

CHAPTER 7

MONETARY AND CREDIT DEVELOPMENTS

Monetary and credit policy during 1983-84 was guided by the twin objectives of avoiding excess build up of liquidity at a time when inflationary pressures had re-emerged in the economy and regulating the flow of credit to stimulate and sustain production. Aggregate monetary expansion (M3) up to mid-January, 1984 was significantly faster than during the same period in the previous year reflecting rapid growth in aggregate deposits of the commercial banks. Demand for credit from the commercial sector, however, remained subdued. This resulted in a situation

of excess liquidity in the banking system creating a potential for undue credit expansion. To neutralise this potential, and as part of other measures to contain the emerging inflationary pressure, the Cash Reserve Ratio (CRR) was raised in several stages in the course of the present year to mop up excess liquidity. Care was, however, taken to ensure that the supply of credit did not become a constraint for expanding productive activity and selected areas were stimulated by greater credit availability.

TABLE 7.1
Sources of Change in Reserve Money

(Rs. crores)

	Out-standing as on March 31 1980	Variations during				
		1980-81	1981-82	1982-83*	1982-83 Mar. 31 to Jan. 14*	1983-84 Mar. 31 to Jan. 13 (P)
1. Net RBI credit to Govt.	12405	4038 (32.6)	3997 (24.3)	2508 (12.3)	2157 (10.6)	2048 (9.0)
2. RBI credit to banks	1200	76 (6.3)	397 (31.1)	459 (28.0)**	-33 (-7.0)	-143 (-7.1)
3. RBI credit to commercial sector	1546	154 (10.0)	344 (20.2)	429 (21.0)	430 (21.0)	324 (16.8)
4. Net foreign exchange assets of RBI	5388	-613 (-11.4)	-2059 (-43.3)	-277 (-36.1)	-1101 (-40.7)	-730 (-42.2)
5. Government's currency liabilities to the public	592	27 (4.6)	38 (6.1)	25 (3.8)	3 (0.5)	10 (1.5)
6. Net non-monetary liabilities of RBI	4558	802 (17.6)	1162 (21.7)	342 (5.2)	429 (6.6)	-1538 (-25.3)
7. Reserve Money (1+2+3+4+5-6)	16573	2879 (17.4)	1546 (7.9)	2112 (10.1)	1027 (4.9)	3048 (13.2)

*These disregard changes in components of sources on July 12, 1982 following reclassification of aggregates necessitated by the establishment of the National Bank for Agriculture and Rural Development (NABARD).

**Include claims on the NABARD.

(P) Provisional.

Notes : (1) Figures in brackets are percentage variations

(2) Data relate to March 31, after closure of Government accounts.

Monetary Trends During 1982-83

7.2 Monetary policy was gradually liberalised in 1982-83 in the backdrop of evident tightness in the resources of banks by the end of 1981-82 when banks were finding it difficult to meet the busy season credit requirements. Since inflationary pressure had been effectively curbed, monetary policy was liberalised in a selective manner during 1982-83. As a result, M3 growth which had been contained at 12.5 per cent in 1981-82, increased to 16.1 per cent in 1982-83. The growth in M1 in 1982-83 was also much higher than in the previous year with M1 expanding by 14.4 per cent compared with only 6.5 per cent in 1981-82. Reserve money growth had declined sharply from 17.4 per cent in 1980-81 to 7.9 per cent in 1981-82, but accelerated again to 10.1 per cent in 1982-83 (Table 7.1).

7.3 Growth in net bank credit to the Government in 1982-83 was contained at a level of Rs. 4,748 crores which was lower than the expansion of Rs. 4,915 crores in 1981-82 (Table 7.2). Of the total expansion in net bank credit to the Government the Reserve Bank of India's contribution was Rs. 2,508 crores which was much lower than the expansion of Rs. 3,997 crores in the previous year. The distribution of net RBI credit between the Centre and the States for 1982-83 shows a decline in RBI credit to State Governments which was on account of the medium-term loan of Rs. 1,743 crores granted by the Centre to the States to clear their deficits as on March 31, 1982. Adjusted for this, the increase in net RBI credit amounted to Rs. 1,624 crores for the Centre and Rs. 884 crores for the States in 1982-83 compared with an increase of Rs. 3,207 crores and Rs. 789 crores respectively to the Centre and the States in 1981-82.

TABLE 7.2

Sources of Change in Money Stock

(Rs. crores)

	Variations during			
	1981-82 Mar. 31 to Mar. 31	1982-83*P Mar. 31 to Mar. 31	1982-83*P Mar. 31 to Jan. 14, 1983	1983-84P Mar. 31 to Jan. 13, 1984
I. M1 (Money supply with the Public)	1,513 (6.5)	3,598 (14.4)	2,750 (11.0)	3,229 (11.3)
II. M3 (Aggregate monetary resources)	6,978 (12.5)	10,115 (16.1)	8,472 (13.5)	10,998 (15.1)
(i) Currency with the public	1,048 (7.8)	2,185 (15.1)	1,634 (11.3)	2,165 (13.0)
(ii) Demand deposits with banks	708 (7.4)	1,395 (13.6)	1,130 (11.0)	1,045 (8.9)
(iii) Time deposits with banks	5,465 (16.9)	6,517 (17.2)	5,722 (15.1)	7,769 (17.5)
(iv) Other deposits with RBI	-243	18	-14	19
III. Sources of change in M3 (1+2+3+4-5)				
1. Net bank credit to Government (a+b)	4,915 (19.1)	4,748 (15.5)	4,786 (15.6)	4,824 (13.7)
(a) RBI's net credit to Government (i+ii)	3,997	2,508	2,157	2,048
(i) To Central Government	3,207	3,367	3,372	1,967
(ii) To State Governments	789	-859	-1,214	81
(b) Other banks' credit to Government	918	2,240	2,629	2,776
2. Bank credit to commercial sector (a+b)	6,821 (18.6)	8,247 (19.0)	5,398 (12.4)	5,743 (11.2)
(a) RBI's credit	344	429	430	324
(b) Other banks' credit	6,477	7,818	4,968	5,419
3. Net foreign exchange assets of banking sector	-2,069 (-43.7)	-977 (-36.7)	-1,101 (-41.4)	-730 (-43.3)
4. Government's currency liabilities to the public	38 (6.1)	25 (3.8)	3 (0.5)	10 (1.5)
5. Banking sector's net non-monetary liabilities other than time deposits (a+b)	2,727 (22.9)	1,928 (13.2)	616 (4.2)	-1,151 (-7.2)
(a) Net non-monetary liabilities of RBI	1,162	342	429	-1,538
(b) Net non-monetary liabilities of other banks	1,565	1,586	185	387

*These disregard changes in components of sources on July 12, 1982 following reclassification of aggregates necessitated by the establishment of the National Bank for Agriculture and Rural Development (NABARD). P=Provisional

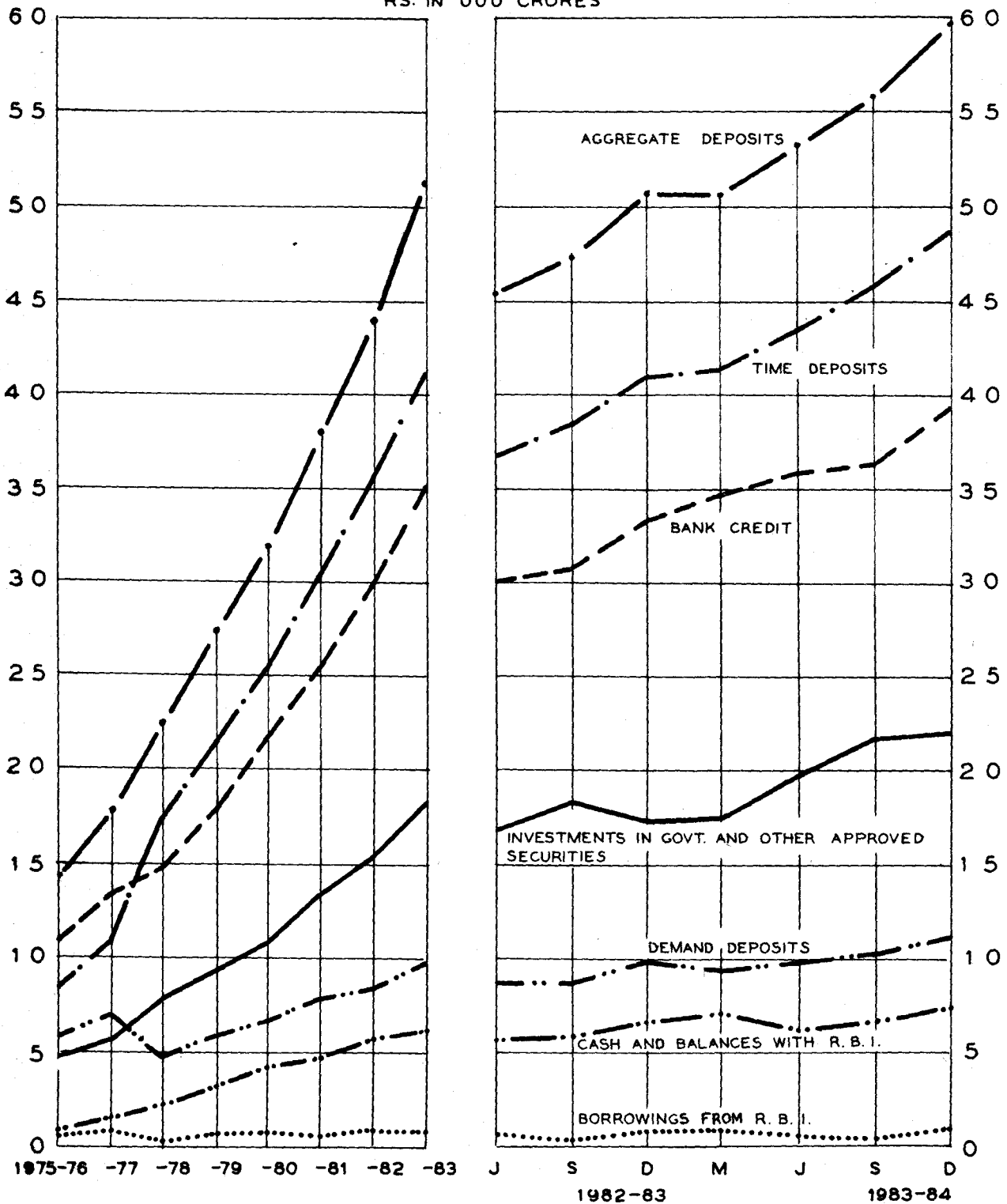
Notes :—1. Figures do not exactly add up because of rounding.

2. Figures in brackets are percentage variations.

SCHEDULED COMMERCIAL BANKS

[AS ON LAST FRIDAY]

RS. IN '000 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

7.4 Bank credit to the commercial sector during 1982-83 increased by Rs. 8,247 crores (19.0 per cent) compared with an increase of Rs. 6,821 crores (18.6 per cent) in the previous year. Scheduled commercial banks' data on gross bank credit showed an increase of Rs. 5,340 crores (17.7 per cent) against a growth of Rs. 4,379 crores in 1981-82. Of this, non-food credit in 1982-83 expanded by Rs. 4,502 crores (16.1 per cent) compared with Rs. 3,935 crores (16.3 per cent) in the previous year. Credit policy in 1982-83 was gradually relaxed through a series of measures designed to increase credit availability to productive sectors particularly to some important sectors facing a weakening of demand. These measures included lowering of the CRR first from 7.75 per cent to 7.25 per cent in April and then to 7.0 per cent in June; discontinuation of the partial refinance formula and provision of 100 per cent refinance over the outstanding level of food credit of Rs. 2,500 crores; modification of the refinance facility in respect of export credit to enhance the banks' ability to extend credit to export sector; liberalisation of the Credit Authorisation Scheme for working capital limits for private sector and export credit; and provision of additional resources to the Industrial Development Bank of India to ensure that State Electricity Boards (SEBs) and State Road Transport Corporations (SRTC's) were sanctioned

additional limits for the purpose of capital equipment and vehicles respectively.

7.5 As shown in Table 7.1, reserve money expanded by Rs. 1,546 crores (7.9 per cent) in 1981-82 and accelerated to Rs. 2,112 crores (10.1 per cent) in 1982-83. The higher growth in 1982-83 was chiefly a result of a smaller decline in net foreign exchange assets of the RBI which went down by Rs. 977 crores in that year compared with a decline of Rs. 2,069 crores in the previous year.

Monetary Trends During 1983-84

7.6 There was a strong expansion in aggregate deposits of the banking system from the very start of the year leading to a faster pace of monetary expansion than in the previous year. The faster pace of deposit accretion reflects in part the increase in foreign deposits with Indian commercial banks. The growth in M1 up to January 13, 1984 amounted to Rs. 3,229 crores (11.3 per cent) compared with Rs. 2,750 crores (11.0 per cent) in the preceding year. Expansion in M3 up to January 13, 1984 has also been higher i.e. Rs. 10,998 crores (15.1 per cent) as against Rs. 8,472 crores (13.5 per cent) in 1982-83.

TABLE 7.3
Scheduled Commercial Banks' Variations in Selected Indicators

	(Rs. crores)			
	Variations during			
	1981-82 Mar. 31 to Mar. 31	1982-83 Mar. 31 to Mar. 31	1982-83* Mar. 31 to Jan. 14	1983-84* Mar. 31 to Jan. 13
1. Aggregate deposits	5711	7299	6628	8651
(a) Demand deposits	541	1394	1014	1023
(b) Time deposits	5170	5905	5614	7628
2. Borrowings from RBI	171	32E	-320	-47
3. Cash in hand and balances with RBI (a+b)	753	-114	-608	837
(a) Cash in hand	49	27	76	72
(b) Balances with RBI	704	-141	-684	764
4. Net balances with RBI [3(b)-2]	533	-173	-364	811
5. Money at call and short notice	-14	240	-260	-451
6. Bank credit	4383	5340	3658	4180
7. Bills rediscounted with RBI	-4	-	-	-
8. Gross bank credit	4379	5340	3658	4180
9. Public food procurement credit	444	838	987	1217
10. Non-food gross bank credit	3935	4502	2671	2963
of which :				
To Priority Sector	2172	1628
11. Investments in Government and other approved securities	1838	3529	3781	3979
(a) Government securities	887	2200	2597	2734
(b) Other approved securities	950	1330	1184	1245
12. Balances with other banks in current account	99	368	231	-60
13. Gross credit-deposit ratio	68.4	69.1	66.7	66.1
14. Gross credit (excl. food credit) deposit ratio	63.6	63.3	60.6	59.1
15. Investment-deposit ratio	33.6	35.7	36.7	37.2

.. Not Available.

*Provisional.

E Takes into account variation because of transfer of RBI borrowings to NABARD on July 12, 1982.

7.7 Demand deposits recorded a growth of Rs. 1,045 crores (8.9 per cent) in 1983-84 (up to January 13, 1984) compared with an increase of Rs. 1,130 crores (11.0 per cent) in the same period last year. Time deposits registered a higher growth of Rs. 7,769 crores (17.5 per cent) against an increase of Rs. 5,722 crores (15.1 per cent) in 1982-83. There has also been a spurt in currency with the public, mainly in the second half of the financial year. In the period up to 30th September 1983, the latter increased by only Rs. 364 crores (2.2 per cent), about the same as in the previous year (Rs. 341 crores or 2.4 per cent). But in the subsequent period up to January 13, 1984, the growth in this item more than quintupled to Rs. 1,800 crores (10.6 per cent). The increase in currency with the public during the current year up to January 13, was Rs. 2,165 crores (13.0 per cent) whereas in the same period last year, it was Rs. 1,634 crores (11.3 per cent).

7.8 An examination of data on the assets side of the monetary balance sheet shows that the expansion in net bank credit to the Government in 1983-84 (up to January 13) was Rs. 4,824 crores which is only slightly larger than the expansion of Rs. 4,786 crores in the same period last year. The increase in RBI's net credit to the Government was Rs. 2,048 crores (roughly 42 per cent) of total increase in net bank credit to the Government compared with Rs. 2,157 crores in 1982-83. Other banks' credit to the Government registered a slightly higher growth of Rs. 2,776 crores in 1983-84 against Rs. 2,629 crores in the comparable period last year.

7.9 Bank credit to commercial sector has increased by Rs. 5,743 crores or 11.2 per cent in the period up to January 13 in the current year compared with an increase of Rs. 5,398 crores or 12.4 per cent in the comparable period of 1982-83. The main source of growth in bank credit to commercial sector has been credit by commercial and co-operative banks which increased by Rs. 5,419 crores in the period under review against a growth of Rs. 4,968 crores in the preceding year. Scheduled commercial banks' data also indicate a somewhat higher growth in gross bank credit of Rs. 4,180 crores this year compared with Rs. 3,658 crores in the previous year. But in percentage terms it was lower at 11.8 per cent compared with 12.1 per cent last year. The expansion in food credit was Rs. 1,217 crores, which was higher than Rs. 987 crores in 1982-83. Non-food credit also expanded by Rs. 2,963 crores compared with Rs. 2,671 crores last year.

7.10 Total domestic credit up to January 13 in 1983-84 increased by Rs. 10,567 crores compared with Rs. 10,184 crores in the same period last year. The rate of growth at 12.2 per cent was, however, slower than that of 13.7 per cent. The faster pace of monetary expansion in spite of a slightly slower growth of total credit is due to the movement in net foreign assets and in net non-monetary liabilities of the banking sector. Against a decline of Rs. 1,101 crores in the period up to January 14, 1983, net foreign exchange

assets decreased by only Rs. 730 crores in the corresponding period this year, reflecting the continuing improvement in the balance of payments. The banking sector's net non-monetary liabilities other than time deposits have also registered a decline contributing to faster M3 expansion.

7.11 In the current financial year (up to January 13, 1984), reserve money has grown by as much as Rs. 3,048 crores (13.2 per cent) compared with an increase of Rs. 1,027 crores (4.9 per cent) in the corresponding period last year. Mainly two factors are responsible for the sharp increase in reserve money this year. Net foreign exchange assets of the RBI declined by only Rs. 730 crores in 1983-84 up to January 13, against a decline of Rs. 1,101 crores in the previous year. Net non-monetary liabilities contracted by Rs. 1,538 crores in this period in contrast to an increase of Rs. 429 crores in the corresponding period of 1982-83.

Sectoral Deployment of Credit

7.12 Data on sectoral deployment of gross bank credit from the scheduled commercial banks reveal that in 1982-83, there was an appreciable growth of public food procurement credit of Rs. 837 crores against Rs. 368 crores in 1981-82. The rise in gross non-food credit, however, was lower in terms of percentage though in absolute terms it increased by Rs. 4,433 crores (16.4 per cent) compared with Rs. 3,990 crores (17.3 per cent) in 1981-82. A break-up of credit deployment to various sectors shows that priority sector advances as per cent of net bank credit including PCs was 36.8 per cent in 1982-83 against 37.7 per cent in the previous year. Of the total advances to the priority sector which registered an increase of Rs. 1,628 crores (15.2 per cent) in 1982-83, agriculture accounted for 40 per cent, small scale industry for 36 per cent and other priority sectors for 24 per cent. In the previous year, advances to priority sectors had increased by Rs. 2,172 crores (25.5 per cent) and the shares of agriculture, small scale industry and other priority sectors in this were 47 per cent, 31 per cent and 22 per cent respectively. A substantial part of the increase in gross non-food credit in 1982-83 was on account of a comparatively high growth in credit to medium and large scale industry. Credit deployed to this sector increased by Rs. 2,079 crores (18.6 per cent) in 1982-83 against a modest increase of Rs. 1,195 crores (12.0 per cent) in 1981-82. However, in 1981-82 it was unusually low compared with an increase of Rs. 1,691 crores (20.4 per cent) in 1980-81. Bank credit to wholesale trade other than food procurement increased by Rs. 137 crores (6.2 per cent) in 1982-83 compared with Rs. 204 crores (10.2 per cent) in the preceding year. The major increase in credit for wholesale trade in 1982-83 was on account of other trade which recorded a growth in credit of Rs. 142 crores (10.0 per cent) compared with merely Rs. 5 crores (0.4 per cent) in 1981-82. In the latter year the Food Corporation of India (FCI) had accounted for an increase of Rs. 169 crores (60.8 per cent) against a growth of only Rs. 1 crore in 1982-83. Export credit declined by Rs. 69 crores against an increase of Rs. 156 crores in 1981-82.

TABLE 7.4
Sectoral Deployment of Gross Bank Credit

On last Friday basis	Variations During				
	1980-81	1981-82	1982-83*	April to	September
				1982	1983*
I. Gross Bank Credit	3569 (16.8)	4358 (17.6)	5270 (18.1)	934 (3.2)	1629 (4.7)
1. Public food procurement credit	—341	368	837	205	339
2. Gross non-food credit (a+b+c+d)	3910 (20.4)	3990 (17.3)	4433 (16.4)	729 (2.7)	1290 (4.1)
(a) Priority sector (i+ii+iii)	1774 (26.4)	2172 (25.5)	1628 (15.2)	181 (1.7)	771 (6.3)
(i) Agriculture	817 (19.5)	1031 (28.8)	654 (14.2)	142 (3.1)	364 (6.9)
(ii) Small scale industries	594 (22.5)	672 (20.8)	579 (14.8)	4 (0.1)	190 (4.2)
(iii) Other priority sectors	363 (27.3)	469 (27.7)	395 (18.3)	35 (1.6)	217 (8.5)
(b) Industry (medium and large)	1691 (20.4)	1195 (12.0)	2079 (18.6)	440 (3.9)	407 (3.1)
(c) Wholesale trade other than food procurement (i+ii+iii+iv)	79 (4.1)	204 (10.2)	137 (6.2)	—60 (—2.7)	—56 (—2.4)
(i) Cotton Corporation of India	32	—6	35	—10	—81
(ii) Food Corporation of India (Fertiliser)	32	169	1	59	—1
(iii) Jute Corporation of India	23	36	—41	—25	—50
(iv) Other trade	—8	5	142	—84	76
(d) Other sectors	366 (16.5)	419 (16.2)	589 (19.6)	168 (5.6)	168 (4.7)
II. Export Credit (included under item 2)	..	156 (9.5)	—69 (—3.8)	—168 (—9.4)	40 (2.3)
III. Priority sector advances as per cent of net bank credit (including PCs in the last month of the period)	35.0	37.7	36.8	37.3	37.5

*Provisional.

PC= Participation Certificate.

Notes :—1. Data relate to major banks which account for about 96 per cent of gross bank credit and include bills rediscounted with the RBI, the IDBI and other approved institutions and Participation Certificates.
2. Figures in brackets are percentage variations.

7.13 In the period between April and September 1983, of the total increase of Rs. 1,629 crores in gross bank credit growth in public food procurement credit and in gross non-food credit accounted for Rs. 339 crores and Rs. 1,290 crores respectively showing a marked improvement over the performance in the previous year during the same period. There was a sharp recovery in the flow of credit to the priority sector in the first half of 1983-84 which accounted for a major portion of the increase in gross-non-food credit during this period. Priority sector's advances accounted for 37.5 per cent of net bank credit including (PCs) by end September 1983 compared with 37.3 per cent at the end of September 1982. Of the total increase of Rs. 771 crores (6.3 per cent) in priority sector advances, agriculture accounted for 47 per cent, small scale industry for 25 per cent and other priority sectors for 28 per cent. Advances to medium and large scale industries registered an increase of Rs. 407 crores compared with Rs. 440

crores in the previous year. Credit to wholesale trade other than food procurement declined by Rs. 56 crores in April—September 1983. A fall in credit to this sector was chiefly on account of a decrease of Rs. 81 crores and Rs. 50 crores respectively, in the deployment of credit to the Cotton Corporation of India and the Jute Corporation of India. Export credit recorded an encouraging growth of Rs. 40 crores against a decline of Rs. 168 crores during the same period in 1982.

Developments in Credit Policy

7.14 Credit policy in 1983-84 was designed to prevent the growth of excess liquidity in the banking system while providing ample room for expansion of credit needed for production together with a selective stimulus to some sectors facing demand constraint. At the start of the financial year an attempt was made to stimulate output by effecting a downward adjustment in the structure of lending rates of scheduled

commercial banks. With effect from April 1, 1983, the maximum lending rate was brought down from 19.5 per cent to 18 per cent. This was expected to provide relief to a wide spectrum of borrowers. Lending rates in the highest bracket which had increased by as much as 4.5 percentage points since September, 1979, were subjected to a somewhat larger reduction than the rates for other categories which already had a significant concessional element. Interest rates on short term loans in respect of agriculture, small scale industry, exports and State level corporations assisting artisans, village and cottage industries and State Sponsored Scheduled Castes/Scheduled Tribes Development Corporations were reduced, the reduction ranging from 0.25 percentage point to 1.0 percentage point.

7.15 An element of caution had to be introduced into the credit policy in the course of the year in view of the faster than anticipated growth in deposits in a situation of relatively low growth in industry. There was excess liquidity in the banking system creating a potential for sudden and destabilising credit expansion. With these considerations in view, the CRR was raised from 7 per cent to 8.5 per cent in three stages; from 7 per cent to 7.5 per cent with effect from May 27, 1983, from 7.5 per cent to 8 per cent with effect from July 29, 1983 and to 8.5 per cent with effect from August 27, 1983. In spite of these phased increases in CRR, the high rate of growth in deposits continued and the pick up in credit was more subdued than visualised.

7.16 Some changes were also made in the food credit refinance limits. The outstanding level of food credit over which banks were allowed 100 per cent refinance was raised from the previous level of Rs. 2,500 crores to Rs. 2,800 crores during the slack season of 1983. Effective from May 1, 1983 interest on bank balances with the RBI in excess of the minimum of 3 per cent was raised from 8 per cent to 9 per cent. This measure was specially designed to aid banks in holding a part of their excess liquidity more remuneratively.

7.17 The actual growth in commercial banks deposits during the first half of 1983-84 was of the order of Rs. 4,880 crores. This was much higher than the RBI's estimated growth of Rs. 4,000 crores for this period. On the other hand, the credit extended by scheduled commercial banks during the first six months increased by only about Rs. 1,250 crores, against the anticipated growth of Rs. 1,500 crores. Expansion of primary money was also quite large during the first half of the year. Accordingly, with effect from November 12, 1983, scheduled commercial banks were required to maintain an incremental cash reserve ratio of 10 per cent of the increase in net demand and time liabilities over the level as on Friday, November 11, 1983. In view of the continued excess liquidity in the banking system, in addition to the 10 per cent incremental cash reserve ratio the normal cash reserve ratio of 8.5 per cent was further raised to 9.0 per cent with effect from 4th February 1984. These measures were such that could easily be reversed when the need arose.

7.18 The basic strategy behind the policy for the 1983-84 busy season (November 25, 1983 to April 27, 1984) was to provide adequate support to the revival of industrial activity expected in the wake of the favourable monsoon without fuelling inflationary expectations of permitting a counter-productive build-up of inventories. In the wake of a changed situation in the second half of the year, certain basic changes were made with respect to refinance facilities. The cut-off point for 100 per cent refinance in respect of food procurement credit was further raised from Rs. 2,800 crores to Rs. 3,300 crores with effect from November 25, 1983. During the course of *kharif* procurement season, the increase in food credit was expected to be fully met by increased refinance entitlements. Export credit refinance was liberalised to provide an incentive to banks to increase export credit over the last year's level. Earlier, banks were provided export credit refinance at an interest rate of 10 per cent and the entitlements were equivalent to 50 per cent of the increase in export credit over the monthly average level of 1980 up to the monthly average level of 1981 plus 100 per cent of the increase over the monthly average level of export credit in 1981. The two-tier refinance formula has now been replaced by a formula with a uniform rate. With effect from November 25, 1983, banks are entitled to export refinance to the extent of 125 per cent of the increase in export credit over the monthly average level of 1982. The revised formula is a significant liberalisation and provides a substantial incentive to banks to increase their export credit. The cut-off point for the credit authorisation for working capital limits of Rs. 3 crores was also raised to Rs. 4 crores. As a measure of support for truck operators, the concessional rate of interest of 12.5 per cent to a transport operator owning a single vehicle was extended to cover operators owning two vehicles. Credit for up to six trucks would continue to be included under priority sector advances.

7.19 To provide continued support to the SEBs and SRTCs to step-up purchases of capital equipment etc., the refinance facility from the RBI to the IDBI was extended up to the end of June 1984 and the size of this facility was enhanced from Rs. 100 crores to Rs. 150 crores. It may be noted that earlier in July 1983, the effective interest rate under the bill rediscounting scheme was lowered by about 1 percentage point for the SEBs and SRTCs. The ceiling on the banks' share in the term loans for replacement/expansion of fleets by the SRTCs was increased in October 1982 from 25-30 per cent to 40 per cent of the term loan component of the project cost. This arrangement was extended for a further period of one year in October 1983.

7.20 In order to give a further stimulus to capital investment in the economy, the IDBI and other financial institutions have extended with effect from January 1, 1984 the soft loan scheme to all industries involved in modernisation programme. Assistance under this scheme would be provided at a concessional rate of 12.5 per cent. Emphasis will be on upgradation of the products, process and technology by the industrial units and not by replacement of equipment loans under

this scheme would also be exempt from the convertibility stipulation. A rebate of 1.5 per cent in the rate of interest applicable on loans to 100 per cent export oriented units will be given for the first five operating years.

7.21 In the slack as well as in the busy season policies announced this year, a few changes have been affected to provide a more purposeful thrust to the objectives of the Revised 20-Point Programme. While the basic structure of lending rates which came into force on April 1, 1983, has not been altered, some adjustments have been made to strengthen the redistributive effect of credit policy. These include reduction in interest on advances for fertiliser retail trade, procurement of pulses and oilseeds, farmers, professionals and self-employed belonging to scheduled castes/scheduled tribes and professional and self-employed women.

7.22 Under the selective credit control policy, some notable changes have been made for the sugar industry during the current fiscal year in view of the financial difficulties encountered by it in the face of unsold sugar stocks and mounting cane arrears. With the change in the basis of excise duty on sugar from *ad valorem* to specific rates, the Government of India discontinued in March 1983, the practice of declaring

the tariff value for free sale sugar from month to month. In view of this, the RBI advised all scheduled commercial banks on July 22, 1983 that they should value the sugar stocks charged to them as security at cost price or market price, whichever was lower. The RBI has recently decided to revise the methodology for valuation of stocks of sugar with the mills. As per the revised methodology, banks are required to value levy sugar at the levy price and free sale sugar (including buffer stocks) at the moving average price of the preceding three months of current market price, whichever is lower.

7.23 In summary, monetary and credit policy in 1983-84 was governed by the twin objectives of supporting economic expansion, especially in selected industries facing a demand constraint, while at the same time exercising due caution with regard to the rate of monetary expansion in view of the persistence of inflationary pressure. Monetary expansion in 1983-84 has been more rapid than in the previous year and banks have had excess liquidity creating the danger of a sudden expansion in domestic credit. Monetary policy has sought to counter the danger by successive increases in the CRR, a flexible instrument which can be easily reversed should circumstances require it. In the meanwhile, until inflationary pressure abates the basic stance of monetary policy must continue to be cautious.