hand, at Rs. 2302 crores are expected to be higher by 13·4 per cent, about the same as in 1972-73. Capital receipts of State Governments at Rs. 2331 crores are budgeted to decline by about 1 per cent as against a sharp increase of about 29 per cent in 1972-73 over the previous year. Loans from the Centre budgeted at Rs. 1295 crores would be lower by more than 8 per cent.

† This relates to full year yield. This does not include the yield from drive to collect arrears of taxes and tightening of tax administration machinery.

42. Aggregate disbursements at Rs. 7510 crores would be higher by Rs. 384 crores (5·4 per cent) over the revised estimates for 1972-73, as compared to an increase of 15·6 per cent in 1972-73.* Both the developmental as well as non-developmental expenditures are expected to show a much smaller increase of 10·8 per cent and 5·3 per cent, respectively, than those recorded in 1972-73 (19·8 per cent and 20·2 per cent, respectively). Repayment of loans by State Governments to the Centre is expected to be 14·6 per cent higher in contrast to the position in 1972-73 when it went down by 16·3 per cent. The higher loan repayment by the State Governments to the Centre would be partly offset by a substantial reduction in State Governments' own loan assistance to third parties which is budgeted lower by 19·6 per cent.

43. To sum up, the budgetary operations of the State Governments in 1973-74 are expected to end up with a deficit of Rs. 280 crores. This would, however, be reduced by Rs. 82 crores to Rs. 198 crores as a result of State Governments' efforts towards additional resource mobilisation as well as by their share in additional taxes by the Centre. It is not clear how this deficit is to be covered. In this context, it may be mentioned that no State Government, with the possible exception of Haryana, has moved towards implementing the recommendation of Raj Committee on imposition of an agricultural holdings tax. The contribution of all State Governments' commercial undertakings except forests and road and water transport schemes, has been negative. If the State Governments intend mobilising substantial additional resources, they will have to adopt measures that will impinge on the larger agricultural incomes and try to obtain surpluses from their commercial undertakings.

Overdrafts by States

44. As was mentioned in last year's Report, the outstanding overdrafts of Rs. 642 crores at the end of April 30, 1972 were cleared, under a new scheme evolved for the purpose, partly by special assist-

* Aggregate disbursements for 1972-73 are inclusive of repayment of Rs. 90 crores of ways and means assistance to the Centre, as similar break-down for 1973-74 in respect of States' repayment to the Centre is not available. Aggregate disbursements for 1973-74 are compared with those including the special ways and means assistance for 1972-73.

ance provided by the Central Government and partly by advance release of payments due to States. From May 1, 1972, no overdrafts are allowed by the Reserve Bank of India, save for purely temporary periods not exceeding seven days. However, the limits for clean ways and means advances from the Reserve Bank have been increased to a total of Rs. 78 crores for all the States. Additionally, State Governments can obtain secured advances, as special and additional special ways and means advances. The State Governments availed of these modified facilities for ways and means advances with considerable restraint, and the maximum amount outstanding under the head of clean advances did not exceed Rs. 64 crores. Some State Governments, which had overdrawn on the Reserve Bank temporarily cleared the overdrafts within the set time limit of seven days. Thus the new arrangement for eliminating RBI overdrafts by States and for their improved financial discipline worked satisfactorily in 1972-73 in the manner intended.

Market Borrowings

45. A considerable part of the increase in Government expenditure in 1972-73 was financed by resources mobilised through market borrowings. The combined net receipts of the Centre and States from market borrowings amounted to Rs. 612 crores in 1972-73 recording a rise of Rs. 216 crores over the level of Rs. 396 crores achieved in 1971-72. Of this rise, the share of the Centre was Rs. 183 crores and of the States Rs. 33 crores. The Centre entered the market on four different occasions, when substantial surplus funds were available with the banking system (Table 9).

Table 9 :—Market Borrowings of the Government of India during 1972-73

(Amounts in Rupees Crores)

Loans floated	Issue Price (Rs. per cent)	Amount Offered	Amount Subscribed: Cash	Amount Subscribed: Conversion	Amount Subscribed: Total (3+4)	Repayment in cash for unconverted maturing securities	Net Market Borrowings (3—6)
	1	2	3	4	5	6	7
4¾ per cent Loan, 1979	100.00		57	44	102		
5 per cent National Defence Loan, 1981	100.00		10	—	10		
5 per cent Loan, 1982	100.00		10	—	10		
5 per cent Loan, 1983	99.50 99.65	710	171	88	259	18	
5 per cent Loan, 1984	99.50		50	—	50		
5¼ per cent Loan, 1988	99.50		60	—	60		
5¾ per cent Loan, 2002	100.00		183	105	288		
Total during 1972-73			**541**	**237**	**779**	**63@**	**478**

Note : Details may not add up to totals on account of rounding.

@ Includes Rs. 45 crores of cash repayment of securities maturing during the year.

Source : Reserve Bank of India records.

46. On September 4, 1972, 20* State Governments issued at par 12-year loans carrying interest at $5\frac{3}{4}$ per cent, for Rs. 197·25 crores. Net market borrowings of States aggregated Rs. 134 crores during 1972-73 as against Rs. 101 crores in 1971-72.

47. Net collections from Small Savings were estimated at Rs. 230 crores** for 1972-73 budget of the Centre. Actual net collections during 1972-73 are now placed at Rs. 351 crores. In the Central budget for 1973-74, these receipts are expected to be of the order of Rs. 325 crores.

Savings and Investment

48. In conjunction with other receipts on capital account, the market borrowings enabled the Centre to finance, directly as well as indirectly through assistance to States, Union Territories, local authorities and non-departmental commercial undertakings gross capital formation of Rs. 2718 crores in 1972-73 (Table 7).

49. In the 1973-74 budget, the Centre has made a provision of Rs. 880 crores and Rs. 326 crores, respectively, for gross and net market borrowings. During the first phase of borrowings, the Centre floated on May 12, 1973, $4\frac{3}{4}$ per cent Loan, 1980, 5 per cent Loan, 1984 (Second Issue) and $5\frac{3}{4}$ per cent Loan, 2003 for Rs. 500 crores. Subscriptions amounted to Rs. 551 crores of which Rs. 170 crores were in cash and the remaining in conversion. During the second phase of the borrowings, on July 21, 1973, the Centre issued $4\frac{3}{4}$ per cent Loan, 1981, $5\frac{1}{4}$ per cent Loan, 1987 and $5\frac{3}{4}$ per cent Loan, 2003 (Second Issue) for Rs. 325 crores. Of the total subcriptions of Rs. 358 crores, Rs. 212 crores were in cash. Allowing for cash repayments, net market borrowings of the Centre from these two phases aggregated Rs. 354 crores. As regards State Governments, the issue at par of $5\frac{3}{4}$ per cent 1985 loan for an aggregate notified amount of Rs. 149·75 crores has been announced. No State Government loans are due to mature in 1973-74.

* Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya and Nagaland issued market loans for the first time.

**This was subsequently raised to Rs. 275 crores consequent to the decision to invest 75 per cent of the Provident Funds under the Employees Provident Fund Act, 1952, in the Post Office Time Deposits.

50. No detailed information is available to estimate expenditures of the States on capital formation. Over the last year, the developmental outlays of States have increased by Rs. 566 crores both on revenue account as well as on capital account (Table 8). Since a large part of States' developmental expenditure consists of current outlays on education, public health, civil works, etc. it is difficult to say what part of this increase represents additional outlays on capital formation. As regards the financing of capital formation, much the greater part came from loans and other transfers from the Centre ; the States' own savings provided a somewhat smaller share than in the previous year.

51. There appears to have occurred some marginal improvement in the finances of large public sector undertakings like Hindustan Steel, Heavy Engineering Corporation and Heavy Electricals, etc. thereby arresting the decline in public sector savings. In addition, as mentioned earlier, net savings of the Central Government were Rs. 458 crores in 1972-73 in comparison with the level of Rs. 178 crores in 1971-72. These are budgeted to increase to Rs. 846 crores in 1973-74 and with net investment anticipated to rise to Rs. 759 crores, there is expected to be a surplus of Rs. 87 crores in savings. This surplus would be in contrast to a shortfall of Rs. 177 crores in 1972-73 which itself was lower than the shortfall of Rs. 328 crores in 1971-72. Continuation of an improvement in the savings of the Centre would very much hinge on the extent of containment of current expenditure within the budgeted provisions.

52. What emerges, therefore, is that both public savings and public investment expenditures were higher in 1972-73 than in 1971-72. But more importantly, Governments' outlay on purchase of goods and services for both consumption and investment purposes much exceeded the transfers from the private sector by way of taxes and loans to Government. The inevitable consequence of this was, on the one hand, a rapid increase in the net indebtedness of the Government sector to the Reserve Bank of India ; and, on the other, impairment of even essential consumption.

Monetary and Banking Developments

Trends in Money Supply and Aggregate Monetary Resources

53. The increases in public and private spending were, as observed earlier, accompanied by a fast growth in money supply and aggregate monetary resources. Money supply with the public expanded by 15·6 per cent in 1972-73 as against 14·2 per cent in the preceding year. The increase in aggregate monetary resources was 17·6 per cent as compared to 16·9 per cent last year. A feature of this monetary expansion unlike in the previous year was the steep rise in its currency component which expanded by Rs. 857 crores (17·2 per cent) in comparison with Rs. 388 crores (8·5 per cent) in the previous year. On the other hand, deposit money, which had increased by Rs. 673 crores (23·4 per cent) last year, registered a smaller rise of Rs. 469 crores (13·2 per cent). Consistent with this trend, the marginal ratio of currency to money supply moved up from 36·6 per cent to 64·6 per cent (Table 10). Time deposits, however, at 22 per cent growth increased faster than either currency or demand deposits.

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

(Amounts in Rupees Crores)

	Outstandings at end-June			Variations during July-June		
	1971	1972	1973	1970-71	1971-72	1972-73
Constituents of Money Supply						
1. Currency with the Public	4591	4979	5836	+ 421	+ 388	+ 857
2. Demand Deposits	2871	3544	4013	+ 406	+ 673	+ 469
3. Money Supply (1+2)	7462	8523	9849	+ 828	+1061	+1326
4. Time Deposits	3660	4476	5434	+ 562	+ 816	+ 958
5. Monetary Resources (3+4)	11122	12999	15283	+1389	+1877	+2284
Factors Affecting Money Supply						
6. Net Bank Credit to Government (a+b) ..	5755	6989	8427	+ 931	+1234	+1438
(a) Reserve Bank's Net Credit to Government	4316	5194	6149	+ 734	+ 878	+ 955
(b) Other Banks' Credit to Government ..	1439	1795	2279	+ 197	+ 356	+ 484
7. Net Foreign Exchange Assets of the Banking Sector	569	605	587	— 95	+ 36	— 18
8. Government's Net Currency Liabilities to Public	395	419	439	+ 21	+ 24	+ 20
9. Total (6+7+8)	6719	8013	9453	+ 857	+1294	+1440
10. Bank Credit to Commercial Sector* ..	5748	6683	7720	+ 721	+ 935	+1037
(a) Net Bank Credit to Commercial Sector*	2087	2207	2286	+ 158	+ 120	+ 79
11. Total (9+10)	12467	14696	17173	+1578	+2229	+2477
12. Net Non-monetary Liabilities of R.B.I. (Increase —)	817	1066	1143	— 177	— 249	— 77
13. Residual (Increase —)	527	632	747	— 10	— 105	— 115

* Includes advances made to public sector enterprises and State Governments for commercial purposes.

Note: Net of some accounting adjustments effected during 1971-72, the increase in 'net bank credit to Government' works out to Rs. 1159 crores as compared with Rs. 831 crores during 1970-71. These accounting adjustments had not affected figures of 'money supply', since adjustments were so made as to neutralise the expansionary influence of one by the contractionary influence of another. However, they have in effect, overstated net bank credit to Government sector by Rs. 75 crores during 1971-72 and Rs. 100 crores during 1970-71 (July-June) and resulted in appreciation of net foreign exchange assets by Rs. 23 crores during 1971-72. The non-monetary liabilities of the Reserve Bank of India had acted as a contractionary factor to the tune of Rs. 98 crores during 1971-72 and Rs. 100 crores during 1970-71.

54. Monetary expansion of this magnitude was mainly attributable to a substantial step up in net bank credit to Government for the second year in succession. Net bank credit to Government went up by as much as Rs. 1438 crores this year, compared with an increase of Rs. 1234 crores in 1971-72. Among the components of net bank credit to Government a noticeable feature was that while the Reserve Bank credit to Government at Rs. 955 crores was Rs. 77 crores higher than in the previous year, credit extended by commercial and co-operative banks increased by Rs. 484 crores, or Rs. 128 crores more than in the last year. However, a deterioration of Rs. 18 crores in net foreign exchange assets as compared to an improvement of Rs. 36 crores last year, exercised some contractionary influence on money supply. Net bank credit to the commercial sector had an expansionary effect of Rs. 79 crores on money supply despite the fact that increase in time deposits (Rs. 958 crores) was larger than last year (Rs. 816 crores). The increase in total bank credit to the commercial sector including public sector undertakings at Rs. 1037 crores was Rs. 102 crores higher than in the previous year. Nevertheless it may be mentioned that the trend from 1970-71 in the following two years has been of an acceleration in the growth of time deposits and a downward change in the net bank credit to the commercial sector.

Seasonal Trends

55. The behaviour of money supply variables during the slack and busy seasons did not materially differ from that in the previous seasons except that variations between the two were more pronounced. Slack season expansion in money supply was substantially less at Rs. 40 crores during 1972 (May to October) as compared with Rs. 171 crores increase that occurred in the previous slack season. As in the preceding slack season, the entire expansion resulted from an increase in deposit money ; currency with the public declined.

56. It may be observed from the explanatory factors set out in Table 11 that in the

Table 11:—Trends In Money Supply and Monetary Resources (Seasonal)

(Amounts in Rupees Crores)

	Variations during			
	Slack Season		Busy Season	
	1971	1972	1971-72	1972-73
Constituents of Money Supply				
1. Currency with the Public	— 23	— 175	+ 442	+ 914
2. Demand Deposits	+ 193	+ 215	+ 353	+ 350
3. Money Supply (1+2)	+ 171	+ 40	+ 795	+1264
4. Time Deposits	+ 435	+ 459	+ 326	+ 482
5. Monetary Resources (3+4)	+ 606	+ 500	+1121	+1745
Factors Affecting Money Supply				
6. Net Bank Credit to Government (a+b)	+ 388	+ 469	+ 820	+ 883
(a) Reserve Bank's Net Credit to Government	+ 174	— 69	+ 672	+ 971
(b) Other Banks' Credit to Government	+ 213	+ 538	+ 148	— 88
7. Net Foreign Exchange Assets of the Banking Sector	+ 15	— 73	+ 32	+ 44
8. Government's net Currency Liabilities to Public	+ 15	+ 3	+ 12	+ 23
9. Total (6+7+8)	+ 418	+ 399	+ 864	+ 950
10. Bank Credit to Commercial Sector*	+ 249	+ 149	+ 453	+1024
(a) Net Bank Credit to Commercial Sector*	— 187	— 310	+ 127	+ 542
11. Total (9+10)	+ 667	+ 548	+1317	+1974
12. Net Non-Monetary Liabilities of RBI (Increase —)	— 101	+ 29	— 223	— 147
13. Residual (Increase —)	+ 40	— 77	+ 27	— 82

* Includes advances made to public sector enterprises and State Governments for commercial purposes.

1972 slack season the contractionary impact of declines in net bank credit to the commercial sector and net foreign exchange assets of the banking sector was more than offset by increase in net bank credit to Government. The latter was entirely in the form of banks' investments in Government securities while net RBI credit to Government registered a fall. It is to be noted that there is a qualitative difference between the impact of a change in net RBI credit to Government and of a change in commercial banks' investment in Government securities. An increase in net RBI credit to Government would *ipso facto* cause an increase in reserve money constituting the base for multiple credit creation. On the other hand, an increase in commercial banks' investments in Government securities essentially represents an alternative outlet to the funds available to the banks. These investments largely amount to a transfer of funds from the household sector to the Government sector via the commercial banks and thus do not constitute a direct addition to reserve money. Consequently, the potential inflationary impact of the change in net bank credit to Government would be subdued.

57. The real expansion in money supply took place during the 1972-73 busy season when it registered an unprecedented rise of Rs. 1264 crores (15·3 per cent) as compared to that of Rs. 795 crores (10·7 per cent) and of Rs. 581 crores (8·7 per cent) in the busy seasons of 1971-72 and 1970-71, respectively. As in the previous busy season, the expansion in money supply was ascribable to the spurt in net bank credit to Government; but this time the increase in net bank credit to commercial sector which more than quadrupled that recorded in the 1971-72 busy season, also added significantly to the monetary expansion, reflecting mostly non-food advances. The picture looks rather different if the slack and busy seasons are taken together. The increase in money supply (April 1972-March 1973) was Rs. 1304 crores as against Rs. 966 crores in the preceding twelve months. The net bank credit to the commercial sector increased by Rs. 232 crores as compared with a decline of Rs. 60 crores last year.

58. Money supply with the public registered an expansion of a larger magnitude in the first two months of the 1973 slack season (May and June) than in the corresponding period of the previous slack season. While currency with the public showed a large rise, the rate of accretion to deposit money diminished substantially in divergence with the trend observed last year. A significant increase in net bank credit to Government was the major expansionary factor. Net bank credit to the commercial sector, on the other hand, registered a fall as against rise in the comparable period of last year and thus exercised a contractionary influence on money supply.

Equity Prices

59. Equity prices recorded moderate gains during the year 1972-73 (July-June). The downward movement in equity prices observed from the beginning of May 1972 continued upto the end of September 1972, but thereafter there was a gradual recovery which sustained till the end of June 1973. The Reserve Bank of India's All-India Index of Variable Dividend Industrial Securities (*Base* : 1961-62 = 100) declined from 95·6 during the week ended June 24, 1972 to 90·6 during the week ended September 30, 1972. The market sentiment was depressed during this period reportedly by the take-over of the management of Indian Iron and Steel Company by the Union Government, reports of widespread damage to *kharif* crops in several States and the announcement by the Government to increase minimum bonus for industrial workers from 4 per cent to 8·33 per cent. From the beginning of October 1972, the trend was reversed and the index gradually recovered to 93·8 by December 23, 1972. This was due to encouraging reports of improvement in industrial production in 1972 and investments by financial institutions. Subsequently, in the pre-Budget period, the market turned cautious after take-over of the management of non-coking coal mines by the Government. After the announcement of Central Budget proposals for 1973-74, there was a marked recovery in March 1973 as the Budget did not include any proposal for tax increase for the corporate sector. The post-Budget recovery halted in April as the stock exchange authorities imposed restraints on the market operators. The uncomfortable situation regarding foodgrains supply in some States and reports of the adverse impact of power cut in the various States on the industrial production

Table 12 :— Marginal Relationship Between Money Supply and its Components

Financial Year (Last Friday)	Money Supply (Rs. crores)	Currency	Bank Money			Rates of Growth			
			Total	Current	Savings	Money Supply	Currency	Current deposits of commercial banks	Demand portion of saving deposits
	1	2	3	4	5	6	7	8	9
1961-62	+ 177 (100)	58.2	41.8	18.6	19.2	6.2	4.9	6.0	18.6
1962-63	+ 264 (100)	67.4	32.6	15.9	14.0	8.7	8.1	7.2	17.1
1963-64	+ 442 (100)	51.4	48.6	9.5	36.4	13.4	9.5	6.7	63.4
1964-65	+ 328 (100)	49.7	50.3	20.7	30.2	8.7	6.3	10.2	23.9
1965-66	+ 449 (100)	59.0	41.0	12.0	29.6	11.0	9.6	7.4	25.9
1966-67	+ 421 (100)	38.7	61.3	22.6	30.6	9.3	5.4	12.1	19.9
1967-68	+ 400 (100)	44.8	55.2	18.5	30.5	8.1	5.6	8.4	15.7
1968-69	+ 429 (100)	71.3	28.7	12.4	8.6	8.0	9.1	5.5	4.1
1969-70	+ 608 (100)	54.1	45.9	24.8	24.7	10.5	8.9	15.0	16.0
1970-71	+ 753 (100)	49.4	50.6	24.8	26.8	11.8	9.3	16.1	18.6
1971-72@	+ 998 (100)	44.0	56.0	23.7	26.0	14.0	10.0	17.6	20.1
1972-73@	+1147 (100)	52.5	47.5	22.7‡	26.3‡	14.1	12.5	16.3‡	19.5‡

Notes : 1. Figures in Col. (1) are absolute changes over the year ; figures in columns (2) to (5) are percentages of Col. (1).
2. Current and savings bank money do not add up to total bank money because 'other deposits' with the Reserve Bank and net demand liabilities of State co-operative banks are included in the total.

@ Provisional.
‡ Estimate.

Table 13:—Money Supply, Monetary Resources, Currency and Time Deposits

(Amounts in Rupees Crores)

Financial Year (Last Friday)	Currency with Public	Money Supply	Time Deposits	Monetary Resources (excluding P.L. 480)	Ratio of		Rate of Growth				Marginal Ratio	
					Currency to Money Supply	Currency to Monetary Resources	Currency with Public	Money Supply	Time Deposits	Monetary Resources	Currency to Money Supply	Currency to Monetary Resources
1961-62	2201	3046	1056	4102	72.3	53.7	4.9	6.2	15.0	8.3	58.2	32.7
1962-63	2379	3310	1151	4461	71.9	53.3	8.1	8.7	9.0	8.8	67.4	49.6
1963-64	2606	3752	1224	4976	69.4	52.4	9.5	13.4	6.3	11.5	51.4	44.0
1964-65	2769	4080	1397	5477	67.9	50.6	6.3	8.7	14.1	10.1	49.7	32.5
1965-66	3034	4529	1605	6134	67.0	49.5	9.6	11.0	14.9	12.0	59.0	40.3
1966-67	3197	4950	1867	6817	64.6	46.9	5.4	9.3	16.3	11.1	38.7	23.8
1967-68	3376	5350	2110	7460	63.1	45.3	5.6	8.1	13.0	9.4	41.8	27.8
1968-69 ..	3682	5779	2527	8306	63.7	44.3	9.1	8.0	19.8	11.3	71.3	36.1
1969-70	4010	6387	2949	9336	62.8	43.0	8.9	10.5	16.7	12.4	54.1	31.8
1970-71	4383	7140	3448	10588	61.4	41.4	9.3	11.8	16.9	13.4	49.5	29.8
1971-72	4822	8138	4176	12314	59.3	39.2	10.0	14.0	21.1	16.3	44.0	25.4
1972-73@	5424	9285	5083	14368	58.4	37.8	12.5	14.1	21.7	16.7	52.5	29.3

@Provisional.

were other depressants. However, with the prospects of a normal monsoon, equity prices moved up in May and June and absorbed the impact of increase in Bank rate from 6 per cent to 7 per cent. As at the end of June 30, 1973, the index recorded a rise of 6·3 per cent during 1972-73 as against a decline of 1·9 per cent in the preceding year.

Credit Policy and Banking Trends

60. Credit policy for the year under review had to keep diverse considerations in view. On the one hand, under the prevailing conditions of excess aggregate demand and the increasingly liquid position of the banking system, commercial banks' access to RBI refinance facilities had to be on a restricted basis. On the other hand, there was need to support the growth in industrial production and export and to ensure that priority sector advances, particularly for food procurement and *rabi* crash programme, were adequately made. Credit policy had thus to aim at the twin objective of controlling general credit expansion and sustaining production in priority areas.

61. Between end-June and end-December 1972, the volume of scheduled commercial bank credit remained practically unchanged. Demand for bank credit showed signs of picking up during the first quarter of 1973 and thereafter the pace of credit expansion accelerated. The emphasis of policy had therefore to shift to restraint on credit expansion through a package of measures which included a rise in the Bank rate to 7 per cent and the use of the variable reserve ratio instrument after over a decade.

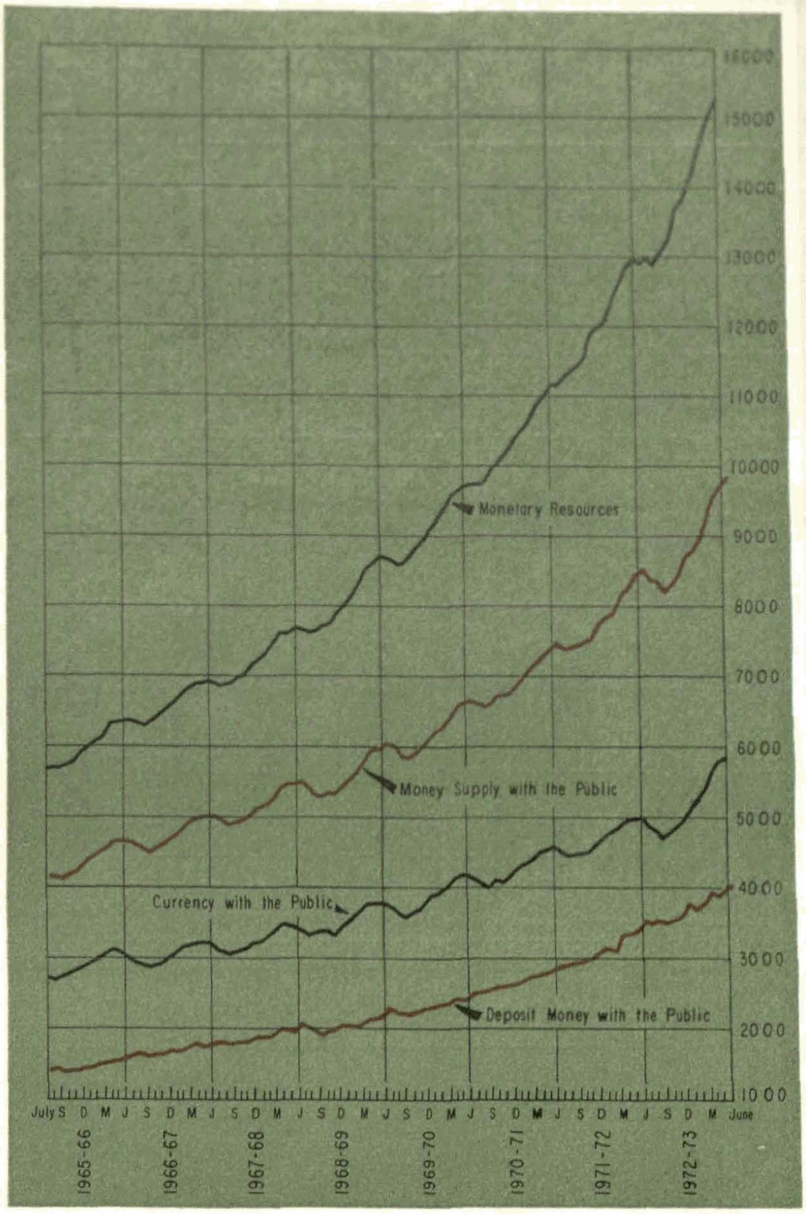
62. At the start of the 1972-73 busy season the credit deposit ratio stood at 66·2 per cent showing a sharp decline from the level of 73·1 per cent at the end of October 1971. The incremental credit deposit ratio for the year ended last Friday of October 1972 was only 30·4 per cent. During the 1972 slack season bank credit for other than public food procurement operations had shown an increase of Rs. 33 crores while the total expansion during this slack season was Rs. 32 crores as against Rs. 163 crores in 1971 slack season. Also, on the eve of the slack season, banks were indebted to the Reserve Bank only to the extent of Rs. 23 crores as against Rs. 191 crores at the beginning of the 1971 slack season. Banks had also added Rs. 624 crores to their investments during the 1972 slack season as against Rs. 254 crores in the slack season of 1971. Their ratio of liquid assets to aggregate liabilities stood at 36·7 per cent at the end of October 1972 as against 31·3 per cent at the end of October 1971.

63. As in the previous two years, the Reserve Bank had discussions with each of the major commercial banks on its credit budget for the busy season. It was clear from these discussions that both during the busy season of 1972-73 and in the months immediately thereafter, the demand for food procurement credit as foreseen by the authorities would be substantial and a sizeable proportion of newly accruing deposits had to be earmarked for this priority demand. In addition credit demand from the industrial sector was expected to increase, particularly in agriculture based industries. Even so, it was anticipated that deposit accretion in the concurrent period would be large enough to meet these requirements without the banks borrowing from the Reserve Bank. Hence, the policy announced on 14th November 1972 retained the existing refinancing facilities broadly but, as an overall regulatory measure, raised the minimum net liquidity ratio relevant for determining the rate on borrowing from the Reserve Bank by 2 percentage points from 34 to 36 per cent. Banks were also advised to increase by 1 percentage point the minimum of assets that constitute the liquidity requirements under Section 24 of the Banking Regulation Act, from 29 to 30 per cent.

64. Modifications were also made in the structure of selective credit controls in order to reinforce the restraint on credit, particularly in respect of sensitive commodities in short supply. In regard to advances against foodgrains and vegetable oils and oilseeds, credit limits were stipulated on a *party-wise* basis instead of *bank-wise* basis as hitherto. With the fixation of credit limits on a *party-wise* basis, it became obligatory on the part of banks to approach the Reserve Bank not only on proposals for advancing loans to new parties but also for increasing the level of credit available to existing parties.

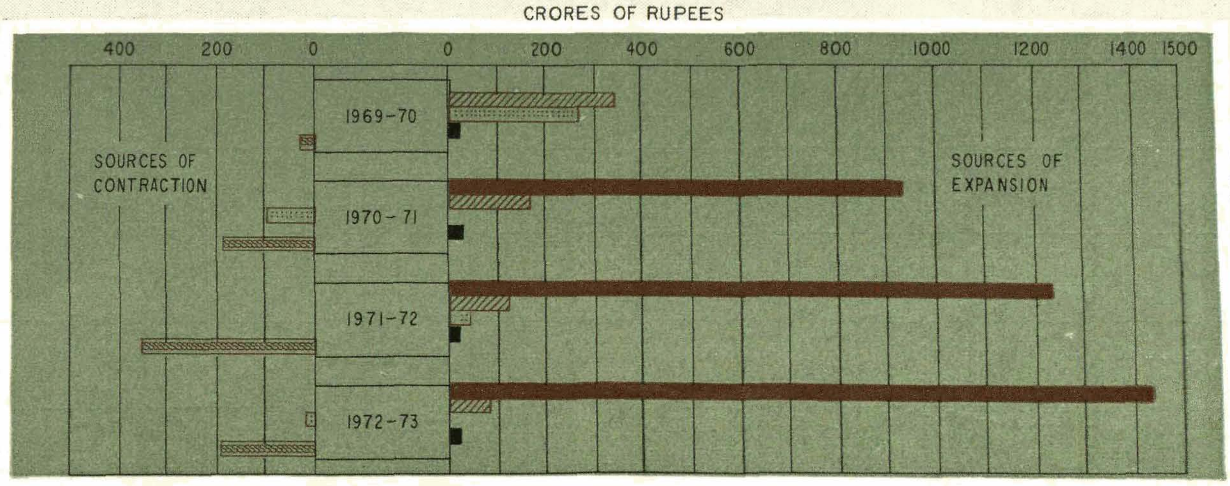
10 MONEY SUPPLY WITH THE PUBLIC AND MONETARY RESOURCES

(AS ON LAST FRIDAY)
(CRORES OF RUPEES)



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

CRORES OF RUPEES

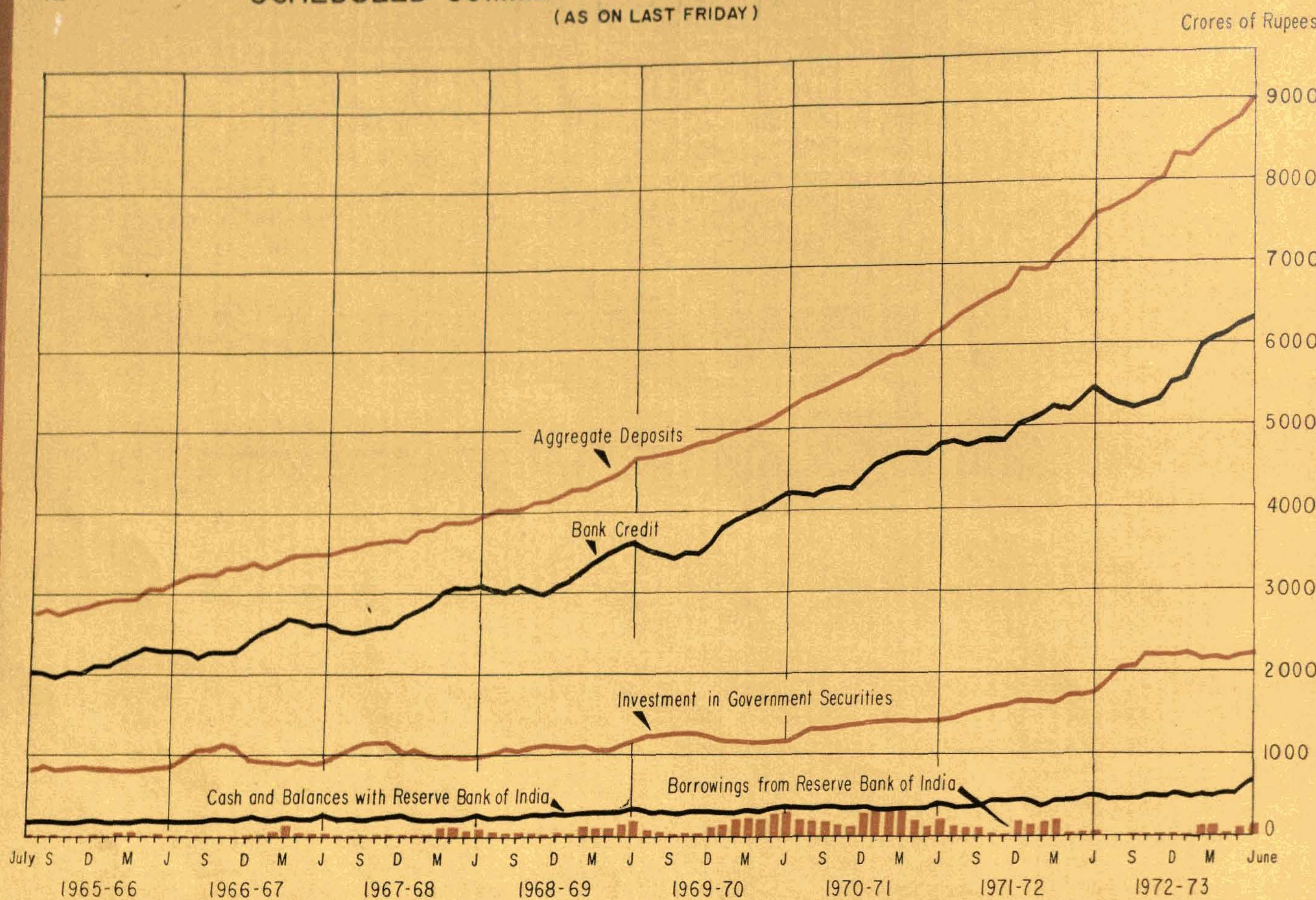


Net Bank Credit to Government Sector
Net Bank Credit to Commercial Sector
Net Foreign Exchange Assets of Banking Sector
Government's Net Currency Liabilities to the Public
Net Non-monetary Liabilities of the Banking System (Increase -) (Including Errors and Omissions)

12

SCHEDULED COMMERCIAL BANKS - SELECTED ITEMS

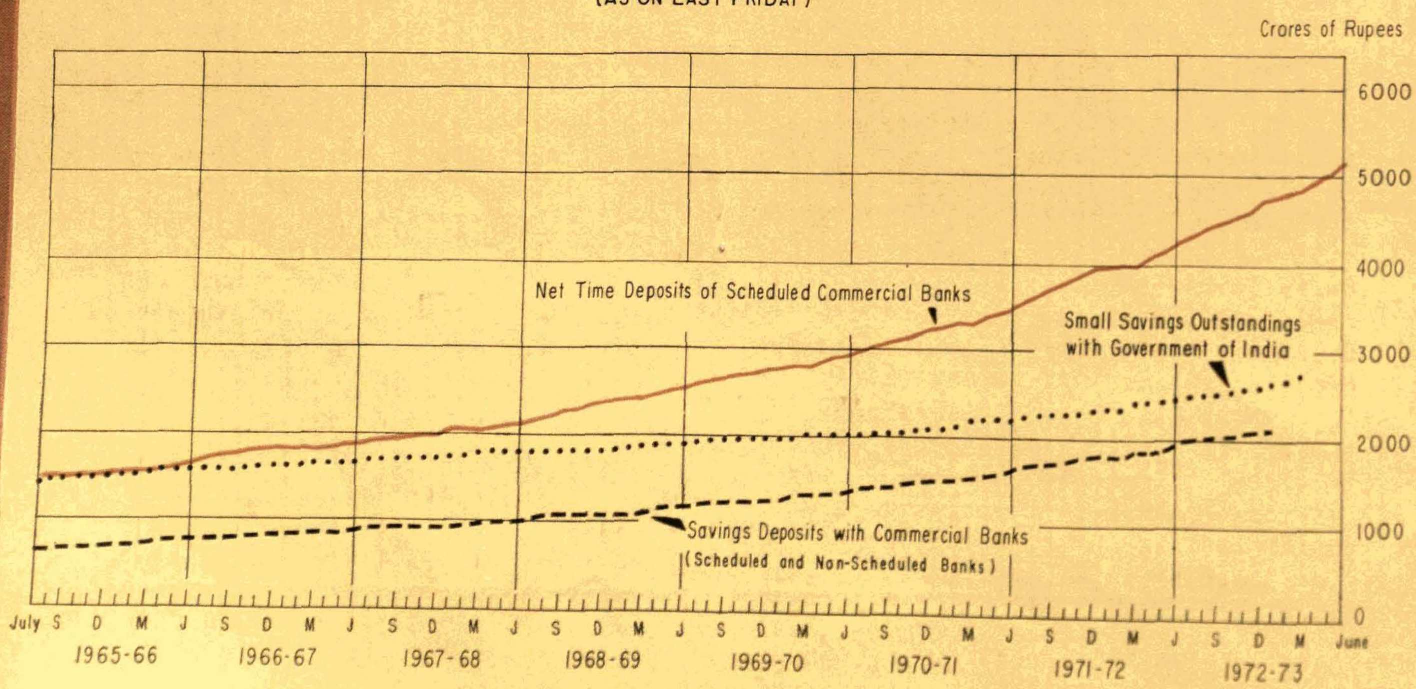
(AS ON LAST FRIDAY)



13

SAVINGS WITH FINANCIAL INSTITUTIONS - SELECTED ITEMS

(AS ON LAST FRIDAY)



65. The persistence of the liquidity surplus even after the commencement of the busy season caused some unhealthy competition among banks for large accounts. The Reserve Bank had, therefore, to intervene and issue a circular in December requiring the prior permission of the Reserve Bank for the transfer from one bank to another of any account of Rs. 25 lakhs and above.

66. A mid-season appraisal revealed an expansion in credit by March 9, 1973 of Rs. 721 crores (13·8 per cent) as against a rise of Rs. 314 crores (6·5 per cent) in 1971-72 busy season. This increase in bank credit was almost entirely in sectors other than food procurement; and the increase was faster and larger than that recorded in the corresponding period of the 1971-72 busy season. Consequently, the overall credit-deposit ratio registered an increase of 4 percentage points to 70·4 per cent as on March 9, 1973 over the level of 66·2 per cent at the commencement of the busy season. Nonetheless, this ratio was lower than that prevailing at the same time last year (74·0 per cent) due to larger increase in deposits.

67. The situation thus warranted a restraint on credit expansion without affecting food procurement credit which was expected to go up sizeably between end-March and end-June 1973. With the takeover of wholesale trade in wheat and on the basis of a targeted level of procurement of 8 million tonnes, the increased demand for bank credit expected in the following three months was projected in March 1973 by the authorities at as much as Rs. 500 to Rs. 600 crores. The resources available with the banking system at that time indicated that the additional demand for procurement credit could be met with only moderate recourse to the Reserve Bank for refinance facilities. The borrowing of the banks from the Reserve Bank which stood at Rs. 6·7 crores at end-October 1972, reached the level of Rs. 197·9 crores by March 9, 1973 and were only Rs. 24·3 crores at the end of the busy season. The emphasis of policy in such a context was to bring about an increase in the cost of bank resources through some moderate adjustments of deposit rates and a further tightening of the refinance system with a step-up of the net liquidity ratio from 36 per cent to 37 per cent. The refinance formula in respect of food procurement credit was revised to provide more liberal facilities. In addition to 10 per cent of the outstanding level of food procurement credit as on the last Friday of October 1972, banks were told that they would be entitled to one-half (as against one-third hitherto) of the incremental credit over the level of last Friday of October 1972. Simultaneously, the special refinance facility provided, at the Bank rate in respect of 'Defence Packing-cum-supply Credit' was withdrawn. All other features of the refinance system were continued unchanged. Lending to public sector undertakings was brought under the purview of Credit Authorization Scheme in cases where working capital loans totalled Rs. 3 crores and above and term loans Rs. 1 crore and above. Banks were further told to ensure, before meeting the requests of State Governments for their commercial/financial requirements including food procurement, that the approval of the Government of India was obtained under Article 293(3) of the Constitution of India.

68. By the latter half of May 1973, it became evident that for food procurement, credit would be substantially lower than expected earlier. There were also evidences of a fall in the growth rate of industrial production in the early months of 1973. Even so, it was seen that credit expansion during 1972-73 busy season (November 1972-April 1973) at Rs. 884 crores or 16·9 per cent was more than twice the increase during 1971-72 busy season (Rs. 355 crores or 7·3 per cent). The supply position in respect of a number of important agricultural commodities had been difficult, resulting in price increases notwithstanding strict selective credit controls in respect of many of them and it was necessary to further tighten the general and specific controls on the disposition of commercial bank funds. With the take-over of wholesale trade in wheat by the State Governments, bank advances to private wholesale traders against the security of wheat were banned in terms of a circular issued on May 14. In regard to retail trade, banks were told to ensure that their advances against wheat were confined only to the *licensed* retail traders and, that too, only upto the limit of stocks which they were authorised to hold.

69. The package of measures introduced at this juncture (May 30, 1973) included an increase in the Bank rate from 6 to 7 per cent ; an increase in the statutory cash reserves from 3 to 5 per cent ; an increase in the minimum net liquidity ratio from 37 to 39 per cent ; and the prescription of a minimum lending rate of 10 per cent on lendings other than specifically exempted categories. These measures were designed to provide a corrective to the monetary situation, through a moderation of the high rate of bank credit expansion, to prevent excessive demand pressures. The policy was also aimed at tempering the pressures in the market through raising the cost of bank borrowings. A rise in the Bank rate and the consequent adjustments in the spectrum of interest rates, besides directly discouraging commercial banks' borrowing from the Reserve Bank, served to raise a cautionary signal and pave the way for complementary action in other directions. Following the increase in the Bank rate, the rate of interest on treasury bills of the Central Government was increased from 3.50 per cent to 4 per cent per annum, with effect from the 31st May 1973, the increased rate being applicable on all new treasury bills issued on or after that date, including those issued in replacement of treasury bills outstanding on 31st May 1973 as and when they matured. This measure increased the cost of the Central Government borrowing through treasury bills. As on the 1st June 1973 the volume of treasury bills outstanding was Rs. 4343 crores approximately (including the *ad hoc* treasury bills held by the Reserve Bank of India).

70. Subsequent developments in banking indicated general compliance with the objectives of policy announced on May 30, 1973. Scheduled commercial banks' deposits with the Reserve Bank increased by Rs. 222 crores between June 22 and June 29 following the raising of the reserve requirements from 3 to 5 per cent. Although banks had to have recourse to the Reserve Bank temporarily, they very soon liquidated their indebtedness to the Reserve Bank. Thus, scheduled commercial banks' borrowings which had shown an increase of Rs. 129 crores between June 22 and June 29 declined by about Rs. 138 crores by August 3, 1973 to Rs. 3 crores. Credit expansion had also slowed down considerably. The incremental credit-deposit ratio during the slack season thus far (from the last Friday of April to the last Friday of June) has been 57 per cent as compared to 78 per cent in the corresponding period of the last slack season. More importantly, the bulk of the increase in credit has been on account of financing food procurement operations with credit for other sectors recording only a small increase over the level of end-April 1973. The rate of increase in aggregate deposits has been encouraging compared with the corresponding period of last slack season, *viz.* 6·0 per cent as against 5·5 per cent.

71. With a view to reinforcing the discipline imposed by the package of monetary measures announced on May 30, the Reserve Bank through a circular dated July 12, 1973 withdrew several of the concessionary entitlements to refinance from the Reserve Bank. Thus, effective July 13, 1973 with the exception only of (*i*) a limited amount of refinancing of export credit and (*ii*) refinancing of amounts lent to primary credit societies and farmers' service societies, all concessionary refinance entitlements at Bank rate or below were withdrawn. Borrowings equal to an amount of 10 per cent of the annual average export credit would be available at the Bank rate, irrespective of a bank's net liquidity ratio but, unlike in the past such borrowings would impair the net liquidity ratio. The increase in lendings to the primary co-operative societies and farmers' service societies continued to be refinanced, irrespective of net liquidity ratio, at a concessional rate now raised to 5 per cent ; however, such borrowings would impair the net liquidity ratio as before. The facility in respect of rediscounting of bills under the new Bill Market Scheme would continue to be available at the Bank rate. (A chart indicating the refinance facilities prior to July 13, 1973 and effective July 13, 1973 is given in the Annexure in Part II of the Report).

72. It was emphasised that the withdrawal of some of the concessionary facilities in the refinance system did not in any way alter the stress of policy to assist the priority sectors. Banks were asked to continue to increase their involvement in financing these sectors and urged to accelerate the return flow of

funds made available by them, particularly in respect of sugar and cotton textile industries.

73. Following the increase in the Bank rate, the structure of interest rates of the Industrial Development Bank of India and the Agricultural Refinance Corporation was readjusted.

74. The Industrial Development Bank of India raised its lending as well as rediscounting rates with effect from June 6, 1973. The normal rate for direct assistance to industrial concerns (other than exports) was raised from 8·5 to 9·0 per cent and that for units in backward areas was raised from 7·0 to 7·5 per cent. The structure of interest rates charged by the Industrial Development Bank of India prior to June 16, 1973 and after June 16, 1973 is indicated in part IV of the Report.

75. The Agricultural Refinance Corporation also raised its refinance rate from 6·5 per cent to 7 per cent, which would be applicable to all schemes sanctioned on or after June 25, 1973. The Agricultural Refinance Corporation also directed all the financing banks to maintain a margin not less than 2·5 per cent so that the ultimate borrower would have to pay a rate of interest which would not be less than 9·5 per cent per annum.

76. In summary, deposit growth during the year (July-June) was only marginally higher than in the previous year, *viz*. Rs. 1408 crores as against Rs. 1394 crores (Table 14), and the rate of growth considerably lower at 18·5 per cent as against 22·4 per cent. Of the increase in aggregate monetary resources during the year, deposits accounted for 63·1 per cent and currency for 36·9 per cent as against 79·3 per cent and 20·7 per cent, respectively. Another important aspect of deposit growth during 1972-73 was that time deposits accounted for Rs. 910 crores or 64·6 per cent of the total increase as against Rs. 779 crores or 55·9 per cent in the previous year.

77. Credit expansion during the year followed a somewhat irregular pattern with a negligible increase between June and December and a pronounced spurt thereafter, particularly after February.

78. Taking the year as a whole (July 1972 to June 1973) total bank credit expansion turned out to be somewhat larger, *viz*. Rs. 819 crores or 14·9 per cent as against Rs. 675 crores or 14·0 per cent in 1971-72. Credit for food procurement operations declined during the year by Rs. 74 crores as against an increase of Rs. 163 crores in 1971-72. Consequently bank credit with sectors other than food procurement operations recorded a relatively large increase of Rs. 893 crores or 18·1 per cent as against Rs. 512 crores or 11·6 per cent in the previous year.

79. Over the year ended June 1973 the incremental credit-deposit ratio was 58·2 per cent as against 48·4 per cent in 1971-72. At the end of June 1973 the credit deposit ratio stood at 69·8 per cent as against 72 per cent at the end of June 1972.

80. The pattern of investment of scheduled commercial banks broadly reflected the liquidity conditions in the money market. Total investmets of scheduled commercial banks in Government and other approved securities increased by Rs. 631 crores during the year as against Rs. 511 crores in the preceding year. Balances with the Reserve Bank increased during the year by Rs. 255 crores as against Rs. 74 crores in the preceding year consequent upon the increase in reserve requirements from 3 to 5 per cent towards the close of June 1973. Over the year ended June 29, 1973, borrowings from the Reserve Bank showed an increase of Rs. 99 crores from Rs. 42 crores to Rs. 141 crores. As has already been pointed out, the sudden spurt of Rs. 129 crores in borrowings during the week ended June 29, 1973 was purely a temporary phenomenon. In the following week, they were brought down by Rs. 99 crores and by another Rs. 25 crores in the week thereafter.

Balance of Payments

81. In the sphere of external transactions improvement recorded in 1971-72 (July-June) has been maintained in 1972-73. Foreign exchange reserves recorded a rise of Rs. 37 crores to Rs. 882 crores as compared to the rise of Rs. 58 crores from Rs. 787 crores to Rs. 845 crores during 1971-72. Two points deserve to be mentioned in connection with the movement of reserves : (1) there was no fresh allocation of SDRs in 1972-73 ; last year the benefit to the reserve from such

Table 14:—Annual Variations in Important Banking Data—Scheduled Commercial Banks

(Amounts in Rupees Crores)

	Outstandings as on June 26, 1970	Variations during the year ended June 26, 1970	Outstandings as on June 25, 1971	Variations during the year ended June 25, 1971	Outstandings as on June 30, 1972	Variations during the year ended June 30, 1972	Outstandings as on June 29, 1973*	Variations during the year ended June 29, 1973
	1	2	3	4	5	6	7	8
1. Aggregate Deposits ..	5275	+ 629	6216	+ 941	7610	+1394	9018	1408
(a) Demand	2329	+ 225	2743	+ 414	3358	+ 615	3856	+ 498
(b) Time	2946	+ 404	3473	+ 527	4252	+ 675	5162	+ 910
2. Total Bank Credit ..	4213	+ 614	4805	+ 592	5480	+ 717	6299	+ 819
Of which : (a) Food Procurement Advances	207	— 26	379	+ 172	542	+ 163	468	— 74
(b) Other Advances ..	4006	+ 640	4426	+ 420	4938	+ 512	5831	+ 893
3. Total Investments ..	1504	+ 145	1807	+ 303	2318	+511	2949	+ 631
(a) In Government Securities	1186	+ 60	1375	+ 189	1721	+ 346	2192	+ 471
(b) In other Approved Securities	318	+ 85	432	+ 114	597	+ 165	757	+ 160
4. Cash and Balances with Reserve Bank of India	362	— 37	397	+ 35	537	+ 140	794	+ 257
(a) Cash in hand ..	179	— 25	187	+ 8	254	+ 67	256	+ 2
(b) Balances with Reserve Bank of India	183	— 12	210	+ 27	283	+ 73	538	+ 255
5. Money at Call and Short Notice	48	— 40	83	+ 35	91	+ 8	115	+ 24
6. Borrowings from Reserve Bank of India	292	+ 120	207	— 85	42	— 165	141	+ 99
7. Inland Bills purchased/ discounted by the Reserve Bank of India	—	—	10	+ 10	11	+ 1	15	+ 4
Credit-Deposit Ratio (end-season)	79.9		77.3		72.0		69.8	
Credit (excluding food procurement)— Deposit Ratio	75.9		71.2		64.9		64.7	
Investment-Deposit Ratio	28.5		29.1		30.5		32.7	

* 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 borrowings advices from Regional Offices of the Reserve Bank of India.

(2) Data relate to the last Friday of June.

Table 15—Seasonal Variations In Scheduled Commercial Banks Data

(Amount in Rupees Crores)

	SEASONAL VARIATIONS					
	Slack Season 1971	Busy Season 1971-72	Slack Season 1972*	Busy Season 1972-73*	Slack Season up to June 29, 1973*	Slack Season up to June 30, 1972
	1	2	3	4	5	6
1. Aggregate Deposits	+ 624	+ 624	+ 650	+ 796	+ 330	+ 369
(*a*) Demand	+ 202	+ 310	+ 228	+ 342	+ 143	+ 215
(*b*) Time	+ 422	+ 314	+ 422	+ 454	+ 187	+ 154
2. Bank Credit	+ 163	+ 355	+ 32	+ 884	+ 189	+ 287
Of which :						
(*a*) Food Procurement Advances	+ 156	— 71	— 1	+ 6	+ 175	+ 254
(*b*) Other Advances	+ 7	+ 426	+ 33	+ 878	+ 14	+ 33
3. Investments in Government and other approved securities	+ 254	+ 240	+ 624	+ 3	+ 53	+ 51
(*a*) In Government Securities	+ 209	+ 144	+ 527	— 90	+ 43	+ 9
(*b*) In Other Approved Securities	+ 45	+ 96	+ 97	+ 93	+ 10	+ 42
4. Cash and Balances with RBI	+46	+ 15	+ 54	+ 66	+ 236	+ 99
(*a*) Cash in hand	+ 24	+ 1	+ 24	+ 26	+ 19	+ 67
(*b*) Balances with RBI	+ 22	+ 14	+ 30	+ 40	+ 217	+ 32
5. Money at Call and short notice	+ 72	— 9	+ 11	+ 89	— 76	—
6. Borrowings from RBI	— 172	+ 4	+ 16	+ 18	+ 117	+ 19
7. Inland Bills purchased and discounted by the RBI	—	— 3	— 10	+ 19	— 5	—
Credit-Deposit Ratio (end-season)	73.1	71.7	66.2	70.3	69.8	72.0
Credit (excluding food procurement)—Deposit-Ratio (end-season)	67.7	67.7	62.6	67.0	64.7	64.9
Investment-Deposit Ratio (end-season)	30.6	31.3	36.6	33.3	32.7	30.5

* 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 borrowings advices from regional offices of the Reserve Bank of India.

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

allocation amounted to Rs. 75 crores; (2) consequent upon the floatation of major world currencies in the exchange markets and the relative appreciation of some major currencies in which part of the reserves were being held, the rupee value of the reserves went up by Rs. 35 crores or by more than twice the appreciation in 1971-72. Allocation of SDRs in 1971-72 and the appreciation in rupee value of reserves in both 1971-72 and 1972-73 would, therefore, have to be abstracted from reserve movements to assess the net result of external transactions during the two years. On this reckoning, the reserves may be considered to have recorded during 1972-73 a nominal rise of Rs. 2 crores as against the decline of Rs. 33 crores in 1971-72.

82. In the absence of detailed data on the balance of payments, the movements in reserves cannot be precisely explained. Authorized dealers' transactions relating to external trade and payments indicate that in the first half of the year, *i.e.* July-December 1972, export receipts may have been 16 per cent higher than in the corresponding second half of 1971, import payments 18 per cent higher, invisible receipts 16 per cent lower and invisible payments 6 per cent higher. The major portion of Government imports is paid through channels other than authorized dealers and are substantially affected by the utilisation of external assistance.

83. During financial year 1972-73 both authorisation as well as utilisation of external assistance recorded significant deceleration. Aid authorisation amounted to Rs. 651 crores or Rs. 226 crores lower than the authorisation of Rs. 877 crores in 1971-72. Utilisation in 1972-73 at Rs. 604 crores was 26 per cent lower than the utilisation of Rs. 820 crores in the preceding year. During January-June 1973 there have been official imports of food; there were no such imports in the preceding year. At the same time, official debt service payments, most of which do not pass through authorized dealers, were about 10 per cent higher than in 1971-72. Taking all this into account, it would be reasonable to conclude that aggregate import payments during July 1972—June 1973 will have been somewhat higher than in the preceding year, and the invisible account will have deteriorated over the year by more than a quarter.

Trade Balance

84. According to DGCIS data on imports and exports, India had a trade surplus of Rs. 185 crores during 1972-73 (April-March) in contrast to a trade deficit of Rs. 218 crores in 1971-72. This surplus was due to sharp increase in exports (Rs. 355 crores) and a decline in imports (Rs. 48 crores).

Trends in Imports

85. Imports during 1972-73 (April-March) according to DGCIS declined to Rs. 1777 crores as compared to a sharp rise to Rs. 1825 crores in 1971-72 from Rs. 1634 crores in 1970-71. There was hardly any change in the value of import licences issued during 1972-73 (Rs. 1855·7 crores) as compared with the level in 1971-72 (Rs. 1853.7 crores).

86. This apparent decline in imports may not correctly reflect the actual position when the final figures for the year become available. The DGCIS trade data might be revised because figures relating to Government import of foodgrains, petroleum, oils and lubricants do not become fully available to them at the time of arrival of shipments whereas payments would have already been effected.*

Import Policy

87. The overall objectives of self-reliance and export promotion which provide the basic framework of import policy were further sought to be achieved through the Import Policy for 1973-74, which raised the number of priority industries from 59 to 70 for purposes of imports. It also extended the scheme of compulsory exports to more industries so that the latter may benefit from liberal import facilities made available under that scheme. Additional facilities for import were to be given to those small units exporting 10 per cent or more of their production provided their exports in 1972-73 doubled those in 1971-72. Indigenous materials supplied at international prices for export production were to be treated as exports for all benefits available under the import policy.

* The trade data as given by DGCIS and that based on balance of payments figures are not strictly comparable due to different stages at which these transactions are recorded. DGCIS data, therefore, have to be read with caution.

Table 16—India's Principal Imports

(Amounts in Rupees Crores)

Commodities	1967-68	1968-69	1969-70	1970-71	1971-72	April-December 1971	April-December 1972	Increase (+)/Decrease (—) of (7) over (6) Actual	Increase (+)/Decrease (—) of (7) over (6) Percentage
	1	2	3	4	5	6	7	8	9
1. Food (excluding cashewnuts) ..	554	372	293	242	169	131	55	—76	—58
Of which : Cereals and cereal peparations	518	336	261	213	131	105	22	—83	—79
2. Raw cotton	83	90	83	99	113	87	76	—11	—12
3. Raw jute and mesta	5	16	5	..	..	—	1	+ 1	—
4. Cashewnuts	25	31	28	29	28	20	23	+ 3	+15
5. Mineral oils	75	133	138	136	195	143	149	+ 6	+ 4
Of which: (a) Petroleum	60	96	96	106	148	110	106	— 4	— 3
(b) Others	15	37	42	30	47	33	43	+10	+30
6. Chemicals	273	283	195	192	218	161	156	— 5	— 3
Of which : (a) Fertilisers	139	139	77	61	81	52	47	— 5	—10
(b) Others	134	144	118	131	137	109	109	—	—
7. Iron and Steel	106	86	82	147	238	179	157	—22	—12
8. Non-ferrous metals	89	89	75	120	102	83	77	— 6	— 7
9. Crude rubber (including synthetic and reclaimed)	4	5	10	4	4	3	3	—	—
10. Wool and other animal hair ..	12	11	17	16	14	11	10	— 1	— 9
11. Animal and vegetable oils and fats	34	19	30	39	47	32	15	—17	—53
12. Paper, paper boards and manufactures thereof	18	18	24	25	35	24	18	— 6	—25
13. Pearls, precious and semi-precious stones	12	28	28	25	26	19	30	+11	+58
14. Machinery and Transport equipment	503	514	396	384	454	349	349	—	—
Of which : (a) Machinery other than electric	336	366	280	257	268	211	210	— 1	— 1
(b) Electrical machinery ..	86	82	64	69	102	72	85	+13	+18
(c) Transport equipment ..	81	66	52	58	84	66	54	—12	—18
15. Others	181	214	163	176	169	122	120	— 2	— 2
Total	1974*	1909	1567*	1634	1812	1364	1239	—125	— 9

Note : Commodity-wise details are not available.
* Revised.
Source : DGCIS.

Table 17 :—India's Principal Exports

(Amounts in Rupees Crores)

Commodities	1967-68	1968-69	1969-70	1970-71	1971-72	April-December 1971-72	April-December 1972-73	Increase (+)/ Decrease (—) of (7) over (6) Acutal	Increase (+)/ Decrease (—) of (7) over (6) Percentage
	1	2	3	4	5	6	7	8	9
A. *Major Non-traditional items*									
Engineering goods	35	69	91	126	108	82	96	+14	+17
Iron and Steel	55	79	87	91	41	31	30	— 1	— 3
Iron ore	75	88	95	117	105	72	80	+ 8	+11
Chemicals	16	24	30	36	32	24	30	+ 6	+25
B. *Other items*									
Jute yarn and manufactures ..	234	218	207	190	265	187	193	+ 6	+ 3
Cotton yarn and manufactures	86	101	116	118	116	80	109	+ 29	+36
Tea	180	157	125	148	156	117	120	+ 3	+ 3
Hides, skins, leather and leather goods including footwear ..	70	87	99	87	130	73	125	+52	+71
Cashew kernels	43	61	57	52	61	51	57	+ 6	+12
Oilcakes	45	49	41	55	40	29	41	+12	+41
Pearls, precious and semi-precious stones, unworked/worked ..	30	45	42	42	53	38	56	+18	+47
Spices	27	25	34	39	36	23	18	— 5	—22
Fish and fish preparations ..	18	23	31	31	42	29	41	+12	+41
Sugar	16	10	9	28	30	28	10	—18	—64
Coffee	18	18	20	25	22	19	23	+ 4	+21
Manganese ore	11	13	11	14	11	8	7	— 1	—13
Tobacco (unmanufactured) ..	35	33	33	31	42	35	50	+15	+43
C. **Total** (including others) ..	1,199	1,358	1,413	1,535	1,569*	1,140	1,394@	+254	+22

* Excludes exports of about Rs. 38 crores to Bangladesh.

@ Includes exports to Bangladesh to the extent of Rs. 59 crores. This excludes substantial exports to Bangladesh which were not recorded completely by the concerned customs authorities.

Note : Data for 1970-71 and 1971-72 are not comparable with those of the previous years owing to the change in procedure for recording exports (from the finally passed shipping bill to the original copy of the shipping bill) adopted by the DGCIS, with effect from November 1, 1970.

Exports

88. Exports at Rs. 1962 crores during 1972-73 recorded an increase of 22·1 per cent as compared to a rise of 4·7 per cent during 1971-72. If allowance is made for the fact that the exports of 1970-71 were overestimated and that of 1971-72 were underestimated as a result of change in the method of compilation of export statistics introduced since November 1, 1970 (see last year's Report, page 28), the growth rate in exports in 1972-73 has been more impressive compared with 1971-72 and 1970-71. Such a striking growth in exports was achieved earlier in 1951-52 (22 per cent) on account of the Korean boom.

89. A combination of factors helped this remarkable growth in exports in 1972-73. The emergence of Bangladesh as a new market for Indian exports accounted for some increase. But a major part of the increase was due to a buoyancy in foreign demand for Indian goods especially for traditional items like hides, skins and leather, cotton textiles and marine products. This was also reflected in higher unit values. In addition, larger rupee realisation arising from the depreciation of the rupee in terms of several important currencies was reflected in the improvement in export earnings.

90. The international developments on the trade front continued to inhibit further expansion of India's exports. A development of significance in this regard was the entry of the U.K. into the European Economic Community (EEC) in January 1973, resulting in the termination of the Indo-British Trade Agreement of 1939. A fresh agreement was signed with the U.K. in January 1973 continuing the existing tariff and non-tariff preferences upto January 1, 1974. After this date a phased imposition of the Common External Tariff would be implemented by the U.K. uptil 1977. From 1974 the U.K. will adopt the EEC's Generalised Scheme of Preferences (GSP) with the result that India's exports of jute and coir manufactures, cashew kernels, other vegetable products, sugar, spices, coffee and some marine products would be subjected to duties in the U.K. as these items are excluded from the scope of the EEC's GSP. Consequently India's exports of these items would be adversely affected in the U.K. A tentative agreement reached with the EEC in May 1973 might benefit to some extent our jute exports to the Community though France and Germany continue restrictions bilaterally agreed upon with India.

Assessment and Prospects

91. The performance of the economy during 1972-73, as can be seen from the review presented in the preceding paragraphs, was disappointing in many respects. After withstanding the stresses and strains of the previous year, it was hoped that the economy would regain some of the lost ground during 1972-73. But this did not happen, and the failure of monsoon for the second consecutive year set in motion a major upward movement in the price of foodgrains and other commodities. It also led to power shortage in many States, which interrupted the relative improvement that was occurring in industrial output.

92. Severe drought conditions in several parts of the country imposed on the Government the responsibility of providing for drought relief and emergency agricultural programmes. Emergency imports of foodgrains and some of the other essential commodities had also to be undertaken to augment available supplies. The increase in Governmental expenditure and a large accretion of bank deposits led to an unprecedented increase in aggregate monetary resources available to the community, and in the context of a decline in agricultural output, this aggravated the inflationary forces in the economy.

93. The continued upsurge in the price level during the year under review emphasises the need to evolve measures, both short-term and long-term, for ensuring adequate supplies of wage goods, particularly foodgrains. For the immediate future, the problem essentially resolves itself into one of operating the public distribution system efficiently on the one hand, and undertaking measures to reduce current expenditures on the other. In respect of the former, there are difficulties because of problems in respect of both procurement and imports. Procurement of wheat has turned out to be much less than anticipated ; and because of a world

shortage of cereals in the last year, imports of foodgrains have also been small. If the next *kharif* crop turns out to be good, it should ease the situation considerably ; but the depletion of stocks during the last two years cannot be fully made good by one good monsoon. If, in the coming year, we are to build up some stocks in addition to keeping the public distribution system well supplied throughout the year, it will be essential to undertake a large procurement programme of rice and possibly some additional import of foodgrains. Given adequate procurement in the coming season, Government should be better able to mitigate price increases in respect of foodgrains. Obviously, such a large programme of procurement might involve having recourse to a levy system in the present circumstances. If there are difficulties in implementing such a system, the extent of obligations that could be undertaken by the Government for sale of foodgrains through the public distribution system will have to be reviewed ; consideration may also be given to the possibility of adopting supplementary measures.

94. As described earlier, the pressure on prices will have to be reduced in the short-term through reduced expenditure in both the public and private sectors. Steps are being taken to cut down Government expenditure with a view to confining deficit financing to the minimum. The Central Government has budgeted in 1973-74 for a small deficit of Rs. 85 crores. Additional items of Government expenditure which have arisen subsequently, or are likely to arise—such as, larger outlays on food subsidies, increased expenditure on salaries as a result of the implementation of the Third Pay Commission and the Bonus Review Committee recommendations—are to be offset by cuts in Plan and non-Plan expenditures of the order of Rs. 400 crores. Since it is impossible to predict future expenditures precisely, it will be necessary to pay attention to better tax collection, larger borrowing etc., in order to ensure that the budget deficit will in fact be much smaller than in the previous two years.

95. In the field of credit policy, the accent throughout the year has been on restraining undue expansion in the face of a very rapid accretion of commercial banks' deposit resources. As has already been described, various measures have been taken since November 1972 to prevent the highly liquid position of banks from supporting unproductive or speculative expenditure in the private sector. Over the year, these policies have effectively kept the credit-deposit ratios well below the previous years' levels. However, with the pace of deposit accretion to the banks continuing to be high its utilisation will need to be a controlled one. Thus, the basic characteristic of credit policy in the immediate future will be one of restraint, allowing for such flexibility in the use of the instruments of control as are required to facilitate essential production on the one hand, and curb speculation on the other.

96. From a long-term point of view it has to be recognised that for several years to come public distribution of foodgrains and its management will continue to be of prime importance. During the four years of good monsoon since 1967-68, a sufficient availability of foodgrains led to a weakening of the distributional apparatus set up in most States. The experience of 1972-73 has shown that the machinery for public distribution of foodgrains has to be put on a permanent basis if it is to operate effectively in times of scarcity. Along with a proper distribution system, co-ordinated measures on the transport of foodgrains from surplus to deficit areas and within deficit areas are necessary to ensure an evening out of regional price fluctuations.

97. More importantly, it is in the field of production that a major effort has to be made. While intensification of research in developing and spreading the use of high yielding varieties of seeds in respect of rice, coarse grains and cash crops has to continue, periodical droughts have emphasised the urgency to devote greater efforts in developing dry farming methods suitable for varying agronomic conditions in the country so as to bring about a certain degree of stability in agricultural output in areas susceptible to drought. Investment of resources in this field should receive high priority.

98. Coming to the industrial sphere, the improvement noticed in the rate of output

(7·1 per cent) in calendar year 1972 can be maintained, assuming normal availability of power and industrial raw materials. Output of raw cotton and raw jute has been only marginally lower than last year and may not cause much anxiety, provided the next crops are normal. Improvement in the supply of steel and steel products is likely to continue. Moreover, the recent liberalisation of industrial licensing would be a factor favourable to industrial growth. If the improvement in industrial relations observed in the public sector during 1972-73 continues in 1973-74, it would further help the growth in industrial output.

99. Over the longer period, however, it is the lower tempo of investment activity during the past few years which has contributed to scarcities not only in commodity sectors but also in transport, power, irrigation etc. Existence of idle capacity in some of the capital goods industries can also be traced to this factor. The lead in this regard has to come from the public sector, as substantial increases in investment in the private sector hinge on a similar growth in the public sector. An acceleration in investment in the public sector maintained over the next few years, therefore, has to take place if the industrial sector is to be put on a higher growth path. In doing this, ways should be found to ensure that a realistic cost-benefit assessment of new public investments is made, so as to economise on scarce resources.

100. Alongside of enlarging and streamlining public investment in industries, power and transport, measures to stimulate industries in the private sector require consideration. Greater dependence of private investment on the supply of finance through specialised institutions like the IDBI is undoubtedly an aid to better regulation and supervision ; but resources provided by such institutions have to be based on equity and debenture capital raised on the market. If, therefore, the flow of investible funds into the capital market is not maintained and even enlarged to some extent, it is likely that many industries, especially medium and small industries, will find it difficult to come into being. On the eve of the Fifth Plan it would be opportune to take stock of this situation and impart a measure of continuity to Government's industrial and tax policies over the Plan period. This could act as an incentive both to savers and to entrepreneurs setting up new industries.

101. While re-allocation of available resources in favour of investment may not be immediately possible because of compulsions of the existing situation, more and more of additional resources mobilised need to be channelled into effective investment. This obviously implies the adoption of practices favourable to fuller utilisation of installed capacity in both public and private sector undertakings. In both these sectors the rates of return obtained on capital employed are not commensurate with either the needs of the country or the capabilities of the skilled labour utilised. Similarly it is true that tax revenue as a percentage of national income has been steadily rising in recent years ; but there is still scope for mobilising additional resources, particularly at the State level as pointed out in the Raj Committee proposals. On a more general plane efforts to improve the administration for curbing tax evasion should be intensified.

102. The external payments position though reasonably sound at the moment does not permit of a large and continuing dependence on imports for supply of wage-goods. In times of acute shortage, as at present, it will be necessary to utilise part of our foreign exchange earning for financing food and other essential consumer goods imports. Since simultaneously provision has to be made for variety of maintenance imports for industry, it becomes all the more important to press ahead with measures favouring a rapid increase in export earnings.

103. In 1973-74, the last year of the Fourth Five Year Plan, the country would be concerned with the preparation of detailed Fifth Five Year Plan. This is the year therefore which should provide an economic setting favourable for the launching of the Fifth Plan. All efforts should be made to restore not only price stability but also balance in the manage-

ment of the economy, particularly in the sphere of public investment and public consumption. The massive investment envisaged in the Fifth Plan would require larger tax realisations, more public borrowing and in general a big increase in the rate of saving. The banking sector has to be geared to meet the challenge ahead through further broadening and deepening banking services, not only for mobilising deposits but also for providing working capital finance for expanding industry, agriculture and other sectors. The contribution that can be made directly by Government policies financial and otherwise, will be far more important in achieving the twin objectives of growth and social justice; and it is these policies that will decide the future shape of the economy.

II. PROGRESS IN COMMERCIAL BANKING

104. During the year under review, the banking system further extended its geographical coverage thereby reducing the regional imbalances in banking development. During calendar year 1972, commercial banks opened ~~1973~~ 1763 branches which exceeded the target of opening 1500 branches during the year in terms of a perspective plan of opening 5000 offices for a three year period 1972-74 (calendar years). In order to maintain the tempo of branch expansion, banks have now been advised to draw up rolling plans for a three year period commencing from year 1973.

105. Credit purveyed to priority sectors picked up during the year although the rate of growth in credit to such sectors was rather slow. With reorganisation of regional and divisional offices and more effective loaning arrangements going apace, it is expected that faster progress will be achieved in this area in future years. This possibility is likely to be strengthened by the additional liberalisations in respect of guarantee cover provided by the Credit Guarantee Corporation of India Ltd. Besides, the extension of the scheme of commercial bank financing of cultivators, through primary agricultural co-operative credit societies, should also assist improvement in the growth of advances to these sectors.

106. Under the Lead Bank Scheme, the preparation of survey reports is nearing completion. Apart from convening, in a large number of districts, Consultative Committees for Banking Development, detailed studies were also initiated to indentify credit gaps and evolve credit plans for districts.

107. In the field of agriculture and allied activities, banks continued their endeavours to cater to the financial needs of farmers in adopted villages. State Bank of India has been given licences for opening 93 Agricultural Development Branches ; of these 41 have already been opened. The banks participated in the 1972-73 *rabi* crash programme as also in a crash programme for installation of pumpsets in Bihar. These were in addition to fulfiling the role assigned to them in areas covered by SFDA*/MFALA@ schemes. Besides, banks have been taking active interest in financing schemes eligible for refinance from the Agricultural Refinance Corporation.

108. During the year, the Regional Consultative Committees for nationalised banks, for the Southern, Western, Northern, Eastern and North-eastern regions were convened to review banking developments. In these meetings, a variety of decisions were taken for quickening the progress of banking, such as the following : (*i*) to form co-ordination committees of lead banks and the Departments of Co-operation, Agriculture and Industries of the State concerned for ensuring synchronisation of the activities of co-operatives with those of commercial banks ; (*ii*) to adopt a flexible approach towards extension of loans, having regard to the organisational set-up of banks and availability of infrastructure and other facilities; (*iii*) to strengthen the co-operative structure to facilitate speedier financing by banks, and impress upon States to develop infra-structure facilities to facilitate the opening of offices by commercial banks, and (*iv*) desirability of banks undertaking training programmes so as to help solve the problem of inadequate availability of trained personnel. Besides, expeditious implementation of the recommendations of the Talwar Committee and frequent contacts between banks and officers of State Governments in the region will make it easier for banks to finance agriculturists.

Branch Expansion

109. Commercial banks opened 1,763 offices in 1972 as against 1,805 offices in 1971 and 2,137 offices in 1970. The number of offices opened in 1972 exceeded the target of 1,500 branches fixed for the year under the perspective plan of branch expansion not—withstanding the absence of requisite

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* Small Farmers Development Agency.

@ Marginal Farmers and Agricultural Labourers Agency.

infrastructure in some centres and the organisational constraints faced by banks. In order to ensure continuity in the matter of branch expansion and to enable banks to formulate their man-power plans in advance, it has been decided, to have rolling plans for a three-year period, beginning with the period 1973-75 (calendar years). For this purpose, banks were asked to specify, in February 1973, the centres where they would be opening offices during 1973, taking into account the licences/allotments already pending with them and to indicate Statewise quantitative plans for 1974 and 1975. While drawing up the plans for 1973, banks were also advised to ensure, to the extent feasible, that the expansion was spread out evenly over all the four quarters of the year, instead of a disproportionately large number of branches being opened during the closing phase of the year.

110. Commercial banks opened 1,756 offices during the year 1972-73 (July-June) as against 1,612 offices in 1971-72. Of the 1,756 offices opened in 1972-73, the State Bank of India and its subsidiaries accounted for 473 offices and the nationalised banks 926 offices. The number of offices opened at unbanked centres was 690 (Table 18).

Table 18—New offices opened by commercial banks during 1971-72 and 1972-73

	New Offices opened by commercial banks						Bank offices as on	
	1971-72			1972-73			30th June 1972	30th June 1973
	July-Dec. 1971	Jan.-June 1972	July-June 1971-72	July-Dec. 1972	Jan.-June 1973	July-June 1972-73		
1. State Bank of India ..	187	102	289	180	112	292	2575	2867
	(106)	(58)	(164)	(58)	(39)	(97)		
2. Subsidiaries of State Bank of India ..	66	84	150	127	54	181	1383	1563
	(39)	(46)	(85)	(64)	(19)	(83)		
3. Fourteen Nationalised Banks	540	281	821	618	308	926	7189	8109
	(321)	(149)	(470)	(272)	(100)	(372)		
4. Other scheduled banks	175	165	340	194	155	349	2240	2580
	(108)	(99)	(207)	(74)	(58)	(132)		
5. Foreign banks	—	—	—	—	—	—	130	130
	(—)	(—)	(—)	(—)	(—)	(—)		
6. All scheduled commercial banks	968	632	1600	1119	629	1748	13517	15249
	(574)	(352)	(926)	(468)	(216)	(684)		
7. Non-scheduled commercial banks	4	8	12	4	4	8	105	113
	(3)	(7)	(10)	(3)	(3)	(6)		
8. All commercial banks ..	972	640	1612	1123	633	1756	13622	15362
	(577)	(359)	(936)	(471)	(219)	(690)		

Note :—Figures in brackets relate to number of offices opened at the unbanked centres.

111. The progress in extending the geographical coverage of banking was also maintained during the year. Of the 7,131 offices opened since nationalisation, *i.e.*, from the July 1969 to the end of June 1973, as many as 4,106 offices (56·2 per cent) were in unbanked centres. The underdeveloped States of Assam, Bihar, Jammu & Kashmir, Madhya Pradesh, Manipur, Meghalaya, Nagaland, Orissa, Tripura, Uttar Pradesh and West Bengal accounted for 30·8 per cent of these new offices. In Manipur, Nagaland and the Union Territories of Goa, Daman and Diu and Laccadive, Minicoy and Amindivi Islands, all the offices opened during the year were at unbanked centres.

112. As at end—June 1972, there were 71 districts spread over 14 States/Union Territories where the population per bank office was above one lakh as against the national average of 40,000 per bank office. Banks, particularly those which have been designated as 'lead banks,' were, therefore, advised to give special attention to these districts with a view to reducing the population coverage per bank office to the maximum extent possible without ignoring, at the same time, the centres which offered good potential for mobilising deposits. The 'lead banks' were further advised to keep in view the need to give priority to the backward areas in developed as well as underdeveloped States, in order to remove the existing inter-State and intra-State disparities.

113. With the addition of 1,756 branches in 1972-73, the national average of population per bank office declined from 40,000 at the end of June 1972 to 36,000 at the end of June 1973. In 10 out of the 21 States, the population per bank office, however, is still above 50,000. These States are Assam, Bihar, Madhya Pradesh, Manipur, Meghalaya, Nagaland, Orissa, Tripura, Uttar Pradesh and West Bengal. In two of them (*viz.* Manipur and Tripura), the population coverage per bank office is more than one lakh (Table 19). Efforts are being directed towards opening more offices in these States.

114. Distribution of commercial bank offices by population groups indicates that there has been a further thrust by commercial banks in rural areas. The proportion of bank offices in rural areas to the total, which was 30·2 per cent in June 1970 increased to 35·6 per cent in June 1971. As at the end of June 1972 the ratio declined marginally to 35·3 per cent due mainly to reclassification of centres on the basis of the 1971 Census figures of population. To some extent this was also attributable to a larger utilisation by banks of their eligibility to open offices in urban/metropolitan centres, which accrued to them on account of their performance in rural and semi-urban areas in the earlier years. However, the proportion of rural offices increased to 36·2 per cent of the total by end-June 1973, despite the declining number of identified unbanked growth centres (Table 20).

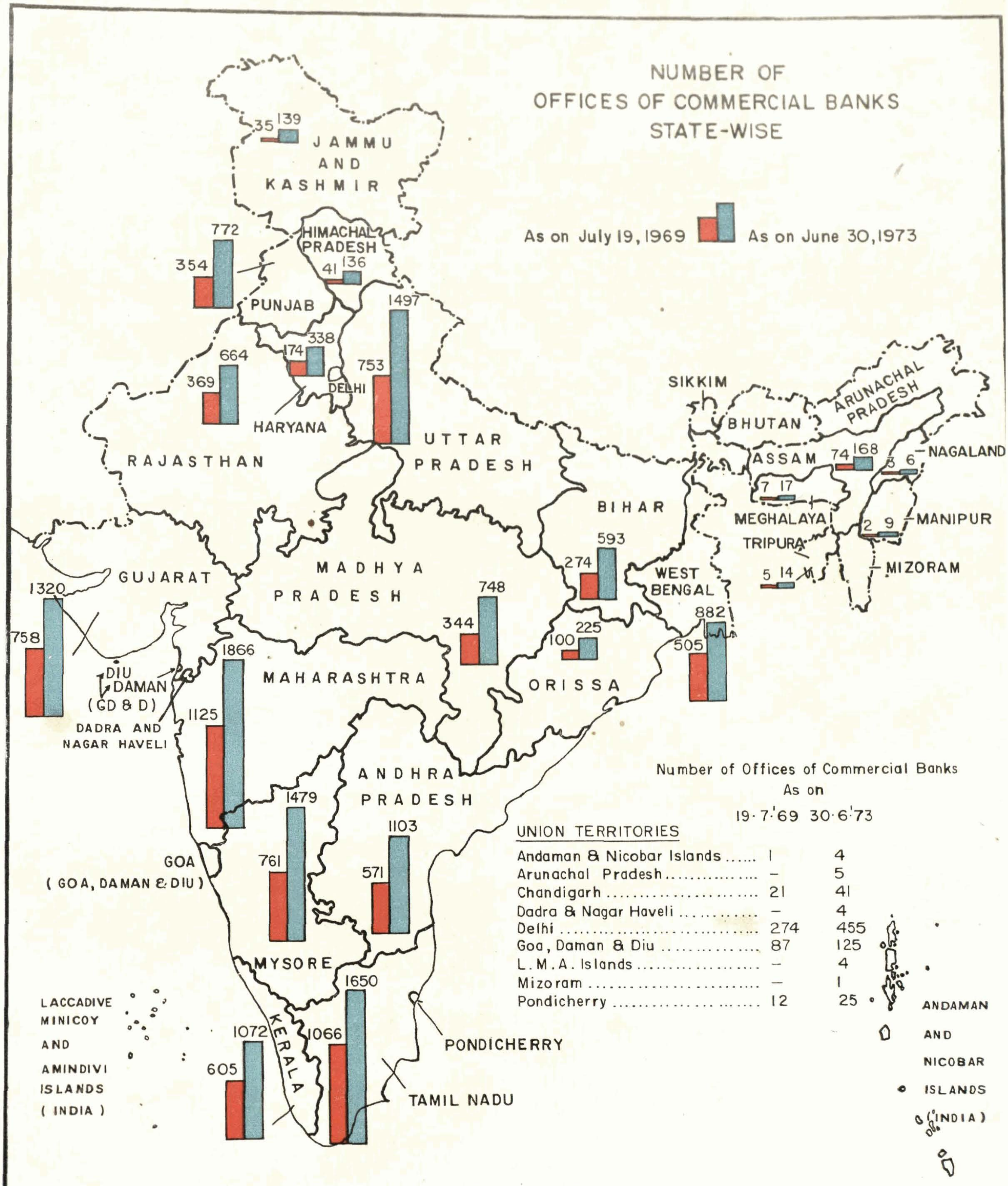
Table 20—Centre-wise distribution of commercial bank offices

	Number of offices as at the end of									
	June 1970	% to total	June 1971	% to total	June* 1972	% to total	December 1972	% to 1972	June 1973	% to total
1. Rural†	3062	30.2	4279	35.6	4814	35.3	5325	36.1	5561	36.2
2. Semi-Urban	3695	36.5	4016	33.4	4385	32.2	4587	31.1	4723	30.8
3. Urban	1583	15.6	1778	14.8	2323	17.1	2461	16.7	2573	16.7
4. Metropolitan/Port Town	1791	17.7	1940	16.2	2100	15.4	2366	16.1	2505	16.3
TOTAL :	**10131**	**100.0**	**12013**	**100.0**	**13622**	**100.0**	**14739**	**100.0**	**15362**	**100.0**

* Re-classified on the basis of 1971 Census population figures.
† Rural Centres: Places with population upto 10,000.
Semi-Urban Centres: Places with population over 10,000 and upto 1,00,000.
Urban Centres:
(a) Metropolitan Towns: Places with population over 10,00,000.
(b) Others: Places with population over 1,00,000 and up to 10,00,000.

Table 19—State-wise distribution of bank offices as at the end of June 1971, June 1972 and June 1973

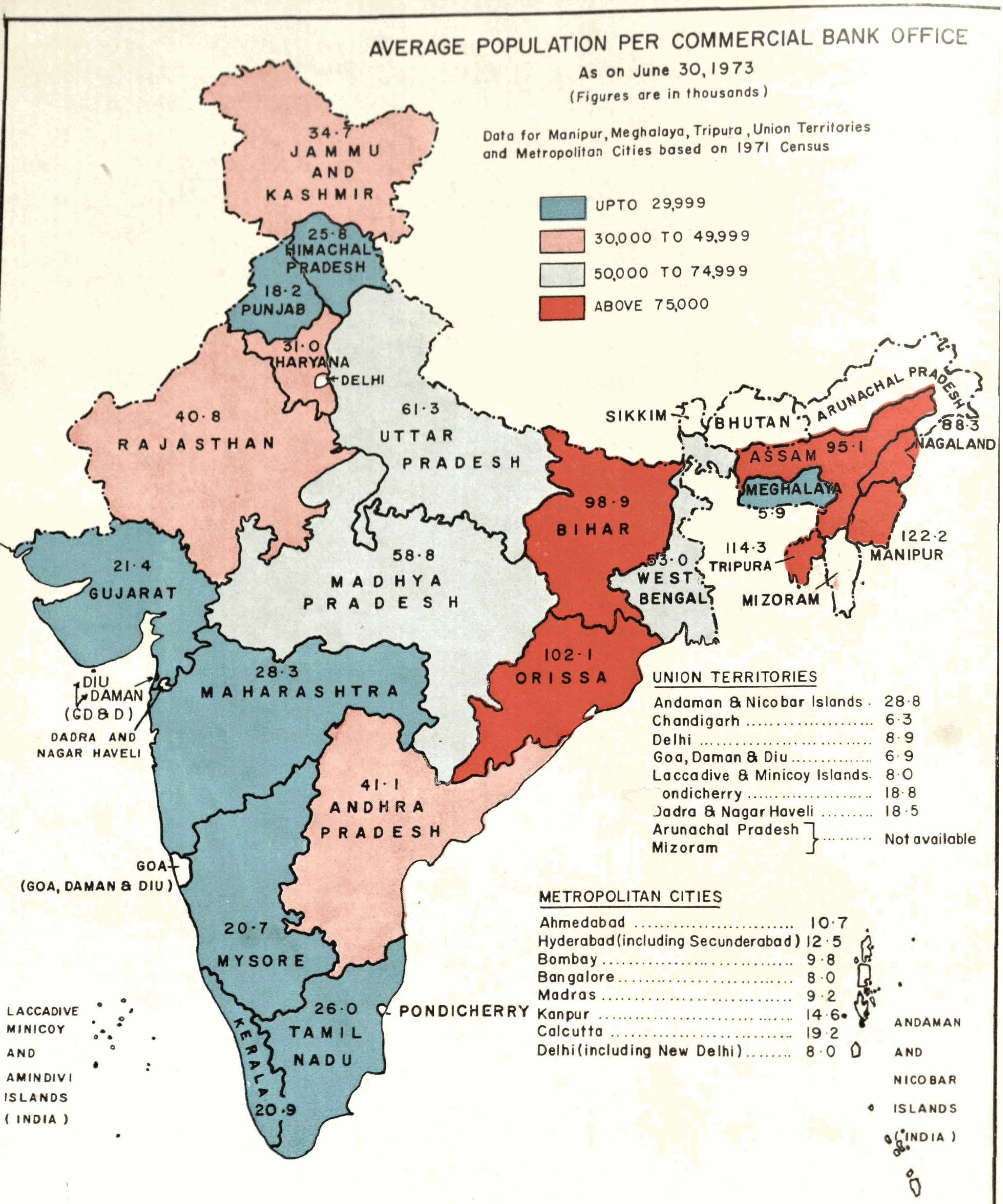
States	No. of offices as at the end of			Opened during 1971-72 (July-June)	Of which un-banked centres	Opened during 1972-73 (July-June)	Of which un-banked centres	Population per bank office (in thousands) as at the end of	
	June 1971	June 1972	June 1973					June 1972	June 1973
1	2	3	4	5	6	7	8	9	10
1. Andhra Pradesh	869	959	1103	90	44	144	54	45	39
2. Assam	122	149	168	27	22	19	11	98	89
3. Bihar	453	541	593	88	68	52	32	104	95
4. Gujarat	1105	1234	1320	129	83	90	25	22	20
5. Haryana	258	299	338	41	29	40	13	34	30
6. Himachal Pradesh	87	108	136	21	19	29	23	32	25
7. Jammu and Kashmir	101	116	139	15	8	23	12	40	33
8. Kerala	845	980	1072	136	92	92	32	22	20
9. Madhya Pradesh	566	669	748	103	58	80	42	62	56
10. Maharashtra	1471	1679	1866	208	77	189	44	30	27
11. Manipur	5	6	9	1	1	3	2	178	119
12. Meghalaya	15	16	17	1	—	1	—	63	59
13. Mysore	1124	1292	1479	168	107	188	76	23	20
14. Nagaland	5	5	6	—	—	1	1	103	86
15. Orissa	173	192	225	19	12	33	20	114	98
16. Punjab	556	651	772	95	59	120	57	21	18
17. Rajasthan	525	570	664	45	25	94	62	45	39
18. Tamil Nadu	1371	1484	1650	115	73	174	65	28	25
19. Tripura	12	12	14	—	—	2	1	130	111
20. Uttar Pradesh	1147	1324	1497	177	107	173	92	67	59
21. West Bengal	684	760	882	76	40	123	19	58	50
Union Territories									
22. Andaman & Nicobar Islands	2	4	4	2	1	—	—	29	29
23. Arunachal Pradesh	3	5	5	2	2	—	—	94	94
24. Chandigarh	28	33	41	5	—	7	—	8	6
25. Dadra & Nagar Haveli	3	4	4	1	1	—	—	19	19
26. Delhi	350	385	455	35	1	70	—	10	9
27. Goa, Daman & Diu	111	118	125	7	4	6	5	7	7
28. Laccadive, Minicoy and Amindivi Islands	2	2	4	—	—	2	2	16	8
29. Mizoram	—	1	1	1	1	—	—	332	332
30. Pondicherry	20	24	25	4	2	1	—	20	19
TOTAL	**12013**	**13622**	**15362**	**1612**	**936**	**1756**	**690**	**40**	**36**



Number of Offices of Commercial Banks As on

UNION TERRITORIES	19·7·'69	30·6·'73
Andaman & Nicobar Islands	1	4
Arunachal Pradesh	–	5
Chandigarh	21	41
Dadra & Nagar Haveli	–	4
Delhi	274	455
Goa, Daman & Diu	87	125
L. M. A. Islands	–	4
Mizoram	–	1
Pondicherry	12	25

1. Based upon Survey of India map with the permission of the Surveyor General of India.
2. The territorial waters of India extend into the sea to a distance of twelve nautical miles measured from the appropriate base line.
3. The boundary of Meghalaya shown on this map is as interpreted from the North-Eastern Areas (Reorganisation) Act, 1971, but has yet to be verified.



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3. The boundary of Meghalaya shown on this map is as interpreted from the North-Eastern Areas (Reorganisation) Act, 1971, but has yet to be verified.

115. Mention was made in the last year's Report about the reduction in the population norm per bank office from 10,000 to 5,000 for metropolitan areas and certain urban centres with high deposit potential and the relaxation of eligibility norms to enable banks to open more offices in such areas. During the period under review, a meeting of representatives of banks was held at Ahmedabad and tentative allotments were made for opening 77 more bank offices in that city. With this, allotments have been made so far for opening 805 offices in seven metropolitan centres. A meeting of the representatives of public sector banks was convened at Patna in December 1972, for the purpose of making allotment among them of unbanked block development headquarters in Bihar State falling in areas under special projects such as SFDA and MFALA. At the meeting, 146 unbanked centres were allotted among seven public sector banks. Offices in 84 of these centres are expected to be opened in 1973 and at the remaining centres in 1974.

116. Allowing for changes in the number of offices due to transfer of assets and liabilities of banks, closure of offices, inclusion of banks in the Second Schedule to the Reserve Bank of India Act, 1934, etc., the net increase in the period upto June 1973 in the number of offices of scheduled and non-scheduled commercial banks came to 1,732 and 8, respectively. As at end of June 1973, the number of offices of scheduled and non-scheduled commercial banks stood at 15,011 and 113 as against 15,249 and 105, respectively as at the end of June 1972 (Table 21).

Lead Bank Scheme

117. Quick and impressionistic surveys of the economic profile of districts allotted to banks, under the lead bank scheme, have been completed by them in 313 out of 338 districts. The district level consultative committees have been constituted by the lead banks in as many as 267 districts, which provide the forum to (*i*) evolve, *inter alia*, methods of exchanging information amongst themselves about intending borrowers and lending to priority sectors in the district, (*ii*) identify bankable schemes, (*iii*) allot unbanked centres identified during the survey and (*iv*) serve as a clearing house for dicussing problems arising out of financing of priority sectors. The nationalised banks have been required to prepare credit plans in respect of a few of the districts allotted to them under the lead bank scheme. Preparation of credit plans covered by this scheme is under way. This is in addition to the in-depth studies of selected Community Development Blocks in its lead districts by the State Bank Group.

118. Notwithstanding the progress that has been made so far, much more remains to be done to fulfil expectations of the lead bank scheme as an important instrument for development. It is, therefore, necessary that the consultative committees set up at the district levels devote more attention to the formulation of loan schemes that are appropriate to the particular district. In this task, banks would need more assistance from technical experts of the State Government at the district level for identification of schemes which would qualify for bank credit. Provision of necessary infra-structure such as communication facilities and adequate premises by State Government would further assist the branch expansion programme of banks and help make regional credit planning more effective and purposive.

Financing of Agriculture by Commercial Banks

119. Mention was made in the last year's Report that the rate of increase of commercial banks, advances to agriculture had slowed down. This was attributed to the increased emphasis on qualitative lending and concentration of efforts in specific areas based on cluster approach, village adoption, group loans etc. Banks are also increasingly involving themselves in special schemes formulated by State Governments, as for example, those formulated during *rabi* 1972-73. The public sector banks are also participating in a crash programme for installation of pumpsets and have made certain relaxations in their normal terms and conditions relating to margin and security to ensure that a large number of small farmers are benefited by it. As regards SFDA/MFALA areas, considerable progress has been made, in particular, in the former areas in regard to identification of eligible farmers, and banks are opening more offices there. The Central Government had decided that these projects will have a five-year period beginning from 1971-72 and has also advised

Table 21—Number of offices opened and closed by scheduled and non-scheduled commercial banks in India

	New offices opened	Changes due to amalgamations, mergers, transfers of assets and liabilities and inclusion in and exclusion from the Second Schedule to the Reserve Bank of India Act, 1934	Existing offices closed	Overall variation in the number of offices	Number of offices at the end of the period
	1	2	3	4	5
Scheduled Commercial Banks					
1970					
January — June	1068 (190)	+ 3	—	+1071	9938
July — December	1052 (234)	+54	— 4	+1102	11040
1971					
January — June	824 (178)	+32	— 4	+ 852	11892
July — December	968 (187)	+28	—	+ 996	12888
1972					
January — June	632 (102)	—	— 3	+ 629	13517
July — December	1119 (180)	—	— 6	+1113	14630
1973					
January — June	629 (112)	—	—10	+ 619	15249
Non-Scheduled Banks					
1970					
January — June	12	— 3	—	+ 9	193
July — December	5	—54	—	—49	144
1971					
January — June	9	—32	—	—23	121
July — December	4	—28	—	—24	97
1972					
January — June	8	—	—	+ 8	105
July — December	4	—	—	+ 4	109
1973					
January — June	4	—	—	+ 4	113
All Commercial Banks					
1970					
January — June	1080	—	—	+1080	10131
July — December	1057	—	— 4	+1053	11184
1971					
January — June	833	—	— 4	+ 829	12013
July — December	972	—	—	+ 972	12985
1972					
January — June	640	—	— 3	+ 637	13622
July — December	1123	—	— 6	+1117	14739
1973					
January — June	633	—	—10	+ 623	15362

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

these agencies that their programmes should be prepared and implemented accordingly. By end-March 1973, commercial banks had extended short-term credit amounting to Rs. 159 lakhs and term loans amounting to Rs. 434 lakhs to identified small farmers in SFDA/MFALA areas. Agricultural advances of commercial banks have shown a steady improvement, having risen from Rs. 395 crores in December 1971 to Rs. 485 crores in December 1972. The rising trend is witnessed both in direct as well as indirect advances to agriculture.

Organisation of Farmers Service Societies

120. The National Commission on Agriculture in their interim Report on Credit Services for Small and Marginal Farmers and Agricultural Labourers had recommended the organisation of Special Co-operatives known as Farmers Service Societies to provide integrated services to the above category of persons. This was further examined by a Study Team appointed by the Commission. The Farmers Service Society would provide short, medium and long-term advances to its members, who would be mostly small farmers. It would also supply inputs, arrange for the marketing of the produce, etc. These societies would be linked to commercial/co-operative banks. The Reserve Bank of India convened a meeting of the Heads of Agricultural Finance Departments of the public sector banks in June 1973 and it was decided that these banks would set up Farmers Service Societies on a pilot basis in the major States. The banks would make a token contribution to the share capital and meet the remuneration of the Managing Director of the Society for a period upto 3 years. The State Governments are expected to contribute at least Rs. 50,000 to the share capital of a Society and subsidise the cost of the technical personnel. Further steps to organise the Farmers Service Societies are being taken. In order to encourage the organization of these societies, the Reserve Bank provides refinance at a concessional rate of 5 per cent, irrespective of a bank's net liquidity ratio, to Commercial banks for financing the farmers service societies.

121. Scheduled commercial banks are participating increasingly in financing the various schemes for which refinance facilities are available from the Agricultural Refinance Corporation ; this includes projects utilising the credits from the IBRD/IDA. Scheduled commercial banks have been assigned a significant role particularly in the States of Uttar Pradesh, Madhya Pradesh and Bihar ; for these States they have submitted their detailed programmes to the Agricultural Refinance Corporation for incorporation in the overall banking plans for these projects.

122. As mentioned in the last year's Report, the need for speedy implmentation of the recommendations of the "Expert Group on State Enactments having a bearing on commercial banks' lending to agriculture" has been impressed upon State Governments. The State legislatures of Madhya Pradesh, Haryana, Uttar Pradesh and Himachal Pradesh have passed bills on the lines of the 'Model Bill' recommended by the Group to enable commercial banks to undertake financing of agriculture on a larger scale. The M.P. legislation has since become an Act after getting the President's assent. The West Bengal Government has also passed a bill giving effect to some of the provisions of the 'Model Bill'. As regards the administrative measures suggested by the Group, some of the State Governments have reduced the stamp duty payable by agriculturists on documents executed in favour of commercial banks and have notified more towns where equitable mortgage could be created.

Credit Guarantee Corporation of India Ltd.

123. During the year, the Small Loans Guarantee Scheme was further liberalised for the benefit of small transport operators and agriculturists. In the case of the former, the guarantee cover, which was confined to credit facilities granted to transport operators for the purchase of vehicles only was extended effective October 1, 1972 to credit facilities granted for repairs or renovation of the vehicles, including body building and replacement of parts or for working capital requirements, subject, however, to the overall ceiling of Rs. 1 lakh. In the agricultual sector, credit facilities granted to Joint Hindu Families or groups or associations of persons (not being companies or co-operative societies) have been made eligible for the benefit of guarantee cover. The guarantee was also made avail-

able in respect of credit facilities to a borrower for two activities in the agricultural sector, instead of only one, as hitherto. Thus, credit facilities granted to a borrower for cultivating his land and for one subsidiary farming activity such as pisciculture, sericulture, animal husbandry, poultry farming and dairy farming or if he is not cultivating land, for any of two such activities, are now eligible for guarantee cover. Further, the rolling over of short-term credit by converting it into medium-term credit would be permitted in the event of drought, flood or other natural calamities or the death or physical incapacity of the borrower or any other unusual circumstances beyond the borrower's control.

124. The credit facilities covered under the three schemes, which are administered by the Corporation amounted to Rs. 173.42 crores, as on 29th September 1972, on the basis of available details, under the small loans guarantee scheme in respect of 65 out of 71 scheduled commercial banks that have joined the scheme, Rs. 2.97 crores under the Financial Corporation's Guarantee Scheme in respect of 12 out of 18 financial corporations and Rs. 44.66 lakhs under the Service Co-operative Societies Guarantee Schemes in respect of four commercial banks.

125. Mention was made in the last Report of the Working Group constituted by the Corporation to examine the question of extending guarantee cover to credit facilities granted through co-operative societies. The Bank has recently appointed a Study Team to go into the position of overdues at all the three levels of the co-operative credit system to ascertain broadly the causes thereof and their effect on the flow of credit, and to suggest remedial measures. The Corporation's Working Group on co-operatives is expected to take into account the views and suggestions of the Study Team before finalising its recommendations.

126. No credit institution invoked the guarantee in respect of the credit facilities covered under the schemes till 31st December 1972. During the first half of 1973, 5 banks submitted claims aggregating Rs. 2.01 lakhs in respect of 59 borrowers. Claims in respect of 2 borrowers for amounts aggregating Rs. 5324.33 were paid by the Corporation till June 30, 1973 and the remaining 57 claims were under examination.

127. The guarantee fees received by the Corporation during the year 1972 amounted to Rs. 94.55 lakhs. This, together with income from investments and interest on overdue guarantee fees, aggregated Rs. 108.90 lakhs. After meeting establishment and other expenses of Rs. 4.76 lakhs, there was a surplus of Rs. 104.14 lakhs which the Corporation proposed to transfer to the Reserve for Unexpired Guarantee Risks. Under the Finance Act, 1973 the Corporation has been exempted from payment of income tax and the companies (profits) surtax for a period of 5 years till the end of December 1975.

Sectoral Distribution of Credit

128. Estimates of data on sectoral distribution of bank credit are availbale only upto end—December 1972. These data indicate that as compared to the position during July-December 1971, the flow of credit to the main sectors of the economy during July-December 1972 show some significant changes. Aggregate bank credit at Rs. 5,559 crores as at the end of December 1972 registered a smaller increase of Rs. 79 crores over the end-June 1972 level as against an increase of Rs. 247 crores during the corresponding period of 1971. Food advances declined by Rs. 383 crores as against a fall of Rs. 14 crores (Table 22) during July-December 1971.

129. Arrangement for financing food procurement operations was further streamlined during the year. The entire credit requirements of the Food Corporation of India, State Governments and their agencies for food procurement operations, storage and distribution of foodgrains is now met by a consortium of Banks arranged by the Reserve Bank with State Bank of India as the leader. The working of the Scheme revealed that credit limits were not fully drawn upon by the State Governments and their agencies, perhaps because there was no proper co-ordination of the operations of the participating banks. In order to overcome this lacuna, each of the participating banks was allotted specific credit limits consistent with its resource position. With a view to ensuring, *inter alia*, equitable distribution of credit among banks parti-

Table 22 : Sectoral Distribution Of Scheduled Commercial Banks' Credit

(Rupees crores)

	Outstanding as on June 1969	Outstanding as on June 1971	Outstanding as on December 1971	Variation (3) over (2)	Outstanding as on June 1972	Variation (5) over (3)	Outstanding as on December 1972	Variation (7) over (5)
	1	2	3	4	5	6	7	8
1. Total Bank Credit	3599	4805	5052	+ 247	5480	+ 428	5559	+ 79
(Of which exports)	(258*) (7.2)	(382*) (7.9)	(459*) (9.1)	(+77)	(436*) (8.0)	(—23)	(463*) (8.3)	(+27)
2. Food Procurement Operations	233 (6.5)	379 (7.9)	365 (7.2)	—14	542 (9.9)	+177	159 (2.9)	— 383
3. Agriculture	188 (5.2)	382 (7.9)	395 (7.8)	+ 13	439 (8.0)	+ 44	485 (8.7)	+ 46
(a) Direct finance	54 (1.5)	236 (4.9)	263 (5.2)	+ 27	267 (4.9)	+ 4	310 (5.6)	+ 43
(b) Indirect finance	134 (3.7)	146 (3.0)	132 (2.6)	— 14	172 (3.1)	+ 40	175 (3.1)	+ 3
4. Small-scale industries	286 (7.9)	500 (10.4)	545 (10.8)	+ 45	597 (10.9)	+ 52	645 (11.9)	+ 48
5. Other priority sectors including retail trade	31 (0.9)	144 (3.0)	163 (3.2)	+ 19	172 (3.1)	+ 9	196 (3.5)	+ 24
6. Bank credit to large and medium industry,† wholesale trade and others@ (1 — (2+3+4+5)	8261 (79.5)	3400 (70.8)	3584 (70.9)	+184	3730 (68.1)	+146	4074 (73.3)	+344
7. Available aggregate deposits (excluding cash in hand and balances with RBI, balances with other banks in current account and investments in Government and other approved securities)	2814 (83.3)	3936 (81.9)	4238 (83.9)	+302	4577 (83.5)	+339	4803 (86.4)	+226
8. Item 6 as percentage of item 7	93.9	85.3	84.6	60.9	79.1	43.1	84.0	152.2
9. Borrowings from RBI	172	207	171	— 36	42	—129	9	— 33

Notes:—(*i*) Upto December 1971, figures for other priority sectors including retail trade relate to public sector banks only and hence, have been blown up on the basis of the proportion (86%) of credit public sector banks to total credit.

(*ii*) Figures in brackets indicate proportion to total bank credit.

@ Estimated.

† This would include entire export credit to large and medium industry and wholesale trade.

* Includes medium-term export credit.

cipating in the consortium, the Reserve Bank constituted a Committee of Bankers in December 1972 to review periodically the allocation of credit limits among the banks in the Consortium and assess credit requirements of the agencies engaged in food procurement. The Committee is expected to look into the various procedural and other aspects relating to the consortium arrangement. The Committee has met six times during the year. Proposals are under consideration for organising similar consortium arrangements for advances against cotton and kapas in order to facilitate the operations of the Cotton Corporation of India.

130. Export credit during the period July-December 1972 shows a small rise of Rs. 27 crores as compared to Rs. 77 crores in the corresponding period of 1971. However, when fuller details regarding export credit become available, it is expected to show a clear increase in comparison to last year, in view of the substantial increase in exports during the year 1972-73. The Pre-Shipment Credit Scheme and Export Bills Credit Scheme continued to operate during the year with minor modifications in the latter to meet special requirements of exports of marine products and mineral ores. The coverage of interest subsidy scheme of 1968 was expanded to include State/Central Co-operative Banks granting package credit to exports.

131. Bank credit to small-scale industries increased in July-December 1972 by Rs. 48 crores as compared to an increase of Rs. 45 crores July-December 1971. The residual sector comprising 'large and medium industries, wholesale trade and others' accounted for Rs. 344 crores as against Rs. 184 crores in the previous year. Advances to other priority sectors including retail trade registered a rise of Rs. 24 crores compared to Rs. 19 crores in July-December 1971. There was a spurt of Rs. 46 crores in bank credit to agriculture in July-December 1972 in comparison to a rise of Rs. 13 crores in the comprable period of 1971. The increase in bank credit to agriculture has to be viewed in the context of emphasis placed on strengthening the organisational structure to purvey credit to this sector. Apart from this, banks also streamlined their policy and procedures consistent with the guidelines issued by the Reserve Bank in this behalf. The increase in credit to this sector has taken place despite the fact that the recovery of loans continued to be difficult, particularly in view of the adverse agricultural conditions in 1972-73. Although this problem is likely to remain very difficult for some time to come, it does not warrant any change in the policy of priority treatment of this sector by banks.

132. These quantitative changes were naturally reflected in alterations in the relative share of individual sectors in total bank credit. While the share of small-scale industries declined, *albeit*, marginally, that of agriculture recorded an improvement. There was a rise in the share of both export and other priority sectors. Food advances showed a perceptible fall with the reduction in Government stock and the share of large and medium industries and wholesale trade and others increased.

Busy Season 1972-73

133. Overall credit expansion in the busy season October 1972-April 1973 amounted to Rs. 884 crores. Data collected from 21 major banks accounting for 87 per cent of both total credit and the credit expansion in the busy season indicate the broad direction of the overall expansion. The distribution of the credit expansion of these banks between the major sectors is given below. The proportion of the actual outstandings in each sector on the last Fridays of October 1972 and April 1973 to total credit is also given.

Sector	Percent of total credit expansion	Credit Outstanding as percent of total credit	
		End October 1972	End April 1973
1. Priority sectors (including small-scale industry) ..	17.0	24.0	23.0
2. Large and Medium Industry	52.2	48.4	49.0
3. Wholesale Trade (including credit for food procurement and public sector trading agencies) ..	17.2	15.8	16.0
4. Other Sectors	13.5	11.8	12.0
TOTAL ..	**100.0**	**100.0**	**100.0**

BSR Scheme

134. The Basic Statistical Returns (BSR) scheme introduced in place of the Uniform Balance Books (UBB) scheme simplifies the schedules and reduces the frequency of some of the returns. For effective implementation of the BSR scheme, banks have been pursuaded to designate a senior official for timely submission of returns. Consequent on the simplification of procedures and the reduction in the frequency of returns, the banks have shown encouraging response in submitting the UBB returns for June 1972. These data have since been consolidated and published. The availability of such data is important to banks themselves because, while discharging the duties assigned to them under the lead bank scheme, they have to know the direction in which and the sectors to which credit is being purveyed by the banking system as a whole. It is intended to publish such data twice a year under the BSR. As a part of the effective follow-up measures pursued by the Committee of Direction on Banking Statistics, a meeting of the representatives of public sector banks, Department of Banking and the National Institute of Bank Management was convened on July 2, 1973 to review the progress of the Basic Statistical Returns system and to discuss the introduction of Management Information System (MIS) in banks. The general consensus at the meeting was to ensure timely reporting of accurate data on BSR to facilitate early consolidation and feed back. As for the Management Information System it was decided to constitute (*i*) a Standing Committee consisting of RBI executives and chairmen of major banks to guide and supervise the work relating to MIS, and (*ii*) an Implementation Committee to give effect to the recommendations on MIS. The Implementation Committee would appoint task forces which would go into system for the individual banks.

Differential Interest Rates

135. It was mentioned in the last year's Report that the Government had decided to implement the scheme of lending by the public sector banks at concessional rates of interest to weaker sections of the community. The progress under the scheme was, however, somewhat tardy owing to the fact that much of the time was necessarily spent by banks in attending to the preliminaries and in selecting the branches in districts listed as eligible for lending under the scheme. Consequently, the commencement of the scheme, which was scheduled for July 1972, was delayed. In order to enlarge the scope and coverage of the scheme, certain modifications were announced by the Finance Minister in his Budget speech for 1973-74. These include an increase in the number of districts to be covered by the scheme from 163 to 265 ; raising of the income ceiling for eligibility to Rs. 3000 per annum in urban or semi-urban areas and Rs. 2000 per annum in rural areas ; and specification of the maximum amount available to any borrower under the scheme at Rs. 1500 for working capital and Rs. 5000 for term loans. As at the end of March 1973, the amount of advances outstanding under the scheme stood at Rs. 207. 35 lakhs covering over 56,536 accounts.

Bills Rediscounting Scheme

136. The number of scheduled commercial banks participating in the Bills Rediscounting Scheme increased during the year to 38 from 35 at the end of June 1972. The persistently low level of outstanding amount of bills rediscounted with the Reserve Bank reflects, among others, the comfortable resources position of banks. There are, however, indications of a gradual increase in the utilisation of this scheme. During the 1972-73 busy season, the outstanding amount increased by Rs. 19 crores as against a decline of Rs. 3 crores in the 1971-72 busy season. Over the year the outstanding amount of bills rediscounted stood higher by Rs. 5 crores as against a small increase of Rs. 36 lakhs in 1971-72 (July-June). As banks get better geared to lending against bills wherever possible rather than book debts and inventories, this scheme should become an important means of rediscounting by the Reserve Bank of India. Further modifications were made during the year to expand the scope of the Bills Rediscounting Scheme, introduced in November 1970. The refinance arrangement in respect of the defence packing-cum-supply credit which had continued under the old Bill Market scheme was withdrawn from March 30, 1973 following suspension of the defence packing-cum-supply credit scheme.

Credit Planning

137. Following discussions with Economists of Commercial banks in April 1972, the proformae for the credit plan for the banking system for 1972-73 were revised so as to provide for estimates on a financial year basis of deposit accretion, credit deployment (sector-wise and state-wise) during the slack and busy season and for State-wise branch expansion plan in lead and non-lead districts. The proformae were filled in by banks covering 96 per cent of deposits and 97 per cent of credit of the banking system. The projection for each bank with deposits exceeding Rs. 50 crores was discussed with the Chief Executive and senior officials, in order to ascertain the methods of estimation followed and to review particularly credit deployment against some of the sensitive securities. Aside from this, it was also emphasised that banks should accelerate branch expansion in the under-developed States and step up lending to agriculture and other priority sectors. Prior to the announcement of the credit policy for the busy season, the views of banks were elicited in respect of fixing credit limit on party-wise basis as against the ceiling of credit for bank as a whole under the selective credit control measures. A realistic and comprehensive credit plan for the year 1972-73 was also drawn up for the banking system as a whole after taking into consideration such information on production, stocks, prices, exports, etc. as was available.

138. In the course of these discussions, an important point which emerged related to the practice of taking over by some banks of accounts of large borrowers from other banks by offering lower rates of interest and other more favourable terms. In this connection, a special meeting of the public sector banks was convened and the Reserve Bank impressed upon them the desirability of desisting from this practice.

139. The discussions also revealed that banks had either committed, or earmarked sizeable amounts for lending to public sector units ; while some of them were of a term nature, others were in the shape of bridging finance pending formalisation of arrangements for issue of shares/debentures. In order to ensure that these lendings also conformed to the standards of credit appraisal laid down under the Credit Authorisation Scheme, term credit limits of Rs. 3 crores and above and working capital loans of Rs. 1 crore and above in respect of public sector undertakings including State Electricity Boards were brought within the ambit of the Credit Authorisation Scheme.

140. An important offshoot of the discussion was the decision to set up a Standing Committee of bankers and the Reserve Bank to supervise food procurement credit, as mentioned earlier. Proposals are under consideration for organising similar consortium arrangements for advances against cotton and *kapas* in order to facilitate the operations of the Cotton Corporation of India.

141. A meeting of commercial banks was convened to discuss the reasons for slackness in the provision of bank credit for fertiliser distribution and purchase of tractors. In the light of these discussions, the Reserve Bank laid down broad guidelines to ensure free and faster flow of credit for these purposes.

Pre-shipment Credit Scheme and Export Bills Credit Scheme

142. The Pre-shipment and Export Bills Credit schemes continued to be operated to assist the extension of export finance on an increasing scale. The Pre-shipment Credit Scheme was administered with a measure of flexibility so that the unforeseen difficulties encountered by the exporters did not come in their way of securing cheaper finance. In view of the importance of sea-foods as foreign exchange earners and their great potential, the credit problems of the industry were discussed by the Reserve Bank in April 1973 with the concerned banks, the exporters of sea-foods and the officers of the Marine Export Development Authority. Banks have been advised to extend adequate credit support to the exporters at various stages and in good time. The Reserve Bank has also made certain suggestions to banks in this context. The total number of banks participating in the above schemes as on the June 30, 1973 was 24. The maximum rate of interest on packing credit advances and interest/commission/discount on rupee and foreign currency export bills remained unchanged at 7 per cent per annum throughout the year under review.

Export Credit (Interest Subsidy) Scheme, 1968

143. The scheme, which was introduced in May 1968, continued to be popular, enabling the exporters to obtain finance from banks at concessional rates of interest. It was decided that working capital advances granted by way of packing credit by State/Central Co-operative banks catering to the export trade should also be covered by the Scheme. During the year, three State Co-operative Banks and 12 Central Co-operative Banks were brought under the Scheme. The ceiling rate of interest of 7 per cent per annum remained unchanged. Consequent on the liberalisation of its Export Production Finance Guarantee Scheme by the Export Credit and Guarantee Corporation Ltd., it was clarified to banks in August 1972 that advances granted by them to exporters upto 75 per cent over and above the f.o.b. value of shipment will be eligible for interest subsidy subject to compliance with the other conditions of the Scheme. Claims for interest subsidy amounting to Rs. 5.31 crores (pre-shipment credit Rs. 2.74 crores and post-shipment credit Rs. 2.57 crores) received from eligible commercial banks were settled.

Credit Authorisation Scheme

144. Reference was made in the last year's Report to the toning up of credit appraisal procedures by banks and certain relaxations made in the operation of the Credit Authorisation Scheme in order to enable banks to meet the urgent demands of their borrowers for genuine working capital purposes. As it was felt that with the rationalisation of the credit appraisal procedures banks themselves would stipulate suitable convenants for disciplining the borrowers and preventing misuse of funds made available to them, relaxations in the requirements of the Scheme were further liberalised in December 1972. Under these modifications scheduled commercial banks need not obtain the Bank's prior authorisation for sanctioning to a borrower temporary/interim limits up to Rs. 25 lakhs for a period not exceeding three months, for genuine productive/trade operations (as against Rs. 10 lakhs previously exempted) and for allowing temporary excess drawings over the sanctioned limit up to 10 per cent thereof or Rs. 25 lakhs, whichever is lower (as against upto 5 per cent or Rs. 10 lakhs, whichever was lower, previously exempted).

145. A major change in the scope and operation of the Credit Authorisation Scheme related to the inclusion under it of advances granted by banks to public sector undertakings including State Electricity Boards, as also advances against the guarantee of Central and State Governments. Banks are now required to obtain the Reserve Bank's prior authorisation, under the Scheme for sanctioning to the above category of borrowers any credit limit (including commercial bill discounts) of Rs. 3 crores or more or any limit that would take the total limits enjoyed by such a party from the entire banking system to Rs. 3 crores or more, on a secured or unsecured basis. Such prior clearance is also required for sanctioning (singly or jointly with other bank(s)/institution(s)) of individual medium or long-term loan of Rs. 1 crore and above, repayable over a period of more than three years to the above category of borrowers, irrespective of the totality of the credit limits enjoyed by them from the banking system as a whole. As regards State Electricity Boards, banks have been advised that finance from them for implementation of power programmes should take the form mainly of increased subscription to open market loans or special debentures floated by the Electricity Boards. By way of guidelines, banks have been further advised that they may, after proper scrutiny, extend credit for rural electrification programmes relating to energisation of tube wells or pump sets and extend short-term accommodation to the Electricity Boards for meeting their working capital, bridging and ways and means requirements.

146. Attention was drawn in the last year's Report to the fact that while projecting peak requirements of bank finance, some banks showed unpaid stocks also as being available for the purpose of fixing a borrower's credit limits. Such a practice resulted in availability to the borrower of 'double finance' both from sellers as well as from banks in respect of the same inventories. While the thrust of Bank's policy has been to curb this practice of double financing, it has nevertheless continued to adopt a flexible approach. In cases where the element of double financing could not be eliminated forthwith without an impairment to the productive activity, banks were advised to rectify the position in a phased manner by

stipulating suitable covenants that would bring about this result.

147. The policy in respect of advances by banks to sugar mills against stocks of sugar during the 1972-73 season was reviewed in the light of the estimated production of sugar during the season, as also the level of stocks which would be held by the mills at the peak of the season. Pursuant to this review, banks were advised in November 1972 that they might allow for the current crushing season, on merits, credit limits against stocks of sugar upto 80 per cent of those allowed during the 1969-70 season, oi the higher limits specifically authorised by the Bank for the last season, in individual cases, as an interim measure without the need to obtain prior authorisation. The need for having a regulatory procedure for ensuring prompt payment by mills to the cane growers by obtaining control data was again impressed upon banks.

148. In view of the anticipated fall in the jute crop (including mesta) during the 1972-73 season, the Jute Commissioner issued orders in December 1972 under clause 9 of the Jute (Licensing and Control) Order, 1961, requiring jute mills to reduce their inventory progressively in such a way that they did not hold stocks of more than eight weeks' requirements in the mills or outside. Certain modifications were also later issued by the Jute Commissioner. Banks financing jute were advised by the Reserve Bank to ensure that credit made available by them to jute mills was consistent with the instructions issued by the Jute Commissioner. These banks were also advised to obtain the Bank's prior authorisation if they intended to grant, for the 1972-73 season, increased limits over those sanctioned for the 1970-71 season.

149. With a view to helping the coal industry in overcoming the difficulties arising out of transport bottlenecks, relaxation was allowed to banks in January 1972 in regard to the grant of additional credit limits to that industry up to a maximum of 15 per cent of the existing credit limits without the Bank's prior authorisation, till the end of 1972. Following the recommendation of the Working Group on Finance for Coal Industry set up by the Bank, banks were advised in December 1972, to continue the relaxation till the end of June 1973. The relaxation in the credit limits under the scheme accorded to textile mills and dealers in the wake of the Indo-Pakistan hostilities in December 1971 was continued till the end of December 1972 whereafter it ceased to be operative. Credit proposals received from industrial units based in the Eastern Sector and those in the under-developed/backward areas continued to be dealt with sympathetically and promptly.

150. As mentioned earlier the Bank noticed that attempts were being made by banks, in some cases, to take over, from one another, accounts of large borrowers by offering lower rates of interest. With a view to preventing unhealthy competition amongst the public sector banks, the Bank advised them in December 1972 to desist from this practice. Not being satisfied that the practice had ended altogether, the Bank instructed all scheduled commercial banks in January 1973 that pending joint consideration of the problem by major banks, they should not take over, from one another, credit limits or term loans aggregating Rs. 25 lakhs or over, without prior consultation with bank/s which had presently granted such credit limits/term loans and without prior clearance from the Reserve Bank. These instructions, which were initially effective till the end of April 1973, were later extended to remain in force till further advice.

151. During the period July 1972-June 1973, 954 applications were received from banks for authorisation of credit limits under the scheme, as against 727 during the previous period. The applications seeking authorisation were mainly for the grant of working capital requirements. Of the applications received, two were rejected while sixteen were withdrawn by the concerned banks as a result of the queries raised. In some cases, reduced limits were authorised by the Bank after carefully considering the need-based requirements of the borrowers. Where it was felt that a more detailed study of borrower's requirements was necessary by the bank concerned or where certain corrective measures were necessary to be taken in a phased manner, the limits were authorised for specific periods subject to review at the end of such period. While authorising limits, suitable covenants weie stipulated in several cases. These stipulations which were intended to enforce financial discipline on

borrowers were principally on such matters as diversion of short-term funds for non-current purposes, requirement of Bank's clearance for declaration of dividends, inter-corporate lendings/investments, subordination of promoters' funds to bank advances, non-payment of guarantee commission, etc.

Advances against Shares

152. It was represented to the Bank that some scheduled commercial banks were reluctant to grant short-term advances or 'bridge-over' facilities on the security of quoted shares even for meeting the genuine needs of the borrowers. The Bank, therefore, issued a circular letter to all scheduled commercial banks on January 17, 1973 clarifying that the guidelines issued by the Bank for advances against shares were intended merely to rationalise the policy and not to deny credit for genuine productive requirements ; and that banks should continue to extend credit against shares, on merits, for genuine investment and productive requirements. Further, there should not be any objection to granting advances against shares as 'bridge-over' facilities for short duration or for working capital purposes to assist genuine productive activity. To assist in ensuring a degree of liquidity to investments in shares, banks were asked to continue to allow loans or overdrafts against shares on merits, if they were satisfied regarding the end-use of funds ; in such cases banks need not consider it obligatory always to impose repayment schedules for advances up to Rs. 5 lakhs.

Selective Credit Controls

153. In the light of the current production, supply and price situation and having regard to unfavourable crop prospects in 1972-73, certain modifications in the selective credit control measures in respect of advances against foodgrains, oilseeds and vegetable oils and vanaspati, cotton and *kapas*, sugar, gur and khandsari were made during the year. While making these modifications, the Bank kept in view the objectives of preventing undue holding of stocks by borrowers and ensuring that credit did not become a bottleneck to increased production and procurement ; besides, they were designed to simplify procedures and facilitate more effective enforcement of the controls.

154. In view of the adverse crop prospects for foodgrains in 1972-73, credit controls on advances against foodgrains were considerably tightened both in respect of level of credit and of terms of lending. Effective from November 16, 1972, the Bank changed the permissible limit for advances against foodgrains from bank-wise to party-wise. The earlier provision relating to the level of credit, *viz.* 110 per cent of the average aggregate level of credit (against paddy and other foodgrains excluding wheat) maintained in the corresponding two-month period in the preceding year was changed to 100 per cent of the peak level of advances outstanding per party in any of the three preceding seasons, *viz.* 1971-72, 1970-71 and 1969-70. This provision was, *inter alia*, intended to ensure that banks did not offer large credit to a few parties utilising the unused credit limits of other borrowers. Coupled with this, banks were also advised in November 1972 to pursue a policy of cautious lending against foodgrains, particularly in respect of pulses and coarse grains so as to ensure that their advances while facilitating the food procurement programme in different areas were not utilised for undue holding of stocks by their borrowers. Advances against *maize* which were earlier exempted from controls, were again brought within the purview of controls, save those granted to industrial users.

155. In view of the continuing difficult supply and price situation of foodgrains, the Bank tightened its controls further on April 18, 1973 by raising the minimum margin on advances against foodgrains from 50 per cent to 60 per cent. The minimum rate of interest on such advances was also increased from 10 per cent to 12 per cent. However, advances to duly appointed agents of the Food Corporation of India/Central or State Governments for the purpose of procurement/distribution were completely exempted from controls.

156. Following the take-over of wholesale trade in wheat, banks were advised on May 14, 1973, to ensure that no loans against the security of wheat were outstanding in favour of any wholesale trader or retail traders other than those who have licences from the concerned State Governments to hold stocks of wheat as retailers, wherever

such licences are prescribed ; and that advances to retail dealers were confined only upto the limit of stocks which they have been authorised to hold. With regard to advances against wheat in the main wheat producing States of Punjab, Haryana, U.P., M.P. and Bihar, the banks operating in these areas were asked on May 15, 1973, to undertake a special review of credit limits exceeding Rs. 20,000 against wheat to private parties in order to ensure that these limits are cancelled in the case of wholesale traders and appropriately fixed in the case of licensed retail traders.

157. In view of the rise in the prices of groundnut and its oil and reports of speculative activity in these commodities in the State of Gujarat, the Bank increased on July 24, 1972, the minimum margin from 60 per cent to 75 per cent in respect of advances in the State of Gujarat against groundnut to all parties. The minimum margin on advances in Gujarat State against warehouse receipts covering stocks of groundnut and vanaspati to vanaspati manufacturers was also increased from 50 per cent to 65 per cent. These higher minimum margins were extended on November 15, 1972 to the State of Maharashtra. As in the case of foodgrains, the ceiling on credit was fixed on a party-wise basis effective from November 15, 1972. Thus the permissible limit of credit, *viz.* 70 per cent of the average aggregate level of credit maintained during the corresponding two-month period of 1967 and also the provision regarding additional limit (equivalent to 15 per cent of the average aggregate level of credit maintained during the corresponding two months in 1970 for accommodating new parties) was changed to 100 per cent of the peak level of advances outstanding *per party* in any of the three preceding seasons *viz.* 1971-72, 1970-71 and 1969-70.

158. Advances directly granted to farmers and to primary co-operative societies for extending credit to their cultivator-members against controlled *oilseeds,* which represented extension of advances granted earlier against standing crop for a period of three months from the date of harvesting the said crop, were exempted from margin and ceiling controls, provided each of such credit limit did not exceed Rs. 2,500 per farmer or the amount of the crop loan outstanding whichever was lower. Further, advances to small borrowers—manufacturing units and others—wholly or partly against the security of foodgrains, oilseeds and vegetable oils covered by the guarantee scheme of the Credit Guarantee Corporation of India Ltd./Credit Guarantee Organisation, were exempted from margin and ceiling controls to the full extent of the limit subject to a maximum amount of Rs. 20,000 for each unit/borrower provided it/he undertook to borrow against these commodities from one bank only. Advances against imported oilseeds and oils continued to remain completely exempted from controls. As the supply position of edible oilseeds and oils continued to be difficult, banks were requested to undertake to finance new parties only in exceptionally deserving cases with the prior approval of the Reserve Bank.

159. In respect of advances against *cotton and kapas*, it was decided to retain the controls with marginal modifications because there was no case for the removal or relaxation of controls, unless the production of cotton stabilised at a fairly high level to meet the increasing requirements ; besides, the need and position of weaker textile mills *vis-a-vis* the stronger mills had also to be kept in view in this context. After taking into account these aspects, the Bank made, on November 15, 1972, some changes for the 1972-73 busy season by simplifying the existing categories of cotton mills and the minimum margin applicable thereto as well as the provisions relating to advances to parties other than cotton textile mills. Thus, there was no change in margin control in respect of advances to the Government controlled mills and to mills in Bihar and West Bengal, *viz.* 20 per cent—35 per cent for the specified period of consumption of cotton. The minimum margin for mills in Bombay and Ahmedabad was reduced to 25 per cent for stocks of 12 weeks' consumption and 50 per cent for stocks in excess of this amount. In respect of mills other than those mentioned above, the minimum margin was fixed at 25 per cent for stocks of 14 weeks' consumption and 50 per cent for stocks in excess of 14 weeks' consumption. For advances to parties other than mills, a simplification was introduced by abolishing the existing distinction between old and new

stocks and the different marketing periods and instead, a uniform margin of 50 per cent was made applicable to such advances.

160. Regarding advances against *sugar*, *gur* and *khandsari*, the minimum margin of 40 per cent applicable in respect of specified lapsed release of sugar was removed because there was no need to regulate separately credit against lapsed quotas. While the minimum margin at 65 per cent was continued in the case of free market sugar which had left the factory or mill's premises and on which excise duty was paid, the minimum margin in respect of advances to mills was fixed at 10 per cent in the case of stocks of levy sugar earmarked for controlled distribution by Government and 15 per cent for free market sugar, subject to the conditions that the levy sugar stocks were valued at the levy price and the free sugar stocks at the tariff value fixed by the Government. Complete exemption from controls was provided for advances to manufacturing units (*i.e.* industrial users).

161. On December 20, 1972, the period of exemption from selective credit controls in respect of advances against the controlled commodities in the specified border and near-border districts, which was earlier extended upto the end of December 1972, was further extended upto the end of June 1973 in respect of advances against cotton and *kapas* and upto the end of April 1973 in respect of the other controlled commodities.

Working Group on Jute Industry

162. It was mentioned in the last year's Report that the special scheme formulated by the Working Group for providing some relief to jute industry by way of charging a concessional rate of interest on borrowings representing that portion of the mills' production which is exported, was under the consideration of the Central Government. In September 1972, Government were apprised of the further necessary steps to be taken by them to implement certain recommendations of the Working Group. The decision of Government on the above matters is awaited.

Working Group on Tea Finance

163. A circular letter endorsing the relevant recommendations of the Working Group on Finance for Tea Industry, relating to the short-term credit needs of tea gardens was issued to all scheduled commercial banks in March 1972. In the light of the recommendations of the Working Group, the Reserve Bank suggested to commercial banks and State Financial Corporations in September 1972, the adoption of certain measures for the grant of term finance on softer conditions to meet development needs of the tea industry.

Working Group on Coal Industry

164. Based on the recommendations of the Working Group consistituted by the Reserve Bank to study the immediate financial problems of the coal industry, the Bank advised all scheduled commercial banks in December 1972 to give due consideration to the recommendations of the Working Group. Banks financing the coal industry have been advised to consider making suitable modifications on merits in the existing limits, if necessary by undertaking a review of the credit facilities already sanctioned.

Study Group on Cashew Industry

165. The Study Group set up by the Reserve Bank in March 1972 to review commercial banks lending to cashew industry, with reference to its export and employment potential, submitted its report in January 1973. The Group made a number of recommendations relating to maintenance of margins, valuations of raw materials/kernels, level of inventories and fixing of adequate credit limits, etc. The Bank, while in broad agreement with the recommendations, issued a circular letter to scheduled commercial banks in March 1973 advising them to review the existing credit limits on merits and make suitable modifications, wherever necessary, in the terms and conditions and procedures in force.

Report of the Banking Commission

166. During the year, the Bank forwarded its views on certain recommendations of the Banking Commission which were specifically referred to it by the Government which mainly pertained to (*i*) legislative reforms, (*ii*) oper-

ating methods and procedures in commercial banks including those relating to the establishment of 'Bank Giro' system, (*iii*) chit fund business to be run by commercial banks, (*iv*) the need to have separate merchant banking institutions and specialised acceptance and discount houses, (*v*) the need for separate institutions for meeting consumers' needs and specialised savings banks, (*vi*) recruitment, training, etc., of personnel in banks and (*vii*) banking research and education.

Other Organisational Matters

Nationalised Banks

167. The new Boards of Directors for the nationalised banks, as envisaged under clause 3 of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, were constituted with effect from December 11, 1972. For the present, the Boards consist of 9 to 11 Directors. The Boards are broad-based and include two representatives of the employees (one representing workmen employees and the other officers), one director each representing the interests respectively of depositors and artisans, and persons having special knowledge or practical experience in the fields of agriculture and small-scale industries. The Boards have also a nominee each of the Central Government and the Reserve Bank. On the constitution of the new Boards, the office of the Custodian ceased to exist. The Chief Executive of each nationalised bank is now designated as the Managing Director. Currently, the Managing Director of each bank has also been appointed as Chairman of the Board of Directors.

168. The Management Committee for each bank as contemplated under clause 13 of the Scheme, has also been constituted. The Committee for each bank consists of the Managing Director and Chairman, the nominees of the Reserve Bank and Central Government and three other directors. At present, a director representing workmen staff is on the Committee of seven banks, while a director representing officer staff is on the Committee of the remaining seven banks. The Committee exercises such powers as have been delegated to it by the Board with the approval of the Central Government. In addition, the nationalised banks have also formed some additional Committees as envisaged in clause 14 of the Scheme to look into details of such aspects as credit scheme to assist neglected sectors, branch expansion policy, etc.

169. Certain amendments to the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, relating to restructuring of the ~~special~~ capital structure of the banks and giving opportunity to directors to show cause against their removal from office, etc. were made by the Central Government, in consultation with the Reserve Bank.

Foreign Branches of Nationalised Banks

170. Regarding branches of nationalised banks in Uganda, the banking business of Bank of India (Uganda) Ltd. was sold to and taken over by Bank of Baroda (Uganda) Ltd. as at the close of business on June 30, 1972, pursuant to an agreement of sale. A new Malaysian banking company, *viz.* United Asian Bank Berhad, was registered at Kuala Lumpur on December 30, 1972 ; it commenced business on May 26, 1973 as from which date it took over the undertakings and business of the 11 branches in Malaysia of Indian Bank, Indian Overseas Bank and United Commercial Bank. The authorised capital of the United Asian Bank is 25 million Malaysian dollars and the paid-up capital 10 million Malaysian dollars. The three Indian Banks have contributed $33\frac{1}{3}$ per cent of the paid-up capital of the new bank. The balance has been contributed by Malaysian citizens, corporations, etc. including Malaysian citizens of Indian origin. The Chairmen of the three Indian Banks are directors of the new bank. A senior executive of Indian Overseas Bank is the Chief Executive Director of the new bank. It is expected that the proposed set-up of the United Asian Bank will provide for expansion of its activities in order to cater more fully to the national banking needs in Malaysia.

171. The business of the Kisumu branch of Bank of India in Kenya was sold to the National Bank of Kenya as from the close of business on December 30, 1972. Reference was made in the last Report regarding two of the four Indian banks operating in Singapore, which did not comply with the minimum capital requirements as per the local banking laws. These banks have since increased their

paid-up capital to Rs. 2 crores each by capitalising a portion of their reserves in compliance with the requirements.

Credit Information

172. The Credit Information Division of the Reserve Bank continued to assist banks and other notified financial institutions by furnishing them, on request, information on credit facilities allowed to individual borrowers. To reduce the time-lag between the date of receipt of the statements and the date of their consolidation, banks have been requested to ensure prompt submission of correctly and uniformly coded returns. During the year, credit information in the case of 1186 applications was furnished to applicant banks/financial institutions as against 2,255 applications during the previous year.

Inspection of Banks

173. In pursuance of the Reserve Bank's programme of periodical inspection of commercial banks, 38 scheduled banks and 6 non-scheduled banks were inspected, or taken up for inspection, under Section 35 of the Banking Regulation Act, 1949 during the period. Besides, the inspection of the branch of an Indian bank in Sikkim and of two banks in Kenya was carried out. Scrutiny of the affairs of four banks was undertaken during the period, three for issue of certificates under Section 44(1) of the Act and one for issue of a certificate under Section 49(C) of the Act. During the year, centre-wise inspection of branches of commercial banks were conducted at 194 centres served by 789 offices of commercial banks. A study was also made of one bank to examine the systems and procedures obtaining therein and to suggest improvement wherever necessary. Further studies of this nature are expected to be carried out.

174. The comparative position in regard to the inspection of banks and their branches during the last three accounting years is given below :

	1970-71	1971-72	1972-73
Financial Inspection			
No. of banks inspected/ taken up for inspection	47	37	44
No. of offices inspected	721	1116	1013
Centre-wise Inspection			
No. of centres	58	76	194
No. of branches	565	364	789
Systems Inspection			
No. of banks inspected	—	2	1

Licensing of Banks

175. Consequent upon its business having been merged with the Mercantile Bank Ltd., the licence granted to the Hongkong and Shanghai Banking Corporation was cancelled. Thus, the number of licensed banks was reduced to 45, while the number of banks in whose cases licences had been cancelled increased to 52 as at the end of June 1973. Besides, there are 22 banks in the public sector which are not required to hold a licence. The total number of banks to which licences were refused remained unchanged at 283 as at the end of June 1973.

Liquidation Proceedings

176. During the period under review, four non-scheduled banks were dissolved by the High Courts. Certificates under Section 44(1) of the Banking Regulation Act, 1949, were issued to three non-scheduled banks to enable them to go into voluntary liquidation.

177. After obtaining the necessary directives from the Central Government, the inspection of four banks under Section 45 Q of the Banking Regulation Act, 1949 was taken up. Of these, the inspection of three banks, *viz.* Calcutta National Bank Ltd., Puri Bank Ltd. and Chotanagpur Banking Association Ltd. was completed, while the inspection of the remaining bank *viz.* Associated Banking Corporation of India Ltd., Bombay has remained suspended as the relative records were not available to the Inspecting Officer. The inspection reports on the Calcutta National Bank Ltd., Puri Bank Ltd. and Chotanagpur Banking Association Ltd. were forwarded to Government of India and the concerned High Courts on 12th February, 11th May and 18th June 1973, respectively.

Clearing House Facilities

178. Twenty-one clearing houses were established during the period July 1, 1972 to June 30, 1973 bringing the total number of clearing houses in the country to 178; of these, nine are managed by the Reserve Bank of India, 137 by the State Bank of India and 32 by the subsidiaries of the State Bank of India.

179. For drawing up its future programme of setting up clearing houses, a fresh list of 156 centres with a population of 50,000 or more in 1971 and served by more than three or four banks, was prepared and sent to the State Bank of India in August 1972. The State Bank of India has been examining the feasibility of opening clearing houses on the above basis.

180. The recommendation of the Banking Commission on the question of establishing additional clearing houses at metropolitan centres has been engaging the attention of the Bank. To begin with, the possibility of establishing additional clearing houses at Bombay, Calcutta and Madras, is being explored.

Working Results of Public Sector Banks

All Public Sector Banks

181. An analysis of the working results of the 22 public sector banks (State Bank of India and its 7 subsidiaries and 14 nationalised banks), based on profit and loss accounts of these banks, shows that profits* at Rs. 11·9 crores for the year 1972 recorded a decline of Rs. 0·9 crore (6·4 per cent) over the year. The increase in bank credit in 1972 was Rs. 346 crores as against Rs. 600 crores in 1971. Earnings from interest and discount therefore recorded smaller increase of Rs. 82 crores (18·8 per cent) as compared to an increase of Rs. 91·6 crores (26·5 per cent) in 1971. Total expenses of these banks at Rs. 592·9 crores show an increase of Rs. 93·1 crores (18·7 per cent) over that of 1971; in 1971 the increase in expenses was of the order of Rs. 98·2 crores (24·5 per cent). In 1972, interest paid on deposits and borrowings registered an increase of Rs. 49 crores (20·2 per cent) as compared to that of Rs. 51·3 crores (27·0 per cent) in 1971. Salaries and allowances paid to staff increased by Rs. 31·4 crores (15·5 per cent) as against Rs. 37·7 crores (21·7 per cent) in 1971 reflecting smaller phase of branch expansion.

State Bank Group

182. State Bank of India improved its earnings from Rs. 142·1 crores in 1971 to Rs. 168·9 crores in 1972 *i.e.*, by 18·9 per cent. Income from interest and discount went up by Rs. 22·6 crores (19·8 per cent) in 1972 as against a rise of Rs. 25·6 crores (28·9 per cent) in 1971. Total expenses of State Bank rose by Rs. 26·8 crores (19·4 per cent) in 1972 in comparison with a rise of Rs. 28·3 crores in 1971. Interest payments on deposits and borrowings recorded an increase of Rs. 11·6 crores (19·3 per cent) in 1972 as compared to Rs. 13·2 crores (28·1 per cent) in 1971. The balance of profits of State Bank at Rs. 3·85 crores in 1972 increased by Rs. 7 lakhs as against a rise of Rs. 1·1 crores in 1971. Out of these profits, Rs. 2 crores were transferred to the reserve funds while Rs. 1·3 crores were provided for dividend to its shareholders.

183. The working results of 7 subsidiaries of the State Bank indicated that the income rose from Rs. 39·9 crores in 1971 to Rs. 47·1 crores in 1972 showing a rise of 18·0 per cent as against 23·7 per cent in 1971. Total expenses also increased by a similar amount (Rs. 7·2 crores) during 1972. In the result, their profits at Rs. 51 lakhs remained unchanged at the level of 1971. Out of these profits, these banks transferred Rs. 11 lakhs to reserve funds and provided Rs. 35 lakhs for payment of dividend.

Nationalised Banks

184. Total income at Rs. 388·8 crores of 14 nationalised banks in 1972 recorded a smaller improvement Rs. 58·3 crores (17·6 per cent) as compared to Rs. 63·8 crores (23·9 per cent) in 1971. This was mainly on account of lower rate of growth in earnings from interest and discount which at Rs. 342 crores increased by Rs. 53 crores (18·3 per cent) as against a rise of Rs. 59·1 crores (25·6 per cent) in 1971. Total expenses of these banks in 1972 at

* Profits after provision for taxes and for bonus.

Rs. 381·3 crores rose by Rs. 59·2 crores in relation to an increase of Rs. 62·2 crores in 1971. This was mainly attributable to relatively smaller rise in establishment expenses (Rs. 18·1 crores) in 1972 as against Rs. 20·1 crores in 1971 and interest payment on deposits and borrowings (Rs. 33·9 crores) in 1972 as compared to Rs. 34·4 crores in 1971. Since the increase in expenses (Rs. 59 crores) outpaced that in earnings (Rs. 58 crores) the profits of nationalised banks declined from Rs. 8·6 crores in 1971 to Rs. 7·6 crores in 1972. A sum of Rs. 3·20 crores from their profits was transferred to statutory reserves. The amount transferred to Government was Rs. 4·18 crores, that is 4·8 per cent of the aggregate compensation paid for the acquisition of these banks, as against Rs. 4·33 crores last year representing 5·1 per cent of the aggregate compensation.

Working results of other Scheduled Commercial Banks

Other Indian Scheduled Banks

185. Total income (but not the profits as explained below) of 22 other Indian scheduled banks, each with deposits exceeding Rs. 10 crores, improved substantially from Rs. 38·0 crores to Rs. 49·8 crores in 1972 showing an increase of 31·7 per cent over the year. Earnings from interest and discount increased from Rs. 32·9 crores to Rs. 43·3 crores in 1972 (by 31·7 per cent). Total expenditure of these banks also rose sharply by Rs. 12 crores to Rs. 48·6 crores, showing an increase of 32·9 per cent over the previous year's level. Interest paid on deposits, borrowings, etc. as well as establishment expenses recorded a substantial increase, the former by 36·1 per cent and the latter by 29·2 per cent over the previous year. Due to a sharper rise in expenditure than in income, the profits of these banks declined from Rs. 137 lakhs in 1971 to Rs. 114 lakhs in 1972. Transfers to statutory reserves by these banks out of 1972 profits amounted to Rs. 48 lakhs as compared with Rs. 50 lakhs in the previous year, while appropriation for other reserves was just half (Rs. 34 lakhs) of that in 1971 (Rs. 68 lakhs). Dividend to shareholders was, however, maintained at Rs. 19 lakhs or at the same level as in 1971.

Foreign Banks

186. Total income of 11 foreign banks increased from Rs. 60·9 crores in 1971 to Rs. 66·7 crores, in 1972 showing a rise of 9·5 per cent over the previous year. Their total expenditure, however, increased at a slower rate than their income *i.e.* by Rs. 4·6 crores to Rs. 62·8 crores, recording a rise of 8 per cent over the year. Their establishment expenses increased by Rs. 1 crore and interest payments and other expenditure by about Rs. 1·8 crores each. In 1971 however, 'Other expenditure' had risen by as much as Rs. 4·8 crores. Consequently their profits at Rs. 2·8 crores rose only by Rs. 15 lakhs. In 1972 the profits of these banks showed an improvement from Rs. 2·8 crores to Rs. 3·9 crores a rise of 39·4 per cent. Among the foreign banks, National & Grindlays Bank earned the largest profit (Rs. 1·20 crores) followed by First National City Bank (Rs. 1·09 crores). All foreign banks together transferred to their Head Offices an amount of Rs. 3·93 crores in 1972 as compared to Rs. 2·54 crores in 1971.

Control on Non-Banking Companies

187. During the year further amendments were made to the directions issued in October 1966 to the non-banking financial and non-financial companies. The amendments which came into force from January 1, 1973 were as follows: first, the minimum period for which non-banking non-financial and financial companies can accept deposits has been reduced from twelve months to six months. Further, non-financial companies may now accept deposits for a period of three months upto ten per cent within the limit of 25 per cent of their paid-up capital and free reserves for meeting their seasonal requirements. Secondly, money received by one company from another is excluded from the definition of the term "deposit". Thirdly, the exemption of mutual benefit financial companies from the purview of the directions will cover only those companies which accept deposits from their members and which are notified by the Central Government under Section 620A of the Companies Act, 1956. Moreover, deposits received from "associate members" who are not registered as holders of shares in the companies will not qualify for exemption

from the prescribed ceiling for deposits. Such companies holding deposits in excess of the prescribed ceiling will have to regularise their position before January 1, 1974. Fourthly, under the directions, any 'loan' received from a person, who at the time of the receipt of such a loan is a director of the company, is exempt from the scope of the term "deposit". The directions have now been amended to provide that the exemptions will cover any "money" received from a director on or after January 1, 1973 provided the company obtains from the person from whom the money is received, a declaration in writing that the money has not been given by such person out of the funds acquired by him by borrowing or by accepting deposits from any other person. For similar reasons it has now been provided that in the case of a private company, any money received by it from its shareholders (which also has been excluded from the definition of the term "deposit") will be eligible for the exemption provided the company, at the time of receiving money from them, has obtained a similar declaration. Finally, in order that a depositor may be aware of the financial position of the company with which he proposes to keep a deposit, it has been made obligatory, with effect from April 1, 1973 on the part of all the companies receiving deposits (including renewals or conversions thereof) to do so only on applications in writing obtained from the intending depositors on forms supplied by the companies, containing all the particulars specified in respect of advertisements soliciting deposits.

188. It was represented to the Reserve Bank that the observance of some of the provisions of the directions issued to non-banking non-financial companies is likely to cause hardship to small-scale industrial units. In view thereof, the Bank has, in consultation with the Government of India, exempted small-scale industrial companies (registered with the Directorate of Industries or Small-Scale Industries) with an aggregate of paid-up capital and free reserves not exceeding Rs. 3 lakhs, which accept deposits from not more than 50 persons from the provisions of the directions relating to ceilings on deposits, repayment of deposits held in excess of ceiling, particulars to be specified in application forms and advertisements soliciting deposits, and rates of interest payable on deposits prematurely withdrawn. The exemption, operative from the 1st July 1973, will remain in force for a period of three years. All other small-scale industrial companies have also been exempted from the ceiling restrictions on deposits provided the total amount of deposits and loans accepted by a company does not, at any time, exceed the aggregate of its paid-up capital and free reserves as reduced by the balance of loss, if any. Small-scale industrial companies, would however be required to comply with all other provisions of the directions such as submission of the prescribed annual returns and maintenance of deposits registers.

189. The Government of Maharashtra has decided to enact a law to control chit funds in the State. A Bill to that effect will be introduced in the Legislature shortly. The Government of Kerala has drafted the Kerala Chitties Bill 1972. It seeks to incorporate the provisions of the earlier Bills with some further additions and when enacted into a law, it will extend to the whole of Kerala State.

190. In the light of the experience gained in the administration of the provisions of Chapter IIIB of the Reserve Bank of India Act, 1934 relating to non-banking institutions, it was observed that certain provisions thereof, more particularly those relating to inspection of non-banking companies, regulation of advertisements, penalties prescribed for contraventions of the various provisions of the directions etc. were not adequate. Certain amendments to the relative provisions of the Act have, therefore, been suggested to the Government of India for its consideration and necessary action.

191. According to the survey of deposits with non-banking companies for the year ended March 31, 1970, the number of reporting financial companies has declined by 51, while the number of non-financial companies has increased by 21. The total number of reporting companies was 676 financial and 1,535 non-financial. Although there was a small reduction in the total number of reporting companies, the number of accounts increased from 6·24 lakhs to 7·14 lakhs. The total deposits (including exempted loans not counting as deposits at Rs. 287·3 crores) also increased from Rs. 593·7 crores to Rs. 633·3

crores. The total deposits with financial companies amounted to Rs. 181·9 crores while those with non-financial companies aggregated Rs. 451·4 crores. The total amount of exempted loans and deposits received and held by the companies increased during the year by Rs. 39·6 crores, of which the major portion of the increase at Rs. 23·11 crores is accounted for by deposits.

192. A large proportion of deposits and exempted loans accepted and held by the non-banking corporate sector is accounted for by a few large companies with outstanding deposits and exempted loans of more than Rs. 25 lakhs each. Thus, out of 2,211 reporting companies, 370 companies accounted for 83·3 per cent of the total deposits at Rs. 346·0 crores and 80·2 per cent of the outstanding deposits and exempted loans at Rs. 633·3 crores. Of these, 48 were financial compnies holding 88 per cent of the total deposits with all financial companies while 322 non-financial companies accounted for 81·7 per cent of the total deposits with all non-financial companies.

193. The reporting companies are mainly concentrated in the State of Maharashtra, Tamil Nadu and West Bengal. The companies in those States accounted for Rs. 453·3 crores out of the aggregate of deposits and exempted loans at Rs. 633·3 crores, the balance of Rs. 180 crores being spread over the remaining States/Union Territories.

Deposit Insurance Corporation

194. During the period under review, one commercial bank, *viz.*, Purbanchal Bank Ltd., Gauhati was registered as an insured bank on its being granted a licence by the Reserve Bank of India under Section 22 of the Banking Regulation Act, 1949, for carrying on banking business in India. The number of insured commercial banks, however, remained unchanged at 81 as a foreign exchange bank was de-registered following the merger of its Indian branches with another exchange bank. The number of insured co-operative banks increased from 391 to 404.

195. Steps are being taken for extension of the Deposit Insurance Scheme to eligible co-operative banks in two more States, *viz.*, Jammu and Kashmir and the Union Territory of Delhi, which have since amended their Co-operative Societies Act suitably. The Reserve Bank is actively pursuing with the remaining State Governments/Union Territories for extending the benefits of the scheme to the co-operative banks operating in those areas.

196. In view of the extension of the Deposit Insurance Scheme to the co-operative banks the share capital of the Corporation was increased with the approval of the Central Government by Rs. 50 lakhs to Rs. 1·50 crores with effect from January 1, 1972. The entire share capital has been subscribed by the Reserve Bank of India.

ANNEXURE

REFINANCE FACILITIES TO THE SCHEDULED COMMERCIAL BANKS FROM THE RESERVE BANK OF INDIA

EFFECTIVE FROM NOVEMBER 1, 1971 TO NOVEMBER 16, 1972

Net Liquidity Position (1)	At $4\frac{1}{2}$% (2)	At Bank rate (6%) (3)	Remarks (4)
		I. Export Credit:	
Irrespective of net liquidity ratio.	Upto an amount equal to 10% of the annual average in 1971.	An additional amount of 10% of the annual average in 1971.	Borrowings equal to 20% of the annual average of export credit in 1971 will not impair the net liquidity ratio. 1971 base to be effective from January 1, 1972.
	II. An amount equivalent to the increase in advances over the prescribed base period in respect of:		
-do-	Lending to primary co-operative credit societies in selected districts of A.P., Haryana, M.P., U.P. and Mysore.	(*a*) Short-term lending to small-scale industries covered by guarantee of C.G.O. (*b*) Short-term direct lending to agriculturists.	**Base Period :** Average level of such credit in the corresponding calendar quarter of the previous year, *i.e.* for the quarter January-March 1972, base will be the average for the quarter January-March 1971.
		III. New Bill Market Scheme:	
-do-	—	Rediscounting of bills under the new Scheme.	Outstanding liability in respect of bills rediscounted under the new Scheme will not impair the net liquidity ratio till the end of October 1972.
		IV. Food Procurement Advances:	
-do-	—	10% of the outstanding level of food procurement advances as on the last Friday of October 1971 and an additional 1/3 of the increase over the level as on the last Friday of October 1971.	
		V. 'Defence packing-cum-Supply' Credit:	
-do-	—	Upto the total outstanding level.	The facility will be available under the old Bill Market Scheme under Section 17(4)(c) of the Reserve Bank of India Act, 1934 (*vide* Governor's Circular DBOD. No. GCS.BC. 142/C. 483-71, dated December 11, 1971).

Note : Minimum net liquidity ratio for Bank rate refinance is 34%. An enhanced rate of interest is chargeable on the *excess* borrowings of a bank. It would be the rate raised by 1% per annum above the level of Bank rate for a shortfall of every one point or a fraction thereof in the bank's net liquidity ratio (below 34% at present). However, when the net liquidity ratio falls below 26% a maximum enhanced rate of 15% will be charged.

REFINANCE FACILITIES TO THE SCHEDULED COMMERCIAL BANKS FROM THE RESERVE BANK OF INDIA

EFFECTIVE FROM NOVEMBER 17, 1972 TO MARCH 29, 1973

Net Liquidity Position (1)	At $4\frac{1}{2}$% (2)	At Bank rate (6%) (3)	Remarks (4)
		I. Export Credit :	
Irrespective of net liquidity ratio.	Upto an amount equal to 10% of the annual average in 1972.	An additional amount of 10% of the annual average in 1972.	Borrowings equal to 20% of the annual average of export credit in 1972 will not impair the net liquidity ratio. 1972 base to be effective from January 1, 1973.
	II. An amount equivalent to the increase in advances over the prescribed base period in respect of:		
-do-	Lending to primary co-operative credit societies in areas where the Scheme is in operation with the prior approval of the Reserve Bank of India.	(*a*) Short-term lending to small-scale industries covered by guarantee of C.G.O. (*b*) Short-term direct lending to agriculturists.	**Base Period:** Average level of such credit in the corresponding calendar quarter of the previous year, *i.e.* for the quarter January-March 1973, base will be the average for the quarter January-March 1972.
		III. New Bill Market Scheme:	
-do-	—	Rediscounting of bills under the New Bill Market Scheme.	Outstanding liability in respect of bills rediscounted under the New Bill Market Scheme will not impair the net liquidity ratio till the end of October 1973.
		IV. Food Procurement Advances:	
-do-	—	10% of the outstanding level of food procurement advances as on the last Friday of October 1972 and an additional 1/3 of the increase over the level as on the last Friday of October 1972.	The facility will be available under the old Bill Market Scheme under Section 17(4)(c) of the Reserve Bank of India Act, 1934.
	V. 'Defence packing-cum-Supply' Credit:		
-do-	—	Upto the total outstanding level.	-do-

Note : Minimum net liquidity ratio for Bank rate refinance is 36% effective from November 17, 1972. An enhanced rate of interest is chargeable on the *excess* borrowings of a bank. It would be the rate raised by 1% per annum above the level of Bank rate from short-fall of every one point or a fraction thereof in the bank's net liquidity ratio below 36%. However, when the net liquidity ratio falls below 28% a maximum enhanced rate of 15% will be charged.

REFINANCE FACILITIES TO THE SCHEDULED COMMERCIAL BANKS FROM THE RESERVE BANK OF INDIA

EFFECTIVE FROM MARCH 30, 1973 TO JUNE 12, 1973

Net Liquidity Position (1)	At 4½% (2)	At Bank rate@ (3)	Remarks (4)
		I. Export Credit :	
Irrespective of net liquidity ratio.	Upto an amount equal to 10% of the annual average in 1972.	An additional amount of 10% of the annual average in 1972.	Borrowings equal to 20% of the annual average of export credit in 1972 will not impair the net liquidity ratio. 1972 base to be effective from January 1, 1973.
	II. An amount equivalent to the increase in advances over the prescribed base period in respect of :		
-do-	Lending to primary co-operative credit societies in areas where the Scheme is in operation with the prior approval of the Reserve Bank of India.	(a) Short-term lending to small-scale industries covered by guarantee of C.G.O. (b) Short-term direct lending to agriculturists.	**Base Period:** Average level of such credit in the corresponding calendar quarter of the previous year, *i.e.* for the quarter January-March 1973, base will be the average for the quarter January-March 1972.
		III. Food Procurement Advances:	
-do-		10% of the outstanding level of food procurement advances as on the last Friday of October 1972 and an additional 1/2 of the increase over the level as on the last Friday of October 1972.	The facility will be available under the old Bill Market Scheme under Section 17(4)(c) of the Reserve Bank of India Act, 1934.
		IV. New Bill Market Scheme:	
-do-		Rediscounting of bills under the New Bill Market Scheme.	As this facility is not treated as a borrowing from Reserve Bank, it will not be taken into account in the computation of the net liquidity ratio; hence the facility will not impair the net liquidity ratio.

@6% upto May 30, 1973 and 7% thereafter.

Note: Minimum net liquidity ratio for the Bank rate refinance will be 37% effective from March 30, 1973 upto June 12, 1973. An enhanced rate of interest is chargeable on the *excess* borrowings of a bank. For the initial 1 percentage point fall or a fraction thereof from 37%, the enhanced rate would be 2% above Bank rate. Therefore, upto 30th May 1973 (when the Bank rate was 6%) the said enhanced rate would be 8%, while from the 31st May 1973, (the day from which Bank rate was raised to 7%) it would be 9%. For every further 1 percentage point fall or a fraction thereof, the rate of interest would increase by 1% subject to a maximum of 12%.

REFINANCE FACILITIES TO THE SCHEDULED COMMERCIAL BANKS FROM THE RESERVE BANK OF INDIA

EFFECTIVE FROM JUNE 13, 1973 TO JULY 12, 1973

Net Liquidity Position (1)	At 5% (2)	At $5\frac{1}{2}$% (3)	At Bank rate (7%) (4)	Remarks (5)
		I. Export Credit :		
Irrespective of net liquidity ratio.		Upto an amount equal to 10% of the annual average in 1972.	An additional amount of 10% of the annual average in 1972.	Borrowings equal to 20% of the annual average of export credit in 1972 will not impair the net liquidity ratio. 1972 base to be effective from January 1, 1973.
II. An amount equivalent to the increase in advances over the prescribed base period in respect of :				
-do-	Lending to primary co-operative credit societies in areas where the Scheme is in operation with the prior approval of the Reserve Bank of India and lending to Farmers' Service Societies sponsored by the banks with RBI approval.		(*a*) Short-term lending to small-scale industries covered by guarantee of C.G.O. (*b*) Short-term direct lending to agriculturists.	**Base Period:** Average level of such credit in the corresponding calendar quarter of the previous year, *i.e.* for the quarter January-March 1973, base will be the average for the quarter January-March 1972.
		III. Food Procurement Advances :		
-do-	—	—	10% of the outstanding level of food procurement advances as on the last Friday of October 1972 and an additional 1/2 of the increase over the level as on the last Friday of October 1972.	The facility will be available under the old Bill Market Scheme under Section 17(4)(c) of the Reserve Bank of India Act, 1934.
		IV. New Bill Market Scheme:		
			Rediscounting of bills under the New Bill Market Scheme.	As the facility is not treated as a borrowing from RBI it will not be taken into account in computation of the net liquidity ratio; hence, the facility will not impair the net liquidity ratio.

Note : Minimum net liquidity ratio for Bank rate refinance is 39% effective from June 29, 1973. An enhanced rate of interest is chargeable on the *excess* borrowings of a bank. It would be the rate raised by 1% per annum above the level of Bank rate for short-fall of every 1 percentage point or a fraction thereof in the bank's net liquidity ratio below 39%. However, when the net liquidity ratio falls below 35%, a maximum rate of 12% will be charged.

REFINANCE FACILITIES TO THE SCHEDULED COMMERCIAL BANKS FROM THE RESERVE BANK OF INDIA

EFFECTIVE FROM JULY 13, 1973

Net Liquidity Position (1)	At 5% (2)	At Bank rate (7%) (3)	Remarks (4)
I. Export Credit :			
Irrespective of net liquidity ratio.		An amount equal to 10% of the annual average in 1972.	Such borrowings will impair the net liquidity ratio. If a bank has already borrowed under Section 17(3A) and such outstandings continue beyond July 12, 1973, they will also impair the bank's net liquidity ratio. 1972 base to be effective from January 1, 1973.
II. An amount equivalent to the increase in advances over the prescribed base period in respect of :			
-do-	Lending to primary co-operative credit societies in areas where the Scheme is in operation with the prior approval of the Reserve Bank of India and lending to Farmers' Service Societies sponsored by the banks with RBI approval.		Such borrowings will impair N.L.R. as before. **Base Period:** Average level of such credit in the corresponding calendar quarter of the previous year, *i.e.* for the quarter January-March 1973, base will be the average for the quarter January-March 1972.
III. New Bill Market Scheme :			
-do-		Rediscounting of bills under the New Bill Market Scheme.	As the facility is not treated as a borrowing from Reserve Bank, it will not be taken into account in the computation of the net liquidity ratio; hence, the facility will not impair the net liquidity ratio.

Note : Minimum net liquidity ratio for Bank rate refinance is 39% effective from June 29, 1973. An enhanced rate of interest is chargeable on the *excess* borrowings of a bank. It would be the rate raised by 1% per annum above the level of Bank rate for short-fall of every one percentage point or a fraction thereof in the bank's net liquidity ratio below 39%. However, when the net liquidity ratio falls below 35%, a maximum rate of 12% will be charged. The minimum net liquidity ratio for Bank rate refinance will be raised to 40% effective September 8, 1973. Hence, the maximum rate of 12% on *excess* borrowings will be applicable to the N.L.R. level below 36%.

III. DEVELOPMENTS IN CO-OPERATIVE BANKING

197. Co-operative Banking policy during 1972-73 was directed towards ensuring that the co-operative credit structure in the country was strengthened financially and organisationally especially in the weaker States. It endeavoured in particular to assist small and weak farmers, ensured larger credit for production and investment and relief to farmers affected by wide-spread drought. The more important of the measures taken by the Bank in pursuance of these objectives are described in this Section.

Agricultural Credit Board

198. After consideration of the recommendations of the Study Group set up by the Reserve Bank on linking borrowings from the Reserve Bank with deposit mobilisation by central co-operative banks, by the Agricultural Credit Board, a modified scheme having the following salient features was introduced from July 1973: (*a*) the financial accommodation from the Reserve Bank to State co-operative banks on behalf of central co-operative banks for seasonal agricultural operations would be available at ½ per cent below the Bank rate; (*b*) the highest level of borrowings from the Reserve Bank during the three years ending June 1973 would be deemed as base level borrowings and a rebate of 1½ per cent in interest would be allowed on fresh borrowings upto this extent; (*c*) a rebate of 1½ per cent in interest would also be available on additional borrowing upto twice the increase in the involvement of central co-operative banks in short-term agricultural loans from their own resources over the base year or to the full extent of additional finance provided to small farmers; (*d*) special concessional rebate of 1½ per cent upto four times the central bank's involvement would be given in cases of low level of borrowings at present from the Reserve Bank due to higher levels of deposits already mobilised; (*e*) weak and non-viable central banks *i.e.*, banks with a loan business of less than Rs. 1 crore would be exempted from the operation of the scheme. The Board decided that the Study Group should be made more broad-based and continued as a Standing Committee to examine matters arising from time to time in the implementation of the scheme.

199. The 46 SFDA* and 41 MFALA@ projects set up in the country actually started functioning on a significant scale only from the co-operative year 1971-72.† The implementation having gained momentum during the year under review, there has been overall satisfactory progress in certain essential respects. For example, as at the end of March 1973 the identified participants were 23.66 lakhs under SFDA and 11.27 lakhs under MFALA projects, compared to 14.21 lakhs and 8.09 lakhs, respectively, at the end of March 1972. During the same period, the participants enrolled as members of co-operatives increased from 5.85 lakhs under SFDA and 1.40 lakhs under MFALA to 11.40 lakhs and 3.55 lakhs, respectively. The total loans disbursed by the co-operatives as well as commercial banks more than doubled from Rs. 2315.92 lakhs to Rs. 4942.97 lakhs under SFDA and increased six fold from Rs. 157.46 lakhs to Rs. 936.17 lakhs under MFALA. Of particular significance in both these projects is the progress in providing irrigation facilities. The number of dug wells/tube wells increased during the period from 22998 to 74220 and the number of pumpsets from 7682 to 19517. Further, milch cattle supplied increased in number from 11033 to 41358. There has been a steep increase in the rural works undertaken. The number increased from 2,664 to 1,08,661. The Government of India has decided to continue the schemes upto 1975-76 with the same financial outlay. Special studies of the progress launched by the SFDA undertaken at the instance of the Planning Commission were also continued during the year. The working of the SFDA, Darjeeling, was studied during the year and a report submitted to the Planning Commission. The follow-up study of the Mysore SFDA was also conducted.

200. Central co-operative banks were required to get themselves in a position to show, as mentioned last year, at least 20 per cent of their outstanding of borrowings from the apex bank as covered by outstanding loans to societies against small

*Small Farmers Development Agency.
@Marginal Farmers and Agricultural Labourers Agency.
†July 1 to June 30

and economically weak farmers *viz.*, those whose holdings were 3 acres or less. As a further measure to enforce discipline, the Bank has stipulated that while the first 70 per cent of the limits sanctioned for financing seasonal agricultural operations may be drawn freely, the next 20 per cent will have to be matched by corresponding advances outstanding against small, marginal and economically weak farmers before drawing on the balance of 10 per cent. During the year some banks represented that the area held by farmers having each a holding of three acres and less was very small in relation to the norm of 3 acres total cultivated area and that therefore they would not be able to satisfy the condition relating to small farmers. The Bank, therefore, decided to fix district by district appropriate parameters with reference to the size—distribution of holdings in the district.

Commercial Banks Financing Credit Societies

201. The scheme of financing primary agricultural credit societies by commercial banks introduced in 1970 continued to operate during the year in 51 districts of six States, *viz.*, Andhra Pradesh, Haryana, Madhya Pradesh, Mysore, Orissa and Uttar Pradesh. Proposals for extending the scheme to areas having sizeable credit gaps in the States of Bihar, Jammu and Kashmir, West Bengal and Maharashtra were under active consideration of the concerned State Governments. In all 20 commercial banks have participated in the programme through 318 branches, covering as many as 1509 societies out of 2253 societies allotted to them. During the third year of the scheme, the short-term and medium-term loans advanced by the commercial banks to societies were of the order of Rs. 10.13 crores (up to March 1973) as against the loans of Rs. 7.16 crores disbursed in the preceding year.

202. The working of the scheme in 5 States, *viz.*, Andhra Pradesh, Mysore, Haryana, Madhya Pradesh and Uttar Pradesh was studied by special teams constituted by the Reserve Bank. The Study Teams expressed a view that if proper action was taken by the societies to reduce the overdues, enlarge membership coverage, appoint full time paid secretaries, etc., they would be able to attain viability within a short period. The Bank has been keeping a close watch over the progress of the scheme, as also the programmes for the rehabilitation of weak central co-operative banks in areas where the scheme is in operation. State level co-ordination committees have been set up in all the States for reviewing the progress of the scheme.

Co-operative Development

203. The central sector scheme for rehabilitation of weak central co-operative banks referred to in the last year's Report (p. 55) was put into operation during the year. Proposals in respect of 72 banks in 11 States identified by the Reserve Bank as weak in accordance with the norms laid down in the scheme, were submitted to the Government of India by the concerned State Governments. The Government of India approved financial assistance of the order of Rs. 53.75 lakhs covering 37 banks. The Bank will continue to pursue this matter in future.

204. Before extending the Deposit Insurance Scheme to co-operative banks in any State, it was considered desirable by the Bank to draw a programme of rehabilitation for weak primary co-operative banks. Primary co-operative banks whose bad and doubtful debts and accumulated losses exceeded 25 per cent of the owned funds or whose overdues exceeded 50 per cent of either the demand or outstandings as on June 30, 1971 were deemed to be weak. Only those weak banks which are viable and having a minimum working capital of Rs. 25 lakhs and a loan business of Rs. 18 lakhs or which have reached 75 per cent of the norms prescribed for viability and have a potential for attaining viable status in the next 3 to 5 years are marked for rehabilitation. On these criteria, 21 primary co-operative banks were selected and the concerned State Governments were advised to take necessary steps for their rehabilitation on the lines indicated by the Bank. Similarly, a viable or potentially viable primary land development bank/branch of State land development bank* with overdues as on June 30, 1971 exceeding 50 per cent of the demand was deemed to be weak and on this basis as many

* A primary land development bank/branch of the State land development bank is considered viable if it has already reached a loan business of Rs. 30 lakhs or potentially viable if a loan business of Rs. 20 lakhs has been reached.

as 52 primary land development banks and 13 branches of State land development banks were identified by the Bank as weak to be taken up for rehabilitation by the State Governments concerned.

Special Measures to Identify Credit Gaps, etc.

205. With a view to removing bottlenecks in the flow of co-operative credit in some States, steps were taken to rectify defects in their working. The Bank prepared Master Plans for Uttar Pradesh, Bihar, Jammu and Kashmir, Assam and Meghalaya for accelerated development of agricultural production with the help of credit provided by co-operatives. The salient features of the Plans are: (*a*) granting of loans by State Governments to non-members of co-operatives to enable them to purchase shares in primary credit societies and become members, (*b*) contributions to share capital of central co-operative banks and primary credit societies for enabling them to borrow adequately to sustain their lending programmes and (*c*) placement of long-term deposits by the State Governments concerned with the co-operative banks for enabling them to maintain non-overdue cover for the borrowings from Reserve Bank of India, etc.

206. The Governor appointed a 'Study Team on Overdues of Co-operative Credit Institutions' in December 1972 to analyse the causes of such overdues. The Team was also required to examine the adequacy of stabilisation arrangements, including the need for streamlining the policies and procedures for grant of conversion/rephasement facilities and for augmentation of various funds for the purpose. Another Study Team was appointed by the Governor in December 1972 to examine the justification or otherwise for the continuance of central co-operative banks in Kerala with reference to their financial position and organisational arrangements and the possibility of the State co-operative bank directly financing the societies as a transitional arrangement to fill up the credit gaps.

207. The working of the co-operative credit structure in Maharashtra was affected as a result of widespread drought conditions. A 'Study Team on Co-operative Agricultural Credit Institutions in Maharashtra' was, therefore, appointed in December 1972 by the Governor to make a detailed investigation of the position and make suitable recommendations. In its interim report submitted in March 1973, this Team has made recommendations regarding extension of conversion facilities for periods ranging from 3 to 7 years depending upon whether the drought conditions occurred just in 1972-73 or in two or three consecutive years; sanction of medium-term loan by the Reserve Bank from its Stabilisation Fund upto the maximum period of 5 years for 5/7th of the amount and the balance by the State/central co-operative banks for 7 years in cases where the period of conversion had to exceed 5 years; and the programme of rehabilitation providing for conversion of overdues into medium-term loans in respect of non-wilful defaulters. These proposals which are intended to facilitate the granting of fresh loans to affected farmers, were forwarded to Maharashtra Government who have initiated necessary action to implement them.

208. In pursuance of the recommendations of the Study Team on Co-operative Agricultural Credit Institutions in West Bengal to which a reference was made in the last Report, the Bengal Co-operative Societies Act, 1940 was amended to give powers to the Registrar of Co-operative Societies for effecting compulsory amalgamation of weak central co-operative banks with other central co-operative banks or State co-operative bank. The Government of India had issued orders in January 1973 placing 4 central co-operative banks in West Bengal under moratorium with effect from the close of business on January 27, 1973 to facilitate implementation of the scheme of amalgamation of three of these with the State Co-operative Bank and one with another central co-operative bank. The West Bengal Government has appointed a State level review committee to review the progress in this matter.

Co-operative Credit Policy, Procedures and Operations

209. The practice of sanctioning separate short-term limits for production and marketing of *kharif* and *rabi* crops introduced in 1971-72 was continued during the year; so was the special line of credit for marketing of cotton and *kapas* falling within the sphere

of selective credit controls. The system of lending was further simplified and the important changes incorporated in the revised 'Manual on Production Oriented System of Lending for Agriculture.' The changes relate to : (*a*) fixation of scales of finance in two components, *viz.*, cash and kind instead of three or four components recommended previously; (*b*) constitution of a Technical Group in place of the earlier Field Workers Conference; (*c*) preparation of credit limit statements separately for small farmers and others; (*d*) rationing of the quantum of credit extended to big farmers who are expected to plough back a part of their resources in agricultural business; (*e*) introduction of the cash credit system in multiple cropping areas or where cash crops like sugar-cane, betel vine, etc., are grown instead of granting fixed loans; and (*f*) fixing of the repaying capacity on a scientific basis with reference to the post-developmental income of land which has benefited from investment finance.

210. The synoptic view of the progress of co-operative credit movement during the three years ended 1971-72 is presented in the table given below :

Table 23—Progress of Co-operative Credit Movement

(Amount in Rupees Crores)

Type of Institution	1969-70	1970-71	1971-72*
(*a*) *State Co-operative Banks* :			
(i) Number	25	25	26
(ii) Owned funds ..	83	92	101
(*iii*) Deposits	*234*	*279*	*329*
(iv) Borrowings from the Reserve Bank of India	249	242	229
Of which: short-term agricultural†	216	190	153
(v) Working capital ..	619	685	738
(vi) Loans issued ..	707	749	928
(vii) Loans outstanding ..	510	534	552
Of which: short-term agricultural†	276	288	348
(viii) Percentage of (iv†) to (vii†)	78	66	44
(*b*) *Central Co-operative banks* :			
(i) Number	340	341	341
(ii) Owned funds ..	174	199	223
(iii) Deposits	382	439	507
(iv) Borrowings from Reserve Bank of India/ apex bank ..	331	353	343@
(v) Working capital ..	928	1081	1174
(vi) Loans issued ..	873	894	907
(vii) Loans outstanding ..	740	813	852
(*c*) *State Land Development Banks* :			
(i) Number	19	19	19
(ii) Owned funds ..	46	58	66
(iii) Debentures outstanding	571	725	882
(iv) Working capital ..	638	841	1003
(v) Loans issued ..	153	168	148
(vi) Loans outstanding ..	510	638	731
(*d*) *Primary Agricultural Credit Societies* £ :			
(i) Number (in thousands)	163	161	144
(ii) Membership („) ..	29766	30963	29754
(iii) Owned funds ..	242	265	250
(iv) Deposits	63	69	71
(v) Borrowings	618	675	601
(vi) Loans issued ..	540	578	584
(vii) Loans outstanding ..	711	784	789

@ Excluding Maharashtra.
£ Excluding Andhra Pradesh and Jammu and Kashmir.
* Provisional.

Short-term Finance

211. In the sphere of short-term finance, the Bank took the following measures: (*i*) Although credit limits for *kharif* and *rabi* crops were granted separately it was stipulated that after the *rabi* financing was over, the limit should stand reduced to the *kharif* level where *rabi* was the main season ; and the drawals on these limits were required to be reflected in actual financing to societies during the *rabi* season ;

(*ii*) the Bank agreed that the charges payable by farmers to customer service societies for the services rendered by them may be treated as an expenditure eligible to be covered by advances under the kind component of the production-oriented system of lending ; (*iii*) the Bank during 1973 would not normally consider request for accommodation from the State co-operative banks for the purchase, stocking, distribution etc., of fertilizers; (*iv*) the Bank continued to provide short-term credit limits at Bank rate under Section 17(4E) of its Act to the Agricultural Refinance Corporation against the security of special development debentures purchased by it; (*v*) in terms of Section 17(2)(*bb*) of the Reserve Bank of India Act, financial accommodation was provided by the Bank for financing the production and marketing activities of the handloom/powerloom weavers' co-operative societies at concessional rate of interest at 1½ per cent below the Bank rate with a stipulation that the rate of interest charged to the handloom weavers' societies should not exceed 4½ per cent or such other rate of interest as may be fixed by the Government of India from time to time; in the case of powerloom weavers' societies, for which the interest subsidy scheme was not available, the rate charged should not be unreasonably high ; (*vi*) the temporary relaxations in regard to asset items that can be reckoned for the maintenance of margin in respect of financing the working capital requirements of handloom weavers' co-operative societies which were in force upto the end of March 1973 were extended till the end of March 1974; and (*vii*) the credit limits which the Bank provided under Section 17(2)(*a*) read with Section 17(4)(*c*) of RBI Act at Bank rate for financing trading in yarn by apex/regional weavers' co-operative societies were continued during the year (Table 24).

212. The selective credit control measures for regulating the advances by State and central co-operative banks against cotton and *kapas* were continued during the year with a view to arresting the tendency to hold back the stocks in anticipation of rise in prices. These were made applicable to the advances against cotton and *kapas* granted by certain primary co-operative banks also, where such advances were Rs. 5 lakhs or more during the year 1971-72.

Credit Guarantee Scheme

213. As at the end of May 1973, 9 State co-operative banks, 49 central co-operative banks, 5 licensed primary (urban) co-operative banks and 29 unlicensed primary (urban) co-operative banks satisfying the norms prescribed by the Government of India in this behalf, had joined the scheme by executing necessary agreements.

Industrial Finance through Co-operatives

214. The Bank decided that if agriculturists who grew mulberry plants also reared silk worms, the operations up to the stage of production and sale of cocoons, would be treated as agricultural, and the agriculturists would be eligible for finance for the purpose from primary agricultural credit societies, which in turn would be eligible for refinance under Section 17(2)(*b*) of the Reserve Bank of India Act.

215. The entire sericulture activities performed by one person were deemed to be within the purview of small-scale industrial activities for the purpose of refinance available from the Bank under Section 17(2)(*bb*) of the Reserve Bank of India Act at the Bank rate. Sericulturists not organised on co-operative basis but undertaking sericulture activities in an integrated manner would continue to get the working capital requirements through primary (urban) co-operative banks, which are eligible to seek reimbursement from the Reserve Bank.

216. With a view to enabling industrial co-operative societies other than weavers' societies to get adequate bank credit for working capital purposes, relaxations were granted by widening the list of items which could be reckoned in lieu of margin prescribed for the borrowings under Section 17(2)(*bb*) or 4(*c*) of the Reserve Bank of India Act. In Maharashtra, under the Employment Guarantee Scheme, block level village artisans multipurpose co-operative societies have been formed to provide credit and other facilities to artisans engaged in production-cum-sale activities. Such societies have been specially recognised by the Bank for refinance under Section 17(2)(*bb*) or 4(*c*) of the Reserve Bank of India Act in respect of their working capital advances to artisans.

Table 24—Reserve Bank Credit to Co-operatives, 1971-72 and 1972-73

(Amounts in Rupees Crores)

Purpose of finance	1971-72 (July-June) Limits Sanctioned	Drawals	Repay-ments	Out-standings	1972-73 (July-June **) Limits Sanctioned	Drawals	Repay-ments	Out-standings
	1	2	3	4	5	6	7	8
I. *Short-term*								
(i) Seasonal agricultural operations (at 2% below Bank rate)	394.04	468.51	505.27	152.08	415.38	596.67	603.84	144.91
(ii) Marketing of crops other than cotton and *kapas* ..	3.18	3.59	2.96	0.66	51.20	9.33	9.41	0.58
(iii) Marketing of cotton and *kapas* (including monopoly procurement of cotton)	11.70	10.25	10.10	1.19		113.61	111.88	2.92
(iv) Purchase and distribution of fertilisers (at 2% above Bank rate)*	24.75	23.04	18.49	8.76	14.75	7.50	13.51	2.75
(v) Production and marketing of handloom products (at 1½% below Bank rate)@	12.76	14.92	13.24	9.51	13.99	9.13	10.91	7.73
(vi) Financing other cottage and small-scale industries@	0.86	0.59	0.20	0.03	0.56	0.30	0.22	0.11
(vii) Purchase and sale of yarn (at Bank rate)@ ..	0.97	0.14	0.17	Nil	0.92	0.09	0.06	0.03
(viii) Loans to A.R.C. (at Bank rate)	8.00	1.36	8.88	Nil	15.00	4.89	1.19	3.70
II. *Medium-term*								
(i) Agricultural purposes (at 1½% below Bank rate)£	18.14	13.09	12.59	24.30	8.72	—	7.42	16.88
(ii) Conversion of short-term loans into medium-term loans in scarcity affected areas (at 1½% below Bank rate)	31.39	24.08	12.04‡	25.70‡	24.45‡ (48.85)	39.22‡ (28.87)	23.86‡ (0.26)	41.06‡ (27.60)
(iii) Purchase of shares in Co-operative Sugar factories/ processing societies (at Bank rate)	3.43	0.25	0.14	0.62	1.85	0.80	0.33	1.09
III. *Long-term*								
(i) Loans to State Governments for contribution to share capital of co-operative credit institutions@.. ..	16.38	14.14	4.72	51.34	16.29	18.69	4.48	65.55
(ii) Long-term loans to A.R.C. (at 4¼% / 4¾% per annum)	5.00	5.00	—	5.00	25.00	30.00	0.50	34.50

Note :—Figures in brackets indicate loans sanctioned and drawn under Section 18(1)(3) of the R.B.I. Act to be adjusted as M.T. (conversion) after 1-7-1973.

* Prior to 1972 purchase and distribution of fertilisers was financed at the Bank rate by the Bank. However, from January 1972 the interest rate was raised 2% above the Bank rate with a view to aligning it to the lending rates of the commercial banks. Data relate to calendar years 1971 and 1972.

‡ Including rephasement.

@ Data relate to financial years.

£ Data in respect of 1971-72 is upto December 1972 and for 1972-73 relate to calendar year 1973 upto June 1973.

** Provisional.

217. The State Governments of Gujarat, Haryana, Maharashtra, Tamil Nadu, Punjab and Andhra Pradesh, which had carried out survey to identify industrial co-operative societies other than weavers' societies into viable, potentially viable and non-viable as envisaged by the Working Group have not yet completed the reorganisation work. The States of Bihar, Kerala, Rajasthan, Mysore, Madhya Pradesh and West Bengal have started the survey and the remaining States and all Union Territories have yet to initiate action in the matter.

218. The State Governments of Gujarat, Manipur and Maharashtra have amended the State Co-operative Societies Acts and the by-laws of the primary (urban) co-operative banks so as to facilitate provision of financial assistance to cottage and small-scale industries owned by individual proprietors, partnership firms, joint stock companies, etc. In other States, the matter is being pursued with the concerned State Governments.

Medium-term Finance

219. In the sphere of medium-term finance, the Bank continued its policy of encouraging loans for identifiable productive purposes. The stipulation imposed earlier to the effect that the central co-operative banks should have advanced during the year at least 40 per cent of the total medium-term loans for easily identifiable productive purposes for availing of the accommodation from the Reserve Bank continued to be in force. In order to ensure compliance with the discipline laid down by the Bank, the attention of central co-operative banks and the Co-operative Department was drawn to the following important factors:

(*i*) Submission of a certificate of ground water potential from a competent authority in respect of loans for minor irrigation purposes involving an outlay of Rs. 5 lakhs and above.

(*ii*) Non-entertainment of proposals for minor irrigation purposes in areas covered by Agricultural Refinance Corporation/IDA Schemes without prior clearance from Agricultural Refinance Corporation.

(*iii*) Uniformity in the terms and conditions governing the sanction of medium-term loans for minor irrigation purposes by the central co-operative banks as well as by the land development banks.

(*iv*) Economic feasibility and commercial viability of the programme for purchase of animals, poultry farming, pig breeding and sheep/goat rearing activities.

220. The Bank indicated that five year medium-term loans for purchase of tractor on the hypothecation of tractor itself without insisting on the security of land might be issued to cultivators who are able to demonstrate that the tractor will be used for cultivating not less than 60 hectares of cropped area per year or 1500 hours of productive work on their own land or by providing customer service subject to certain conditions.

221. The terms and conditions governing the sanction of loans for purchase of shares in sugar factories, cotton ginning and groundnut oil mills, rice mills and co-operative spinning mills have been liberalised. Members' contribution has been reduced from 25 per cent to 10 per cent in addition to the usual contribution of 5 per cent of the loan towards the share capital of the processing societies set up/proposed to be set up in areas declared as backward/industrially less developed by the Government of India.

222. The scope of medium-term finance has been extended to cover non-agriculturists as well as agricultural labourers who have been recognised as eligible for utilising such facilities available from the Bank for purchase of milch cattle and poultry keeping activities. The granting of such loans is, however, subject to certain terms and conditions regarding margins, setting up insurance funds to write off losses owing to the mortality of cattle or birds, etc.

223. Credit limits including rephasements aggregating Rs. 24.45 crores from out of National Agricultural Credit (Stabilization) Fund and Rs. 48.85 crores out of general fund were sanctioned to 11 State Co-operative banks to enable them to convert short-term loans into medium-term loans. The Bank continued not to insist upon linking conversion facilities directly to the specific loans made by the State co-operative banks during

any particular period of time but to allow them to convert the required portion of borrowings from the Reserve Bank irrespective of dates on which finance was availed of. The Bank continued also to consider granting extensions for repayment of short-term borrowings, for a period of 3 months in deserving cases where the formalities could not be completed before the Reserve Bank loans fell due. Due to widespread drought in many parts of the country, it became necessary to convert short-term loans into medium-term loans to facilitate which the Bank had to sanction conversion of loans of an unprecedented order. As a result, the National Agricultural Credit (Stabilization) Fund had to be strengthened by appropriating as much as Rs. 40 crores out of the profits for the year taking the total in the fund to Rs. 85 crores.

Share Capital Loans

224. During the current year, the policy of granting loans from the Long-term Operations Fund liberally to the State Governments for contribution to the share capital of co-operative credit institutions particularly those which are included under the programme of rehabilitation, remained in operation. Loans aggregating Rs. 16.29 crores were granted to State Governments during the financial year 1972-73 from out of the Long-term Operations Fund for contributions to the share capital of 7 apex banks, 100 central co-operative banks, 5571 primary agricultural credit societies, 5 central land development banks, 113 primary land development banks and 34 primary (urban) co-operative banks. The terms and conditions governing these loans were modified during the year to enable the Bank to reserve the right to recover the amount lying undisbursed with the State Governments for more than 3 months from the date of drawal of the loan, by debiting their accounts after issue of due notice in this behalf.

Long-term Finance

225. The Bank provided adequate institutional support to the debenture programme of land development banks. As against the revised debenture programme of Rs. 126 crores for the financial year 1972-73, land development banks actually issued debentures for Rs. 96.48 crores, of which Rs. 67 crores, were subscribed to by institutions such as the Life Insurance Corporation of India, the State Bank of India, other commercial banks and the Reserve Bank of India besides the Central and State Governments. The balance of Rs. 29.48 crores came from mutual support. The shortfall of Rs. 29.52 crores in achievement was mainly due to lendings under IDA projects in some States notably Andhra Pradesh, Tamil Nadu, Mysore, Gujarat and Maharashtra.

226. A meeting of the representatives of principal investors and central land development banks was convened by the Bank in February 1973 where the debenture programme for the financial year 1973-74 was approved at Rs. 131 crores, as against the lending programme of Rs. 156 crores. The supported programme was placed at Rs. 117 crores and the balance of Rs. 14 crores was expected to be raised by way of self-help. The discipline regarding linking institutional support with overdues of the primaries/branches of the central land development banks as indicated in the last Report was also continued.

227. During the financial year 1972-73, the quota of rural debentures for State land development banks was fixed at Rs. 7 crores. Between April 1972 and March 1973, 11 banks have been permitted to float rural debenture series for an aggregate amount of Rs. 292.92 lakhs. The support for the ordinary debenture programme for 1972-73 of the land development banks which failed to achieve their quota of rural debentures was reduced to the extent of 10 times the shortfall in the subscriptions from individuals.

228. The Bank encouraged loans for easily identifiable productive purposes only and the discipline introduced in the past to the effect that 90 per cent of the loans advanced by the land development banks should be for productive purposes and of this 70 per cent should be for easily identifiable productive purposes, was also pressed during the year. The land development banks have been allowed to include the following purposes under identifiable productive purposes, provided the schemes are prepared and executed by technically qualified agencies:

(*i*) Levelling, bunding and reclamation of land.

(*ii*) Soil conservation or terracing.

(*iii*) Construction of drainage channels to prevent floods or bunding of land to prevent erosion.

(*iv*) Preparation of land for orchards.

229. The important policy changes effected in the sphere of long-term financing during the year were as follows:

(*i*) The land development banks were permitted to float debentures for 12 years besides for 10 and 15 years series as in the past. While the 12 year debentures carry slightly higher rates of interest than the 10 year debentures, the issue price of 15 year debentures was slightly reduced. The other terms and conditions remained unchanged.

(*ii*) The land development banks were advised to: (*a*) value the land at eight times the net income after development and to fix the repaying capacity of the borrowers at 75 to 90 per cent of the net incremental income from the benefiting land, depending on the total size of borrowers' lendings ; (*b*) reduce the down payment for loans for purchase of tractors, harvestors, etc. from 20 to 10 per cent of the cost of investment ; (*c*) consider loan applications from tribals where a part of the loan is sought for the purpose of redemption of the previous debts and mortgages on the land proposed to be offered as security; (*d*) consider the loan applications from borrowers for the purchase of shares in co-operative sugar factories, where such loans are sought for purposes like digging a well, purchase of pumpsets or redemption of land, etc., subject to the repaying capacity; and (*e*) ensure that at least 20 per cent of the advances made in 1973-74 will be for small farmers.

230. A committee on co-operative land development banks has been set up by the Bank with a view to reviewing all aspects of the working of land development banks and suggesting appropriate remedial measures for removing the deficiencies in these banks as quickly as possible.

Co-operative Banking Regulations

231. During the year, one State co-operative bank and 5 primary co-operative banks were granted 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 44. The number of offices of the co-operative banks which stood at 5562 as on June 30, 1972 increased to 5841 as on March 31, 1973 (208 of State co-operative banks, 4516 of central co-operative banks and 1117 of primary co-operative banks). During the period July 1, 1972 to June 30, 1973, licences were granted to the State and primary co-operative banks for opening 73 new offices as against 74 licences granted during the previous year.

232. As on June 30, 1973, there were 1383 co-operative banks (28 State, 367 central and 988 primary) coming under the purview of the Banking Regulation Act, 1949 as against 1336 co-operative banks at the beginning of the year. The increase in the number of banks during the year was mainly due to inclusion of certain non-agricultural credit societies in the list of primary co-operative banks.

233. There were 7 central co-operative banks which did not comply with the provisions of Section 11(1) of the Banking Regulation Act, 1949 and 5 were under process of amalgamation/liquidation or under moratorium order. Out of 11 primary co-operative banks which were granted exemption from the provisions of Section 11(1) of the Banking Regulation Act, 1949, 4 have subsequently complied with the requirements and 4 others are proposed for liquidation. Six more banks did not comply with the relevant provisions during the year. The Bank has recommended to the Government of India, 9 banks for exemption from Section 11 of the Banking Regulation Act, 1949 upto February 28, 1974 including the applications of 3 banks which were granted exemption upto February 28, 1973. The Bank is keeping a close watch over the financial position and working of these banks.

234. During the year, 242 reports relating to the inspections of 12 State co-operative banks, 218 central co-operative banks, 10

State/central land development banks and 2 apex weavers' societies were issued. Of the 471 primary co-operative banks inspected during the year 97 were inspected by the officers of State co-operative banks on behalf of the Reserve Bank under Section 35 (1) of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies). Inspection reports on 433 primary co-operative banks were issued during the year. With a view to enabling the inspecting officers to improve the quality of the inspection reports and to facilitate drawing up action-oriented plans for the benefit of the banks, 7 inspection seminars were conducted at Ahmedabad, Madras, Gauhati, Chandigarh, Patna, Calcutta and Bhubaneswar Regional Offices by the officers from the Central Agricultural Credit Department.

235. As at the end of June 1973, 404 co-operative banks were registered by the Deposit Insurance Corporation in the States of Andhra Pradesh, Madhya Pradesh, Maharashtra and the Union Territories of Goa, Daman and Diu, as against 391 registered at the beginning of the year. The State of Jammu and Kashmir and the Union Territory of Delhi have passed necessary amendments to their respective co-operative societies Acts vesting in the Reserve Bank the powers regarding supersession, winding up, amalgamation, reconstruction, etc., and the Deposit Insurance Scheme is expected to be introduced in the State and the Union Territoiy shortly. The Bank continued to pursue the matter with the remaining State Governments/Union Territories for suitable legislative measures enabling the extension of the Scheme to co-operative banks in their jurisdiction.

Agricultural Refinance Corporation

236. The Agricultural Refinance Corporation which completed ten years of operation on 30 June 1973 disbursed Rs. 94 crores during the year July 1972-June 1973. This amount was inclusive of Rs. 29 crores provided to land development banks in four States for switch-over from normal loan programmes to IDA credit/projects. Disbursement during the previous year was Rs. 35 crores. Total disbursements by the Corporation since its inception now aggregate Rs. 219 crores.

237. The bulk of the refinance provided by the Corporation has been for minor irrigation (77 per cent) and land development (12 per cent) (Table 25). During the year, efforts were initiated to diversify the purposes of

Table 25—Disbursment of Refinance by Purpose

(Rs. Crores)

Purpose	1963 to 1968	1968-69	1969-70	1970-71	1971-72	1972-73	Total
1. Minor irrigation	1.29 (10.20)	11.54 (64.69)	22.33 (78.08)	23.06 (75.31)	26.74 (76.44)	84.18* (89.42)	169.14 (77.29)
2. Land development and soil conservation	10.12 (80.00)	3.76 (21.08)	3.32 (11.61)	4.37 (14.27)	2.37 (6.77)	2.30 (2.44)	26.24 (11.99)
3. Farm mechanisation	0.03 (0.24)	0.11 (0.62)	0.16 (0.56)	0.11 (0.36)	0.36 (1.03)	2.18 (2.32)	2.95 (1.35)
4. Plantation and horticulture ..	1.01 (7.98)	1.06 (5.94)	1.50 (5.24)	1.99 (6.50)	2.05 (5.86)	1.49 (1.58)	9.10 (4.16)
5. Poultry	— (—)	0.01 (0.06)	0.06 (0.21)	— (—)	— (—)	0.15 (0.16)	0.22 (0.10)
6. Fishery	0.20 (1.58)	0.36 (2.02)	0.36 (1.26)	0.37 (1.21)	0.59 (1.69)	0.12 (0.13)	2.00 (0.91)
7. Dairy	— (—)	— (—)	— (—)	— (—)	0.39 (1.11)	0.26 (0.28)	0.65 (0.30)
8. Storage facilities and market yards	— (—)	1.00 (5.60)	0.87 (3.04)	0.72 (2.35)	2.48 (7.09)	3.46 (3.68)	8.53 (3.90)
TOTAL	**12.65** (100.00)	**17.84** (100.00)	**28.60** (100.00)	**30.62** (100.00)	**34.98** (100.00)	**94.13** (100.00)	**218.83** (100.00)

Note :— Figures within parenthesis are percentages of the total.
* Inclusive of Rs. 29.42 crores switched from ordinary debentures programme to IDA Projects.

Table 26—Disbursement of Refinance for States

(Rs. Crores)

State	1963 to 68	1968-69	1969-70	1970-71	1971-72	1972—73 Excluding switch-over	1972—73 Switch-over	Total
1	2	3	4	5	6	7	8	9
I. *Northern Region*								
1. Haryana	0.59	2.44	2.63	3.62	3.26	7.59	2.61	22.74
	(4.66)	(13.68)	(9.20)	(11.82)	(9.32)	(11.73)		(10.39)
2. Punjab	0.76	5.77	6.54	5.56	3.86	6.07	—	28.55
	(6.01)	(32.34)	(22.88)	(18.16)	(11.03)	(9.38)		(13.05)
3. Rajasthan	—	0.06	0.77	0.77	0.83	1.36	—	3.79
	(—)	(0.34)	(2.69)	(2.51)	(2.37)	(2.10)		(1.73)
4. Jammu & Kashmir ..	0.11	0.21	0.20	0.11	0.07	—	—	0.71
	(0.87)	(1.18)	(0.70)	(0.36)	(0.20)	(—)		(0.32)
5. Delhi	—	—	0.06	—	—	—	—	0.06
	(—)	(—)	(0.21)	(—)	(—)	(—)		(0.03)
	1.46	**8.48**	**10.20**	**10.06**	**8.02**	**15.02**	**2.61**	**55.85**
	(11.54)	(47.54)	(35.68)	(32.85)	(22.92)	(23.21)		(25.52)
II. *North-Eastern Region*								
1. Assam	0.26	0.44	0.04	—	0.32	—	—	1.05
	(2.06)	(2.47)	(0.14)	(—)	(0.91)	(—)		(0.48)
	0.26	**0.44**	**0.04**	—	**0.32**	—	—	**1.05**
	(2.06)	(2.47)	(0.14)	(—)	(0.91)	(—)		(0.48)
III. *Eastern Region*								
1. Bihar	—	0.18	0.61	1.13	0.67	1.54	—	4.14
	(—)	(1.01)	(2.13)	(3.69)	(1.92)	(2.38)		(1.89)
2. Orissa	—	0.04	0.18	0.06	0.08	0.11	—	0.47
	(—)	(0.22)	(0.63)	(0.20)	(0.23)	(0.17)		(0.21)
3. West Bengal	—	0.02	0.01	0.10	0.05	0.04	—	0.21
	(—)	(0.11)	(0.03)	(0.33)	(0.14)	(0.06)		(0.10)
	—	**0.24**	**0.80**	**1.29**	**0.80**	**1.69**	—	**4.82**
	(—)	(1.34)	(2.79)	(4.22)	(2.29)	(2.61)		(2.20)
IV. *Central Region*								
1. Madhya Pradesh ..	—	0.31	0.49	0.91	1.87	3.19	—	6.78
	(—)	(1.74)	(1.71)	(2.97)	(5.35)	(4.93)		(3.10)
2. Uttar Pradesh ..	—	1.22	2.56	2.93	6.04	11.43	—	24.18
	(—)	(6.84)	(8.95)	(9.57)	(17.27)	(17.66)		(11.05)
	—	**1.53**	**3.05**	**3.84**	**7.91**	**14.62**	—	**30.96**
	(—)	(8·58)	(10·66)	(12·54)	(22·62)	(22·59)		(14·15)
V. *Western Region*								
1. Gujarat	0.14	1.93	1.31	1.90	2.62	8.08	19.87	35.85
	(1.11)	(10.82)	(4.58)	(6.21)	(7.49)	(12.48)		(16.38)
2. Maharashtra	1.08	0.81	3.49	2.33	4.56	7.32	—	19.60
	(8.54)	(4.54)	(12.21)	(7.61)	(13.04)	(11.31)		(8.96)
	1.22	**2.74**	**4.80**	**4.23**	**7.18**	**15.40**	**19.87**	**55.45**
	(9.65)	(15.36)	(16.79)	(13.82)	(20.53)	(23.79)		(25.34)
VI. *Southern Region*								
1. Andhra Pradesh ..	6.37	1.72	6.07	3.42	2.85	3.87	4.60	28.90
	(50.36)	(9.64)	(21.23)	(11.17)	(8.15)	(5.98)		(13.21)
2. Kerala	0.10	0.07	0.35	0.82	0.97	0.28	—	2.58
	(0.79)	(0.39)	(1.22)	(2.68)	(2.77)	(0.43)		(1.18)
3. Mysore	1.25	1.36	1.66	2.74	3.25	4.05	—	14.32
	(9.88)	(7.62)	(5.81)	(8.95)	(9.29)	(6.26)		(6.54)
4. Tamil Nadu	1.99	1.26	1.62	4.22	3.68	9.79	2.34	24.90
	(15.73)	(7.06)	(5.67)	(13.78)	(10.52)	(15.13)		(11.38)
	9.71	**4.41**	**9.70**	**11.20**	**10.75**	**17.99**	**6.94**	**70.70**
	(76.76)	(24.71)	(33.93)	(36.58)	(30.73)	(27.80)		(32.31)
Grand Total ..	**12.65**	**17.84**	**28.60**	**30.62**	**34.98**	**64.72**	**29.42**	**218.83**
	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)		(100.00)

Note :— Figures within parenthesis are percentages of the total.

loaning. Out of 230 schemes sanctioned in 1972-73 as many as 101 schemes were in respect of purposes other than minor irrigation covering land development, soil conservation, farm mechanisation, plantation and horticulture, poultry, fisheries, dairy and the like.

238. The Corporation stepped up the level of its operations during 1972-73 to a significant extent in Haryana, Uttar Pradesh, Gujarat and Tamil Nadu. So far, the States which have taken advantage of refinance facilities from the Corporation are in Southern, Western and Northern regions, which accounted for 32 per cent, 25 per cent and 26 per cent, respectively, of the aggregate disbursement (Table 26). Assistance in other regions has been comparatively low in view of their weak infrastructure, deficiencies in institutional credit and inadequate basic technical data. However, Uttar Pradesh and Madhya Pradesh which a few years earlier had little borrowing have recently been able to build up their facilities and have been able to avail themselves of larger refinancing facilities. In the near future, the Corporation expects to provide more assistance to Orissa. Promotional efforts in the remaining Eastern and North Eastern States are expected to bear fruit after some time.

239. Land development banks continue to be the principal agency through which the Corporation's assistance is disbursed. In 1972-73, out of total disbursement of Rs. 94 crores, land development banks absorbed Rs. 86 crores including Rs. 29 crores switched to IDA programmes (Table 27). Assistance through State co-operative banks and commercial banks is, however, increasing steadily.

Table 27—Disbursement of Refinance by Agency

(Rs. Crores)

Agency	1963 to 1968	1968-69	1969-70	1970-71	1971-72	1972-73	Total
I. Land Development Banks ..	11.90 (94.07)	15.95 (89.41)	26.75 (93.53)	26.65 (87.00)	28.39 (81.16)	86.14* (91.50)	195.78 (89.47)
(Of which IDA assistance) ..	—	—	—	—	*(5.37)*	*(63.58)*	*(68.95)*
II. State Co-operative Banks ..	0.20 (1.58)	1.36 (7.62)	1.29 (4.51)	1.19 (3.92)	3.33 (9.52)	3.51 (3.73)	10.88 (4.97)
III. Commercial Banks	0.55 (4.35)	0.53 (2.97)	0.56 (1.96)	2.78 (9.08)	3.26 (9.32)	4.49 (4.77)	12.17 (5.56)
(Of which IBRD assistance) ..	—	—	—	*(1.11)*	*(0.8)*	*(0.4)*	*(1.23)*
TOTAL	**12.65** (100.00)	**17.84** (100.00)	**28.60** (100.00)	**30.62** (100.00)	**34.98** (100.00)	**94.13** (100.00)	**218.83** (100.00)

Note:- Figures within parenthesis are percentages of the total.
* Inclusive of Rs. 29.42 crores switched from ordinary debentures programme to IDA Projects.

It is expected that consequent upon strengthening of their organisation for agricultural financing and the greater emphasis that the Corporation is placing on wider geographical spread and diversification of activities, commercial banks will acquire greater importance in the programme of assistance.

240. During the year, two more credit projects relating to minor irrigation in Uttar Pradesh and Madhya Pradesh with IDA assistance of $38 million and $33 million, respectively, and one project relating to market development in Mysore State with IDA assistance of $8 million were approved by IDA. The total number of projects to be financed by ARC with IDA assistance has thus risen to twelve, in addition to one project being financed by IBRD in Uttar Pradesh. Total IDA assistance under these 12 projects will amount to $316 million.

241. The Corporation invited subscription for its third series of share issue of Rs. 5

crores in May 1973 which issue has been fully subscribed and allotment of shares made from July 1 1973. During the year, the Corporation borrowed Rs. 48 crores from the Government of India. The amount outstanding from the Government of India as on June 30 1973 stood at Rs. 125 crores. The Corporation also raised Rs. 11 crores by floatation of Bonds in the open market and borrowed Rs. 30 crores from the Long-Term Operation Funds of the Reserve Bank. In addition, the Corporation made a temporary borrowing of Rs. 3.70 crores from the Reserve Bank. The aggregate disbursement of Rs. 219 crores at the end of June 1973 has been financed as follows: share capital Rs. 10 crores; borrowings from Government of India Rs. 125 crores; Reserve Bank of India Rs. 38 crores and Bonds Rs. 39 crores.

242. The Corporation raised its lending rate from 6.50 per cent per annum to 7 per cent with effect from 25 June 1973.

243. During the Fourth Plan period, the Corporation was expected to provide Rs. 300 crores by way of refinance. The Corporation has already disbursed Rs. 195 crores at the end of June 1973 and expects to more than fulfil the Plan target by the end of March 1974. Lending programmes for the Fifth Plan period are being drawn up. While the Corporation will continue to place emphasis on minor irrigation, other types of schemes such as poultry, dairy, fishery and plantation will receive special attention. The Corporation proposes to strengthen its technical staff in order to assist financial institutions to appraise these types of schemes.

244. The Corporation has also invited the State Governments to formulate schemes of development of forestry, deep sea fishing, milk production and anti-erosion and soil conservation schemes. Since 1969-70 the Corporation has been providing 100 per cent refinance facilities in respect of viable schemes sponsored by SFDA and MFALA. This concession which was to expire on June 30, 1973 has been extended upto June 30, 1975.

245. In conformity with the development role undertaken by the Corporation in providing larger credit for agricultural activities and to ensure diversification and penetration into new areas, the Corporation is having a fresh look at its own organisational structure so as to ensure quick and smooth flow of credit. To help the relatively underdeveloped states, steps are being taken in collaboration with the Reserve Bank to broad-base the training arrangements for their staff. The Corporation has also decided to open another technical consultancy unit at Calcutta (in addition to one at Lucknow) to deal with Eastern and North-Eastern States/Union Territories.

IV. DEVELOPMENTS IN INDUSTRIAL FINANCE

246. The financial assistance provided by the term-lending institutions in recent years has shown a rising trend. Both sanctions and disbursements have generally increased since the recession years of 1967-68 and 1968-69 (Table 28). The disbursements during the fiscal year 1972-73 continued to show an increase at Rs. 200.6 crores; they were higher than Rs. 184.5 crores recorded in 1971-72 (April-March). The sanctioned assistance was higher at Rs. 309.3 crores compared to Rs. 304.6 crores in 1971-72.

Table 28—Trends in Financial Assistance Sanctioned and Disbursed by Term-lending Institutions*

(Rs. Crores)

Years (April-March)	Total Assistance@ Sanctions	Disbursements
1965-66 ..	169.3	105.8
1966-67 ..	122.0 (—27.9)	125.6 (+18.7)
1967-68 ..	87.1 (—28.6)	105.0 (—16.4)
1968-69 ..	132.3 (+51.9)	85.8 (—18.3)
1969-70 ..	153.8 (+16.3)	116.3 (+35.5)
1970-71 ..	225.7 (+46.7)	146.7 (+26.1)
1971-72 ..	304.6 (+34.9)	184.5 (+25.8)
1972-73£ ..	309.3 (+ 1.5)	200.6 (+ 8.7)

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

* Institutions covered are IDBI, ICICI, IFCI, IRCI, SFCs and SIDCs/SIICs.

@ Total assistance comprise : (i) in respect of IDBI, all types of assistance including refinance of industrial loans and of export credit and rediscounting of bills, with the exception of guarantees and 'subscription to shares and bonds of financial institutions' (refinance of SFCs industrial loans are of course excluded to avoid double counting) and (ii) for other institutions all types of assistance except guarantees.

£ Provisional.

The accounting year,* however, is not the same for all the financial institutions. If the figures relating to the respective accounting years for 1972-73 are considered, total financial assistance sanctioned by the term-lending institutions at Rs. 331 crores showed an increase of 3 per cent over the previous year's level of Rs. 321 crores. Disbursements of assistance during 1972-73 amounted to Rs. 214 crores, compared to Rs. 178 crores in the previous year—a rise of about 20 per cent. The operations of term-lending institutions during the year under review have had a significant impact on the actual investment in the private sector of industry.

247. The increase in sanctions of financial institutions (April-March) this year was mainly due to a rise in foreign currency loans by term-lending institutions. There was a decline in underwriting and direct subscriptions to shares and debentures. On the other hand, a substantial increase took place in sanctions and disbursements of foreign currency loans by ICICI and IFCI. Assistance provided by the SFCs also showed a marked rise (see Table 29). A bulk of this assistance has gone to the small sector of industry and small road transport operators. As for financial assistance to small-scale industries, there was an increase in credit extended to this sector by Rs. 60 crores to Rs. 625 crores during the year 1972-73 (April-March).

Industrial Development Bank of India

IDBIs' Promotional Functions and Policies

248. The IDBI continued to follow vigorously during 1972-73 (July-June) the policy of widening the scope and enlarging the size of its operations. The principal work in this connection relates to the active promotion of viable industrial projects particularly in the backward areas. The Industrial Potential Surveys initiated in 1970, have been completed for all States/Union Territories except Andaman and Nicobar. Of the 16 Industrial Potential Surveys carried out by the Study Team, 12 reports relating to Assam, Arunachal Pradesh, Bihar, Jammu and Kashmir, Nagaland, Madhya Pradesh, Himachal Pradesh, Rajasthan, Tripura, Uttar Pradesh, Manipur and Orissa were published. Those for Andhra Pradesh, Goa, Daman and Diu, Laccadive and Amindivi and Pondicherry are under

* The accounting year of IDBI and IFCI is July-June, that of ICICI is January-December and of SFCs, is April-March.

Table 29—Assistance Sanctioned and Disbursed by Term-Financing Institutions during 1971-72 and 1972-73 (April-March)

(In Crores of Rupees)

	Sanctioned										Disbursed									
	Rupee loans		Foreign currency loans		Underwriting and direct subscriptions: Ordinary and Preference shares		Underwriting and direct subscriptions: Debentures		Total		Rupee loans		Foreign Currency loans		Underwriting and direct subscriptions: Ordinary and Preference shares		Underwriting and direct subscriptions: Debentures		Total	
	1972-73	1971-72	1972-73	1971-72	1972-73	1971-72	1972-73	1971-72	1972-73	1971-72	1972-73	1971-72	1972-73	1971-72	1972-73	1971-72	1972-73	1971-72	1972-73	1971-72
IDBI ..	87.7a (27.9)	128.6a (22.0)	—	—	3.5	13.3	2.8	—	94.0 (27.9)	141.9 (22.0)	62.4a (19.1)	77.4a (17.4)	—	—	3.5	1.0	0.8	0.4	66.7 (19.1)	78.8 (17.4)
IFCIc ..	38.2	23.7	5.2	2.8	3.1	2.2	1.0	—	47.5	28.7	21.8b	16.1b	4.1	3.4	1.6	0.8	0.8	—	28.3	20.3
ICICI ..	13.4	12.0	29.1	22.5	3.7	3.7	3.3	1.5	49.5	39.7	7.9	8.0	28.0	20.5	2.5	1.6	1.3	0.2	39.7	30.2
IRCIc ..	6.1	6.6	—	—	—	—	—	—	6.1	6.6	4.2	1.6	—	—	—	—	—	—	4.2	1.6
SFCsc ..	77.8	63.4	—	—	0.9	0.7	—	—	78.7	64.1	44.1b	39.0	—	—	0.6	0.6	—	—	44.7	39.6
SIDCsc ..	24.6	16.4	—	—	8.8	7.1	0.1	0.1	33.5	23.6	13.2	10.7	—	—	4.5	3.6	0.03	0.03	17.7	14.4
	247.8 (27.9)	250.7 (22.0)	34.3	25.3	20.0	27.0	7.2	1.6	309.3 (27.9)	304.6 (22.0)	153.6 (19.1)	152.8 (17.4)	32.1	23.9	12.7	7.6	2.9	0.6	201.3 (19.1)	185.0 (17.4)
UTId ..	—	—	—	—	3.2	3.2	7.0	11.8	10.2	15.0	—	—	—	—	1.6	1.0	4.0	0.6	5.6	1.6
LICe ..		14.1	—	—		4.7		4.3		23.1		0.9		—		2.5		1.9		5.3

Note :—Data are provisional.

(a) Comprising direct loans, refinance to banks and rediscounts. Refinance to SFCs, indicated separately within brackets, is excluded to avoid double counting since this is covered under loans of SFCs.

(b) Including disbursement on account of guarantees.

(c) Data are provisional.

(d) Data for 1972-73 are provisional and those for 1971-72 are revised.

(e) Figures for 1972-73 are not available.

preparation. The project ideas that have emerged from these surveys are being discussed with the concerned State institutions and Governments. The IDBI, with the assistance of other term-lending institutions, has already arranged for preliminary feasibility studies of 14 project ideas identified by the Study Teams for Assam, Arunachal Pradesh, Bihar, Orissa, Tripura and Meghalaya.

249. The IDBI continued to play the role of co-ordinator for various institutions at All-India and State levels and formed Inter-Institutional Groups (IIGs) in 12 States to arrive at agreed decisions on issues connected with industrial projects. Further, the channels of communication between the term-financing institutions and the Government have been strengthened with the setting up of the Central Co-ordination Committee in 1972 under the Chairmanship of the Governor, RBI. This Committee, comprising heads of public financial institutions and the Secretaries to the Government of India in the Ministries of Finance, Industry, Company Affairs and the Planning Commission, exchanges views on important policy matters having a bearing on industrial development and finance.

Technical Consultancy Scheme

250. During 1972-73 the IDBI also took initiative in setting up a zonal organisation called North Eastern Industrial and Technical Consultancy Organisation Ltd. (NEITCO) at Gauhati on May 28, 1973, to cater to the needs of States/Union Territories in the North-Eastern region. As in the case of Kerala Industrial and Technical Consultancy Organisation (KITCO), NEITCO will also function as technical consultancy service centre and will (*i*) carry out surveys, (*ii*) prepare project profiles and feasibility reports, (*iii*) identify potential entrepreneurs, (*iv*) undertake techno-economic appraisal, market research, project supervision, etc.

251. Mention was made in the previous Report regarding the setting up of KITCO in February 1972 to facilitate the work with regard to project formulation, appraisal and supervision. During the first sixteen months ended June 1973, KITCO received as many as 374 enquiries covering a wide range of small and medium scale industries. Of these, 329 applications forming about 90 per cent of the total applications received emanated from entrepreneurs and the remaining from the financial institutions such as the State Financial Corporations and the banks. So far, 86 cases received from entrepreneurs involving an investment of Rs. 34.1 crores have already materialised into concrete project ideas; these have been taken on hand for preparation of project reports. Projects in respect of 14 of these schemes involving investment proposals of Rs. 3.6 crores have been furnished to the parties and work in respect of 66 schemes is in progress. Six of the project ideas have been dropped by the entrepreneurs.

252. It is significant to mention that KITCO co-sponsored with the School of Management, Cochin University, an entrepreneurial development programme, extending over a period of 5 months, to train candidates in the preparation and implementation of industrial projects. The course covered 27 candidates.

253. In order to provide greater inducement to entrepreneurs to spread out in relatively backward areas of the country, the IDBI decided in January 1973 to extend concessional direct assistance to new projects coming up in specified backward districts with capital cost upto Rs. 3 crores and to expansion projects with total investment (i.e., net fixed assets plus net working capital of the existing unit and the cost of the expansion project together) also upto Rs. 3 crores as compared to the previous limits of of Rs. 1 crore and Rs. 50 lakhs, respectively. The scheme has been further liberalised in June 1973. Under the revised scheme, concessional rupee loan assistance upto Rs. 2 crores and underwriting upto Rs. 1 crore would be available from the IDBI, in participatior with other term-financing institutions (*viz.*, the IFCI and the ICICI) to new concerns setting up projects in specified backward districts, irrespective of project cost. The assistance in excess of the above ceiling would generally be extended on normal terms, though exception may be made in special circumstances on the merits of each case. Concessional

finance for expansion/diversification projects in identified backward areas undertaken by existing concerns would be considered on selective basis, keeping in view the profitability potential of the existing and proposed new project, the location of the new project and other related factors.

254. The IDBI also decided to extend the concessional refinance to the full extent in respect of all eligible loans of SFCs and banks upto Rs. 30 lakhs to small and medium-sized projects in the specified backward areas provided the paid-up capital and reserves of the recipient unit did not exceed Rs. 1 crore. This criterion would be applicable both to new projects and existing units embarking on the expansion in capacity and modernisation. Concessional refinance assistance was earlier available in respect of loans upto Rs. 20 lakhs to new as well as expansion projects of units involving investment in fixed assets (on the basis of the original price paid) not exceeding Rs. 50 lakhs or with total tangible assets not exceeding Rs. 75 lakhs.

255. Another aspect that has widened the scope of the IDBI's refinance facilities during the year was sanction of $25 million loan to the IDBI by the International Development Association. The Project Agreement between the IDA and the IDBI and the Development Credit Agreement between the IDA and Government of India were signed on February 9, 1973. The credit became effective from June 22, 1973. The amount would be utilised for on lending to the State Financial Corporations for financing the foreign exchange requirements of medium and small-medium projects having project cost not exceeding Rs. 1 crore. The refinance facilities under the IDA credit will be available against SFC loan for setting up of new industrial projects and also for expansion, diversification, modernisation or renovation of the existing units in cases where at least some portion of the loan is for financing import of equipment from abroad and in special case, the cost of technical know-how and enquiring fees. The Government of India has simplified the procedure for issue of import licences under the credit.

Amendment to IDBI Act

256. An important development during the year was the amendment to the IDBI Act, 1964, effective December 24, 1972, enabling the IDBI to (*i*) assist concerns engaged in maintenance and repairs, testing or servicing of machinery, vehicles, vessels, motor boats, trailers, tractors as also concerns engaged in fishing or in providing shore facilities for fishing or maintenance thereof ; (ii) extend refinance for establishment of industrial estates; (*iii*) grant loans and advances to any person exporting products of industrial concerns or to any person outside India in connection with the export of capital goods from India or for the execution of turn-key projects outside India by any industrial concern or by any person in India ; (*iv*) rediscount the machinery bills of stockists and selling agencies; and (*v*) subscribe to or purchase stocks, shares, bonds or debentures of any other financial institutions outside India, as may be the case.

IDBI's Structure of Interest Rate

257. There was a revision of the IDBI's structure of interest rates during the course of the year. The direct lending rate was revised with effect from June 16, 1973 from 8.5 per cent to 9 per cent and lending rate to eligible units in specified backward districts from 7 per cent to 7.5 per cent. The general rate of refinance would be 7 per cent with a ceiling of 10.5 per cent on the rate to be charged by the financial institutions. The special refinance rate for small-scale industrial units covered under the Credit Guarantee Scheme remains unchanged at 5 per cent (with a ceiling of 8.5 per cent on the rate charged by financial institutions) for loan assistance upto Rs. 25,000. This rate has been stepped up to 5.5 per cent with a ceiling of 9 per cent on the rate charged by financial institutions for loan assistance in excess of Rs. 25,000. The special refinance rate for loan assistance to eligible industrial units in sepcified backward districts has been raised from 3.5 per cent to 4 per cent (with a ceiling of 7.5 per cent on the rate charged by financial institutions). The rediscount rates on machinery bills have been revised upwards by 1 per cent; the bank's maximum discount rates should be only 1 per cent higher than the IDBI rediscount rates. Further, the three-

tier system has been replaced by two-tier system with the IDBI rate of 7 per cent for bills maturing upto 36 months and 6.5 per cent for bills maturing above 36 months.

IDBI's Operations

258. An important feature of the IDBI's operations during 1972-73 was a marked rise in the number of applications to 2739 from 1996 in 1971-72 on which project assistance was sanctioned (*i.e.*, assistance other than for exports and guarantees). The financial value of project assistance recorded a significant rise from Rs. 140.7 crores to Rs. 148.3 crores in 1972-73. Sanction of assistance for exports of engineering goods, however, showed a decline.

259. IDBI's total disbursements of Rs. 106.6 crores during 1972-73 were higher than Rs. 94.0 crores during 1971-72 and were financed mainly by (*i*) repayments by borrowers and sale of investments (Rs. 63.5 crores), (*ii*) borrowings from RBI's Long-Term Operations Fund (Rs. 36.3 crores) and (*iii*) borrowings from market through floatation of bonds (Rs. 16.0 crores). Total effective sanctions since the inception of IDBI upto the end of June 1973 amounted to Rs. 774.7 crores (excluding guarantees) and Rs. 803.2 crores (including guarantees). Total utilisation of assistance aggregated Rs. 564.6 crores.

260. Upto the end of June 1973, the IDBI has sanctioned concessional assistance of Rs. 30.9 crores (nearly two-thirds of which was by way of refinance) on 861 applications in the specified backward districts, of which Rs. 13.1 crores on 584 applications were granted during 1972-73. An interesting feature of the sanctions under direct assistance to industrial concerns (other than for exports) is the very significant increase in the number of projects assisted from 36 in 1971-72 to 63 in 1972-73, indicating a wider dispersal of assistance.

261. Of the 63 units assisted during the year, 48 units (including 6 in public sector) envisaged the setting up of new capacity or expansion/diversification of existing capacity in various types of industries such as iron and steel, machinery, cement, etc. These included 2 projects sponsored by technician-entrepreneurs, one each in the field of special papers and steel castings. Among the bigger projects assisted during the year, were petrochemical project of Assam Petro-Chemicals, Ltd. (assistance Rs. 2.2 crores), expansion project of Indian Iron and Steel Co. Ltd. (Rs. 22.0 crores), rehabilitation/modernisation scheme of Tata Electric Companies (Rs. 2.8 crores) and Madras Cements Ltd. (Rs. 2.7 crores). Utilisation of direct assistance (other than for exports) has more than doubled to Rs. 30.2 crores during 1972-73 from Rs. 11.4 crores during 1971-72.

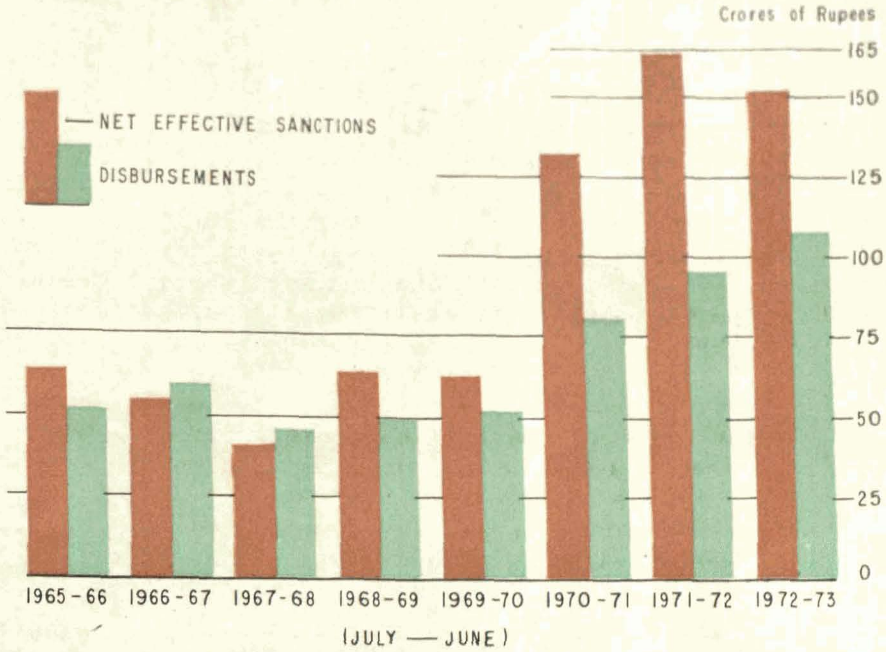
262. The number of applications sanctioned under the scheme of refinance of industrial loans rose sharply from 1733 to 2407 and the amount of assistance from Rs. 27.5 crores to Rs. 33.3 crores. Utilisation of assistance under refinance of industrial loans increased by Rs. 1 crore to Rs. 25.0 crores in 1972-73. A bulk of the assistance under the scheme has been in respect of small-scale industries including small road transport operators. The proportion of refinance assistance to this sector to total refinance has increased from a mere 5.4 per cent in 1967-68 to 67 per cent in 1971-72 and further to 76 per cent in 1972-73.

Export Assistance

263. Sanctions under export finance (participation scheme and refinance of export credit) declined sharply to Rs. 2.8 crores during 1972-73 as against Rs. 22.6 crores in 1971-72. Lower sanctions during the year may be attributed to the prevailing uncertainties on the international monetary scene and suspension of fresh contracts with some countries on deferred credit terms. Moreover, certain parties to whom substantial direct export finance was sanctioned during 1971-72 could not avail of it during 1972-73 on account of difficulties in executing the contracts. Utilisation of export finance also declined from Rs. 15.0 crores in 1971-72 to Rs. 6.1 crores in 1972-73.

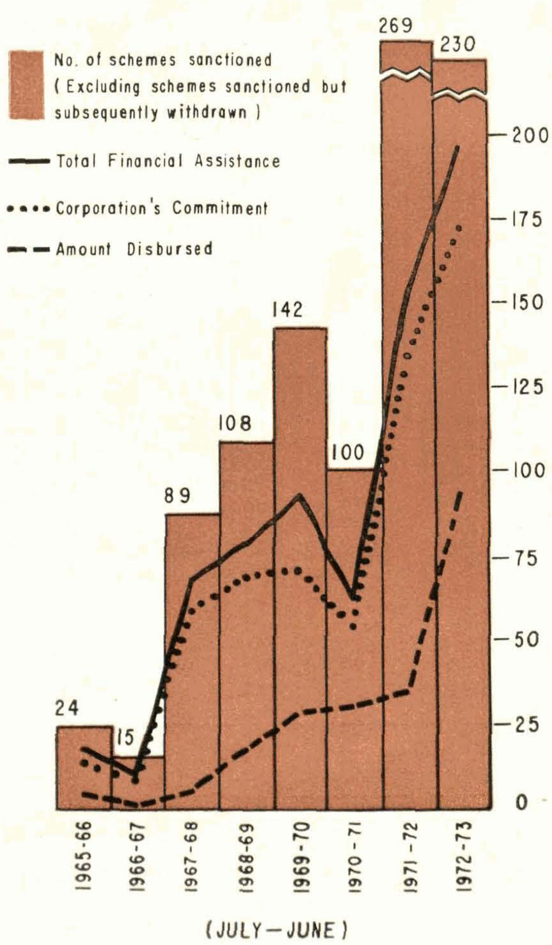
264. Sanctions under the Bills Rediscounting Scheme were higher at Rs. 49.8 crores in respect of 231 manufacturers/sellers during the year as against Rs. 45.3 crores for 204 manufacturers/sellers during 1971-72.

14 ASSISTANCE SANCTIONED AND DISBURSED BY THE INDUSTRIAL DEVELOPMENT BANK OF INDIA



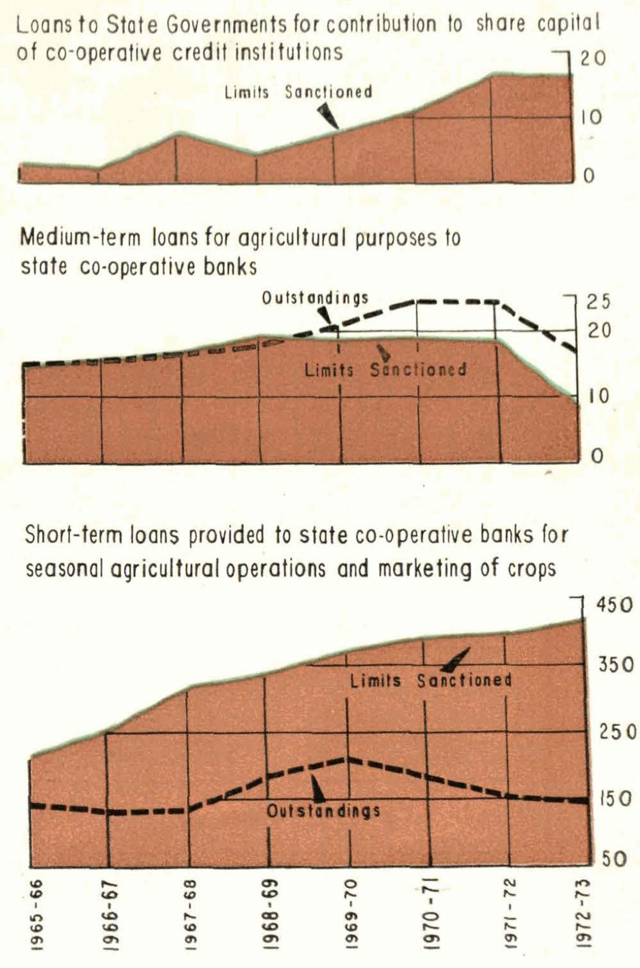
15 OPERATIONS OF AGRICULTURAL REFINANCE CORPORATION

(Crores of Rupees)

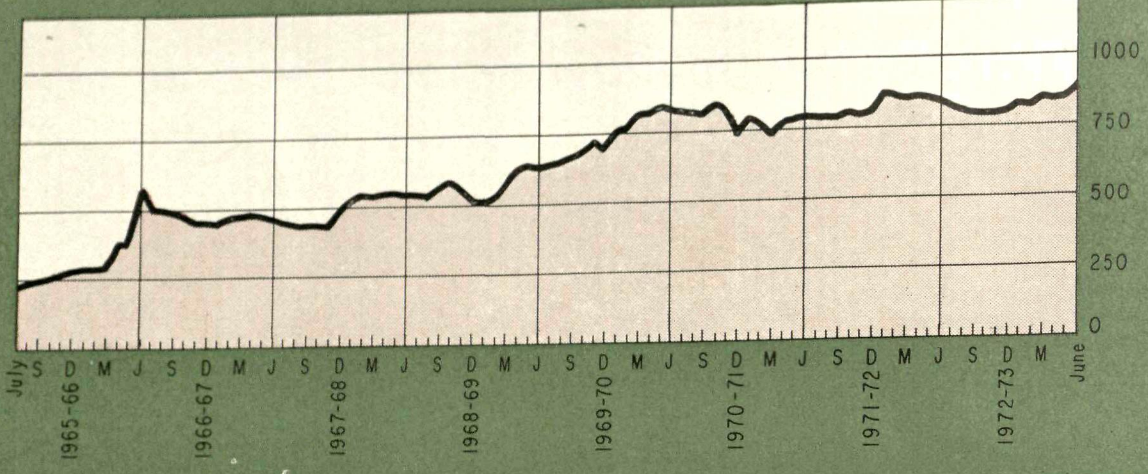


16 R.B.I. CREDIT FOR AGRICULTURAL PURPOSES

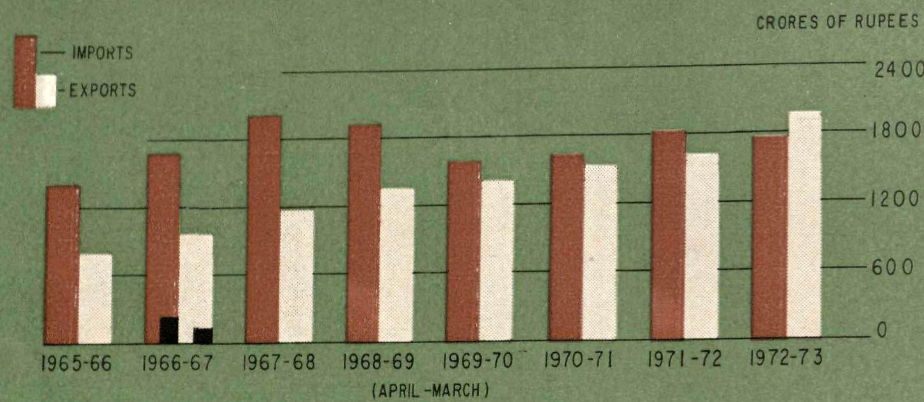
(Crores of Rupees)



17 INDIA'S FOREIGN EXCHANGE RESERVES (GROSS)



18 **INDIA'S FOREIGN TRADE**

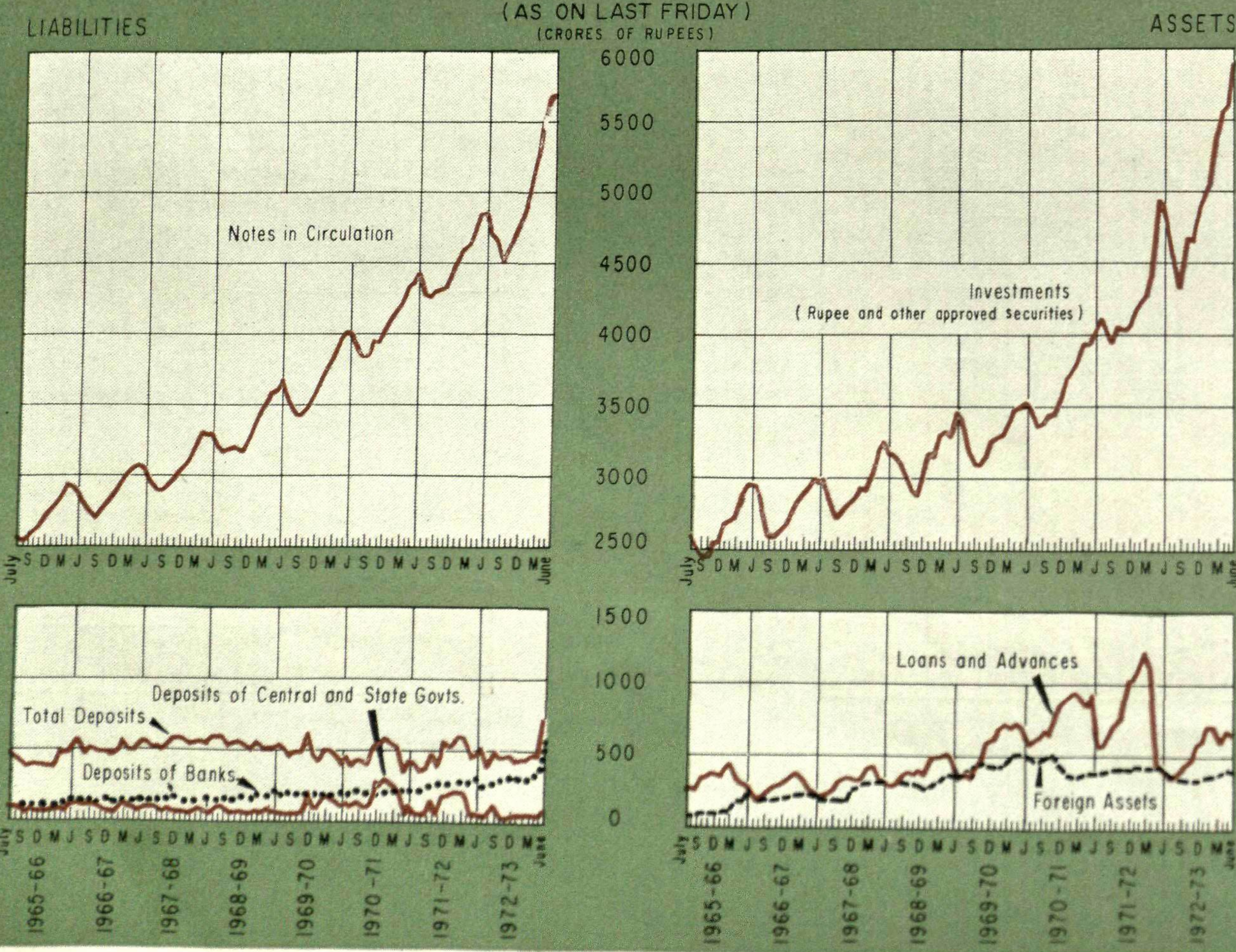


For 1966-67, the in-set bars relate to April and May 1966 which are based on pre-devaluation rates

19 RESERVE BANK OF INDIA

ISSUE AND BANKING DEPARTMENTS COMBINED

(AS ON LAST FRIDAY)



Industrial Reconstruction Corporation of India (IRCI)

265. The salient features of the operation of IRCI during 1972-73 (July-June) were an increase by about one and a half times in the disbursal of assistance, a widening of its area of operation to States such as Andhra Pradesh, Maharashtra, Delhi and Kerala; promotion of a modern type central textile processing unit and its active association with the running of the units taken over by the Government of India under the Industries (Development and Regulation) Act, 1951. IRCI received 75 applications for assistance during the year, taking the total number of applications received so far to 416. Of the 416 applications, the IRCI had completed study in respect of 277 such applications and sanctioned assistance on 66 applications for Rs. 12.7 crores. 211 applications were disposed of either because the units were not viable or eligible for assistance. Of the remaining 139 cases, 3 were ready for sanction of assistance and 46 cases were under study.

266. From its inception upto the end of June 1973, IRCI has sanctioned Rs. 13.2 crores to 67 sick/closed industrial units employing a total labour force of 47466. In addition, the IRCI has arranged assistance of the order of Rs. 8.0 crores from banks for meeting their working capital needs. More than one-half of the assistance sanctioned was in respect of units in the engineering industry; the textile industry claimed about 10 per cent. Utilisation of assistance upto the end of June 1973 amounted to Rs. 6.3 crores (inclusive of guarantee assistance of Rs. 1.4 crores) in respect of 46 of the 67 assisted units.

267. Having regard to the particularly serious position of industries in West Bengal, the IRCI has taken steps to promote a new unit, namely, Textile Processing Corporation of India Ltd. at an estimated cost of Rs. 450 lakhs.

Subscription to Shares and Bonds of Other Financial Institutions

268. During the year, the IDBI contributed Rs. 1.3 crores to the fourth public issue of debentures of ICICI. With this the total assistance of the IDBI to that institution since inception amounted to Rs. 19.7 crores upto the end of June 1973. With repayment of Rs. 1.6 crores being the instalments of loans taken by ICICI in 1966-67 and 1967-68, IDBI's holdings of ICICI debentures amounted to Rs. 18.1 crores at the end of June 1973. The IDBI also contributed Rs. 41.3 lakhs to the paid-up capital of IFCI. Besides, the IDBI subscribed Rs. 1.1 crores to the share capital of three SFCs bringing IDBI's total subscription to share and bonds issues of all SFCs to Rs. 8.9 crores.

Other Term-lending Institutions

ICICI and IFCI

269. There was an appreciable increase in the ICICI's sanctions comprising direct loans (rupee and foreign currency loans), underwriting of and direct subscriptions to shares and debentures and guarantees during 1972-73. The sanctions rose to Rs. 49.5 crores during 1972-73 (April-March) as against Rs 39.7 crores sanctioned in the corresponding period of the preceding year. This increase was due to an all round rise in the amounts sanctioned by ICICI. Disbursements were also higher at Rs. 39.7 crores as compared with Rs. 30.3 crores a year ago. Substantial improvement was also observed in the IFC's sanctions which increased to Rs. 47.5 crores during 1972-73 from Rs. 28.7 crores during 1971-72. Disbursements too registered an increase from Rs. 20.3 crores to Rs. 28.3 crores during the year.

Operations of State Financial Corporations

270. The operations of 18 State Financial Corporations including the Tamil Nadu Industrial Investment Corporation Ltd. (TIIC) recorded some improvement during 1972-73 (April-March). The total loans sanctioned by them during 1972-73 amounted to Rs. 77.8 crores compared to Rs. 63.4 crores in the preceding year. Disbursements also increased to Rs. 44.7 crores as against Rs. 39.6 crores in the previous year. Loans outstanding as at the end of March 1973 amounted to Rs. 184.2 crores or 19.1 per cent higher than a year ago. The bulk of the financial assistance continued to be granted to units in the small-scale sector and such assistance formed nearly 72 per cent and 68 per cent of the total sanctions and disbursements, respectively.

271. The SFCs Act, 1951 was amended in December 1972. The amendments, *inter alia,* provided for (*i*) widening, functionally and geographically, the scope of SFCs' operations and enabling them to finance certain activities, *viz.,* concerns engaged in the maintenance, repair, testing and servicing of machinery, vehicles and vessels, assembling and packing, fishing, consultancy services, etc., (*ii*) the creation of a special class of share capital, which would be subscribed to by the concerned State Government and the Reserve Bank and carrying no minimum dividend obligation, to help SFCs to provide soft loans to or participate in the equity of weaker segments of small and medium industries sector, and (*iii*) increase in the ceiling of total assistance that can be granted to individual units in the corporate sector and co-operatives from Rs. 20 lakhs to Rs. 30 lakhs and from Rs. 10 lakhs to Rs. 15 lakhs in the case of other units.

272. International Development Association (IDA) sanctioned in January 1973 a line of credit of $25 million to be channelled through IDBI to SFCs for the purpose of financing import of plant and equipment by small and medium sized concerns. The credit will be available only in respect of projects having project cost not exceeding Rs. 1 crore. The credit is linked to a programme of strengthening and improving the effectiveness of SFCs as regional development banks. In this context, the Reserve Bank, on its part, is conducting a series of training course for the benefit of officers of SFCs.

273. The Sixteenth Conference of the Chairman and Managing Directors of all SFCs (including TIIC) was held at Bombay on April 3, 1973. Besides reviewing the working of SFCs, the Conference discussed the scope and implications of the recent important amendments to the SFCs Act, procedure for availment of the IDA line of credit and programme for the upgrading of the SFCs, etc. The Report of the Working Group set up by the Reserve Bank to devise the mechanics of co-ordination between SFCs and commercial banks for assisting industries in the small and medium sectors is expected to be ready shortly.

Financing of Small-scale Industries

Credit Guarantee Scheme

274. The modified Credit Guarantee Scheme has further extended its operations to cover some more institutions during the year. So far, 183 credit institutions comprised of all the major commercial and co-operative banks and SFCs have joined the modified Scheme. During 1972-73, 9 unlicensed primary urban co-operative banks were included in the list of specified credit institutions, and one central co-operative bank and 7 unlicensed primary urban co-operative banks have joined the Scheme by executing the necessary agreements. The Scheme was also extended to cover units engaged in servicing and repairing of mechanised vessels.

275. The amount of guarantees outstanding as at the end of May 1973 stood at Rs. 1094.95 crores as against Rs. 891.72 crores at the end of May 1972 reflecting a considerable increase in the flow of credit to small-scale sector as also wider coverage under the Scheme. The number and amount of claims paid since the inception of the Scheme in July 1960 upto May 1973 aggregated 420 and Rs. 66.55 lakhs, respectively, while the recoveries in the claims paid accounts amounted to Rs. 14.21 lakhs. In cases where the claim payments have been fully recovered, credit facilities extended to the concerned industrial units would again be eligible for the guarantee facilities. The test check programme which was launched in 1970-71 to ensure that credit institutions exercise due care both in the sanction and recovery of loans to small-scale industrial units could not be completed in 1972-73 owing to paucity of staff. The number and amount of advances in default, which may lead to settlement of claims stood at 7105 and Rs. 20.72 crores, respectively, as at the end of May 1973, the latter constituting 1.9 per cent of the aggregate amount of outstanding guarantees as on the date. The Guarantee Organisation, as a matter of procedure, continued to inspect the accounts under default in order to have first hand knowledge of the genesis of defaults and problems faced by the credit institutions. The Guarantee Organisation suggested to the concerned banks nursing of the account in respect of the units which showed promise of

retrieving their position; in fact, its efforts have yielded favourable results in a number of cases. The Guarantee Organisation has, till March 31, 1973, conducted inspection of 902 units whose advances are in default and suggested nursing programmes for rehabilitation in the case of 64 units.

276. Till recently, expenses incurred by the credit institutions after invocation of the guarantees in respect of their advances to the small-scale industries were not allowed to be deducted from the subsequent recoveries made in the relative accounts. The credit institutions, therefore, generally preferred to submit claims only after taking all the necessary steps for recovery of the advances, including institutions of legal proceedings against the borrowers so that the expenses incurred in that connection could be included in the amounts in default and a proportionate share claimed from the Guarantee Organisation. This prevented the credit institutions from taking advantage of the element of refinance available under the Scheme by preferring claims promptly. Therefore, on the recommendation of the Guarantee Organisation, the Government of India, has decided that expenses of the nature of normal banking charges may be allowed to be deducted from the gross recoveries effected.

277. Following the outbreak of Indo-Pakistan hostilities in early December 1971, some of the provisions of the Scheme were temporarily liberalised in order to mitigate the difficulties experienced by small-scale industrial units located in the areas adjoining our borders with Pakistan. These liberalised provisions were further extended upto March 31, 1973 in the Western region, whereafter they ceased to be in operation.

278. Certain proposals for extending guarantee facilities on a more liberalised basis in respect of advances granted under the technicians/entrepreneurs scheme worked out and submitted to Government for approval last year, were further discussed with the Ministry of Finance. The higher cover of 90 per cent is now proposed to be made available for 5 years from the date of the first disbursal of an advance as against a period of 3 years proposed earlier. Although it was previously proposed to raise the guarantee fee from 1/10 of 1 per cent to 1/4 of 1 per cent during the relevant period, no increase in the existing rate of guarantee fee is now envisaged. The modified proposals are now under consideration of the Government.

Schedule Commercial Banks' Advances to Small-scale Industries

279. The credit extended by scheduled commercial banks to small-scale industries (including term loans and advances granted to craftsmen and other qualified entrepreneurs) rose by about Rs. 70 crores to Rs. 645 crores during the first three quarters of 1972-73 (April-March). The share of small-scale industries in the total bank credit showed a rising trend from 10.3 per cent as at the end of December 1971 to 11.7 per cent at the end of December 1972.

280. During the year under review, there was in evidence a continuation of the two main features concerning the flow of scheduled commercial banks' credit to small-scale units which were observed in the previous year. These two features are : (*i*) a steady decline in the average amount of credit limits sanctioned per unit implying larger financing of smaller units in small scale sector and (*ii*) growing involvement of banks in financing small-scale industries in industrially backward States. The average amount of credit sanctioned per unit declined from Rs. 76,900 at the end of December 1971 to Rs. 74,400 at the end of December 1972. The share of industrially backward States, *viz.*, Himachal Pradesh, Jammu and Kashmir and Rajasthan in total bank credit to small-scale industries has also increased.

281. The credit extended by the State Bank of India Group amounted to Rs. 255 crores at the end of December 1972 showing a rise of Rs. 28.0 crores over March 1972 as compared to a rise of Rs. 23 crores in the corresponding period of 1971. The increase in the number of units financed by the State Bank of India Group between March and December 1972 was also larger at 8,722 as against 4,805 between March and December 1971. Outstanding credit to small-scale industries by the 14 nationalised banks stood at Rs. 315.3 crores covering 69,133 units at the end of December 1972 (increase of Rs. 32 crores over the March 1972 level) as against Rs. 263.0

crores covering 56,200 units at the end of December 1971 (increase of Rs. 19 crores over March 1971 level).

282. The aggregate of term loans sanctioned to small-scale industries by the banks amounted to Rs. 127 crores as at the end of 1972. Outstanding term loans increased from Rs. 88.5 crores covering 27,600 units at the end of March 1972 to Rs. 94.8 crores covering 30,240 units at the end of December 1972. The share of term loans in total bank credit to small-scale industries (outstandings) at the end of December 1972 was 14.7 per cent as compared to 15.4 per cent at the end of March 1972.

283. The credit limits sanctioned to craftsmen and other qualified entrepreneurs at the end of December 1972 totalled Rs. 27 crores covering 10,150 units. Outstanding credit stood at Rs. 17 crores, two-fifths of which was accounted for by the State Bank of India Group.

284. As at the end of December 1972, the credit limits sanctioned to small road and water transport operators amounted to Rs. 95.7 crores spread over 39,610 units. The amount of outstanding credit (at Rs. 68 crores) to this class of borrowers at the end of December 1972 recorded a rise of Rs. 8.6 crores over March 1972 level which was about the same (Rs. 8.3 crores) as that over the comparable period of April-December 1971.

285. Fourteen of the scheduled commercial banks sanctioned credit limits aggregating Rs. 6 crores for setting up of industrial estates at the end of December 1972, covering 52 accounts, the balance outstanding being Rs. 4 crores.

286. During the year under review, the Working Group on Financing of Industrial Estates appointed by the Bank in 1970 submitted its report. The Group has emphasised the need for financial institutions such as banks and State Financial Corporations for financing industrial estates in urban and semi-urban centres. According to the Group, the responsibility for financing estates in rural areas, however, should largely lie with the Governments of the respective States. The Group has urged the State Governments to play a crucial role in establishing industrial estates in the vicinity of urban and semi-urban centres, where there is considerable scope for the use of industrial sheds. According to the findings of the Group, although the programme of industrial estates has made good progress during the last decade or so, there are still certain deficiencies in its implementation particularly in rural areas. These deficiencies, the Group has emphasised, should not be regarded as deterrent for setting up new industrial estates.

Unit Trust of India

Unit Scheme, 1964

287. Sales of units during 1972-73 at Rs. 23.0 crores were substantially higher as compared with Rs. 15.1 crores during 1971-72. The decline in the sales of units witnessed during the last two years was not only reversed in 1972-73 but sales of units established a new record, because of the favourable impact of measures announced at the commencement of this year, *viz.*, increase in the rate of dividend from 8 per cent for 1970-71 to 8.25 per cent for 1971-72, lowering of special offer price from Rs. 10.60 in July 1971 to Rs. 10.45 in July 1972 and reduction in the gap between the sale and repurchase prices from 40 paise to 30 paise. With the improved income position during 1972-73, the Unit Trust was able to declare a higher dividend of 8.50 per cent for the year.

288. Units of the face value of Rs. 3.0 crores were repurchased during 1972-73 as against Rs. 2.6 crores during 1971-72. The total face value of units sold and outstanding with the Trust as at the end of June 1973 amounted to Rs. 124.8 crores, the total number of unit holding accounts registered with the Trust being over 5 lakhs.

Unit-linked Insurance Plan 1971

289. The progress under the Unit-linked Insurance Plan during 1972-73 was notable. Sales under the Plan amounted to Rs. 13.0 lakhs, new participants being 1312 for a target amount of Rs. 1.1 crores. This compared with Rs. 3.2 lakhs under 503 applications for a target amount of Rs. 41 lakhs received from October 1971 to June 1972.

290. The total investible funds of the Trust aggregated Rs. 142.0 crores as on June 30, 1973. Of the investments, ordinary shares accounted for Rs. 60.7 crores (42.8 per cent), preference shares for Rs. 14.9 crores (10.5 per cent) and debentures for Rs. 48.1 crores (33.9 per cent). The balance of Rs. 18.3 crores (12.8 per cent) represented investment in Government Securities and Corporation Bonds, advance deposits against commitments for debentures, perference and equity shares, advance call deposit for ordinary shares, bridging finance, other deposits, application money for ordinary and preference shares, and call and short notice deposits with banks.

291. To enhance the popularity of units among the investing public, the network of approved agents and brokers was expanded and their number rose to 3,641 and 362, respectively, at the end of June 1973, as against 3,070 and 334 at the end of June 1972. Besides, the four offices of the Trust, units continued to be on sale at over 13,400 branches of leading banks and at about 18,600 Post Offices throughout the country.

V. DEVELOPMENTS IN EXCHANGE CONTROL

292. Developments in the sphere of exchange control during the year mainly related to the exchange rate and allied matters, following the floatation of the pound sterling in June 1972 and the floatation of a number of major world currencies in February 1973.

Exchange Rates—Sales and Purchases by Reserve Bank

293. It was observed in the previous Report that following the decision of the U. K. in June 1972 to allow sterling to float on the exchanges, the Bank's buying and selling rates for spot sterling were fixed at £5.3333 per Rs. 100/- for buying and £5.3050 per Rs. 100/- for selling, effective July 4, 1972. Forward purchases of sterling were resumed with effect from July 5, 1972 at £5.3458 per Rs. 100/- for delivery upto 3 months and £5.3583 per Rs. 100/- for delivery upto six months. Subsequently with effect from August 22, 1972, the forward cover facility for sterling was extended upto nine months at rates determined by adding the following margins to the Bank's buying rate for spot sterling :

Period of delivery	Margin (per Rs. 100/-)
Upto 3 months	£ 0.0125
Upto 6 months	£ 0.0250
Upto 9 months	£ 0.0375

Further extension of the forward contracts was also permitted on request on payment of a charge of £ 0.0125 per Rs. 100/- each quarter or part thereof provided the total period of delivery did not exceed 12 months from the date of the original contract.

294. With effect from October 9, 1972, the Bank also decided to purchase U.S. dollars from authorized dealers. The Bank's buying rate for the spot U.S. dollar was the cross rate between the London market's spot rate for the U S. dollar at the close of the preceding working day and the Bank's spot buying rate for sterling prevailing on the date of purchase. The rate for forward purchase, for delivery upto three months or six months at the seller's option, was the cross rate between the London market's appropriate forward buying rate for the U.S. dollar at the close of the preceding working day and the Bank's buying rate for forward sterling for the appropriate delivery. Between July 19, 1966 and August 17, 1971, the State Bank had made forward purchases of U.S. dollars on account of the Bank.

295. In view of the uncertain conditions in the international foreign exchange market which led to their closure and a further devaluation of the U.S. dollar on February 12, 1973, the Bank suspended forward purchases of U.S. dollar and sterling with effect from February 12 and 13, 1973 respectively. The Bank, however, continued to purchase and sell sterling for ready delivery from authorised dealers at the rates prevalent on February 12, 1973, *viz.*, the rates that were fixed on July 4, 1972. Forward purchases of sterling for delivery upto six months only at the same rates as were prevalent on February 12, 1973 were also resumed with effect from March 8, 1973.

Introduction of Exchange Control by the U.K. with Sterling Area Countries

296. Along with the decision to float the pound sterling, the U.K. authorities restricted from June 23, 1972 the sterling area to the U.K. and the Republic of Ireland for purposes of exchange control and designated persons resident in the countries previously designated as 'scheduled territories' (other than the Republic of Ireland) as non-residents and the existing sterling accounts as External Accounts. Consequently foreign countries were classified into the following two categories from November 3, 1972 for purposes of the Indian exchange control:

(*a*) External Account Countries: All foreign countries other than those listed in (*b*) below but including the U, K. and other former scheduled territories (*i.e.*, sterling area countries); and

(*b*) Bilateral Account Countries: Bulgaria, Czechoslovakia, German Democratic Republic (East Germany), Hungary, North Korea, Poland, Rumania, U.S.S.R. and Yugoslavia. In the case of Yugoslavia, however, following the fresh Trade Agreement concluded between the Governments of India and Yugoslavia in November 1972, all transactions between these two countries (except export and import contracts concluded before December 31, 1972, which, under contractual obligations, require fulfilment partly in 1973 and are to be settled in non-convertible rupees before September 30, 1973) are to be made in freely convertible currency with effect from January 1, 1973.

297. For the purpose of transactions in Indian rupees, Indians, Nepalese and Bhutanese residents in Nepal and Bhutan as well as offices and branches of India, Nepalese, and Bhutanese firms, companies, or other organizations in these two territories continue to be treated as resident in India as before.

Surrender of Foreign Exchange by Persons Resident in India

298. Under the general permission granted in April 1965, a person resident in India was allowed to acquire foreign exchange by way of remuneration for services rendered or in settlement of lawful obligation or by way of inheritance, settlement of gift or payment in foreign exchange by order of a non-resident, provided the foreign exchange so acquired was surrendered to an authorised dealer within a period of 30 days of its receipt. This period has been reduced to 7 days from December 1972. Residents of India returning from tour abroad should also declare to the customs entry point foreign currency notes as also the travellers cheques and/or other foreign exchange held by them.

Business Travel to Bangladesh

299. As the current scales for release of exchange for business travel to Bangladesh were found to be inadequate, the scales of exchange, at present, applicable for business visits to countries other than U.S.A. and Canada were extended to Bangladesh in May 1973. Exchange for travel to Bangladesh would, however, continue to be released only in rupees.

Table 30—Statistical data for period July 1972 to June 1973

I. Foreign Exchange Permits Issued for Study/Training Abroad

Country	Technical Courses		Non-Technical Courses	
	Number of Permits Issued	Amount of Exchange Released (Rs. 000's)	Number of Permits Issued	Amount of Exchange Released (Rs. 000's)
U.K. and Europe	512	5625	502	2471
U.S.A. and Canada	817	18665	587	9626
Other Countries	309	1949	98	389

II. Foreign Exchange Permits Issued for Travel Abroad for Purposes Other than Study / Training

	Number of Permits Issued	Amount of Exchanges Released (Rs. 000's)
1. Business	12233	72782
2. Medical treatment	609	6160
3. Study tours	1210	6453
4. Attendance at conferences	1328	3316
5. Miscellaneous	6443	7505

III. Number of 'P' Form Applications Approved

Purpose	No. of 'P' forms approved	Rejected
1. Joining head of family	12358	1
2. Visits to relatives	15488	I
3. Export promotion	377	
4. Employment abroad	6140	
5. Emigration for permanent settlement	5498	
6. Students / Trainees	3478	
7. Miscellaneous	23073	3

VI. SURVEYS AND SEMINARS ORGANISED BY THE RESERVE BANK

Surveys

300. Reference was made in the last year's Report about the All-India Rural Debt and Investment Survey 1971-72 being conducted by the Bank in its Statistics Department in collaboration with the National Sample Survey Organization of the Government of India and Statistical Bureaux of the State Governments. During the year under review the field work on the demand side investigations was completed. In order to obtain a fuller picture of the prevailing credit situation in the rural sector, additional investigations were undertaken on the supply aspect of credit. A General Supply Questionnaire was canvassed among the co-operatives, commercial banks and Government Departments and other institutional agencies serving the credit needs of the villages selected for the demand side investigation on the Reserve Bank Sample. Further, intensive 'on the spot' investigations of a sample of 750 primary agricultural credit societies, 80 co-operative marketing societies and an equal number of land development banks are being carried out through canvassing of appropriate schedules by the inspection staff of the Bank's Agricultural Credit Department and the staff of the District Central Co-operative Banks.

301. The Industrial Finance Department conducted an on the spot study on the ailing handloom industry concentrated at Nagpur and nearby areas on the request of the State Bank of India, with a view to extending the Maharashtra State Handloom Corporation's scheme to additional bank advances to units already defaulting in repayment of their dues to them so as to nurse the industry during its crisis. The Government of Maharashtra, it may be pointed out, had requested all the nationalised banks to extend financial assistance to handloom weavers located in these areas. They also set up the Maharashtra State Handloom Corporation to assist the handloom weavers by providing raw materials and marketing their products. The Corporation had introduced a scheme in terms of which grant of loans by the banks to handloom weavers and recovery thereof was linked with the supply of raw materials and marketing of the finished products. The matter was discussed with the representatives of all the nationalised banks at Nagpur as also with the officials of the Directorate of Handlooms, Powerlooms and Co-operative Textiles and the Maharashtra State Handloom Corporation Ltd. On the basis of the findings of the study, the Guarantee Organisation has agreed to cover the additional advances proposed to be granted by the State Bank of India under the Corporation's Scheme to such weavers for the purpose of recovery of its existing dues. The nationalised banks were also advised that the Guarantee Organisation would have no objection in covering the advances granted by them to the handloom weavers under the Corporation's scheme provided they adhered to their usual standard of scrutiny of loan proposals and post-disbursement supervision in respect of such loans.

302. Under the present provisions of the Scheme, industrial co-operatives such as handloom weavers societies, etc., working in a decentralised manner are not eligible for guarantee cover. As, however, it has been the national policy to encourage co-operatives in the industrial field, a study of a few industrial co-operatives working in a decentralised manner was undertaken to examine the various issues involved and evolve suitable criteria for covering advances granted to such units. It has been observed that, of late, industrial co-operatives are being organised on the lines of production-cum-sales societies which undertake the risk of production both in the matter of purchase of raw materials and sale of finished goods. Further, having regard to the objective of the co-operative form of organisation, the society and its members could perhaps be treated as an organic whole and the activity of the members as also their investment in equipment could be construed as those of the society. Thus production-cum-sale societies, although they do not generally own any equipment, could perhaps be deemed to be engaged in industrial activity. The question of recommending to Government that such societies be treated as 'industrial concerns' for the purpose of the Scheme is under active consideration.

303. The Division of Rural Economics of the Economic Department conducted during the year a field study on the operations

of satellite and mobile offices of three nationalised banks in backward areas of Kutch district in Gujarat. An officer of this Division participated in an inter-departmental study on the working of the scheme of financing primary agricultural credit societies by commercial banks in Uttar Pradesh.

304. The Division of International Finance of the Economic Department finalised during the year the results of the survey of unclassified receipts (*i.e.*, receipts in amounts below Rs. 10,000 or equivalent for which no purpose-wise details are required to be reported to under Exchange Control regulations) during the quarter April-June 1971 referred to in the last year's Report. A detailed note analysing the results of this survey was published in the March 1973 issue of the Bank's Bulletin. The purpose-wise pattern was seen to be more or less the same as that obtained in the earlier survey. No change was, therefore, called for in the basis on which the unclassified receipts are allocated to different purposes in the balance of payments statistics. The survey for 1972 was carried out for the three-month period, February, March and April and its results are being finalised. The Division also continued to call for quarterly foreign investment survey reports from branches of foreign companies and Indian joint stock companies. The assessment of India's international investment position in 1968-69 and 1969-70, based primarily on these reports, is under preparation.

305. The Survey of Foreign Collaboration in Indian Industry and the Survey of Indian Joint Ventures Abroad, undertaken by the Division of Trade of the Economic Department and referred to in the last year's Report, were in progress during the year under review. The scrutiny of the returns received has almost been completed and the work relating to processing of the data is being taken up.

306. The Division of Rural Surveys of the Economic Department finalised during the year, the general review report of the Sixth Follow-up Rural Credit Survey, 1963-66, on the Role of Co-operative Credit in Increasing Agricultural Production. Reports on two field studies, *viz.*, (1) Crop-wise Scales of Finance in Kerala and (2) Working of the Jointly-owned Private Wells and Government sponsored Community Wells in Maharashtra, have also been completed. The monthly Survey of Co-operative Bank Advances and Deposits regularly undertaken by the Division was continued.

VII. EDUCATION AND TRAINING

307. The Reserve Bank through its wide network of training institutions imparts training, general as well as intensive, to a number of personnel at various levels—junior, supervisory and senior executives—not only for its own staff but for the staff of commercial banks, co-operative institutions and even of Government Departments. The progress made by the various institutions in expanding their activities during the year is summarised in the following paragraphs.

National Institute of Bank Management

308. The National Institute of Bank Management (NIBM) expanded further during the period July 1972-June 1973 its activities of developing manpower resources for the banks, providing consultancy services to the industry, conducting basic and applied research and solving specific problems facing the individual units in the industry. During this period, 14 programmes were offered in which 350 officers participated. These courses included Advance Management Training, Senior Executive Development Programmes, Branch Managers' Programmes, Workshops for Trainers, Second Manpower Development Seminar, Credit Management Course for Borrowers, Training Programmes for individual units, Management of Sticky Accounts, Workshop on Agricultural Finance Policy, etc. Besides, two top management conferences were held in August 1972 and April 1973 where an opportunity was provided for a dialogue between the chief executives of different banks, policy makers in the Planning Commission, the Finance Ministry and the Reserve Bank of India on the directions and dimensions of the development efforts and the relevant role of the banking industry in the entire process.

309. In the area of research, various studies in the field of credit planning, development of banking industry, regional economic potential, business planning, trade prospects, credit management, etc. are in progress while those on velocity of circulation of money, performance planning, Assam-Poorbanchal Bank, and 'Nagaland, Manipur and NEFA' were completed. Fourteen research associates/fellows are currently working on doctoral dissertations at the Institute. The Strathclyde University has permitted its students to do research and prepare their dissertations in partial fulfilment of its requirements for the M.Sc. degree in operations research at the National Institute of Bank Management. Under this arrangement, one student has completed his research work during 1972 at this Institute. A comprehensive course on research methodology is designed for administration in 1973.

310. The consultancy projects on re-organization in the Central Bank of India and the Bank of Maharashtra were completed and a phased programme of their implementation was suggested. Consultancy work for other banks such as the Sangli Bank Ltd., South India Bank Ltd., Nedungadi Bank Ltd., the Federal Bank Ltd., was also completed. For the State Bank of India the Institute has adopted a new approach for a consultancy scheme comprised of 5 different projects wherein the Institute would provide the conceptual framework and design for each project, and the Bank's staff would actually conduct the studies. The Institute has since completed consultancy work at the instance of the Export Credit and Guarantee Corporation on its packing credit. The Institute also provided the Selection and Testing Services for direct recruitment in the banking industry for 11 banks at 30 different centres for 1.25 lakh candidates. Special selection tests were developed for direct recruitment of chartered accountants.

Bankers Training College, Bombay

311. During the period under review, the Bankers Training College conducted seven courses on Credit Appraisal and two courses each for legal officers of term-lending institutions and banks and the supervisory inspection staff of commercial banks and a course on market analysis for term-lending institutions. It also conducted two Intermediate courses and one course each on Senior Banking, Industrial Finance, Personnel and Organisation. A few in-company courses for the officers of some of the commercial banks to meet their specific requirements were also offered.

312. As mentioned in the last year's Report, the College instituted a two-tier Regional Course on Development Banking in collaboration with the Economic Development Institute of the World Bank, Washington D. C. Thirty-five executives and senior officers from development financing agencies of sixteen countries in Asia and Africa including nine from financial institutions in India participated in this course. An International Seminar on outstanding problems of development banking, which was attended by persons of international repute, constituted the finale of the course. This was the first major undertaking of the College in the international field. In designing this course the College had ventured some bold experiments one of which was the coalescing of the participants of the two-tiers for two weeks. A course on Industrial Relations in Banking for the benefit of both the staff and the line executives of commercial banks and financial institutions and a seminar on Financing of Small-scale Industries for the benefit of the officers of commercial banks as well as financial institutions were also held.

313. During the latter half of 1973, the College proposes to introduce a short course on Export Finance and an integrated course for the middle level executives of commercial banks.

314. During the period under review, the College also conducted two Central Banking Courses and one Central Banking—Advanced Course for the Bank's Staff Officers Grade I and Senior Staff Officers Grade III, respectively. As in the last year, a few senior officers of commercial banks were also admitted to the Central Banking—Advanced Course. A training course for the faculty attached to the Bank's own training institutions and a Foreign Exchange Course for the officers of the Department of Banking Operations and Development were also organised.

315. The total number of officials from banks and financial institutions including Bank's own officers who received training at the College during the period was 835. Since the inception of the College in 1954, 5,301 officials have received training in the different courses conducted by the College.

Co-operative Bankers Training College, Poona

316. The Co-operative Bankers Training College conducted a course each for the managerial staff of State/central co-operative banks, urban banks and central banks financing industrial co-operatives. Three courses for the managerial staff of land development banks and middle level personnel of commercial banks, two courses for the managerial staff of urban co-operative banks and one course for the branch agents of State/central co-operative banks were also conducted. The College also continued to conduct courses on Agricultural Finance and two such courses for the middle level personnel of commercial banks, one special short course for the senior level officers of commercial banks and one course for the officers of the Reserve Bank were held. The College also conducted a course on project planning and appraisal for the managerial staff of State/primary land development banks and middle level personnel of commercial banks and special courses for various States keeping in view the provisions and stipulations of the IDA Aid Agreements entered into by them. In addition, the College conducted refresher courses for the managerial staff of state/central and primary co-operative banks. The College also continued to hold short-term courses on various subjects at some convenient places outside Poona.

317. The number of officers from co-operative, land development and commercial banks as also the Reserve Bank, who received training in the College during the period was 774. Since the inception of the College in September 1969, as many as 2205 officers have received training at the College.

Staff Training College, Madras

318. The Staff Training College continued to conduct the General Course on Central Banking for Staff Officers Grade II (Direct Recruits/Promotees) and Assistants and the Inspection-oriented Course for the officers of the Department of Banking Operations and Development, the Industrial Finance Department and the Agricultural Credit Department on a regular basis. The College has also conducted the Induction Course for Staff Officers Grade I/Grade II (Direct Recruits). The total number of

employees who have so far received training in the College is 3,775.

Zonal Training Centres

319. The Zonal Training Centres at Bombay, Madras and New Delhi continued to conduct courses for junior and senior clerks of the Bank. The Zonal Training Centre at Calcutta which has not been functioning for some time, is being re-opened and the courses will be resumed shortly. The Bank also arranged a special two-week discussion-oriented course for the eligible candidates who appeared for the departmental examination for promotion to the post of Staff Officer Grade II. In all twenty such courses were conducted at four Zonal Training Centres including the Calcutta Zonal Training Centre, which was specially re-opened for the purpose. The total number of clerical staff who have so far received training in the various Zonal Training Centres is 8,481.

Short-term Training Courses

320. With a view to equipping the staff of State Financial Corporations in credit appraisal, follow-up and documentation, the Reserve Bank has started short-term residential training course for the middle level officers of State Financial Corporations. Four such courses have already been held at New Delhi, Ranchi, Madras and Bangalore. It is the intention to continue holding such courses in future also besides attending to the training needs of the staff of State Financial Corporations at other levels too.

321. The Reserve Bank also conducted short-term Orientation Courses in Co-operative Statistics at New Delhi from the 9th to 13th October 1972 which were attended by the representatives of 5 States and of National Co-operative Development Corporation (NCDC), the Committee for Co-operative Training and the Government of India.

Deputation of Staff

322. Under the standing arrangements with the Administrative Staff College of India, Hyderabad, Bank's Officers were deputed to attend management development courses conducted by the College. Officers were also sent to participate in some of the courses conducted by the Bankers Training College for the Officers of commercial banks and financial institutions, and to short-term courses on management development organised by the All-India Management and State Level Associations, Management Institutes and a few other similar institutes. The Bank continued to depute its officers to participate in the courses conducted by the Economic Development Institute of the International Bank for Reconstruction and Development and the Asian Institute of Economic Development and Planning, Bangkok. Besides, Officers were deputed for study visits/training to banking and financial institutions in the U. K., West Germany and Japan.

Promotion of Hindi in R.B.I.

323. During the year under review, the Bank brought out the Hindi versions of the 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, 1972, and the Report on Currency and Finance 1971-72. The Bank continued to offer assistance to its associate institutions, *viz.*, the Industrial Development Bank of India, the Agricultural Refinance Corporation, the Unit Trust of India, the Deposit Insurance Corporation and the Credit Guarantee Corporation of India Ltd., for Hindi translation of their annual reports as well as their press communiques, advertisements, notifications, notices, etc. Under this arrangement, the Hindi Section of the Bank brought out two hand-outs during the year entitled (*i*) Functions and Working of the Industrial Development Bank of India and (*ii*) Functions and Working of the Agricultural Refinance Corporation. At the request of Government, the Bank took up the preparation of Hindi equivalents of designational terms used in the public sector banks with a view to ensuring uniformity.

324. In compliance with the provisions of the Official Languages Act, 1963, the Bank continued to issue press communiques/notes/releases/summaries, notices, advertisements and notifications simultaneously in English and Hindi. The letters and communications received in Hindi from the members of

the public, the Central Government and the State Governments were entertained and replied to in Hindi.

325. The Seven-member Official Languages Implementation Committee set up in the Bank last year under the chairmanship of the Chief Manager with the object of accelerating the progressive use of Hindi in the Bank held its second meeting on July 17, 1972. It was decided to expand the Committee by co-opting a representative each of the State Bank of India, Central Bank of India and Canara Bank as well as of the Industrial Development Bank of India, the Ag icultural Refinance Corporation and the Unit Trust of India. The expanded Committee met twice on November 28, 1972 and February 27, 1973 and discussed various measures to be taken for the progressive use of Hindi in the banks.

326. In response to a request made by the Official Languages Implementation Committee of the Ministry of Finance, Department of Banking, the Bank introduced a Hindi Section in the 'Reserve Bank of India Bulletin' from its October 1972 issue containing summaries of the Financial and Economic Review and the important articles appearing in the English Section, Credit Control Measures, Developments in Exchange Control and a table on Selected Economic Indicators.

327. The Hindi classes, now redesignated as 'Hindi Adhyayan Mandal', continued to be conducted by the Bank under its own Hindi Teaching Scheme at various centres for the benefit of the Bank's employees. The incentives provided for passing Hindi and Hindi typewriting examinations were continued during the year. The functions for the distribution of certificates to the employees who passed the Hindi Prabodh, Praveen and Pragya examinations were held at Madras and Calcutta during the year under review.

Promotion of Hindi in Commercial Banks

328. The Official Languages Act, 1963, as amended in 1967, makes it obligatory for companies or corporations, owned or controlled by the Central Government, to use Hindi besides English, for various official purposes. Accordingly, all public sector banks are required to comply with the provisions of this Act. Instructions have been issued to the public sectoı banks, from time to time, to encourage the pıogressive use of Hindi, in addition to English, in their dealings with the public at least in the Hindi-speaking areas. These instructions relate, *inter alia*, to the use of Hindi in the printing of fcrms and literatuıe for publicity, as also in the issue of advertisements. The banks have also been advised to reply to correspondence received in Hindi in that language and to accept signatures in Hindi without any additional formalities. On a review of the progress made by the banks regarding the use of Hindi as at the end of December 1972, it is observed that they are taking steps to gradually comply with the provisions of the Official Languages Act and the instructions issued in this direction and are endeavouring to use Hindi and other regional languages in their day-to-day transactions. Some of the banks propose to draw up schemes for incentive payments to their staff for passing standard examinations in Hindi. Banks which have not done so, have been advised to consider the introduction of such schemes to encourage their staff to acquire knowledge of Hindi. In this connection, a copy of the Hindi Teaching Scheme of the Reserve Bank and the incentives offered thereunder has been furnished to the banks for their information and guidance. A list of the Hindi Teaching Centres where the Ministry of Home Affairs has organised Hindi training programmes has also been furnished to the banks so that they may, if they so desire, advise their staff to take advantage of these Hindi Teaching Centres.

VIII. ACCOUNTS AND OTHER MATTERS

329. During the accounting year ended 30th June 1973, the Bank's income, after making adjustment for various provisions, amounted to Rs. 271.29 crores as compared with the last year's income of Rs. 222.17 crores. The details of the income from various sources are as follows :

(Amounts in Rupees Crores)

	Year	
	1972-73	1971-72
(i) Interest on Ways and Means Advances to State Governments	3.15	15.32
(ii) Interest on Loans and Advances to the State Governments (other than on Ways and Means Advances referred to at item (i) above) and Commercial and Co-operative Banks	21.11	20.56
(iii) Interest on Rupee Securities and Discount on Rupee Treasury Bills	213.39	156.25
(iv) Interest and Discount on Foreign Securities, Investments and Treasury Bills ..	20.07	22.58
(v) Commission and profit or gain by exchange	13.43	6.40
(vi) Other income	0.14	1.06
Total ..	**271.29**	**222.17**
Less : Transfers to Funds as stated in paragraph 330 ..	100.00	65.00
	171.29	157.17

330. 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. 30 crores, Rs. 40 crores and Rs. 30 crores, respectively as against Rs. 19 crores, Rs. 6 crores and Rs. 40 crores, respectively, during the year 1971-72.

331. Total expenditure, on the other hand, amounted to Rs. 41.29 crores as against Rs. 37.17 crores in the previous year. Adjusted for this expenditure from the balance of income aggregating Rs. 171.29 crores, the surplus of profit set aside for payment to Central Government was Rs. 130 crores in comparison with Rs. 120 crores paid last year.

332. The increase of Rs. 49.12 crores in the total income from the level of Rs. 222.17 crores last year was largely the consequence of higher (*i*) discount on *ad-hoc* Treasury Bills created for meeting the Central Government's deficit and (*ii*) exchange earned on remittance of foreign currencies on Government Account. The rise of Rs. 4.12 crores in the expenditure was mainly due to increase in the establishment charges and payment of agency charges to the State Bank of India and its subsidiaries for the conduct of Government business and Remittance Facilities Scheme transactions and nominal increases in other items of expenditure.

Auditors

333. The accounts of the Bank have been audited by M/s. Dalal & Shah, Bombay, M/s. P. K. Mitra & Co., Calcutta, M/s. Thakur Vaidyanath Aiyar & Co., New Delhi and M/s. Suri & Co., Madras who were appointed by the Government of India as auditors of the Reserve Bank of India by notifications Nos. F. 10(1)/73-B.O.I(*i*) & (*ii*), dated March 16, 1973, issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act, 1934, (2 of 1934). While the appointment of M/s. Dalal and Shah and M/s. P. K. Mitra and Co. was in place of M/s. A. F. Ferguson and Co. and M/s. Ray and Ray, respectively, M/s. Thakur Vaidyanath Aiyar and Co. and M/s. Suri and Co. were reappointed by the Government. In addition to the Bombay, Calcutta, Madras and New Delhi Offices, books of accounts at Byculla and Hyderabad Offices have been audited by the Bank's statutory auditors this year. The remuneration of the auditors has remained unchanged at Rs. 15,000/ per office.

Central Board

334. Shri P. N. Damry relinquished charge of office as Deputy Governor of the Bank with effect from the afternoon of the 15th March 1973 to take up the appointment as Secretary of the International Bank for Reconstruction and Development. The Board wishes to place on record its high appreciation of the

valuable services rendered by Shri Damry during the period of his tenure as Deputy Governor for about six years.

335. Sarvashri Arvind N. Mafatlal, G. Basu, Kamaljit Singh and D. C. Kothari retired as Directors of the Central Board on the expiry of their terms of appointment on June 30, 1972. Sarvashri S. L. Kirloskar, Bhaskar Mitter, V. N. Puri and J. Ramdave Row who were nominated as Directors of Central Board under Section 8(1)(*b*) of the Reserve Bank of India Act, 1934 also retired on January 14, 1973. The Board wishes to place on record its appreciation of the services of the retired Directors.

336. Shri S. M. Joshi resigned his Directorship of the Central Board with effect from 1st September 1972.

337. Shri N. C. Sen Gupta was nominated as a Director of the Central Board of the Bank under section 8(1)(*d*) of the Reserve Bank of India Act, 1934 with effect from August 17, 1972 vice Shri A. Baksi.

338. Sarvashri M. P. Chitale and G. Parthasarathi, Dr. K. Kanungo and Dr. V. Kurien were nominated as Directors of the Central Board under Section 8(1)(*c*) of the Reserve Bank of India Act with effect from September 6, 1972. On reconstitution of Local Boards on February 23, 1973, Prof. M. L. Dantwala, Shri A. N. Haksar, Dr. Bharat Ram and Shri C. Ramakrishna were nominated as Directors of the Central Board under Section 8(1)(*b*) of the Reserve Bank of India Act to represent the Western, Eastern, Northern and Southern Area Local Boards, respectively.

339. Of the seven meetings of the Central Board held during the year, two were at Bombay and one each at Madras, Trivandrum, Calcutta, Ahmedabad and Srinagar. The Committee of the Central Board held 53 meetings, of which five were held in New Delhi and the rest in Bombay.

340. Dr. C. D. Datey and Dr. K. S. Krishnaswamy were appointed as Executive Directors of the Bank with effect from March 21, 1973.

Local Boards

341. The term of the office of the members of all the Local Boards of the Bank expired on January 14, 1973 and the Local Boards were reconstituted by the Government of India with effect from February 23, 1973 under the provisions of Section 9(1) of the Reserve Bank of India Act, 1934.

Bank's Premises

New Office Premises

342. The construction of the diaphragm wall for the proposed multi-storeyed building in the Mint Compound at Bombay has been completed and the general building work in respect of the project is expected to commence towards the end of 1973. The construction of the main office building at Bangalore has been completed and departments which were hitherto housed in leased buildings have been shifted to the new premises.

Leased Premises for Office Use

343. With a view to meeting additional requirements of space the Bank has taken on lease a building very close to its Main Building at Bombay. Premises have also been taken on lease at Bhopal to open a Regional Office of the Department of the Banking Operations and Development.

Residential Quarters

344. Efforts are being continued to provide residential quarters, which are heavily subsidised, at various centres. During the period under review, the construction of 326 quarters (54 for Officers at Bangalore, 208 for clerical staff and 64 for subordinate staff at New Delhi) was completed. Construction of 654 quarters for clerical and subordinate staff, *viz.*, 332 at Calcutta, 104 at Nagpur and 218 at Kanpur is nearing completion and these are expected to be occupied shortly. With this the total number of quarters provided by the Bank will go up by 980 to 3,890 (588 for officers, 2198 for clerical staff and 1,104 for subordinate staff). Further, the construction of 575 quarters (152 for officers at Bombay and 423 for clerical and subordinate staff at Madras and Calcutta) has been taken up and the work is in progress. Tenders for residential pro-

jects, which will provide 491 quarters for clerical and subordinate staff at Bangalore, Bhubaneswar and Hyderabad have been invited and the construction work is expected to be taken up shortly. The projects for construction of 270 officers' quarters at Kanpur and New Delhi and 48 quarters for clerical staff at New Delhi are in the planning stage.

345. Steps are also being made to secure land for construction of quarters at centres where no plot has been secured or where the number of quarters provided is inadequate.

Employer-Employee Relations

Medical Facilities

346. A scheme for reimbursement of cost on account of private medical treatment taken by the workmen employees in Classes II, III and IV and their family members has been introduced with retrospective effect from October 1, 1970. This scheme is supplementary to the existing medical facilities admissible to them. In terms of this scheme, any treatment taken from a Registered Medical Practitioner under any recognised system of medicines will qualify for reimbursement. A limit of Rs. 50/- p.a. has been fixed in the case of those who reside in the staff quarters where dispensary facilities are made available and of those residing outside the Staff Quarters who exercise their option to avail of the Bank's dispensary facilities in respect of their family members. Employees who opt to avail of private treatment in respect of their family members are entitled to reimbursement under the scheme @ Rs. 100/- p.a. The maximum amount can be accumulated for 3 years. The unutilised balance at the end of the third year will be carried over to the next three years' period subject to a maximum of Rs. 50/- or Rs. 100/- as the case may be. In the case of Class IV staff, this scheme is available to their family members (including dependent parents) residing at native place also.

RBI Officer-Cadre Review Committee

347. In the last Annual Report, it was mentioned that the Bank had set up a Committee (known as Reserve Bank of India Officer-Cadre Review Committee) for reviewing the emolument structure, promotion policy, etc., of the officers of the Bank. The Committee submitted its Report to the Bank on 11th October 1972 and had made recommendations for revised scales of pay and allowances for officers, composition of cadres, inter-group mobility, grievance procedure, in-service training, etc. The Bank, after consideration of the various recommendations made by the Committee and in consultation with the Central Government (in the manner and to the extent required under Government's instructions in such circumstances), have taken decisions on some of the more important recommendations relating to revision of scales of pay and allowances, grievance procedure and superannuation benefits. The other matters are under consideration.

Employees' Housing Loan Scheme

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

	No. of Societies	Amount (Rs.)
A. New Co-operative Housing Societies	7	36,26,332
Additional loans to Co-operative Housing Societies already formed	8	9,26,034
		45,52,366

	No. of Employees	Amount (Rs.)
B. Individual members of staff		
New Loans	211	35,44,680
Additional loans to Employees who had already availed of loans earlier	68	11,62,574
		47,07,254

349. The total amount of 'society' and 'individual' loans sanctioned since the introduction of the scheme in 1961 amounts to Rs. 3,72,79,977 and Rs. 1,60,78,888 respectively. In all 2,425 employees have availed themselves of this facility.

RESERVE BANK OF INDIA

BALANCE SHEET AS AT 30TH JUNE 1973

ISSUE DEPARTMENT

LIABILITIES	Rs. p.	Rs. p.	ASSETS	Rs. p.	Rs. p.
Notes held in the Banking Department ..	36,45,28,788.00		Gold Coin and Bullion :—		
			(a) Held in India	182,53,07,821.82	
			(b) Held outside India ..	....	
Notes in circulation	5698,95,49,930.50		Foreign Securities	177,36,80,055.13	
			Total ..		359,89,87,876.95
Total Notes issued ..		5735,40,78,718.50	Rupee Coin ..		8,38,06,402.14
			Govt. of India Rupee Securities		53,67,12,84,439.41
			Internal Bills of Exchange and other Commercial Paper ..		....
Total Liabilities		**5735,40,78,718.50**	**Total Assets..**		**5735,40,78,718.50**

BANKING DEPARTMENT

LIABILITIES	Rs. p.
Capital Paid-up	5,00,00,000.00
Reserve Fund	150,00,00,000.00
National Agricultural Credit (Long-Term Operations) Fund	239,00,00,000.00
National Agricultural Credit (Stabilisation) Fund	85,00,00,000.00
National Industrial Credit (Long-Term Operations) Fund	205,00,00,000.00
Deposits :—	
(a) Government	
(i) Central Government ..	57,04,56,105.17
(ii) State Governments	29,48,26,324.30
(b) Banks	
(i) Scheduled Commercial Banks	537,70,49,336.10
(ii) Scheduled State Co-operative Banks	22,75,49,813.28
(iii) Non-Scheduled State Co-operative Banks	1,05,13,846.77
(iv) Other Banks	3,10,35,415.92
(c) Others	207,69,34,439.69
Bills Payable	54,03,75,419.80
Other Liabilities	334,55,91,293.62
Total Liabilities	**1931,43,31,994.71**

ASSETS	Rs. p.
Notes	36,45,28,788.00
Rupee Coin	9,48,063.00
Small Coin	2,66,968.46
Bills Purchased and Discounted :—	
(a) Internal	15,22,91,040.89
(b) External	....
(c) Government Treasury Bills ..	301,59,21,815.74
Balances held abroad*	266,82,82,995.02
Investments**	540,20,49,769.16
Loans and Advances to :—	
(i) Central Government	....
(ii) State Governments@	39,88,00,000.00
Loans and Advances to :—	
(i) Scheduled Commercial Banks†	140,54,20,000.00
(ii) State Co-operative Banks‡ ..	189,52,75,475.00
(iii) Others	11,32,75,000.00
Loans, Advances and Investments from National Agricultural Credit (Long-Term Operations) Fund	
(a) Loans and Advances to :—	
(i) State Governments ..	66,41,05,471.13
(ii) State Co-operative Banks	17,97,47,227.00
(iii) Central Land Mortgage Banks	....
(iv) Agricultural Refinance Corporation	34,50,00,000.00
(b) Investment in Central Land Mortgage Bank Debentures	11,24,91,225.00
Loans and Advances from National Agricultural Credit (Stabilisation) Fund	
Loans and Advances to State Co-operative Banks	41,06,37,914.00
Loans, Advances and Investments from National Industrial Credit (Long-Term Operations) Fund	
(a) Loans and Advances to the Development Bank	129,09,35,519.00
(b) Investment in bonds/debentures issued by the Development Bank	....
Other Assets	89,43,54,723.31
Total Assets ..	**1931,43,31,994.71**

Contingent liability on partly paid shares Rs. 9,48,388.69 (Sterling Investments of £50,000 converted @ Rs. 100 = £5.2721).

* 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 Rs. 5,17,39,176.19 (equivalent of £50,000/-, U.S. $6,298,175 and D. M. 1,494,112.50 held abroad).

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

† Includes Rs. 31,30,00,000 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.

J. X. LOBO,
Chief Accountant.

S. JAGANNATHAN, *Governor.*
R. K. HAZARI, *Deputy Governor.*
V. V. CHARI, *Deputy Governor.*
S. S. SHIRALKAR, *Deputy Governor.*

Dated the 26th July 1973

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 1973

INCOME	Rs. p.
Interest, Discount, Exchange, Commission, etc.†	171,29,18,131.22
EXPENDITURE	
Establishment	22,89,24,841.34
Directors' and Local Board Members' Fees and Expenses	66,520.16
Auditors' Fees	90,000.00
Rent, Taxes, Insurance, Lighting, etc.	1,07,82,931.00
Law Charges	2,89,496.64
Postage and Telegraph Charges	13,31,396.50
Remittance of Treasure	81,87,102.19
Stationery, etc.	32,00,280.92
Security Printing (Cheque, Note Forms, etc.)	4,95,97,945.84
Depreciation and Repairs to Bank Property	1,03,67,923.13
Agency Charges	8,30,83,593.94
Contributions to Staff and Superannuation Funds	50,00,000.00
Miscellaneous Expenses	1,19,95,478.22
Net available balance	130,00,00,621.34
Total	**171,29,18,131.22**
Surplus Payable to the Central Government	130,00,00,621.34

RESERVE FUND ACCOUNT

By Balance on 30th June 1973	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.

J. X. LOBO,
Chief Accountant.

S. JAGANNATHAN, *Governor.*
R. K. HAZARI, *Deputy Governor.*
V. V. CHARI, *Deputy Governor.*
S. S. SHIRALKAR, *Deputy Governor.*
R. K. SESHADRI, *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 1973.

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 (Fort), Madras, New Delhi, Hyderabad and Byculla (Bombay 8) 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.

Messrs. THAKUR VAIDYANATH AIYAR & Co.,
Messrs SURI & Co.,
Messrs P. K. MITRA & Co.,
Messrs. DALAL & SHAH.
} *Auditors.*

Dated the 26th July 1973.