VI. MONETARY DEVELOPMENTS AND CREDIT POLICY

181. During the last few years, money supply with the public has been growing at an accelerated rate, the annual rate of increase in money supply having risen from 10.8 per cent in 1969-70 to 11.1 per cent in 1970-71 and further to 12.9 per cent in 1971-72. At the same time, the growth of real national output has witnessed a deceleration; the annual rate of growth declined from 7.3 per cent in 1969-70 to 4.6 per cent in 1970-71 and is estimated to have declined still further to less than 2 per cent in 1971-72. As a consequence, the imbalance between aggregate demand and aggregate supply in the economy has tended to widen.

182. An analysis of the monetary data reveals that in 1969-70, the major expansionary influence on money supply emanated from the country's balance of payments transactions and the increase in the net bank credit to the commercial sector. In 1970-71, monetary expansion was attributable to the increase in the net bank credit to both Government and commercial sectors, transactions with the external sector having wielded a contractionary influence. In 1971-72, however, the net bank credit to Government was the principal contributory factor in the growth of money supply, the net increase in bank credit to the commercial sector being relatively much smaller than in the preceeding years. Also, some addition to money supply took place as a result of an increase in the net foreign exchange assets.

183. The monetary developments in the fiscal year 1972-73 so far reveal that the net bank credit to Government continues to be the major expansionary factor. Between March 31, 1972 and January 12, 1973, the net bank credit to Government increased by Rs. 980 crores as compared to an increase of Rs. 747 crores in the corresponding period of the preceding year; on the other hand, the net bank credit to the commercial sector registered a decline of Rs. 487 crores during the same period which was far sharper than the decline of Rs. 180 crores during the corresponding period in 1971-72. The decline in the net bank credit to the commercial sector coupled with a fall of Rs. 76 crores in the R.B.I.'s net foreign exchange assets during this period (as against a rise of Rs. 73 crores last year) thus helped to dampen the expansionary impact of the banking system's transactions with the Government sector. As a result, the increase in money supply with the public between March 31, 1972 and January 12, 1973 was marginally larger (Rs. 625 crores) than in the corresponding period last year (Rs. 611 crores) and worked out to 7.7 per cent for this period as against an increase of 8.5 per cent during the corresponding period of 1971-72. As on January 12, 1973 money supply stood at Rs. 8759 crores and was higher by 12.3 per cent as compared to the level of January 14, 1972.

TABLE VIII

Variations in Money Supply

(Rs. crores

	1969-70 Mar. 31 to Mar. 31	1970-71 Mar. 31 to Mar. 31	1971-72 Mar. 31 to Mar. 31	1971-72 Mar. 31 to Jan. 14	1972-73 Mar. 31 to Jan. 12
A. Money supply with the public (a+b)	**632**	**719**	**930**	**611**	**625**
(a) Currency with the public	337	362	423	367	272
(b) Deposit money with the public	295	357	507	244	353
B. Principal factors affecting variations in money supply :					
1. Net Bank credit to Government (a+b)	**108**	**515**	**973**	**747**	**980**
(a) Reserve Bank of India Credit to Government	13	332	671†	448†	480
(b) Bank's holding of Government Securities	95	183	302	299	500
2. Net Bank credit to commercial sector (a+b)	**338**	**346**	**73**	**—180**	**—487**
(a) Reserve Bank of India credit to commercial sector	7	50	100	64	—23
(b) Bank's net credit to commercial sector (i-ii)	**331**	**296**	**—27**	**—244**	**—464**
(i) Banks' advances and holdings of private securities	734	818	689	446	355
(ii) Banks' time deposits	403	522	716	690	819
3. Net foreign exchange assets of the RBI*	**270**	**—47**	**78**	**73**	**—76**

† Excludes book adjustments of the order of Rs. 175 crores.

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

NOTE.—The magnitude of the Reserve Bank of India's credit to the Government in the table above represents the changes in the indebtedness of the Government to the Reserve Bank of India. The accounts for the fiscal year are, however, completely adjusted only some days following the end of the fiscal year. Also, the magnitude indicated above includes items such as changes in the rupee coins and long—term rupee securities. For these reasons the Reserve Bank of India's credit to the Government shown here differs from the deficit shown in the budgetary documents.

184. A certain caution, however, is necessary in interpreting the role of net bank credit to Government in monetary expansion. While the expenditure financed by an increase in the net R.B.I.'s credit to Government constitutes an addition to aggregate monetary demand, this need not be the case in respect of expenditure financed by an increase in the commercial banks' holdings of Government securities. The latter phenomenon involves merely a diversion of the available savings of the community for use in the public sector. The net increase in the R.B.I.'s credit to Government during the current fiscal year so far has been marginaly larger than in the last year and the relatively larger net increase in the total bank credit to Government is attributable to the fact that commercial banks have invested in Government securities so far more than one and a half times the amount invested in corresponding period of 1971-72.

185. Another significant aspect of monetary developments in the last few years has been that between the two principal components of money supply, demand deposits have been growing at a much faster rate than currency. Between 1969-70 and 1971-72 the average annual rate of increase worked out to 17.6 per cent for bank money (*i.e.* demand deposit component) and 9.7 per cent for currency.

186. The declining proportion of currency in the total money supply, reflecting the spread of banking facilities and habits and also a certain shift in community's asset preferences, has implications both for fiscal and credit policies. As a result of the decline in the proportion of currency to money supply, the value of money multiplier (*i.e.* Ratio of Money supply with public to Reserve Money*) rises and this implies that the amount of deficit financing which can be undertaken by the Government consistent with a given rate of increase in money supply is smaller. At the same time, the importance of credit policy as an instrument of demand management tends to grow in view of the increased role of secondary expansion in the process of creation of money supply.

Seasonal Variations

187. The 1971-72 busy season witnessed an increase of Rs. 355 crores in the total credit by the scheduled commercial banks to the commercial sector** as against a credit expansion of Rs. 394 crores in the 1970-71 busy season and of Rs. 563 crores in the 1969-70 busy season. The smaller credit expansion in the 1971-72 busy season was partly attributable to a decline of Rs. 71 crores in bank advances against food procurement. Excluding these advances, expansion in commercial bank credit during the 1971-72 busy season works out to Rs. 426 crores and although larger than the corresponding credit expansion of Rs. 324 crores in the preceding busy season was still significantly smaller than the credit expansion of Rs. 590 crores in the 1969-70 busy season. On the other hand, bank deposits continued to grow; the increase in the aggregate bank deposits was Rs. 624 crores in the 1971-72 busy season as against an increase of Rs. 435 crores in the preceding busy season. As a result of their improved liquidity position, the commercial banks were able to invest

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*Currency with public plus cash balances held by commercial banks plus deposit held by commercial banks with R.B.I. plus other deposits with R.B.I.

**Includes credit to public sector commercial undertakings (e.g. Food Corporation of India.)

Rs. 240 crores in Government and other approved securities (as against Rs. 116 crores in the preceding year) and banks' peak level of advances from the R.B.I. touched only Rs. 252 crores as against a peak level of Rs. 443 crores reached in the 1970-71 busy season. As at the end of the 1971-72 busy season (*i.e.*, end of April 1972), the credit-deposit ratio stood at 72.0 per cent and the investment-deposit ratio at 31.47 per cent; the corresponding ratios at the end of the preceding busy season were 78.01 per cent and 29.60 per cent respectively. The commercial banks' borrowings from the R.B.I. stood at Rs. 23 crores at the end of the 1971-72 busy season as against Rs. 191 crores a year ago, and reflecting the comfortable conditions in the money market, inter-bank call rates which had touched 12-13 per cent in the 1970-71 busy season never crossed 9.5—9.75 per cent in the 1971-72 busy season. At the end of the 1971-72 busy season, the inter-bank call rates were 3.5—4.0 per cent as compared to about 6 per cent at the close of the preceding busy season.

188. The contra-seasonal expansion in the bank credit witnessed since the 1969 slack season continued in the 1972 slack season. However, expansion of Rs. 32 crores was significantly lower than the increases recorded in the two preceding slack seasons. On the other hand, the increase in the aggregate bank deposits was larger than during the 1971 slack season; as a result, there was a phenomenal increase in banks' investments in Government and other approved securities, this being of the order of Rs. 625 crores as against Rs. 254 crores in the 1971 slack season. As at the end of the 1972 slack season (*i.e.*, end-October, 1972), the credit-deposit ratio stood at 66.22 per cent which was markedly lower than the corresponding ratio of 73.12 per cent a year earlier and investment-deposit ratio stood at 36.66 per cent as against the corresponding ratio of 30.65 per cent at the close of the preceding slack season.

189. At the start of the 1972-73 busy season, therefore, the commercial banks' position was highly liquid and a major task of the credit policy was to siphon off excess liquidity and thus not add to the inflationary pressures operating on the economy. The forecasts for the 1972-73 busy season suggest that despite somewhat slower growth anticipated in respect of bank deposits and higher credit requirements, the liquidity position of the banks is not going to be materially affected. As on January 12, 1973 the credit-deposit ratio stood at 67.2 per cent and investment-deposit ratio at 34.5 per cent, the corresponding ratios on the same date of the preceding year being 73.5 per cent and 31.6 per cent respectively. Although the bank credit in the busy season so far has shown an expansion of Rs. 331 crores as against an expansion of Rs. 192 crores registered in the corresponding period last year, there is no evidence as yet that busy season pressures had started straining the resources of the banking system. The comfortable liquidity position of the banking system, it may be recalled, enabled the Central Government to approach the market for borrowing on December 1, 1972 for the third time in the current fiscal year on February 1, 1973 the Central Government decided to raise yet another loan of Rs. 45 crores and thus carried its annual net borrowing programme to an all time high of Rs. 478 crores.

TABLE IX

Seasonal Variations in scheduled Commercial Banks Data.

(Rs. crores)

	Busy Season			Slack Season		
	1969-70 (Oct. to April)	1970-71 (Oct. to April)	1971-72 (Oct. to April)†	1970 (April to Oct.)	1971 (April to Oct.)	1972 (April to Oct.)†
1. Total Bank Credit						
of which :	**563**	**394**	**355**	**226**	**163**	**32**
(*a*) Food Procurement Advances	—27	70	—71	35	156	—1
(*b*) Other Advances	590	324	426	191	7	33
2. Aggragate Deposits	**321**	**435**	**624**	**448**	**624**	**650**
(*a*) Demand Deposits	172	190	310	174	202	228
(*b*) Time Deposits	149	245	314	274	422	422
3. Investments in Government and other approved securities	**—51**	**116**	**240**	**188**	**254**	**625**
4. Borrowings from the Reserve Bank of India	**203**	**40**	**4**	**—86**	**—172**	**—16**

† Provisional.

Credit Policy

190. Given the inflationary pressures operating on the economy, the R.B.I. has been pursuing in recent years, a fairly restrictive credit policy through its instruments of general and selective credit control. At the same time, every effort has been made to ensure that the genuine requirements of the productive sectors are met, and adequate credit flows to hitherto neglected sectors and economically weaker sections of the community.

191. The emphasis on credit restraint has been particularly conspicuous since January 1970 when a series of measures were taken which, among others, included removal of the earlier ceiling of 9.5 per cent on interest rate on bank advances and simultaneous prescription of minimum rates of interest on advances against specific commodities (*viz.*, foodgrains, raw cotton and kapas, oilseeds and edible oils). The banks' statutory liquidity requirement (in addition to 3 per cent statutory cash balance to be maintained with R.B.I.) was raised from 25 per cent to 27 per cent in April, 1970 and further to 28 per cent in August 1970. Simultaneously, the minimum net liquidity ratio* which determines the rates at which

*"Net liquidity ratio" is defined as the total of commercial banks' cash and balances with the R.B.I. and other banks and investment in Government and other approved securities *less* borrowings from the Reserve Bank of India, the State Bank of India and the Industrial Development Bank, *i.e.*, the statutory liquidity ratio less borrowings from the Reserve Bank, the State Bank of India and the Industrial Development Bank of India.

commercial bank can get refinance from the R.B.I. was raised from 30 to 33 per cent. In view of the continued pressure on prices in the 1970-71 busy season, the Reserve Bank also raised on January 8, 1971, the Bank Rate from 5 per cent to 6 per cent. This was accompanied by an upward adjustment in the rates of interest on bank deposits and advances. At that time the minimum net liquidity ratio was further raised from 33 per cent to 34 per cent.

192. As mentioned in the last year's Economic Survey, the principal emphasis in the credit policy formulated by the R.B.I. for the 1971-72 busy season was on credit restraint, consistent with the genuine needs of productive sectors, requirements of food procurement, needs of priority and hitherto neglected sectors as well as of units engaged in defence-oriented production. Having regard to these basic considerations, the Reserve Bank kept under close surveillance the operation of its selective credit control over specific commodities (*viz.*, foodgrains, raw cotton and kapas, oilseeds and edible oils and sugar and gur) and in the light of the emerging trends made necessary adjustments in margin requirements and overall credit ceilings. After the outbreak of the war with Pakistan in December, 1971, a number of measures were taken to assist industries engaged in defence production and subsequently to revive production in war ravaged areas. These included directives to banks to grant packaging-*cum*-supply credit, waiving of the procedure of obtaining prior authorisation under the Credit Authorisation Scheme and relaxation of credit control in respect of advances against foodgrains, oilseeds and vegetable oils, cotton and kapas and sugar and gur in border and near border areas.

193. In the 1972 slack season, there was no change in the general credit policy. However, some marginal modifications were made in the field of selective credit controls. For instance, in May, 1972, margin requirements in respect of advances against fertilisers, pesticides and improved seeds were liberalised in order to facilitate building up of adequate stocks of these commodities; similarly with a view to providing incentives to production, commodities produced by processing/manufacturing units covered under Rural Industries Projects and falling within the purview of R.B.I.'s selective credit control were completely exempted from such controls. On the other hand, the minimum margin requirements against groundnut and groundnut oil which had been lowered in May, 1972 were again stepped up in July, 1972 in view of the reported speculative activity in these commodities. In respect of export credits, the R.B.I. liberalised the provisions laid down for grant of pre-shipment credit to exporters of mineral ores and marine products; some relaxation was also effected in respect of packing credit to exporters in the light of the liberalisation of Export Production Guarantee Scheme by ECGC. The R.B.I. also extended up to the end of December, 1972 the waiver granted under the Credit Authorisation Scheme in respect of advances to coal companies, textile mills and dealers, and exemption from controls granted in respect of advances against oilseeds and vegetable oils, cotton and kapas, and sugar and khandsari in the border and near border districts.

194. In view of the persistent pressure on prices arising from the imbalance between aggregate demand and aggregate supply in this economy and the overall liquidity position of commercial banks, the R.B.I.'s credit policy for 1972-73 busy season was designed to siphon off the excess liquidity with the banks at the time to enable banks to assist production, particularly in respect of the crash programme of rabi production and in the industrial sector. Therefore, banks statutory liquidity requirement which was last raised to 29 per cent on August 4, 1972 was further raised to 30 per cent on November 17, 1972. Also as a regulatory measure, the minimum net liquidity ratio relevant for determining the rate of banks' borrowing from the R.B.I. was raised from 34 per cent to 36 per cent. However, the Reserve Bank did not modify its basic structure of refinance for specific priority purposes. The then existing arrangements for refinancing at the Bank Rate/concessional rate (*i.e.* 4½ per cent) were continued—with base period shifted—in respect of lending to primary cooperative societies in the selected districts of five States, exports, short-term lending to small scale industries, defence-*cum*-supply credit and rediscounting of bills under the Bills Rediscounting Scheme. As regards food procurement also, the then existing formula for determining refinance entitlements was left undisturbed. This means that refinance entitlement will amount to 10 per cent of the outstanding level of food procurement advances as on the last Friday of October, 1972 plus an additional one-third of the increase over the level as on last Friday of October, 1972. As for ceiling limit for interest charged by commercial banks on export credit, it remained at 7 per cent for both pre-shipment and post-shipment credit (except for exporters on deferred payment terms for which ceiling is 6 per cent) and the subsidy of 1.5 per cent under the export credit (interest subsidy scheme) was also left unchanged.

195. Measures announced as part of the R.B.I.'s credit policy for the 1972-73 busy season also included certain modifications in the selective credit controls, in the light of the prevailing trends in prices and uncertainty with regard to agricultural production in 1972-73. In the case of foodgrains, the permissible limit for advances was changed from bank-wise to party-wise and the credit ceiling was lowered from 110 per cent of the aggregate level maintained in the corresponding two months in the preceding year to 100 per cent of peak level of advances outstanding per party. in any of the three preceding years; maize which had earlier been exempt was brought within the ambit of the credit control. The change in the basis of credit ceiling from bank-wise to party-wise was also made applicable to advances against oilseeds and vegetable oils. The R.B.I. also tightened its credit control over bank advances against oilseeds and vegetable oils by extending to Maharashtra the higher margin of 75 per cent imposed in Gujarat. However, modifications in respect of raw cotton and kapas and sugar, gur and khandsari were largely by way of simplification and implied only a marginal relaxation. Further, with a view to ease credit facilities to small borrowers in the farming and manufacturing sectors the R.B.I. extended the exemption from margin and ceiling control available earlier only in respect of foodgrains advances granted to small farmers and primary cooperative societies (provided credit limit did not exceed Rs. 2500 or crop loan outstanding whichever was lower) to advances against oilseeds and granted similar exemptions to small borrowers in manufacturing units against security of these commodities provided the credit limit did not exceed Rs. 20,000.

Progress of the Public Sector Banks

196. A major objective of bank nationalisation in July 1969 was to rectify the regional and sectoral imbalances in the country's credit structure, to mobilise more effectively the country's savings and to channelise them in conformity with the nation's social and economic priorities. The data on the working of the public sector banks reveal that considerable progress has been made in several directions as is evident from the expansion of the network of bank branches, deposit mobilisation on an unprecedented scale, greater flow of credit to hitherto neglected sectors and changes in policies and procedures with a view to help economically weaker sections of the community.

197. The increase in branch expansion has been particularly striking. The number of bank branches rose from 8,262 as on June 30, 1969 to 13,620 as on June 30, 1972; of the total new 5,358 branches opened over these three years, 4,507 (84.1 per cent) were opened by the public sector banks. As a result, the average population served per bank office in India had come down from 65,000 at the end of June 1969 to 40,000 at the end of June 1972. The expansion of branches was particularly fast in the relatively under-banked States and this has helped to reduce the regional imbalances in terms of banking facilities; for instance between June, 1969 and June, 1972 the average population per bank office declined from 1,98,000 to 98,000 in Assam, from 207,000 to 104,000 in Bihar, from 114,000 to 40,000 in Jammu and Kashmir, from 497,000 to 178,000 in Manipur, from 205,000 to 103,000 in Nagaland, from 212,000 to 114,000 in Orissa and from 276,000 to 130,000 in Tripura. Also as a result of the deliberate emphasis on the opening of new offices in rural and hitherto unbanked areas, the number of branches in rural areas as a proportion of total branches rose from 22.4 per cent on July 19, 1969 to 35.3 per cent at the end of June, 1972. Similarly, as much as 63.8 per cent of branch expansion during the period end-June 1969 to end-June 1972 took place in hitherto unbanked areas. The progress of branch expansion was reviewed at the meeting in January 1973 of Finance Minister with the Chief Executives of public sector banks. It was decided at the meeting that each public sector bank should draw up a perspective plan on a three year basis and their plans would have to be coordinated keeping in view the banking needs of different regions and the capability of each bank. The availability of such a plan for the banking system as a whole would enable the various State Governments and Union Territories to make advance arrangements for providing the necessary infrastructure at the centres where branches will have been opened.

198. There has also been no abatement in the marked acceleration in growth of bank deposits witnessed since bank nationalisation. The annual rate of increase in the aggregate deposits of all scheduled commercial banks (mid-July to mid-July) went up from 14.5 per cent in 1969-70 to 17.9 per cent in 1970-71 and further to 21.9 per cent in 1971-72, the corresponding rates of increase in the deposits of public sector banks being 15.3 per cent, 17.5 per cent and 22.5 per cent respectively. The progress in deposit mobilisation was quite impressive even after eliminating the element attributable to the price rise. Further, State-wise

data on growth of deposits between June, 1969 and June, 1972 reveal that the deposit mobilisation has not necessarily been faster in States which have exprienced greater agricultural prosperity (*e.g.*, Punjab *vis-a-vis* Bihar and Orissa) and as such there is considerable untapped potential still available to the banking system. The exploitation of this untapped potential would help to sustain the present rates of growth of deposits even in the face of a reduction in the magnitude of deficit financing by the Government.

199. The recent data on the lending of public sector banks' to the hitherto neglected sectors(*viz.*, agriculture, small scale industry, road transport operators, retail trade and small business, professional and self-employed persons and education) however, indicate some deceleration in the rate of growth. Thus, the total number of borrowal accounts in respect of lending to agriculture and other neglected sectors which had risen from 2,82,203 in June, 1969 to 9,28,167 in June, 1970 rose to 11,88,718 in June, 1971 and further to 14,23,530 in June, 1972. A similar trend was also evident in respect of bank advances to hitherto neglected sectors. These bank advances which registered an increase of about 75 per cent from Rs. 439 crores to Rs. 761 crores between June, 1969 and June, 1970 rose by 17.9 per cent and 16.8 per cent respectively in the subsequent two years and stood at Rs. 1048 crores in June, 1972. As a percentage of their aggregate advances, public sector banks' advances to agriculture and other neglected sectors which had risen from 14.54 per cent in June, 1969 to 21.27 per cent in June, 1970 rose only marginally to 21.98 per cent in June, 1971 and stood at 23.04 per cent in June, 1972. While part of the explanation for the slower growth may be that earlier gains were being consolidated and greater attention was being concentrated on effecting qualitative improvements in lending, it is also likely that organisational constraints have emerged. Given the credit needs of these priority sectors, it is necessary that the banks make more concerted efforts to identify the credit gaps, simplify and streamline their procedures and policies, and take bold initiative towards widening the credit base of their operations. For this purpose, banks need to tap more fully the potentialities of the "Lead Bank" scheme. Under this scheme, survey reports in respect of 270 out of 337 districts have been completed and district level consultative committees to serve as forum for discussions among banks and financial institutions have been set up in about 100 districts. Given the recent deceleration in the pace of credit expansion in favour of the hitherto neglected sectors the necessity of an expeditious follow-up of the results of these surveys and the urgency of evolving operationally workable schemes assume heightened significance.

200. In the context of the efforts being made to extend credit to economically weaker sections of the community, mention may be made of the guarantee schemes being operated by the Credit Guarantee Corporation of India and also of the scheme of differential rates of interest introduced on a pilot basis to help low income groups falling in certain defined categories. Set up in April, 1971 to help small borrowers in obtaining assistance from banks and other financial institutions, the Credit Guarantee Corporation has been progressively liberalising its schemes, thereby increasing the number of eligible borrowers.

201. In the last Economic Survey reference was made to the report of a Reserve Bank Committee on differential interest rates. After considering the matter carefully a scheme of differential interest rate to be operated by public sector banks was launched towards the beginning of July 1972. Under the scheme the public sector banks provide funds at concessional rate of interest of 4 per cent as against the normal rate of 10—11 per cent to certain categories of borrowers for assisting them in their productive endeavours. The scheme is currently at the pilot stage and its scope will be extended later after some experience is gained in this type of lending. At the pilot stage the scheme is to be operated at certain selected branches only. For the time being public sector banks have identified about 1880 branches for the operation of the scheme. These branches are located in backward districts. On the basis of the reports received from the banks it appears that up to the end of December 1972 they had advanced loans to over 19,000 borrowers involving an amount of Rs. 83 lakhs under the scheme. Once the preliminary stage is over the banks will be able to proceed more vigorously in the matter of lending.

202. The public sector banks have also been increasing their involvement in the agricultural sector as is evident from the increase in the level of total outstanding advances to agriculture; banks' direct lendings to agriculture having risen from Rs. 38 crores in June, 1969 to Rs. 221 crores in June, 1972. In accordance with the guidelines issued by the R.B.I., a number of banks have launched 'village adoption scheme' in order to facilitate intensive agricultural development. More recently, the R.B.I. has issued a detailed Manual to assist the banks in streamlining their procedures and policies for lending to the agricultural sector. The scheme of financing agricultural credit societies by commercial banks continues to operate in selected districts in the five States and with a view to co-ordinating the activities of commercial and co-operative banks in financing agriculture. State level institutions have been set up in several States. The Government has also under consideration the Report of the Banking Commission which *inter alia* has suggested the setting up of rural banks and coordination of the activities of the commercial banks and co-operative institutions in the field of agricultural credit. In pursuance of the recommendations made by the Expert Group set up by the Reserve Bank, the State Governments have been asked to take expeditious action for enacting legislation which would extend to agriculturists borrowing from commercial banks, facilities similar to those available for borrowing from Co-operative banks. Two State Governments have passed the necessary legislation and preparatory steps are being taken by other Governments.

Credit Planning

203. The role of credit policy both as an instrument of quantitative regulation of money supply and even more as a medium for directional change in credit allocations is assuming increasing importance. While fiscal management in our conditions will continue to be the major element in determining the quantum and rate of monetary expansion in any particular year, the complementary character of credit policy hardly needs any emphasis. As the banking system spreads wider and the banking habit develops, the possibility of secondary monetary expansion arising out of the

creation of primary reserves tends to increase and the area of economic activity amenable to credit control becomes wider. In this sense credit policy would assume increasing significance for the purpose of controlling aggregate monetary demand in the economy.

204. In an economy such as ours where savings are scarce and competing demands on resources are many, credit planning is necessary both for purposes of sectoral and regional allocation of credit. The experience of the last few months where the banking system had a surfeit of liquidity must be regarded as a transitory phenomenon; indeed this excess of liquidity co-existed with a slowdown in the rate of increase in credit to some areas of high social priority and reflected to some extent the inadequacy of the organisational basis of the credit system. Over the longer term, credit would need to be apportioned to various sectors and regions, having regard to considerations of economic efficiency as well as distributive justice. This would call for redeployment of credit from its existing pattern and the task of credit planning is to ensure that such reallocation of credit as between sectors and regions is accomplished with the minimum of dislocation. Given the necessity for generating additional employment opportunities, bringing about a greater equality of economic opportunity, and redressing regional imbalances, the focus of credit planning will necessarily have to be on serving these broader objectives alongside the furtherance of economic growth. A combination of devices in the realm of credit policy such as selective credit controls, preferential eligibility criteria, special refinance schemes, differential interest rates and the operation of credit authorisation procedures, would help in the implementation of a well worked out credit Plan.