

CHAPTER 7

MONETARY AND CREDIT DEVELOPMENTS

Introduction

7.1 There was a deceleration in the rate of growth of aggregate monetary resources (M_3) during 1980-81 so far. The growth of M_3 during 1980-81 (upto January 9, 1981) was 12.6 per cent as against 13.4 per cent during the corresponding period of 1979-80. The Government's recourse to bank finance for meeting its expenditure on development was an important source of monetary expansion in 1980-81. This expansionary impact was partly neutralised by a substantial decline in net foreign exchange assets of the banking system. Although net RBI credit to Government increased, the growth of reserve money in 1980-81 was only 7 per cent compared with 11.1 per cent in 1979-80. The overall monetary expansion for the full year 1980-81 is likely to be somewhat lower than that in 1979-80. Net foreign exchange assets will continue to decline and receipts from the Special Bearer Bonds are likely to reduce net bank credit to Government.

Monetary Trends in 1979-80

7.2 During 1979-80, aggregate monetary resources (M_3) expanded by Rs. 7137 crores showing an increase of 17.8 per cent. This was lower than the increase of Rs. 7198 crores *i.e.*, 21.9 per cent during 1978-79. Although the growth of M_3 decelerated in

1979-80, bank credit to commercial sector increased at a slightly higher rate in 1979-80 than in the previous year. The major contractionary factor in 1979-80 was the very large increase in net non-monetary liabilities of commercial and co-operative banks.

7.3 The deceleration in monetary expansion in 1979-80 resulted from a smaller growth in reserve money which increased only by 17.8 per cent in 1979-80 compared with 28.6 per cent in the previous year (Table 7.1). The growth of reserve money in 1979-80 resulted principally from the large increase in net RBI credit to Government and, to a smaller extent, its lending to banks and the commercial sector. Unlike in 1978-79 when the rise in net foreign exchange assets of RBI had contributed Rs. 899 crores to the increase in reserve money, during 1979-80 net foreign exchange assets declined by Rs. 43 crores.

Monetary Trends in 1980-81

7.4 The monetary data for 1980-81 show a slower growth of M_3 compared with 1979-80. Money supply with the public (M_2) has apparently declined by 10.8 per cent during March 31, 1980 to January 9, 1981. This decline, however, is largely attributable to the fact that over the past two years banks have been implementing a change in the method of apportioning savings deposits into demand and time

TABLE 7.1
Sources of Change in Reserve Money

	(Rs. crores)					
	Outstanding as on March 31, 1977	Variations during				
		1977-78	1978-79	1979-80	1979-80 (Mar. 31 to Jan. 11)	1980-81* (Mar. 31 to Jan. 9)
1. Net RBI credit to Government	7218	169 (2.3)	1613 (21.8)	2802 (31.1)	1332 (14.8)	2242 (19.0)
2. RBI credit to banks	1404	-478 (-34.0)	191 (20.6)	83 (7.4)	-17 (-1.5)	-81 (-6.8)
3. RBI credit to commercial sector	898	56 (6.2)	296 (31.0)	296 (23.7)	278 (22.2)	78 (5.0)
4. Net foreign exchange assets of RBI	2599	1933 (74.4)	899 (19.8)	-43 (-0.8)	188 (3.5)	-705 (-13.1)
5. Government's currency liabilities to the public	568	25 (4.4)	-2 (-0.3)	1 (0.2)	..	9 (1.5)
<i>Minus</i>						
6. Net non-monetary liabilities of RBI	2888	564 (19.5)	-133 (-3.8)	638 (19.2)	215 (6.5)	386 (9.8)
Reserve Money (1+2+3+4+5-6)	9798	1143 (11.7)	3129 (28.6)	2501 (17.8)	1566 (11.1)	1157 (7.0)

*Provisional/Partially Revised

NOTE : Figures in brackets are percentage variations.

components. Under the new definition, a larger proportion of savings deposits is being classified as time deposits. This is reflected in the fact that demand deposits in 1980-81 show a very sharp decline while time deposits show a correspondingly large increase. The resulting decline in M_1 is, therefore, basically statistical because the figures for demand deposits are not strictly comparable.

7.5 The growth of M_3 (M_1 plus time deposits with banks) is, however, not affected by such definitional changes and is also an indicator of the overall rate of monetary expansion. M_3 has shown an increase of Rs. 5929 crores in 1980-81 till January 9, 1981. Though, in absolute terms, this is higher than the increase of Rs. 5367 crores in the same period of 1979-80, the growth rate at 12.6 per cent is slightly lower than 13.4 per cent recorded in the same period in 1979-80 (Table 7.2).

7.6 The analysis of the components of M_3 shows that currency with the public has increased faster by Rs. 1251 crores or by 10.7 per cent during 1980-81 compared with the increase of Rs. 1081 crores or by 10.6 per cent in the corresponding period of 1979-80. Time deposits have shown a phenomenal increase of Rs. 8591 crores or by 38.0 per cent compared with Rs. 3623 crores or by 20.0 per cent last year. But, as noted above, this is largely because of the reclassification of saving deposits, reflected in the decline by Rs. 3714 crores or 29.5 per cent in demand deposits.

7.7 The sources of change in M_3 show that its increase has come mainly from the sharp increase in net bank credit to Government. The major contractionary factors are the decline in net foreign exchange assets of banking sector and a restrictive policy on commercial credit.

TABLE 7.2
Sources of Change in Money Stock

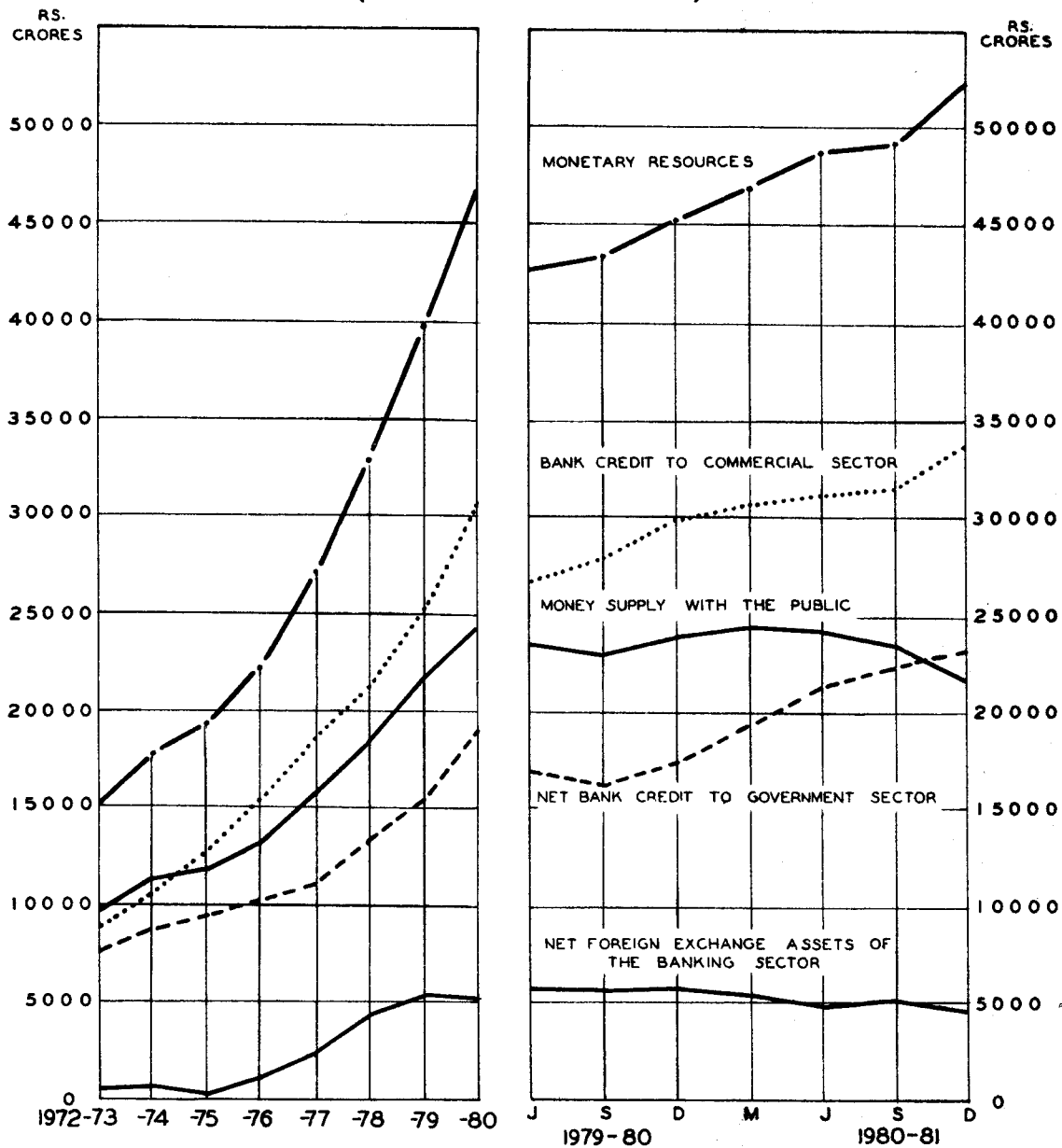
	(Rs. crores)			
	Variations during			
	1978-79 Mar. 31 to Mar. 31	1979-80 Mar. 31 to Mar. 31	1979-80 Mar. 31 to Jan. 11	1980-81* Mar. 31 to Jan. 9
I. M_1 (Money supply with the public)	3643 (19.2)	2641 (12.0)	1744 (7.9)	-2662 (-10.8)
II. M_3 (Aggregate monetary resources)	7198 (21.9)	7137 (17.8)	5367 (13.4)	5929 (12.6)
1. Currency with the public	1588 (18.4)	1435 (14.0)	1081 (10.6)	1251 (10.7)
2. Demand deposits with banks	1958 (20.2)	961 (8.3)	528 (4.5)	-3714 (-29.5)
3. Time deposits with banks	3555 (24.5)	4496 (24.9)	3623 (20.0)	8591 (38.0)
4. Other deposits with RBI	96	245	135	-199
III. Sources of change in M_3 (1+2+3+4-5)				
1. Net bank credit to Government (a+b)	2046 (15.2)	3896 (25.1)	2634 (17.0)	4160 (21.4)
(a) RBI's net credit to Government (i+ii)	1613	2802	1332	2242
(i) To Central Government	2093	2758	1048	1776
(ii) To State Governments	-481	44	284	466
(b) Other banks' credit to Government	433	1093	1302	1918
2. Bank credit to commercial sector (a+b)	4314 (20.3)	5472 (21.4)	4461 (17.5)	3208 (10.3)
(a) RBI's credit to commercial sector	296	296	278	78
(b) Other banks' credit to commercial sector	4018	5176	4183	3130
3. Net foreign exchange assets of banking sector	914 (20.6)	-43 (-0.8)	188 (3.5)	-705 (-13.3)
4. Government's currency liabilities to the public	-2 (-0.3)	2 (0.2)	..	9 (1.5)
5. Banking sector's net non-monetary liabilities other than time deposits (a+b)	75 (1.1)	2189 (31.7)	1915 (27.8)	742 (8.2)
(a) Net non-monetary liabilities of RBI	-133	638	215	386
(b) Net non-monetary liabilities of other banks (derived)	208	1551	1700	357

*Provisional/Partially revised.

NOTE : Figures in brackets are percentage variations.

MONEY SUPPLY WITH THE PUBLIC AND MONETARY RESOURCES

(AS ON LAST FRIDAY)



7.8 Net bank credit to Government increased sharply during 1980-81 recording an increase of Rs. 4160 crores or by 21.4 per cent up to January 9, 1981 compared with a lower increase of Rs. 2634 crores or by 17.0 per cent in the same period in 1979-80. The deceleration in the rate of monetary expansion in 1980-81 was thus mainly the result of slower growth of bank lending to commercial sector. Bank credit to commercial sector increased by Rs. 3208 crores or 10.3 per cent up to January 9, 1981 as against the large increase of Rs. 4461 crores or by 17.5 per cent during this period in 1979-80. Apart from the restrictive credit policy followed by the Reserve Bank, two other factors have been responsible for slower expansion of bank credit to commercial sector in 1980-81. Following the severe drought last year, the procurement of foodgrains came down considerably. This has resulted in a marked decline in food credit. Another factor which has been responsible for the slower growth in bank credit to commercial sector so far is the delayed recovery in industrial production in the current year.

7.9 The growth of reserve money in 1980-81 so far (March 31, 1980 to January 9, 1981) by Rs. 1157 crores or by 7.0 per cent has been significantly lower than the increase of Rs. 1566 crores or by 11.1 per cent in the similar period of 1979-80. This increase has again been the result of a sharp increase in net RBI credit to Government, which has increased by Rs. 2242 crores as against a smaller rise of Rs. 1332 crores in the corresponding period of 1979-80. In contrast, Reserve Bank's credit to commercial sector in 1980-81 has been smaller at Rs. 78 crores compared with Rs. 278 crores during this period in 1979-80. Likewise, RBI's credit to banks shows a larger decline of Rs. 81 crores till January 9, 1981 compared with the decline of Rs. 17 crores in this period of 1979-80. More importantly, net foreign exchange assets of the Reserve Bank have fallen steeply by Rs. 705 crores during 1980-81 (March 31, 1980 to January 9, 1981), whereas in the corresponding period of 1979-80, they had shown an increase of Rs. 188 crores. Having regard to the current trends, the growth in reserve money in the current year is likely to be smaller than that recorded last year.

7.10 With the projected recovery in agricultural production and the clear evidence of a turnaround in industry in the second half of 1980-81, bank credit to commercial sector is expected to rise faster during the rest of 1980-81. However, there is also likely to be a further decline in foreign exchange assets. Bank credit to Government may also come down from the present level because of better tax collections in the last quarter of 1980-81 reflecting industrial recovery and the expected subscription to the Special Bearer Bonds.

Banking Trends in 1980-81

7.11 Gross bank credit by scheduled commercial banks (including participation certificates and bills rediscounted with the Reserve Bank) has expanded by Rs. 2667 crores (12.3 per cent) till January 9, 1981 in 1980-81 and is lower than the increase of Rs. 2826

crores (15.4 per cent) registered in the corresponding period of 1979-80. As stated earlier, this is because of the decline in food credit by Rs. 7 crores as against an increase of Rs. 463 crores during this period in 1979-80. The slow down in industrial production was also responsible, to a certain extent, for the lower growth in bank credit to commercial sector during the first half of 1980-81. However, with the onset of the busy season gross non-food credit started picking up and as on January 9, 1981, it has increased by Rs. 2674 crores during 1980-81 which is higher than that of Rs. 2363 crores during the comparable period of 1979-80 (Table 7.3).

7.12 The growth of aggregate deposits of scheduled commercial banks during 1980-81 was below that in 1979-80, through most of the current year, but in January 1981 this phenomenon was reversed. The increase in aggregate deposits of scheduled commercial banks upto January 9, 1981 was Rs. 5124 crores compared with Rs. 4039 crores in the same period in 1979-80. This represents a growth rate of 16.1 per cent in 1980-81 as against 15.0 per cent in 1979-80. Because of the lower growth in gross bank credit, the gross credit-deposit ratio in 1980-81 has declined from 68.1 per cent on March 28, 1980 to 65.9 per cent on January 9, 1981. Correspondingly banks' investment-deposit ratio has increased from 33.4 per cent to 35.6 per cent as on the two aforesaid dates.

7.13 Time deposits have shown a spectacular rise of Rs. 8,625 crores, but this is not comparable with the growth in 1979-80. The increase is substantially on account of the definitional change referred to earlier. For the same reason, the sharp decline in demand deposits by Rs. 3,501 crores in the current year does not correctly reflect a decline in these deposits. However, it may be noted that the growth rate of aggregate deposits recorded in recent years has not been maintained. This trend in aggregate deposits has implications for the public sector's borrowings programme on the one hand, and for the banks' ability to expand adequate credit to various productive sectors. The factors which were sustaining a rapid growth in deposits till 1978-79, such as remittances from abroad and payments for food procurement have, of late, become less important in boosting deposits. While the latter might turn out to be a temporary phenomenon, the remittances from abroad have decelerated and may not contribute significantly to the growth in bank deposits. Yet another factor which might have affected the growth in bank deposits is the higher rates of interest offered by the corporate sector on term deposits. However, since the amount of deposits collected by the corporate sector is stated to be not large, this might not have been a significant factor resulting in a slow down in the growth of bank deposits. Whatever may be the reasons, the sluggish rate of growth in bank deposits needs to be improved.

7.14 The liquidity position of banks in 1980-81 so far has been quite comfortable. This is reflected in a decline of Rs. 222 crores in their borrowings from the Reserve Bank till January 9, 1981 as against an

increase of Rs. 68 crores at this time in 1979-80. However, the increase of Rs. 287 crores in net balances with the Reserve Bank in 1980-81 till January 9, 1981 is lower than that of Rs. 620 crores in 1979-80 till January 11, 1980. The lower credit expansion in 1980-81 (upto January 9, 1981) has enabled banks to step up their investments in Government and other approved securities by Rs. 2,542 crores, which is substantially higher than the increase of Rs. 1,456 crores recorded during the corresponding period of 1979-80. Consequently, the investment-deposit ratio as on January 9, 1981 at 35.6 per cent is higher than the ratio of 34.0 per cent a year ago.

Throughout this period, banks have also been able to maintain a steady level of their cash-deposit ratio. It would, therefore, appear that the Reserve Bank has been successful in making scheduled commercial banks to observe statutory obligations.

7.15 The inter-bank call money market rates also ruled easy during the greater part of 1980-81 and were much below the ceiling rate of 10 per cent. In 1979-80 for most of the period, these rates were quoted at around the then prevailing ceiling rate of 8.5 per cent.

TABLE 7.3
Scheduled Commercial Banks : Variations in Selected Indicators

	(Rs. crores)			
	Variations during*			
	1978-79	1979-80+	1979-80 (March 30 to Jan. 11)	1980-81+** (March 28 to Jan. 9)
1. Aggregate deposits	4805	4769	4039	5124
(a) Demand deposits	1521	691	637	—3501
(b) Time deposits	3284	4078	3402	8625
2. Borrowings from RBI	215	193	68	—222
3. Cash in hand and balances with RBI	1048	1060	741	233
(a) Cash in hand	88	60	53	168
(b) Balances with RBI	960	1000	688	65
4. Net balances with RBI (3(b)—2)	745	807	620	287
5. Money at call and short notice	—50	14	119	23
6. Bank credit†	3039	3261	2835	2772
7. Bills rediscounted with RBI	—11	3	—9	—105
8. Gross bank credit (6+7)	3028	3264	2826	2667
9. Public food procurement credit	226	—110	463	—7
10. Non-food gross bank credit (8—9)	2802	3374	2363	2674
Of which :				
To priority sectors‡	1180	1339	N.A.	N.A.
11. Investments in Govt. & other approved securities	1212	1510	1456	2542
(a) Government securities	714	808	929	1823
(b) Other approved securities	498	702	527	719
12. Balances with other banks in current account	33	70	82	123
13. Gross credit—deposit ratio	68.1	68.1	68.3	65.9
14. Gross credit (excluding food credit)—deposit ratio	59.9	61.5	59.7	60.2
15. Investment—deposit ratio	33.7	33.4	34.0	35.6

* Based on last Friday of March figures.

+ Provisional/Partially Revised.

† Including Participation Certificates.

** From the week ended September 26, 1980, data are inclusive of Regional Rural Banks.

‡ Relates to only major banks which account for about 95 per cent of the gross bank credit.

N.A. Not available

Credit Policy : 1980-81

7.16 The Reserve Bank has been following a restrictive credit policy following the sharp upturn in prices from March 1979. The details of this policy were set out in the Economic Survey last year. The main elements of the policy were :

- (i) a cash reserve ratio of 6 per cent, an additional cash reserve ratio of 10 per cent and the statutory liquidity ratio of 34 per cent, and

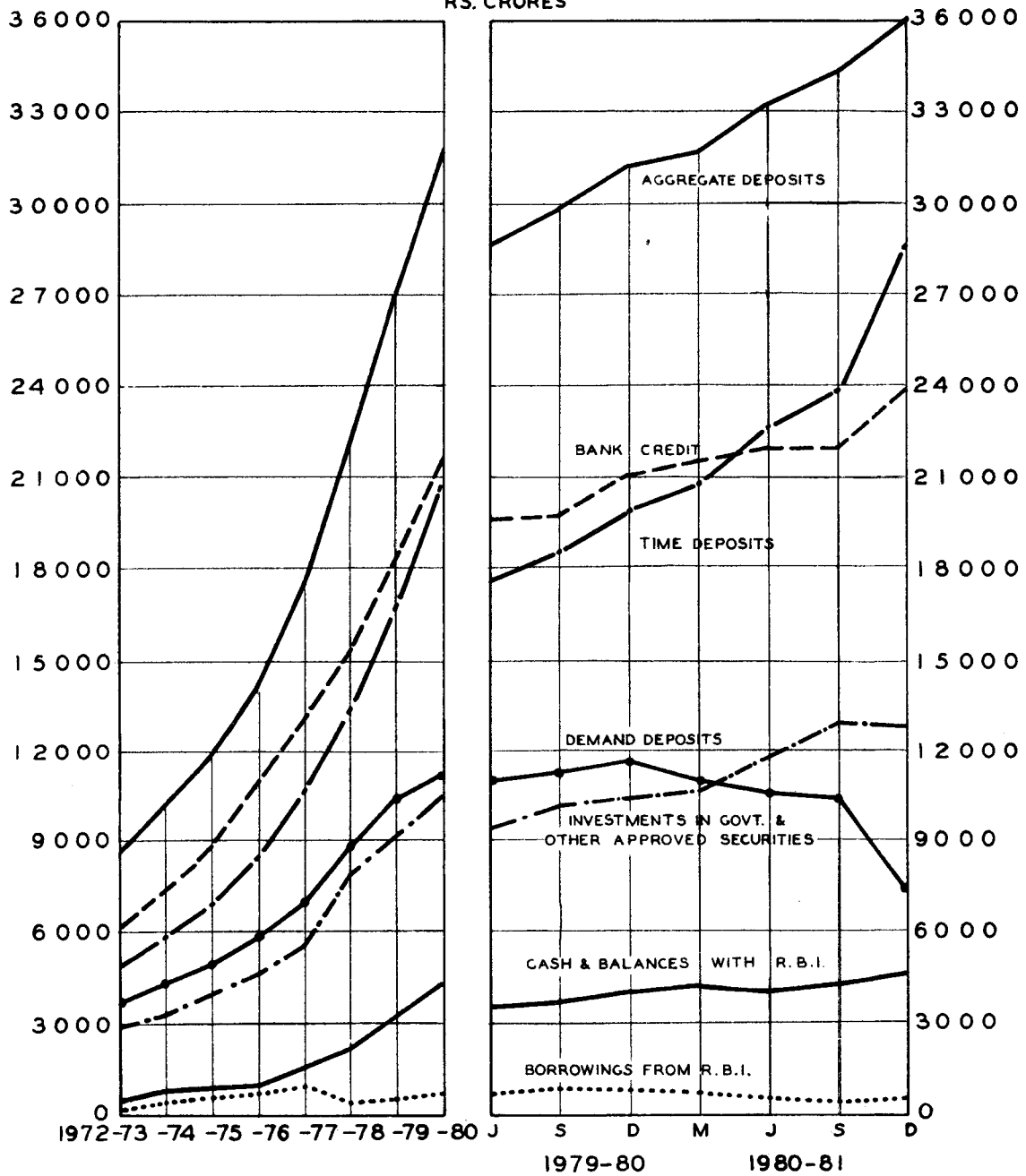
- (ii) restrictions on the effective drawing power of all cash credit and inland bill accounts of Rs. 25 lakhs and above to 80 per cent of the peak level of actual utilisation reached during the two year period ended June 1979.

7.17 Since inflationary pressures continued to afflict the economy, the Reserve Bank's credit policy of caution and restraint had to be continued through 1980-81. In anticipation of the higher demand for bank credit during busy season of 1980-81, the Reserve Bank advised scheduled commercial banks, on

SCHEDULED COMMERCIAL BANKS

(AS ON LAST FRIDAY)

RS. CRORES



June 27, 1980, to be prepared to meet such demand from their own resources. They were also advised to take corrective measures during the slack season, to augment their deposit resources and to keep their lending within their own resources so as to obviate any recourse to refinance or rediscount from the Reserve Bank. To this end, the Reserve Bank asked them to restrict their non-food credit expansion during the 1980 slack season within 40 per cent of the increase in their deposits. From July 1, 1980, the following other credit policy measures were made effective. The rate of interest on standby refinance to banks mainly intended for clearing purposes was raised from 9 per cent to 11 per cent and on bills rediscounted with RBI from 9 per cent to 11 per cent for the first tranche. The subsequent tranches were to carry higher rates of interest. The minimum rate of interest on discretionary refinance accommodation was fixed at 11 per cent. The scheme of refinance for capital goods imports was also withdrawn and that relating to shipping loans was to be withdrawn when commitments reached the limit of Rs. 500 crores. With the revival of 7 per cent interest tax in the Central Budget for 1980-81, banks were asked to revise interest rates on credit with a view to passing on the incidence of the tax to borrowers with effect from July 1, 1980. Though the Regional Rural Banks were exempted from this tax, they were also advised to adopt higher ceilings in respect of their lending rates with a view to maintaining parity in the lending rates of all credit institutions operating in the rural sector.

7.18 The credit policy for the 1980-81 busy season (November 1980 to April 1981) announced by the Reserve Bank, on October 30, 1980, continued the then existing policy measures. However, with a view to enabling banks to meet the busy season demand and reducing their recourse to RBI refinance, the requirement for the maintenance of 10 per cent of the incremental net demand and time liabilities of banks as additional cash reserve with the Reserve Bank was withdrawn. This withdrawal was applied only to those banks which had maintained the stipulated cash reserve ratio and statutory liquidity ratio as on October 31, 1980. Those banks which had failed to maintain these ratios were given two weeks to make good the shortfall to claim the exemption, failing which they were not to get this advantage. However, the 'incremental deposits' already outstanding with the Reserve Bank were not to be returned to the banks for the time being.

7.19 A new dimension of the credit policy development during the year was the substantive change in the approach and structure of credit deployment. It decided to raise the proportion of public sector banks' advances to priority sectors to 40 per cent by 1984-85 from the current level of 33½ per cent and within this overall target, a significant proportion of such advances is to be directed to the weaker sections of society identified under the 20-Point Programme. On the recommendations of the Working Group set

up to examine the modalities of the above mentioned decision of the Government, the Reserve Bank advised banks to try to achieve the following targets :—

- (i) 40 per cent of the priority sector lending should be earmarked for the agricultural sector;
- (ii) 50 per cent of direct lending by commercial banks to agricultural and allied activities should be directed to small and marginal farmers and agricultural labourers; and
- (iii) 12.5 per cent of the total credit advanced to small-scale industries should be reserved for rural artisans, village craftsmen and cottage industries.

Banks have also been directed to actively associate with programmes meant for improving the conditions of slum dwellers in cities by providing them financial assistance

7.20 An important development during the year was the acceptance by the Reserve Bank with some modifications of the recommendations of the Working Group, which had been constituted in 1979 to review the operation of the system of cash credit by commercial banks. The new guidelines issued in this behalf are expected to make the system more amenable to rational management of funds by commercial banks and also to ensure better credit discipline.

7.21 The Reserve Bank also continued to operate the general selective credit controls without major change. However, some adjustments were made in the regulation governing advances against certain sensitive commodities keeping in view their supply and price situation. The minimum margin on advances against gur and khandsari was raised from 50 per cent to 65 per cent to the manufacturers of these commodities, while in respect of others, it was increased from 60 per cent to 75 per cent effective from October 13, 1980. The minimum margin on advances against warehouse receipts was raised from 45 per cent to 55 per cent. In view of the prospects of higher cane crushing in the sugar season 1980-81, the Reserve Bank advised scheduled commercial banks, on October 22, 1980, that subject to liquidity/financial position and estimates of sugar production of individual units, they may sanction credit limits for 1980-81 season to sugar mills up to 125 per cent of the maximum amount availed by them in the previous (1979-80) season without prior authorisation from the Reserve Bank.

Sectoral Deployment of Credit

7.22 Data on sectoral deployment of gross bank credit are available for 1978-79, 1979-80 and the first half of the current financial year (Table 7.4). Most of the increase in gross bank credit during 1978-79 and the whole of the credit expansion in 1979-80 was on account of non-food credit. In 1978-79, of the total increase in gross non-food credit, priority sectors accounted for 44.2 per cent followed

by industry (medium and large) with 33.8 per cent and the remaining 22 per cent was shared by wholesale trade and other sectors of the economy. In 1979-80, the share of priority sectors in the credit increase was 41.9 per cent, that of industry (medium and large) 34.4 per cent; the share of wholesale trade and other sectors together being 23.7 per cent. The share of agriculture in total advances to priority sectors was 42.2 per cent in 1978-79 and 45 per cent in 1979-80. The share of small-scale industry was the same as that of agriculture during 1978-79, but declined to 34 per cent during 1979-80. The share of other priority sectors in the credit to the priority sectors went up from 15.6 per cent in 1978-79 to

21.1 per cent in 1979-80. It may also be noted that the growth of export credit declined from Rs. 258 crores in 1978-79 to Rs. 140 crores in 1979-80.

7.23 There was a deceleration in the rate of growth of gross bank credit during 1979-80 compared with that in 1978-79. The food procurement credit declined by Rs. 110 crores as against an increase of Rs. 226 crores in 1978-79. Whereas the growth rate in the non-food bank credit remained at the same level, in absolute terms, the increase of the order of Rs. 3,197 crores was higher than that of Rs. 2,669 crores in 1978-79. The increase in credit to priority sectors by 24.8 per cent during 1979-80 was much smaller than

TABLE 7.4

Sectoral Deployment of Gross Bank Credit

	(Rs. crores)			
	Variations during			
	April-September			
	1978-79	1979-80*	1979-80	1980-81*
I. Gross bank credit (1+2)	2895 (19.0)	3087 (17.0)	1404 (7.7)	468 (2.2)
1. Public food procurement credit	226	—110	523	—251
2. Gross non-food bank credit (a + b + c + d)	2669 (20.1)	3197 (20.1)	881 (5.5)	719 (3.8)
(a) Priority sectors (i + ii + iii)	1180 (28.0)	1339 (24.8)	560 (10.4)	554 (8.2)
(i) Agriculture	498 (29.9)	603 (27.9)	301 (13.9)	365 (13.2)
(ii) Small-scale industries	498 (29.7)	453 (20.8)	147 (6.8)	110 (4.2)
(iii) Other priority sectors	184 (21.2)	283 (27.0)	112 (10.7)	79 (5.9)
(b) Industry (medium and large)	903 (14.4)	1110 (15.3)	268 (3.7)	195 (2.4)
(c) Wholesale trade (other than food procurement) (i + ii + iii + iv)	243 (18.4)	348 (22.2)	—33 (—3.8)	—122 (—6.4)
(i) Cotton Corporation of India	20	48	5	41
(ii) Food Corporation of India	24	2	—18	7
(iii) Jute Corporation of India	24	28	11	15
(iv) Other trade	175	270	—31	—113
(d) Other sectors	343 (23.4)	410 (22.7)	86 (4.8)	92 (4.2)
II. Export credit (included under item 2)	258 (20.8)	140 (9.3)	—58 (—3.9)	—29 (—1.8)
III. Priority sector advances as per cent of bank credit (excluding PCs) in the last month of the period	30.3	31.9	30.9	33.4

*Provisional.

NOTES : 1 Figures in brackets are percentage variations.

2 Data relate to major banks which account for about 95 per cent of Gross Bank Credit. Further, these data besides taking into account the bills rediscounted with the RBI also include bills rediscounted with the IDBI and other approved institutions and Participation Certificates.

28.0 per cent during 1978-79. In contrast, the increase for industry and wholesale trade during 1979-80 at 15.3 per cent and 22.2 per cent was higher than 14.4 per cent and 18.4 per cent respectively during 1978-79. Within the priority sector, the increase of 20.8 per cent for small-scale industries during 1979-80 was much smaller than 29.7 per cent in 1978-79. The increase for agriculture at 27.9 per cent in 1979-80 was also lower than 29.9 per cent during 1978-79. In contrast, the increase for other priority sectors was much sharper at 27.0 per cent in 1979-80 compared with 21.2 per cent in 1978-79.

7.24 For 1980-81, data on credit deployment are available only for the first six months from April to September. The increase of Rs. 468 crores in gross bank credit in April—September 1980-81 was lower than Rs. 1,404 crores in the same period of 1979-80 *i.e.*, 2.2 per cent as against 7.7 per cent. The sharp deceleration is largely on account of the decline in food procurement credit by Rs. 251 crores in 1980-81 in contrast to an increase of Rs. 523 crores in the previous year. Gross non-food credit expansion has also been somewhat smaller at Rs. 719 crores during the first half of 1980-81 compared with an increase of Rs. 881 crores in the first half of 1979-80. Advances to priority sectors in the first half of 1980-81 at Rs. 554 crores may be compared with Rs. 560 crores in corresponding period of 1979-80. While the advances to agriculture in 1980-81 are marginally better (Rs. 365 crores compared with Rs. 301 crores), they are lower to small-scale industries (Rs. 110 crores compared with Rs. 147 crores in the corresponding period of 1979-80). Advances to other priority sectors have been lower at Rs. 79 crores as against Rs. 112 crores in the first half of 1979-80. Advances to medium and large industries in April—September 1980-81 have risen by Rs. 195 crores, but are lower than the increase of Rs. 268 crores in this period in 1979-80. Advances to wholesale trade have declined like last year, but the decline is sharper at Rs. 122 crores in the first half of 1980-81 compared with Rs. 33 crores

during the corresponding period of 1979-80. Within the wholesale trade sector, advances to public sector trading corporations, such as Food Corporation and the Jute Corporation, have increased by Rs. 7 crores and Rs. 15 crores respectively in 1980-81. The decline in export credit has been, however, smaller at Rs. 29 crores in 1980-81 compared with a decline of Rs. 58 crores in April—September 1979-80. It should be noted that these observations are based on the half-yearly data and do not fully indicate the credit deployment during 1980-81. The trends, however, conform to the Government policy of credit deployment which emphasises the greater flow of additional bank credit to the priority sectors.

7.25 The outstanding bank advances to the priority sectors at the end of September 1980 were Rs. 7,283 crores out of the total outstanding advances of Rs. 21,825 crores (excluding PCs). The priority sectors' share was thus, 33.4 per cent at the end of September 1980 as compared with 31.9 per cent at the end of March 1980 and 30.9 per cent at the end of September 1979.

7.26 Credit policy for the next year has to be formulated against the background of the emerging economic situation during the current year. Inflationary pressures, though abated, are likely to persist especially since continuing world inflation will get transmitted to the economy. It is necessary that the economic recovery which began in 1980-81 is sustained and there is a step up in both agricultural and industrial production. Credit policy, therefore, has to address itself to the conflicting objectives of achieving both relative price stability and the required rate of growth in Gross National Product. In this framework, the banking system has to ensure that the credit expansion is not too far ahead of the recovery in output. At the same time, credit policy should have enough flexibility to cater to the credit needs of productive sectors for sustaining the required rate of growth in Gross National Product.