V MONETARY DEVELOPMENTS

109. Money supply with the public, which increased at the rate of about 8 per cent during 1968-69, has witnessed a certain accelerated growth during the subsequent two years. The annual rate of growth works out to 10·8 per cent for 1969-70 and 9·2 per cent for 1970-71 (April 1, 1970 to March 26, 1971).

110. In absolute terms, money supply with the public increased by Rs. 632 crores in 1969-70 as against Rs. 438 crores in 1968-69. During 1969-70, a significant part of the expansionary impact came from the external sector; the increase in the net foreign exchange assets of the Reserve Bank of India* amounted to Rs. 270 crores and was Rs. 202 crores larger than the increase of Rs. 68 crores recorded in the preceding year. Net bank credit to the commercial sector rose from Rs. 124 crores in 1968-69 to Rs. 338 crores in 1969-70; the rise in the net bank credit to Government however declined sharply. As against an expansion of Rs. 359 crores in the preceding year, during 1969-70, the net bank credit to Government expanded by only Rs. 108 crores.

111. Since monetary data at the closing of the fiscal year 1970-71 are not yet available, at this stage there is some difficulty in comparing developments during the year under review with those in the preceding. However, on the basis of data for the period April 1, 1970 to March 26, 1971, it would seem that monetary expansion, at Rs. 594 crores, has been slightly higher than in the corresponding period (April 1 to March 27) of 1969-70. However, unlike in 1969-70, this expansion is attributable primarily to credit creation in favour of the domestic sectors. The net foreign exchange assets of the Reserve Bank of India have in fact registered a fall of Rs. 40 crores as against an increase of Rs. 269 crores in the preceding year. Net bank credit to the Government has gone up by Rs. 484 crores as against the increase of Rs. 79 crores in 1969-70. That the Government's budgetary operations have been an important expansionary factor in 1970-71 is borne out by the fact that the R.B.I.'s net credit to Government has expanded by Rs. 295 crores; in 1969-70, it had declined by Rs. 3 crores. However, the pace of increase of net bank credit to the commercial sector has slowed down over the year; it amounted to Rs. 203 crores till March 26, 1971 as compared to Rs. 250 crores in the previous year. More significantly, the expansionary effect of the gross credit creation in favour of the commercial sector has been dampened by the faster growth of time deposits.

---

*If repurchases from the IMF are taken into account, foreign exchange assets of the R.B.I. increased by Rs. 147 crores in 1969-70 as against Rs. 25 crores in 1968-69.

TABLE X.

Variations in Money Suply

(Rs. crores)

	1969-70		1970-71
	April 1 to March 31	April 1 to March 27	April 1 to March 26
1	2	3	4
1. Net bank credit to Government (A + B)	**108**	**79**	**484**
A. Reserve Bank credit to Government .	**13**	**—3**	**295**
B. Bank's holdings of Government securities.	**95**	**82**	**189**
2. Net bank credit to commercial sector (a + b)	**338**	**250**	**203**
(a) Reserve Bank credit to Commercial sector	7	4	37
(b) Bank's net credit to commecial sector (i — ii)	331	246	166
(i) Bank's advances and holdings of private securities	734	664	689
(ii) Bank's time deposits . . .	403	418	523
3. Net foreign exchange assets of the Reserve Bank*	**270**	**269**	**—40**
4. Money supply with the public (a + b) .	**632**	**548**	**594**
(a) Currency with the public .	337	325	353
(b) Deposit money with the public .	295	223	241

NOTE : The figures of Reserve Bank credit to Government given in the table above represent the change in indebtedness of Government to the Reserve Bank of India. The Accounts for the fiscal year are, however, completely adjusted only some days after the end of the fiscal year. Also, the figures given above include items such as change in the rupee coin held by the Reserve Bank and changes in the Reserv Bank's holdings of long-term rupee securities. For these reasons the figures of Reserve Bank credit to Government shown here differ from the budgetary deficits as shown in the budget documents.

*Variations in net foreign exchange assets of Reserve Bank represent variations in Reserve Bank's holdings of foreign exchange (i.e., gold and foreign exchange) net of variations in Reserve Bank's non-monetary foreign exchange liabilities (i.e., transactions with International Monetary Fund).

Seasonal Variations

112. Credit expansion in the 1969-70 busy season was much sharper than in the preceding busy season. Scheduled commercial banks expanded their credit by Rs. 563 crores as against an expansion of Rs. 427 crores in the preceding year. Excluding advances for food procurement, total credit creation worked out to Rs. 590 crores for the 1969-70 busy season as compared to Rs. 419 crores for the preceding busy season. The increase in aggregate deposits, on the other hand, showed a marginal fall from Rs. 325 crores in the 1968-69 busy season to Rs. 321 crores in the 1969-70 busy season. Consequently, there was a considerable strain on the resources of the commercial banks; banks disinvested Government securities on a relatively larger scale and also took greater recourse to accommodation from the Reserve Bank of India.

113. While the 1969 slack season had witnessed a contra-seasonal expansion of Rs. 31·3 crores in bank credit, the expansion during the 1970 slack season, was more pronounced and amounted to Rs. 224 crores. A principal explanation of this expansion in credit was a greater flow to agriculture and small scale industry and larger advances for holdings of sugar stocks. As a trend, it also reflects the phenomenon of a certain dilution of the traditional distinction between the busy and the slack seasons, emanating from both the inincreased diversification in the activities of the banking system and the growing size of the *rabi* agricultural output. Judging by current indications, this trend may become even more firmly established in the next few years.

114. A welcome development during the 1970 slack season was that deposit accretion too was larger than during the preceding slack season; the aggregate bank deposits rose by Rs. 451 crores as against the increase of Rs. 348 crores in the previous year. Nonetheless, the strain on the resources of the banks persisted throughout; towards the close of the slack season (*i.e.* at the end of October 1970), the credit-deposit ratio at 77·04 per cent was higher and the investment-deposit ratio at 23·76 per cent lower than the corresponding magnitude of the ratios in the preceding year. Also, the banks' borrowings from the Reserve Bank of India stood at Rs. 151 crores as against Rs. 34 crores at the same time during the previous year.

115. During the 1970-71 busy season* bank credit has expanded by Rs. 436 crores as against an expansion of Rs. 498 crores in the corresponding period of the preceding year. This deceleration in the growth of bank credit reflects the impact of the various measures enforced by the Reserve Bank of India, notably the upward adjustment in the Bank Rate in January 1971. Thus while between October 30, 1970 and the date of adjustment in the Bank Rate in January, bank credit had expanded by Rs. 278 crores as against Rs. 241

*The relevant data refer to the period Oct. 30, 1970 to April 16, 1971 crores during the corresponding period of the preceding year, in the subsequent period till April 16, 1971, it advanced by only Rs. 153 crores as against a much larger expansion of Rs. 257 crores recorded in the corresponding period last year. The stepped up liquidity requirements also acted as a constraint on the ability of the commercial banks to shift resources from investments in Government securities to bank credit.

116. The increase in the aggregate deposits of commercial banks during the 1970-71 busy season (October 30, 1970 to April 16, 1971) works out to Rs. 392 crores and is Rs. 89 crores higher than the increase in the preceding year. Over the year ended April 16, 1971, aggregate deposits have registered an expansion of Rs. 861 crores, indicating a rate of growth of 16·9 per cent as compared to a rate of growth of 14·9 per cent in the preceding year. Despite this rise in deposits, the order of recourse of the commercial banks to the Reserve Bank of India during the 1970-71 busy season has been higher than during the corresponding period of the preceding busy season. Banks' borrowings from the Reserve Bank of India touched Rs. 443 crores as on March 19, 1971 before declining in the subsequent weeks; as on April 16, 1971, these borrowings stood at Rs. 224 crores and were Rs. 45 crores higher than the level reached a year ago.

Credit Policy

117. The 1969-70 busy season was marked by a series of measures adopted by the Reserve Bank of India in order to control credit and restrain pressure on prices. These included measures to tighten control over bank advances against specific commodities (*viz.*, raw cotton and kapas, oilseeds and vegetable oils, and foodgrains), prescription in the case of such commodities of a minimum rate of interest on advances, removal of the earlier ceiling of 9½ per cent on interest rate on advances, curtailment of refinance facilities and levy of a commitment charge on unutilised credits. Also, by the end of April 1970 the statutory liquidity requirement was raised by stages from 25 per cent to 27 per cent and the net liquidity ratio from 30 per cent to 32 per cent. In August, 1970, these two ratios were raised to 28 per cent and 33 per cent respectively.

118. The Reserve Bank of India has been keeping its measures of selective credit control under constant review. In April 1970, the margin requirement for advances against raw cotton and kapas to parties other than mills was raised from 60 per cent to 75 per cent. Restrictions in respect of sugar and gur were however, relaxed in view of the comfortable supply position. The Reserve Bank of India also made certain relaxations in the case of vanaspati and, on the eve of the busy season, in the case of raw cotton and kapas. However, in December, 1970 advances against cotton and kapas had to be tightened once more in view of the emergence of pressures on prices consequent on the anticipation of a smaller crop. On the other hand, a number of relaxations were introduced in the earlier restriction on bank advances against foodgrains, primarily with a view to assist small farmers and foodgrains-processing units in rural and

semi-urban areas. In January, 1971, in the context of a rising trend in prices, controls over banks advances against oilseeds, vegetable oils and vanaspati were again tightened.

119. Given the abnormal credit expansion in the 1970 slack season and the continued pressure on prices, the accent of credit policy for the 1970-71 busy season, as announced by the Reserve Bank of India, was generally on restraint. Thus while the refinance at concessional or Bank rate continued to be made available to the priority sectors in respect of increases over the base period, the base period for the purpose of calculation was advanced from the corresponding quarter of 1968-69 to that of 1969-70. The first two months of the 1970-71 busy season nonetheless were marked by a relatively large credit expansion accompanied by increased recourse to the R.B.I. by the banks. It was therefore decided to raise the Bank Rate from 5 per cent to 6 per cent, effective from January 8, 1971. Simultaneously, it was decided to increase the minimum net liquidity ratio from 33 per cent to 34 per cent. The upward adjustment in the Bank Rate was accompanied by a rise in the deposit rates, the increase varied, in general, from one quarter of one per cent to one-half of one per cent; for savings accounts, the rate was increased from 3·5 per cent to 4 per cent. Banks were also advised that while adjusting their rates of interest on advances they should ensure that on an average the increase in the rate charged by them is about one per cent.

120. The refinance facilities for certain sectors were left undisturbed. These included refinance (a) at 4½ per cent, irrespective of the net liquidity ratio, against increase in credit over the specified base period to exporters and in lending to primary co-operative credit societies in terms of approved scheme; (b) at the Bank Rate, again irrespective of the net liquidity ratio, in regard to increases in short-term lendings to small-scale industries and agriculturists over the specified base period and rediscounting of bills under the new Bill Market Scheme, and (c) at the Bank Rate in respect of advances for food procurement upto 50 per cent of the increase over the outstanding level on October 30, 1970.

121. In February, 1971, the Reserve Bank of India reviewed the basis of refinance facilities against export credit, taking into account the ceiling of 6 per cent on export credits sanctioned by the banks. According to the revised arrangement, refinance will be available, irrespective of the net liquidity ratio, upto an amount equal to 10 per cent of the annual average of export credit in 1970 at 4½ per cent and an additional amount upto 10 per cent of the annual average of export credit at the Bank Rate. However, with a view to bringing about a proper alignment of the structure of interest rates charged by scheduled commercial banks on export credit, the Reserve Bank increased, with effect from April 17, 1971, the ceiling rate on export credit from 6 per cent to 7 per cent per annum for pre-shipment (packing credit) and post shipment credit (other than credit provided for exporters on deferred payment terms). The maximum rate of interest on deferred payment terms would continue to be 6 per cent and the subsidy of 1·5 per cent under the export credit (interest subsidy scheme) would continue as before on all export credit provided.

122. More recently, the Reserve Bank of India has also liberalised the refinance facilities for food procurement. Thus for the period April 9, 1971 to June 30, 1971, refinance to be provided at the Bank Rate, irrespective of the net liquidity ratio, was raised from 50 to 75 per cent of the increase in advances for food procurement over the actual level as on October 30, 1970; the quantum of refinance will be brought back to 60 per cent after June 30, 1971 and to 50 per cent after July 31, 1971.

123. As already referred to, consequent on the various measures of general and selective control adopted by the Reserve Bank of India, a considerable slowing down in the expansion of bank credit has occurred since January 1971. The effectiveness of the credit policy was also reflected in the marked stringency which has since characterised the inter-bank call money market. Between January 8, 1971 and April 15, 1971, call money rates moved between 7 per cent and 12½ per cent, whereas, during the corresponding period last year, the rates had fluctuated between 5 per cent and 7 per cent.

Activities of Financial Institutions

124. The year witnessed a further extension in the activities of the Industrial Development Bank of India in the form of decisions in July, 1970 to sanction loans on concessional terms to small and medium projects in relatively under-developed areas. As a result, direct loans from the IDBI became available to industrial units located in backward areas at a rate of 2 per cent above the Bank Rate with a minimum stipulation of 7 per cent instead of till then prevailing normal rate of 8 per cent. (In October, 1970, the normal rate of interest on advances was raised from 8 per cent to 8½ per cent, but no increase was made in the rate applicable to industrial units in backward areas). Also, the initial grace period for repayment of loan was extended and the period of repayment raised. The IDBI further agreed to charge a lower rate commission in cases of underwriting and to subscribe substantially, at its own discretion, to the share capital of projects in the backward areas. The IDBI's concessional assistance is generally available to cases where the project cost in the aggregate does not exceed Rs. 1 crore. In consultation with State Governments, the Planning Commission has identified 196 districts for purposes of concessional finance from the public financial institutions; the IDBI's assistance is available for such areas or districts as are entitled to receive subsidy from the Union Government.

125. Both the Industrial Finance Corporation of India, and the Industrial Credit and Investment Corporation of India have decided to extend concessional assistance to units located in backward areas. Financial assistance from the IDBI and the IFC is now available to the public sector undertakings too on the same basis on which it is available to private parties.

126. The latest data on the working of the public financial institutions indicate that aggregate assistance sanctioned as well as disbursed was larger in 1970 than in the previous year. Total assistance

sanctioned by the IDBI, IFC, ICICI, the State Financial Corporations, and the State Industrial Development Corporations together amounted to Rs. 192 crores in 1970 as against Rs. 141 crores in 1969. Similarly, the disbursement at Rs. 128 crores was also higher than the disbursement in the preceding year at Rs. 100 crores. The increase was most marked in the case of the SFCs (largely to small scale industry); sanction in 1970 (Rs. 45 crores) showed an increase of 77 per cent and disbursement (Rs. 30 crores) of 70 per cent as compared to 1969.

Progress of Nationalised Banks

127. A major objective of the nationalisation of the leading commercial banks was to channelise the flow of credit to hitherto neglected sectors. Towards that end, a notable shift in both policy and operations has taken place during 1970-71.

128. The progress made by the public sector banks in the field of extending credit to the weaker sections of society is evident from the fact that, between end-June 1969 and end-December 1970, the number of borrower accounts belonging to the hitherto neglected sectors (*viz.*, agriculture, small-scale industry, road transport operators, retail traders and small businessmen, self employed persons and education) increased from 2,82,000 to 11,50,000 and loans outstanding from Rs. 438·5 crores to Rs. 887·7 crores. Over the same period, in the case of agriculture, the outstanding advances rose from Rs. 160·3 crores to Rs. 344·1 crores and, in the case of small-scale industry, from Rs. 251·5 crores to Rs. 420·0 crores. As a proportion of aggregate advances of all public sector banks, advances to the hitherto neglected sectors have risen from 14·5 per cent at the end of June 1969 to 23.8 per cent at the end of December 1970.

129. The question of helping the small borrowers is being given the highest priority in the formulation of the policies of the commercial banks. Banks are taking greater cognizance of the viability of projects rather than of the credit-worthiness of the borrower in the traditional sense. A Committee has been constituted for examining the feasibility of a scheme of differential interest rates which could tilt the structure of lending rates in favour of the small borrowers. Reference has been made earlier to the report of the committee set up to examine the empoyment potential of various special credit schemes; on the basis of the report, the Reserve Bank of India has issued the necessary guidelines to the commercial banks. Another set of guidelines, prepared by the Reserve Bank of India, lays down the criteria for financing agricultural development by the commercial banks with a view to improving the quality of lendings and helping small and potentially viable farmers to move to a higher technological plane. Mention may also be made of the Credit Guarantee Corporation of India established to administer a comprehensive credit guarantee scheme for loans to small borrowers in the priority and hitherto neglected sectors. The scheme came into force from April 1, 1971 and covers, upto specified limits, credit facilities extended by eligible credit institutions to transport operators, traders, professional and self-employed persons, owners of business enterprises and farmers engaged in cultivation and allied agricultural operations.

130. Procedures for the evaluation and appraisal of credit proposals have been improved during the year, and steps have been initiated to ensure a proper end-use of bank credit. A decision was also taken in 1970 to discourage the use of bank finance for speculative purposes. Thus, borrowers, pledging shares exceeding the value of Rs. 50,000 have to transfer their shares to the banks, which are required to keep the voting rights of these shares with them and exercise them, at their discretion, in public interest.

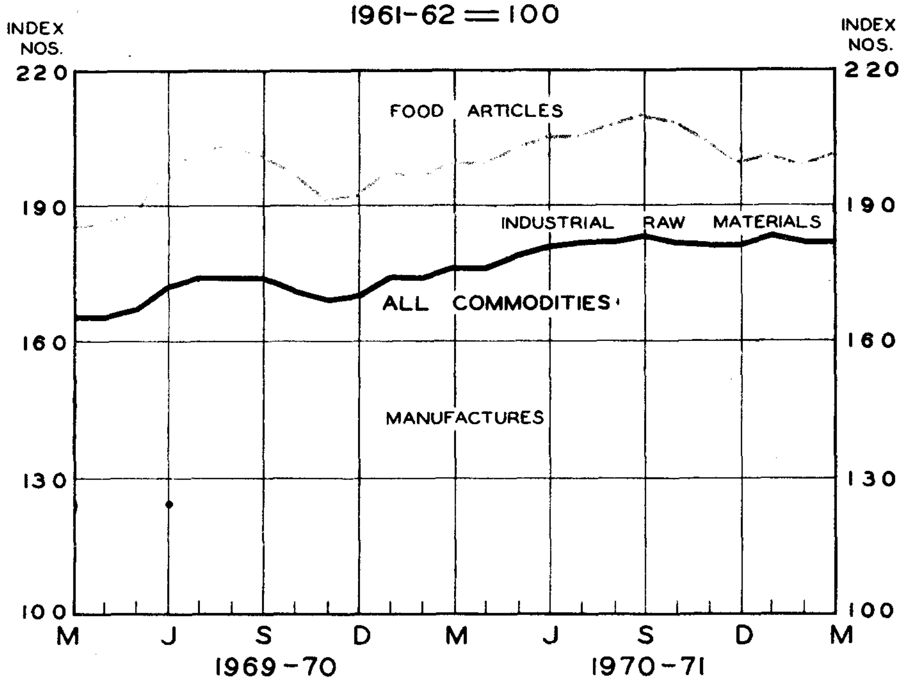
131. The year under review witnessed a further acceleration in the branch expansion programme of the banks. The public sector banks opened 1,911 new offices during 1970 bringing the total number of new branches opened since nationalisation (*i.e.* between July 19, 1969 and December 31, 1970) to 2,496 of which 1,747 were in the hitherto unbanked centres. The total number of new branches opened by all commercial banks was 2,137 in 1970 as against 1,369 in 1969 and 677 in 1968. The number of commercial bank offices has risen from 8,284 on July 19, 1969 to 11,184 as at the end of December, 1970. Of 2,900 branches of all commercial banks opened between July 19, 1969 and December 31, 1970, 1,908 (66%) were located in rural centres, 784 (26%) in urban and semi-urban centres and 208 (8%) in metropolitan centres.

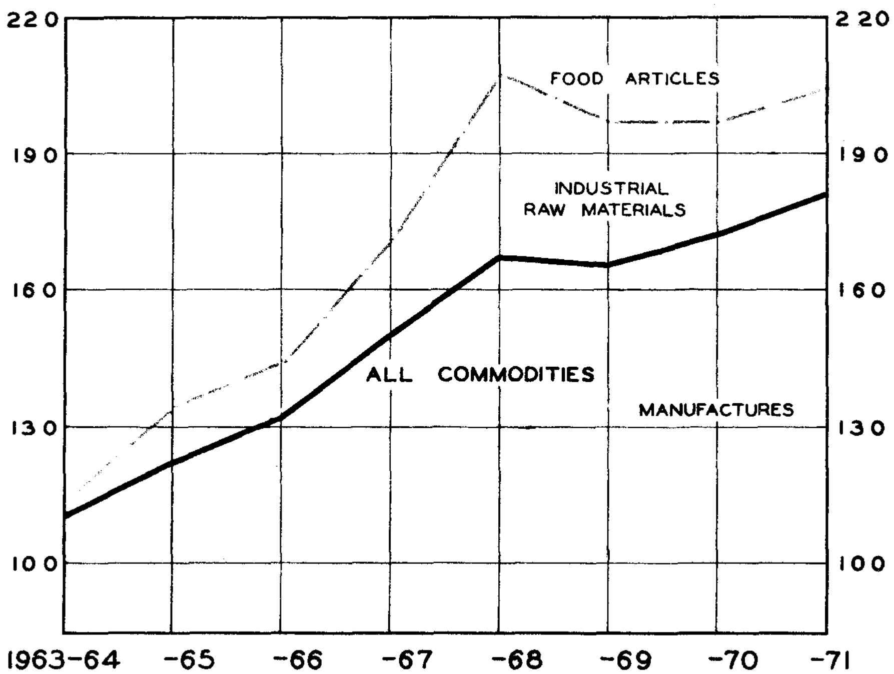
132. About 41 per cent of the new offices opened between end-June, 1969, and end-December, 1970, were located in the relatively underbanked States of Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal. The efforts made by the banks to extend their branch network to the hitherto unbanked areas have brought down the number of districts having population of above 3 lakhs per bank office from 34 at the end of June, 1969, to 3 at the end of February, 1971, and those having population between 2 lakhs and 3 lakhs per office from 35 to 17. The average population served by a bank office was about 50,000 in December, 1970, as against 73,000 in December, 1967. The number of districts without bank offices which stood at 13 at the end of July, 1969, came down to 4 at the end of February, 1971, and even in these 4 licences have been issued for opening of branches.

133. Despite the progress made in branch expansion since nationalisation, there is a considerable leeway to be made up in the direction of extending bank branches to backward areas and removing various inter-regional imbalances in the availability of banking facilities. Viewed in this context, the Lead Bank Scheme represents a major step towards the identification of both credit gaps and deposit potential and towards the formulation of a coordinated programme of development. Under the scheme, all the districts in the Indian Union, except certain metropolitan areas and Union territories have been allotted to the public sector banks and two banks in the private sector; a bank has been designated as the Lead Bank in each district. Surveys concerning nearly 100 districts organised by the banks have already been completed; these surveys are intended to form the basis for not merely deposit mobilisation and credit operations in future, but also for integrated programmes for banking development.

WHOLESALE PRICES

1961-62 = 100





MINISTRY OF FINANCE, ECONOMIC DIVISION.

GMGIPND-PLW-410/8/FINANCE/70-71-(CHART 7)-7000