

## CHAPTER 7

### MONETARY AND CREDIT DEVELOPMENTS

In view of the marked abatement of inflationary pressures which was evident by the end of 1981-82, monetary and credit policy in 1982-83 was gradually relaxed in line with the requirements of the economy. The relaxation in credit policy took place gradually and carefully through a series of measures. These measures aimed at increasing credit availability through the banking system with special emphasis on increasing the flow of credit to some important sectors facing scarcity of credit. The rate of aggregate monetary expansion (M3) which had declined from 17.6 per cent in 1980-81 to 12.3 per cent in 1981-82 is expected to be somewhat higher in 1982-83. M3 growth in the first nine months of 1982-83 amounting to 13.4 per cent was slightly higher compared with 12.1 per cent in the same period of the previous year. The relaxation in credit policy took place within a framework of cautious monetary expansion keeping in view the potential dangers of a resurgence of inflation especially in view of the unsatisfactory performance of the monsoon.

#### Monetary and Credit Trends in 1981-82

7.2 Monetary policy for 1981-82 was formulated in the background of very rapid rates of monetary expansion in 1979-80 and 1980-81 and severe inflationary pressure in those years. Aggregate monetary resources (M3) had increased by 17.7 per cent in 1979-80 and 17.6 per cent in 1980-81. The rate of inflation in 1980-81 was 16.4 per cent which,

although lower than 21.4 per cent recorded in 1979-80, was nevertheless unacceptably high. It was, therefore, imperative to reduce the rate of monetary expansion as part of the strategy of curbing inflation and this was effectively achieved in 1981-82. M3 growth was reduced to 12.3 per cent and M1 growth was also sharply reduced to 6.3 per cent compared with 16.8 per cent in the previous year.

7.3 Net credit to the Government in 1981-82 expanded by Rs. 4,914 crores which was lower in absolute terms than the expansion of Rs. 5,704 crores in 1980-81. Net credit to the Government had expanded very rapidly in 1980-81 and the significantly lower rate of expansion in 1981-82 was a reflection of the considerable improvement in fiscal performance in that year. Although net credit expansion to the government from the banking system was significantly lower, the expansion in net RBI credit to the government in 1981-82 was only marginally lower at Rs. 3,997 crores compared with Rs. 4,038 crores in 1980-81. However, this expansion in net RBI credit to the Government was combined with a very much larger drawdown in net foreign assets of Rs. 2,069 crores in 1981-82 compared with a drawdown of only Rs. 613 crores in 1980-81. As a result there was a sharp contractionary impact on reserve money creation. Reserve money expansion in 1981-82 was only Rs. 1,526 crores (7.8 per cent) compared with Rs. 2,879 crores (17.4 per cent) in 1980-81.

TABLE 7.1  
Sources of change in Reserve Money

	Outstanding as on March 31, 1979	Variations during					(Rs. crores)
		1979-80	1980-81	1981-82	1981-82		
					March 31 to Jan. 15	March 31 to Jan. 14*P	
1	2	3	4	5	6	7	
1. Net RBI Credit to Government . . . . .	9416	2989 (31.7)	4038 (32.6)	3997 (24.3)	2142 (13.0)	2157 (10.6)	
2. RBI credit to banks . . . . .	1117	83 (7.4)	76 (6.3)	397 (31.1)	194 (15.2)	-32** (-1.9)	
3. RBI credit to Commercial Sector . . . . .	1250	296 (23.7)	154 (10.0)	344 (20.0)	202 (11.9)	429 (21.0)	
4. Net foreign exchange assets of RBI . . . . .	5431	-43 (-0.8)	-613 (-11.4)	-2069 (-43.3)	-1733 (-36.3)	-1101 (-40.7)	
5. Government's currency liabilities to the public . . . . .	604	-12 (-2.0)	27 (4.6)	19 (3.1)	30 (4.8)	22 (3.4)	
6. Net non-monetary liabilities of RBI . . . . .	3735	823 (22.0)	802 (17.6)	1162 (21.7)	464 (8.7)	429 (6.6)	
Reserve Money (1 + 2 + 3 + 4 + 5 - 6) . . . . .	14083	2490 (17.7)	2879 (17.4)	1526 (7.8)	371 (1.9)	1047 (5.0)	

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

\*\*Includes claims on NABARD.

P= Provisional.

Notes : 1. Figures in brackets are percentage variations.

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

7.4 Bank credit to the commercial sector expanded by Rs. 6,676 crores (18.3 per cent) in 1981-82 compared with Rs. 5,385 crores (17.4 per cent) in 1980-81. Expansion in non-food credit was Rs. 3,901 crores which was lower than the expansion of Rs. 4,070 crores in 1980-81. However, this comparison is misleading since the expansion in 1980-81 includes a considerable build up of credit to the petroleum sector which arose because the higher prices of petroleum imports were not reflected in domestic prices until

June 1981. After domestic prices of petroleum production were raised in 1981, resources made available to the petroleum sector were used to repay bank credit extended earlier and the lower rate of expansion in commercial credit during 1981-82 reflects the decline in credit to the petroleum sector. If credit to the petroleum sector is excluded, the expansion in non-food credit in 1981-82 amounts to Rs. 4,193 crores as against Rs. 3,620 crores in the previous year.

TABLE 7.2  
Sources of change in Money Stock

(Rs. crores)

	Variations during			
	1980-81 (Mar. 31 to Mar. 31)	1981-82 (Mar. 31 to Mar. 31)	1981-82 (Mar. 31 to Jan. 15)P	1982-83* (Mar. 31 to Jan. 14)P
	1	2	3	4
<b>I. M1 (Money Supply with the public)</b>	3370 (16.8)	1468 (6.3)	758 (3.2)	2849 (11.5)
<b>II. M3 (Aggregate monetary resources)</b>	8321 (17.6)	6839 (12.3)	5928 (10.7)	8838 (14.2)
(i) Currency with the public	1782 (15.3)	1031 (7.7)	670 (5.0)	1642 (11.4)
(ii) Demand deposits with banks	1569 (19.7)	680 (7.1)	381 (4.0)	1221 (12.0)
(iii) Time deposits with banks	4951 (18.2)	5371 (16.7)	5170 (16.1)	5989 (16.0)
(iv) Other deposits with RBI	20	-243	-293	-14
<b>III. Sources of change in M3 (I + 2 + 3 + 4 - 5)</b>				
1. Net bank credit to Government (a + b)	5704 (28.5)	4914 (19.2)	3151 (12.3)	4787 (15.6)
(a) RBI's net credit to Government (i + ii)	4038	3997	2142	2157
(i) To Central Government	3551	3207	1741	3371
(ii) To State Governments	487	789	401	-1214
(b) Other banks' credit to the Government	1666	917	1009	2630
2. Bank credit to commercial sector (a + b)	5385 (17.4)	6676 (18.3)	6037 (16.6)	5788 (13.4)
(a) RBI's credit	154	344	202	429
(b) Other banks' credit	5231	6332	5835	5359
3. Net foreign exchange assets of banking sector	-613 (-11.5)	-2069 (-43.7)	-1733 (-36.0)	-1101 (-41.4)
4. Government's currency liabilities to the public	27 (4.6)	19 (3.1)	30 (4.8)	22 (3.4)
5. Banking sector's net non-monetary liabilities other than time deposits (a + b)	2181 (22.4)	2701 (22.7)	1557 (13.1)	658 (4.5)
(a) Net non-monetary liabilities of RBI	802	1162	464	429
(b) Net non-monetary liabilities of other banks	1379	1539	1093	229

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

NOTES : 1. Figures do not exactly add up due to rounding off.

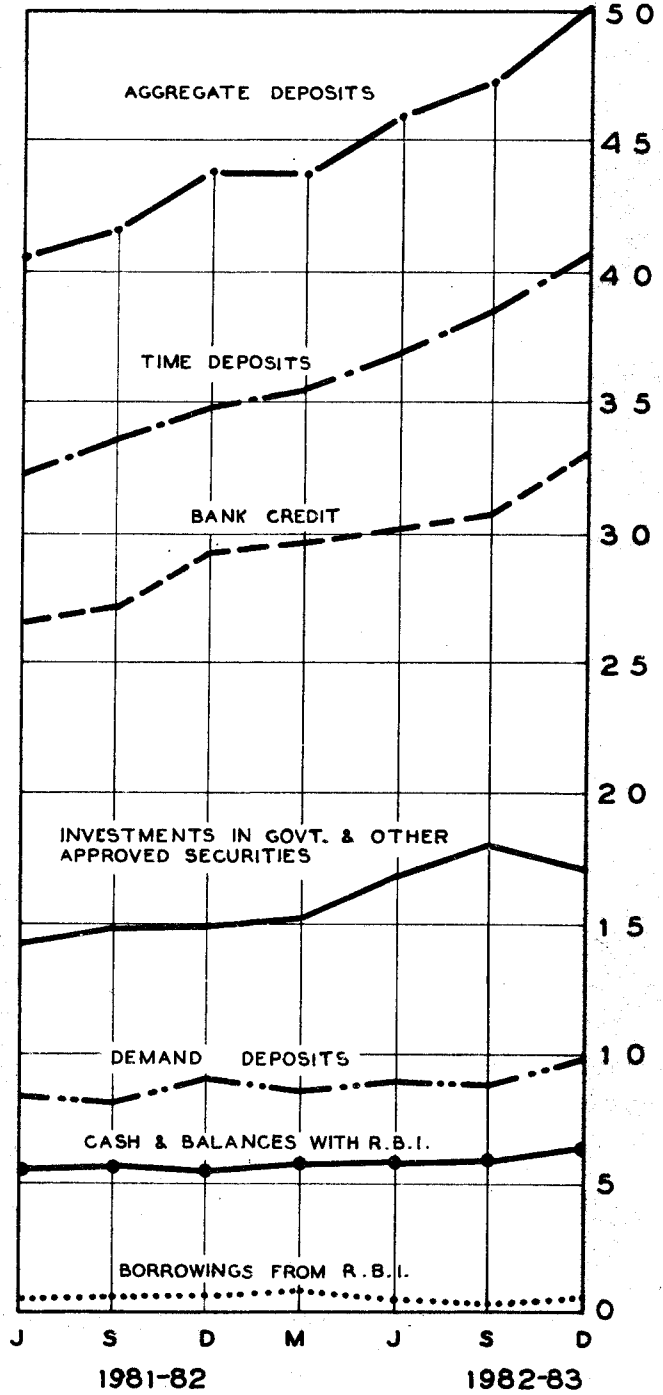
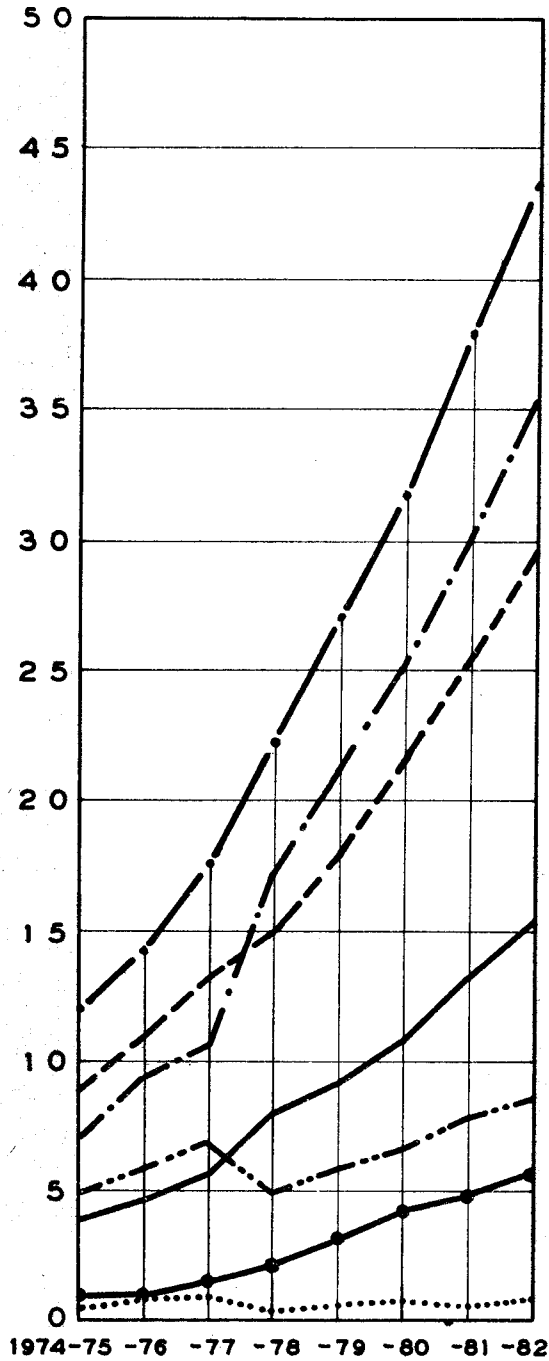
2. The demand and time deposits data for March 31, 1980 are worked out on the basis of the proportion in which demand and time deposits were placed for the last Friday of March 1980.

P=Provisional.

# SCHEDULED COMMERCIAL BANKS

(AS ON LAST FRIDAY)

RS. IN '000 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

7.5 The aggregate deposits of scheduled commercial banks increased by Rs. 5,832 crores during 1981-82 as against Rs. 6,229 crores in the previous year. The marginally lower growth rate is accounted for by the sharp deceleration in demand deposits which rose by only Rs. 712 crores compared with Rs. 1,155 crores in 1980-81. Growth in time deposits was Rs. 5,120 crores compared with Rs. 5,074 crores in 1980-81. The rate of deposit growth was quite high in the first half of 1981-82 and this was reflected in a correspondingly sharp increase in bank credit during the period. Growth in deposits during the slack

season of 1981 was Rs. 3,528 crores compared with Rs. 2,629 crores in the corresponding period of the previous year. In the busy season of 1981-82, the accretion in deposits came down to Rs. 2,108 crores as against Rs. 3,609 crores in the same period of 1980-81. The slowdown in deposit growth in the second half of 1981-82 reflects the impact of monetary restraint exercised during that year and especially the deceleration in the rate of growth of reserve money as noted above. Another contributory factor was the existence of several attractive new saving instruments including especially debentures of the private corporate sector.

TABLE 7.3

## Scheduled Commercial Banks' Variations in Selected Indicators

As on last Friday	Variations during			
	1980-81	1981-82	1981-82 (Mar. to Jan. 15)	1982-83* (Mar. to Jan. 14)
	2	3	4	5
1. Aggregate deposits . . . . .	6229	5832	5290	6867
(a) Demand deposits . . . . .	1155	712	435	1094
(b) Time deposits . . . . .	5074	5120	4855	5773
2. Borrowings from RBI . . . . .	-149	242	79	-368
3. Cash in hand and balances with RBI . . . . .	608	817	602	-84
(a) Cash in hand . . . . .	150	26	67	134
(b) Balances with RBI . . . . .	458	791	535	-218
4. Net balances with RBI [3(b)-2] . . . . .	607	549	456	150
5. Money at call and short notice . . . . .	342	-246	-411	-228
6. Bank credit . . . . .	3834	4271	4412	4169
7. Bills rediscounted with RBI . . . . .	-105	-4	-4	..
8. Gross bank credit . . . . .	3729	4267	4408	4169
9. Public food procurement credit . . . . .	-341	368	703	988
10. Non-food Gross bank credit . . . . .	4070	3901	3705	3181
of which :				
To Priority Sector . . . . .	1774	2163	..	..
11. Investment in Government and other approved securities . . . . .	2561	1953	1642	3447
(a) Government securities . . . . .	1775	937	748	2319
(b) Other approved securities . . . . .	786	1016	894	1129
12. Balances with other banks in current accounts . . . . .	..	..	103	208
13. Gross credit deposit ratio . . . . .	66.8	67.7	68.8	66.7
14. Gross credit (excluding food credit) . . . . . % at the end of period	62.2	62.8	62.2	60.6
15. Investment—deposit ratio . . . . .	34.7	34.6	34.3	36.7

\* Provisional.

.. Not available.

7.6 Credit policy during 1981-82 was aimed at containing the growth of liquidity in the economy with a view to curbing inflation. Commercial banks were asked to ensure a marginally lower expansion in credit to the commercial sector (specially non-food credit) in the slack season of 1981 compared with the previous slack season. In terms of the full financial year 1981-82 the broad guidelines given were that the expansion of non-food credit should be marginally lower than the expansion in 1980-81. Despite these guidelines actual credit expansion of the scheduled commercial banks in the first half of the financial year followed the buoyant growth in bank deposits and was, therefore, unduly high. Between end April and end October 1981, commercial credit from scheduled commercial banks expanded by Rs. 2,308 crores while in the previous slack season, the increase had amounted to only Rs. 1,132 crores. Steps were taken to tighten monetary and credit expansion in September 1981 when the cash reserve ratio was raised from 6 per cent to 7 per cent and again in November where a phased increase upto 8 per cent was announced. These measures had an effect in the second half of 1981-82 and credit expansion to the commercial sector slowed down in the busy season expanding by only Rs. 1,592 crores as against an increase of Rs. 3,038 crores during the previous busy season.

7.7 An important feature of developments during 1981-82 was that a disproportionately large credit expansion took place in the first half of the year which had to be sharply curtailed in the second half, so that in aggregate terms monetary expansion for the year as a whole was lower than in 1980-81.

#### Monetary and Credit Trends in 1982-83

7.8 The expansion of money and credit in 1982-83 reflected the gradual relaxation in monetary and credit policy in the course of the year. Upto January 14, 1983 the expansion in M3 was Rs. 8,838 crores (14.2 per cent) compared with Rs. 5,928 crores (10.7 per cent) in the previous year. M1 growth in this period was also higher amounting to Rs. 2,849 crores (11.5 per cent) as against Rs. 758 crores (3.2 per cent) in the previous year. Currency with the public has expanded sharply by Rs. 1,642 crores (11.4 per cent) as against Rs. 670 crores (5.0 per cent). Demand deposits also rose sharply by Rs. 1,221 crores (12 per cent) in this period in the current year as compared with Rs. 381 crores (4.0 per cent) in the same period in 1981-82. Time deposit growth in the current year was higher in absolute terms at Rs. 5,989 crores compared with the expansion of Rs. 5,170 crores last year but the percentage growth in time deposits has been somewhat lower.

7.9 Analysis of the sources of change in money stock shows that there was a larger increase in net bank credit to the Government of Rs. 4,787 crores (15.6 per cent) upto January 14, 1983 as against Rs. 3,151 crores (12.3 per cent) in the same period last year. In contrast, net credit to the commercial sector registered a somewhat lower increase of Rs. 5,788 crores (13.4 per cent) as against Rs. 6,037 crores (16.6 per cent) in the comparable period of 1981-82. This deceleration in growth rate was

chiefly accounted for by a lower growth of credit of other banks (excluding RBI) to this sector which registered an increase of Rs. 5,359 crores, as against Rs. 5,835 crores last year. This, to some extent, reflects the lower demand for additional credit, partly as an after-effect of excess credit expansion in 1981-82. The slow growth of commercial credit for the period upto January 14 was largely a reflection of slow growth in the first half of 1982-83. The pace of credit expansion accelerated after September 1982 as the relaxation of credit policy took effect.

7.10 The expansionary impact of the increase in net bank credit to the Government sector has been cushioned substantially by a notable decline in the net foreign exchange assets of the banking sector in the last few years. During the current year also, upto January 14, 1983 the foreign exchange assets of the banking sector declined by Rs. 1,101 crores but this decline was considerably smaller than the decline of Rs. 1,733 crores in the same period last year.

7.11 A noticeable feature of the credit expansion of scheduled commercial banks was the sharp increase in food credit by Rs. 988 crores compared with Rs. 703 crores in the same period in 1981-82. The increase in non-food credit from the scheduled commercial banks in this period was only Rs. 3,181 crores as against Rs. 3,705 crores in the same period last year. The lower rate of expansion was to a very considerable extent due to slow growth in the first six months of 1982-83. After September 1982 the increase in non-food credit accelerated significantly. This reflected the impact of steps taken to increase the availability of funds especially to certain sectors experiencing particular difficulties with regard to credit availability.

7.12 As noted above, growth in reserve money in 1981-82 was contained by the reduction in net RBI credit to the Government and by the substantial decline in net foreign assets in that year. As a result reserve money expanded by only Rs. 1,526 crores (7.8 per cent). In the current year upto January 14, 1983 reserve money expanded by Rs. 1,047 crores (5.0 per cent) which is considerably faster than the expansion of Rs. 371 crores upto the same point in 1981-82. The faster rate of expansion in reserve money in the current year is primarily due to the lower decline in net foreign assets—Rs. 1,101 crores upto January 14, 1983 compared with Rs. 1,733 crores upto the same point last year—and partly also because of larger expansion in RBI credit to the commercial banks. Net RBI credit to the government has expanded by almost the same amount as last year.

#### Sectoral Deployment of Credit

7.13 The data on sectoral deployment of credit in 1980-81 and 1981-82 shows that gross bank credit increased by Rs. 3569 crores (16.8 per cent) and Rs. 4355 crores (17.6 per cent) respectively. There was, however, a notable difference in the pattern of deployment of credit. In 1980-81, the major increase came through credit to medium and large scale industries which registered a growth of Rs. 1691 crores (20.4 per cent) compared with Rs. 1207 crores (12.1 per cent) in the following year. In the same year,

credit for food procurement declined by Rs. 341 crores in the wake of a bad agricultural year in 1979-80. In 1980-81 wholesale trade other than food procurement showed a modest growth of only Rs. 79 crores (4.1 per cent), whereas in 1981-82 it went up by Rs. 225 crores (11.3 per cent). In 1981-82, with the recovery of agriculture, credit for both food procurement and wholesale trade went up. The increase in the former was of the order of Rs. 368 crores. The overall growth in credit to the priority sector was

comparable in the two years under consideration i.e., it was 26.4 per cent in 1980-81 as against 25.4 per cent in 1981-82. One heartening feature of sectoral deployment of credit was the increase in the share of priority sector's advances in net bank credit. This was only 35 per cent at the end of 1980-81 but rose to 37.7 per cent in the following year. From April to September 1982, it reached a level of 37.3 per cent as against 36.8 per cent in the corresponding period last year.

TABLE 7.4  
Sectoral Deployment of Gross Bank Credit

1	Variations during			
	1980-81	1981-82	April to September	
			1981	1982
	2	3	4	5
I. Gross Bank credit . . . . .	3569 (16.8)	4355 (17.6)	1743 (7.0)	896 (3.1)
1. Public food procurement credit . . . . .	—341	368	117	223
2. Gross non-food credit (a + b + c + d) . . . . .	3910 (20.4)	3987 (17.3)	1626 (7.1)	673 (2.5)
(a) Priority sector (i + ii + iii) . . . . .	1774 (26.4)	2163 (25.4)	1054 (12.4)	185 (1.7)
(i) Agriculture . . . . .	817 (19.5)	1009 (28.2)	548 (15.3)	152 (3.3)
(ii) Small scale industries . . . . .	594 (22.5)	678 (21.0)	289 (9.0)	6 (0.2)
(iii) Other priority sectors . . . . .	363 (27.3)	476 (28.2)	217 (12.8)	27 (1.2)
(b) Industry (medium and large) . . . . .	1691 (20.4)	1207 (12.1)	169 (1.7)	436 (3.9)
(c) Wholesale trade other than food procurement (i + ii + iii + iv) . . . . .	79 (4.1)	225 (11.3)	145 (7.3)	—84 (—3.8)
(i) Cotton Corporation of India . . . . .	32 (14.0)	—6 (—2.3)	—92 (—35.2)	—10 (—3.9)
(ii) Food Corporation of India (Fertiliser) . . . . .	32 (15.2)	169 (69.8)	95 (39.3)	59 (14.4)
(iii) Jute Corporation of India . . . . .	23 (41.1)	36 (45.6)	3 (3.8)	—25 (—21.7)
(iv) Other trade . . . . .	—8 (—0.6)	26 (1.8)	139 (9.8)	—108 (—7.5)
(d) Other sectors . . . . .	366 (16.5)	392 (15.2)	258 (10.0)	136 (4.6)
II. Export credit (included under Item 2) . . . . .	..	159 (9.7)	110 (6.7)	—155 (—8.6)
III. Priority sector advances as per cent of the net bank credit (including PCs in the last month of the period) . . . . .	35.0	37.7	36.8	37.3

\*Provisional.

NOTES : 1. Figures in brackets are percentage variations.

2. Data relate to major banks which account for about 96 per cent of gross bank credit and include bills rediscounted with the RBI, IDBI and other approved institutions and Participation Certificates.

7.14 A detailed break-up of non-food credit during the first half (April—September) of 1982-83 shows that credit to priority sectors increased by Rs. 185 crores out of which increase in credit to agriculture alone was of the order of Rs. 152 crores. Gross credit to medium and large scale industries rose by Rs. 436 crores which was higher than last year's comparable expansion of Rs. 169 crores. In spite of the fact that credit to the Food Corporation of India (for fertiliser distribution) went up by Rs. 59 crores, gross credit to the wholesale trade sector contracted by Rs. 84 crores. The major reason for this decline was a negative growth in bank credit for 'other trade' to the tune of Rs. 108 crores. Export credit also failed to pick up as is evident from table 7.4.

### Developments in Credit Policy

7.15 As noted in last year's survey, a number of measures were taken from September 1981 onwards to correct the over rapid expansion in credit that took place in the first half of 1981-82. To mop up the excess liquidity in the banking system the CRR was raised from 7 per cent to 8 per cent in four stages spread over a period from November 27, 1981 to February 26, 1982 (modified later as indicated below), access to commercial bills rediscounting was disallowed for the time being, and access to discretionary refinance was limited only to exceptional circumstances and for short periods. These steps resulted in a large measure in mopping up excess liquidity in the economy, moderating monetary and credit expansion and consequently helped in bringing down the rate of inflation substantially by the end of 1981-82. However, by the end of 1981-82 there were signs that the financial position of banks was tight and they were finding it difficult to meet the busy season credit requirements. The reduced rate of expansion of non-food credit in the second half of 1981-82 affected some sectors which were heavily dependent on bank finance such as trucks, commercial vehicles, sugar and fertilizers. The pace of deposit growth had slackened and during the last quarter of 1981-82, deposits declined by as much as Rs. 303 crores in contrast to a rise of Rs. 1088 crores in the corresponding period of the previous year. The tight resource position of the banks became most evident during the quarter January—March 1982. This led to sizeable and widespread defaults by banks in the statutory requirements in respect of CRR and SLR.

7.16 Towards the end of 1981-82 with inflation effectively curbed, it was necessary to help the banks to meet the credit requirements of the productive sectors particularly those facing demand difficulties. Accordingly, the stance of monetary and credit policy was changed gradually in line with the requirements of the situation. As a first step, the implementation of the last phase of the increase in the cash reserve ratio to 8 per cent (which was to have taken effect from February 26, 1982) was postponed and later rescinded. During January—March 1982 substantial discretionary refinance (Rs. 200 crores by end

April) was provided by the Reserve Bank in order to sustain the requirements of some vital sectors of the economy and also to meet the credit needs of important seasonal industries on a selective case-to-case basis. Further, the additional interest of 3 per cent charged on refinance to banks defaulting in reserve requirements was also waived. In addition, in the middle of March 1982, the Agricultural Refinance and Development Corporation (ARDC) provided interim accommodation to commercial banks and State Land Development Banks so as to enable them to meet the credit needs of the farmers for the purchase of tractors. To enable the banks to extend credit in this regard, the Reserve Bank agreed to provide discretionary refinance accommodation to the extent of Rs. 10 crores to the banking system between mid-March 1982 and mid-June 1982. Similarly with a view to assisting the textile mills facing difficulties because of demand recession, the R.B.I. allowed the banks to consider reduction in margins on a selective basis.

7.17 At the commencement of the financial year 1982-83, the banking and credit situation in the country was characterised by a pronounced sluggishness in the growth of credit and deposits. The credit policy measures announced on 8th April, 1982 responded to this situation. The Cash Reserve Ratio was reduced from 7.75 per cent to 7.25 per cent with effect from April 9, 1982. In addition, the Cash Reserve Ratio in respect of deposits under the Non-Resident (external) Rupee Accounts scheme was reduced from 7.75 per cent to 3 per cent with effect from April 9, 1982 and the interest rate payable by the RBI on cash balances maintained by banks in excess of the basic minimum of 3 per cent was raised from 7 per cent to 8 per cent with effect from April 1, 1982\*. The refinance entitlement of food procurement credit was liberalised from 30 per cent to 50 per cent for the increase over the base level of Rs. 2200 crores upto Rs. 2800 crores and 100 per cent of the increase thereafter. The base level over which 50 per cent of refinance was being provided for export finance at the monthly average of the calendar year 1979 was continued with a view to enabling banks to provide adequate credit to the export sector. Another concession was the extension of the waiver of the additional interest of 3 per cent on refinance availed by banks with short-fall in reserve requirements upto June 25, 1982.

7.18 Further measures were taken on 9th June 1982 to ensure adequate growth of credit in line with the production requirements. The Cash Reserve Ratio (CRR) was further lowered from 7.25 per cent to 7.00 per cent with effect from June 11, 1982. Provision was made for 100 per cent refinance as soon as the outstanding level of food credit exceeded Rs. 2600 crores instead of Rs. 2800 crores fixed in April, 1982. This arrangement was to be operative for the rabi season upto the end of September, 1982.

\*Later this was made retroactive with effect from January 1, 1982.

7.19 In another review of the monetary and credit policy on July 17, 1982 the RBI did not find it necessary to make further substantive changes except for setting out broad guidelines for non-food credit expansion during the fiscal year 1982-83. For the banking system as a whole non-food credit expansion could be around the same percentage rate of growth as in 1981-82 i.e. at 16.8 per cent, this would work out to an expansion of Rs. 4600 crores for the year. Further, with a view to alleviating punitive penalties on small involuntary defaults, a system of graduated penalties on CRR defaults was introduced retroactive from January 1, 1982 in terms of which shortfalls equivalent to 4 per cent of the absolute amount of cash balances required to be maintained would not attract any penalty, while in case of shortfall upto 3 per cent, banks would be paid interest on eligible balances actually maintained on a graduated scale. The enhanced interest of 8 per cent payable on cash balances above the minimum of 3 per cent was also made retroactive from January 1, 1982 and the standby refinance facility was liberalised—it was not to be restricted to three days at a time. The cut-off point for credit authorisation scheme for working capital limits for private sector borrowers was also raised from Rs. 2 crores to Rs. 3 crores—i.e. same as public sector borrowers.

7.20 The credit policy announced on October 25, 1982 for the 1982-83 busy season took note of all these developments and expanded credit needs during the following months. The policy was designed to promote savings, assist in fuller utilisation of existing capacities and have a positive impact on production and export sectors, with requisite credit discipline in the context of potential inflationary pressures. The basic elements of credit control mechanism i.e. the Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), structure of lending rates and structures of the RBI's refinance rates have been kept unchanged. However, while the general deposit rates structure was left unaltered a new category of term deposits of five years and above with a rate of interest of 11.0 per cent was introduced with effect from October 26, 1982. Effective from November 1, 1982 banks are being provided 100 per cent refinancing over the outstanding level of food credit of Rs. 2500 crores. With a view to enhancing the banks' ability to increase export credit without any constraints, effective from November 1, 1982, banks have been provided refinance to the extent of 50 per cent of the increase in export credit over the monthly average level of 1981 plus 100 per cent of the increase over the monthly average level of export credit in 1981.

7.21 Additional resources were provided to the IDBI to ensure that State Electricity Boards and State Road Transport Corporation (SRTC's) were sanctioned additional limits for the purchase of capital equipment and vehicles respectively. These resources are to be made available through the bill discounting scheme. For facilitating more expeditious sanction of export credit limits, further liberalisation of the Credit Authorisation

Scheme procedures was made. Banks were advised to charge a concessional interest rate of 13.5 per cent per annum on advances to State-sponsored organisation of scheduled castes/tribes.

7.22 The amount of Rs. 100 crores earmarked for housing finance by banks during 1982-83 was raised to Rs. 150 crores. The banks were also advised to pay greater attention to the attainment of sub-targets for the weaker sections of the society as identified under the new 20-point programme, credit needs of small and marginal farmers, scheduled castes/tribes, women entrepreneurs, command areas of irrigation projects, banking infrastructure for successful implementation of the Integrated Rural Development Programme and quality and promptness of customer service.

7.23 The busy season credit policy also included measures to stimulate investment and production in selected industries. The ceiling on the banks' share in term loan component for replacement/expansion of fleets by SRTC's was enhanced from 25-30 per cent to 40 per cent of the project cost. The IDBI has been provided additional resource support to ensure that the State Electricity Boards and State Road Transport Corporations are sanctioned additional limits to step up purchases of capital equipment and intermediate goods. The enlargement of the IDBI facility is of the order of Rs. 100 crores. These should improve considerably the domestic market for commercial vehicles and tractors. This is in addition to measures taken to liberalise export credit which will stimulate production and export in export-oriented industries.

7.24 In respect of selective credit controls, the margin requirement on advances to sugar mills against "non-released" sugar was reduced from 25 per cent to 20 per cent. In view of large accumulation of stocks, the margin requirement on "non-released" sugar excepting sugar stock held as buffer stock was further reduced to 17.5 per cent with effect from November 18, 1982. No margins were to be retained against buffer stocks. Further clean loan assistance not exceeding Rs. 25 lakhs per unit was being provided to sugar mills which faced deficit in their cash position to meet off-season expenses like repairs and purchases of machinery. Margin on tractor and truck loans have been reduced from 25 per cent to 15 per cent in the busy season credit policy.

7.25 In the field of institutional credit for agriculture and rural development a significant development was the establishment of the National Bank for Agriculture and Rural Development (NABARD). While the necessary legislation was enacted in 1981-82, it was established on July 12, 1982. The NABARD has taken over the entire undertaking of the Agricultural Refinance and Development Corporation as also the refinancing functions in relation to State Cooperative Banks and Regional Rural Banks. A detailed account of the structure and functions of the NABARD was given in last year's Economic Survey.



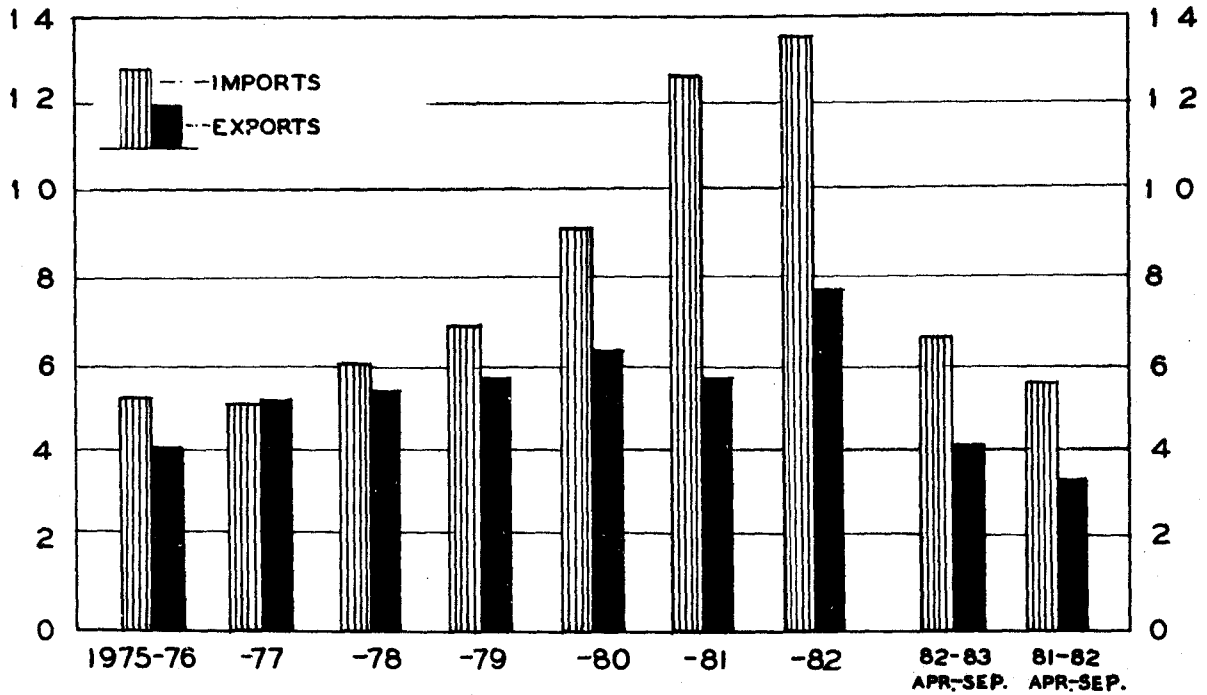
7.26 As mentioned last year, another important addition to the institutional machinery was the setting up on January 1, 1982 of the Export-Import Bank of India. This enlargement of the financial structure was an indication of the increasing specialisation in banking necessary for catering to the requirements of a growing economy.

7.27 The Reserve Bank of India has appointed a Committee on Monetary Reforms to review the structure and operation of the monetary system and to assess the inter-action between monetary policy and other Government policies. The Committee will also evaluate the various instruments of monetary and credit policy in terms of their impact on the credit system and on the economy in general.

7.28 In sum, monetary policy in 1982-83 regulated the expansion of monetary resources and bank credit in line with the changing economic situation. In view of the significant expansion in liquidity in the earlier years and the potential for resurgence of inflationary pressures the policy aimed at meeting the needs of the productive and priority sectors without risking any undue expansion of liquidity. Effective use of monetary policy calls for considerable flexibility in implementation taking account continuously of the evolving economic situation. This flexibility will have to continue in future. It should be recognised that monetary policy has also to be integrated with other economic policies. Successful monetary policy depends crucially upon maintenance of financial and fiscal stability and this will be critical in the year ahead.

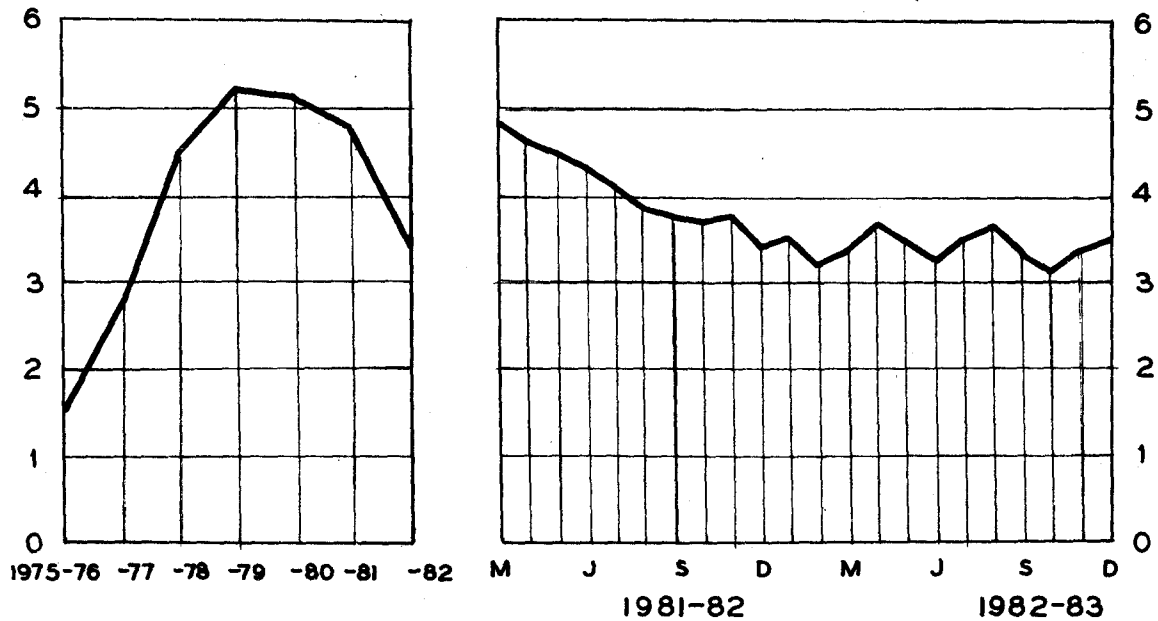
# FOREIGN TRADE

RS. IN '000 CRORES



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