

## CHAPTER 7

### MONETARY AND CREDIT DEVELOPMENTS

The monetary situation during 1983-84 was marked by a rapid growth in liquidity and primary money. This trend has persisted in 1984-85, and an important objective of monetary policy during the year has been to ensure that, as far as possible, accumulation of excess liquidity with the banking system is restrained. Fortunately, the price situation during the year has been highly favourable. An important task of the monetary policy now is to contain growth in money supply and reserve money with a view to curbing excess liquidity which might otherwise fuel inflationary expectations.

#### Monetary Trends during 1983-84

7.2 The year 1983-84 was characterised by a strong growth in deposits accompanied by a subdued demand

for credit resulting in the build up of substantial liquidity in the banking system. Aggregate money stock (M3) expanded by 18.1 per cent in 1983-84 compared with an increase of 16.1 per cent in 1982-83. Analysis of components of M3 reveals a high rate of growth of currency with the public and time deposits of 17.7 per cent and 18.9 per cent, respectively, during 1983-84 compared with the increase of 15.1 per cent and 17.2 per cent, respectively, in the preceding year. The increase in demand deposits was also higher in 1983-84 (15.5 per cent) than in 1982-83 (13.6 per cent). Consequently, the growth in M1 in 1983-84 was substantially higher at 17.0 per cent compared with a growth of 14.4 per cent in the previous year. The growth in time and demand deposits taken together was 18.1 per cent in 1983-84 against 16.4 per cent in the previous year.

TABLE 7.1

*Sources of Change in Reserve Money*

		(Rs. crores)					
		Variations during					
1	2	3	4	5	6	7	
Outstanding as on Mar. 31, 1981	1981-82	1982-83*	1983-84	1983-84 Mar. 31 to Jan. 27 (Provisional)	1984-85 Mar. 31 to Jan. 25 (Provisional)		
1. Net RBI credit to Government . . . . .	16443	3997 (24.3)	2508 (12.3)	3987 (17.5)	1550 (6.8)	4651 (17.3)	
2. RBI credit to banks . . . . .	1276	397 (31.1)	469£ (28.0)	746£ (36.8)	-354£ (-17.5)	422£ (15.2)	
3. RBI credit to commercial sector . . . . .	1700	344 (20.2)	429@ (21.0)	455@ (23.6)	325@ (16.9)	388@ (16.3)	
4. Net foreign exchange assets of RBI . . . . .	4775	-2069 (-43.3)	-977 (-36.1)	-105 (-6.1)	-534 (-30.9)	423 (26.0)	
5. Government's currency liabilities to the public . . . . .	619	38 (6.1)	25 (3.8)	37 (5.4)	10 (1.5)	21 (2.9)	
6. Net non-monetary liabilities of RBI . . . . .	5360	1162 (21.7)	342 (5.2)	-763 (-12.6)	-1440 (-23.7)	2257 (42.5)	
7. Reserve money (1+2+3+4+5-6) . . . . .	19452	1546 (7.9)	2112 (10.1)	5883 (25.5)	2436 (10.5)	3648 (12.6)	

\* These disregard changes in components of sources on July 12, 1982 following reclassification of aggregates necessitated by the establishment of NABARD.

£ Includes claims on NABARD

@ Excludes, since the establishment of NABARD, its refinance to banks.

NOTES : 1. Figures in brackets are percentage variations.

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

3. Figures may not add up to totals because of rounding.

7.3 With a view to reducing the expansionary impact of M3 growth and containing excess liquidity in the banking system, a series of policy measures were taken during 1983-84, the most important of which was the raising of the Cash Reserve Ratio (CRR). Between May 1983 and February 1984, the CRR was revised upwards four times from 7.0 per cent to 9.0 per cent in a phased manner. In addition, an incremental CRR of 10 per cent was also imposed with effect from November 12, 1983. The cut-off point for outstanding food credit eligible for 100 per cent refinance was raised twice during the year from Rs. 2,500 crores to Rs. 2,800 crores with effect from July 1, 1983 and subsequently to Rs. 3,300 crores with effect from November 25, 1983.

7.4 Sources of variation in money stock (M3) show that net bank credit to Government rose by Rs. 5385 crores (15.3 per cent) in 1983-84 compared with an increase of Rs. 4749 crores (15.5 per cent) during 1982-83. RBI's net credit to Government rose by as much as Rs. 3987 crores in 1983-84 against an increase of Rs. 2508 crores in the previous year. Other banks' credit to Government, however, recorded a much lower increase of Rs. 1398 crores in 1983-84 compared with the increase of Rs. 2241 crores in 1982-83.

7.5 Partly on account of the availability of alternative sources of finance and partly owing to a subdued demand for credit, there was a slight decline in the growth rate of bank credit to commercial sector

TABLE 7.2  
Sources of change in Money Stock

I	Variations during			
	1982-83*	1983-84	1983-84	1984-85
	March 31 to March 31	March 31 to March 31	March 31 to January 27 (Provisional)	March 31 to January 25 (Provisional)
	2	3	4	5
<b>I. M1 (Money supply with the public)</b>	<b>3598</b>	<b>4863</b>	<b>2739</b>	<b>4071</b>
	(14.4)	(17.0)	(9.6)	(12.2)
<b>II. M3 (Aggregate monetary resources)</b>	<b>10116</b>	<b>13221</b>	<b>10641</b>	<b>13299</b>
	(16.1)	(18.1)	(14.6)	(15.4)
(i) Currency with the public	2185	2944	1880	2400
	(15.1)	(17.7)	(11.3)	(12.2)
(ii) Demand deposits with banks	1395	1814	791	1738
	(13.6)	(15.5)	(6.8)	(12.9)
(iii) Time deposits with banks	6518	8358	7902	9228
	(17.2)	(18.9)	(17.8)	(17.5)
(iv) Other deposits with RBI	18	105	68	-67
<b>III. Sources of change in M3 (1+2+3+4-5)</b>				
1. Net bank credit to Government (a+b)	4749	5385	4925	7749
	(15.5)	(15.3)	(14.0)	(19.1)
(a) RBI's net credit to Govt. (i+ii)	2508	3987	1550	4651
(i) To Central Government	3367	3949	1424	3197
(ii) To State Governments	-860	38	127	1454
(b) Other banks' credit to Government	2241	1398	3375	3098
2. Bank credit to commercial sector (a+b)	8248	9564	5837	7778
	(19.0)	(18.7)	(11.4)	(12.8)
(a) RBI's credit@	429	455	325	388
(b) Other banks' credit	7819	9109	5512	7390
3. Net foreign exchange assets of banking sector	-977	-104	-533	422
	(-36.7)	(-6.2)	(-31.7)	(26.7)
4. Government's currency liabilities to the public	25	37	10	21
	(3.8)	(5.4)	(1.5)	(2.9)
5. Banking sector's net non-monetary liabilities other than time deposits (a+b)	1929	1661	-402	2671
	(13.2)	(10.4)	(-2.5)	(15.2)
(a) Net non-monetary liabilities of RBI	342	-763	-1440	2257
(b) Net non-monetary liabilities of other banks	1587	2424	1038	414

\* These disregard changes in components of sources on July 12, 1982 following reclassification of aggregates necessitated by the establishment of NABARD.

@ Excludes, since the establishment of NABARD, its refinance to banks.

NOTES :-1. Figures may not add up to totals because of rounding.

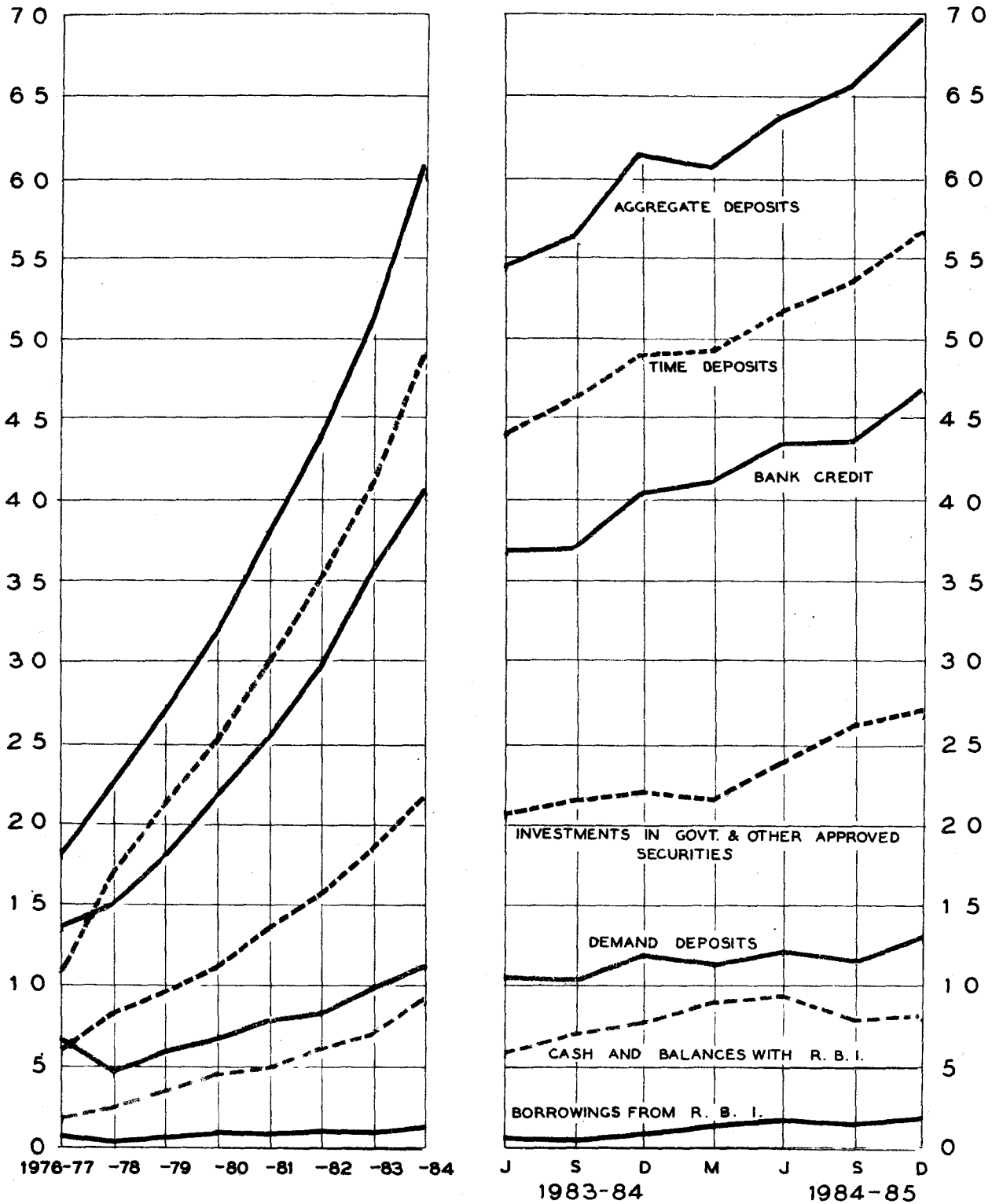
2. Figures in brackets are percentage variations.

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

# SCHEDULED COMMERCIAL BANKS

{AS ON LAST FRIDAY}

RS. IN '000 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

during 1983-84 when it increased by 18.7 per cent (Rs. 9564 crores) as against the increase of 19.0 per cent (Rs. 8248 crores) in 1982-83. Scheduled commercial banks' data, however, show a divergent trend in that the growth rate of overall gross bank credit was slightly higher in 1983-84 (18.4 per cent) than in 1982-83 (17.7 per cent). The increase in food credit was also larger in 1983-84 (Rs. 1156 crores) than in the previous year (Rs. 838 crores). Expansion in non-food credit in 1983-84 amounted to Rs. 5376 crores, which was larger by Rs. 874 crores than in 1982-83; this increase was almost wholly accounted for by the rapid increase in credit made available to the priority sectors which had risen from Rs. 1646 crores in 1982-83 to Rs. 2512 crores in 1983-84.

7.6 The high growth in M3 during 1983-84, despite a deceleration in the growth of bank credit to Government and to the commercial sector, reflects the

fact that there was a much lower decline in net foreign exchange assets and a slower growth in net non-monetary liabilities. As against a sharp decline of Rs. 977 crores in net foreign exchange assets during 1982-83, the decline in 1983-84 was only Rs. 104 crores. The banking sector's net non-monetary liabilities also recorded a modest growth of Rs. 1661 crores in 1983-84 compared with the much larger growth of Rs. 1929 crores in 1982-83. Both factors contributed to the faster expansion in M3 in 1983-84.

7.7 Reserve Money increased sharply in 1983-84 with a growth of 25.5 per cent compared with a growth of only 10.1 per cent in the previous year. Sources of change in reserve money (Table 7.1) indicate that apart from the sharp increase in net RBI credit to Government and much lower decline in foreign exchange assets of RBI, the movements in net non-monetary liabilities of RBI contributed to a large extent to the sharp growth in the reserve money.

TABLE 7.3  
*Scheduled Commercial Banks : Variations in Selected Indicators*

1	Variations during			
	1982-83	1983-84	1983-84	1984-85
	March 31 to March 31	March 31 to March 31	March 31 to Jan. 27 (Provisional)	March 31 to Jan. 25 (Provisional)
	2	3	4	5
1. Aggregate deposits (a+b)	7299	9374	8550	10431
(a) Demand deposits	1394	1609	758	1457
(b) Time deposits	5905	7765	7792	8974
2. Borrowings from RBI	32*	688	-266	573
3. Cash in hand and balances with RBI (a+b)	-114	2771	467	1268
(a) Cash in hand	27	35	48	151
(b) Balances with RBI	-141	2736	419	1117
4. Net balances with RBI [3(b)-2]	-173	2048	685	544
5. Money at call and short notice	240	-43	-297	-231
6. Gross bank credit**	5340	6532	4164	5766
(a) Public food procurement credit	838	1156	1166	1751
(b) Non-food Gross bank credit	4502	5376	2998	4015
of which: To priority sector	1646	2512	n.a.	n.a.
7. Investment in Govt. & other approved securities (a+b)	3529	2862	4637	4500
(a) Government securities	2200	1348	3329	3027
(b) Other approved securities	1330	1514	1308	1473
8. Balances with other banks in current account	368	133	-74	168
9. Gross credit-deposit ratio %	69.1	69.2	66.2	67.2
10. Gross credit (excluding food-credit)—deposit ratio %	63.3	62.6	59.3	58.9
11. Investment-deposit ratio %	35.7	34.9	38.3	36.1

\* Takes into account variation due to transfer of RRB borrowings to NABARD on July 12, 1982.

\*\*Including participation certificates.

£ Percentage at the end of the period.

n.a. = not available.

These liabilities which had expanded by Rs. 342 crores in 1982-83, declined by Rs. 763 crores in the subsequent year.

### Monetary Trends during 1984-85

7.8 The expansion in M3 in the current year so far (upto January 25, 1985) has been larger (15.4 per cent) than the growth in the corresponding period last year (14.6 per cent). M1 has also grown during the current year at a faster rate (12.2 per cent) than in the last year (9.6 per cent). Currency expansion has been faster this year at 12.2 per cent compared with 11.3 per cent in the corresponding period of 1983-84. The growth in demand deposits has also been higher. But there has been a small deceleration in the growth of time deposits from 17.8 per cent in 1983-84 (upto January 27) to 17.5 per cent in the corresponding period of the current year.

7.9 Sources of variations in M3 show a higher growth in net bank credit to Government. Against an increase of Rs. 4925 crores (14.0 per cent) upto January 27, 1984, the growth in the corresponding period this year has been of the order of Rs. 7749 crores (19.1 per cent). Of this, RBI's net credit to Government has accounted for Rs. 4651 crores compared with an increase of Rs. 1550 crores last year. Other 'banks' credit to Government has expanded in the current year so far (upto January 25, 1985) by Rs. 3098 crores against Rs. 3375 crores in the same period of 1983-84. Bank credit to the commercial sector has registered, during this period, an increase of Rs. 7778 crores (12.8 per cent) against the growth of Rs. 5837 crores (11.4 per cent) in the previous year. The main impetus to credit expansion has come from the gross bank credit extended by the scheduled commercial banks which in the current year so far has gone up by Rs. 5766 crores (13.7 per cent) against the increase of Rs. 4164 crores (11.7 per cent) recorded in the corresponding period last year. As a consequence of rising food stocks, there has been a substantial growth in food credit. Data available upto January 25, 1985 show an increase of Rs. 1751 crores in food credit, which was more than 50 per cent higher than the growth of Rs. 1166 crores in the same period last year. On account of increased flow of funds to the priority sectors and an improved performance of the industrial sector, non-food credit has also registered an increase of Rs. 4015

crores in the current year so far, as against an expansion of Rs. 2998 crores during the same period last year.

7.10 The net foreign exchange assets of the banking sector have shown remarkable improvement in the current fiscal year so far. As against a decline of Rs. 533 crores in 1983-84 (upto January 27, 1984), the net foreign exchange assets of the banking sector have increased by Rs. 422 crores in the corresponding period of 1984-85. The expansion in total domestic credit also has been much higher this year (Rs. 15,527 crores) than last year (Rs. 10,762 crores). In sharp contrast to the negative growth of Rs. 402 crores in banking sector's net non-monetary liabilities in 1983-84 (upto January 27, 1984), the expansion in these liabilities in the current year (upto January 25, 1985) has been as much as Rs. 2671 crores.

7.11 Available data indicate that the expansion in reserve money this year upto January 25, 1985 has also been higher (12.6 per cent) than the growth (10.5 per cent) in the corresponding period last year. Source-wise, net RBI credit to Government increased at a much faster pace. A larger accumulation of foreign exchange assets also exercised an upward thrust on reserve money.

### Sectoral Deployment of Credit

7.12 Data on sectoral deployment of credit relating to the financial year 1983-84 show an expansion in food credit of Rs. 1066 crores against an increase of Rs. 837 crores in the previous year. The growth in non-food credit was slightly lower in percentage terms (15.5 per cent in 1983-84 against 16.6 per cent in 1982-83), though in absolute terms it was higher at Rs. 4897 crores than the expansion of Rs. 4492 crores recorded in 1982-83. A sectoral break-up of non-food credit indicates a substantial growth in credit to the priority sector which was in keeping with the objective of the Sixth Five Year Plan. Against a growth of Rs. 1646 crores (15.4 per cent) during 1982-83, credit to this sector rose by Rs. 2512 crores (20.4 per cent) in the following year. The main impetus to growth was provided by credit to small scale industries and other priority sectors. By the end of the year, credit to the priority sectors accounted for 38.0 per cent of the net bank credit compared with 36.8 per cent at the end of 1982-83. The growth of credit to medium and large

TABLE 7.4

## Sectoral Deployment of Gross Bank Credit

(Rs. crores)

On last Friday basis	Variations during					
	1	2	3	4	April to September	
					1983	1984*
					5	6
I. Gross Bank credit		4358	5329	5963	1636	2291
		(17.6)	(18.3)	(17.3)	(4.7)	(5.7)
1. Public food procurement credit		368	837	1066	339	754
2. Gross non-food credit (a+b+c+d)		3990	4492	4898	1297	1537
		(17.3)	(16.6)	(15.5)	(4.1)	(4.2)
(a) Priority sector (i+ii+iii)		2172	1646	2512	797	1479
		(25.5)	(15.4)	(20.4)	(6.5)	(10.0)
(i) Agriculture		1031	660	858	386	684
		(28.8)	(14.3)	(16.3)	(7.3)	(11.2)
(ii) Small scale industries		672	585	926	196	341
		(20.8)	(15.0)	(20.6)	(4.4)	(6.3)
(iii) Other priority sectors		469	401	728	215	454
		(27.7)	(18.6)	(28.4)	(8.4)	(13.8)
(b) Industry (medium & large)		1195	2121	1688	376	-400
		(12.0)	(19.0)	(12.7)	(2.8)	(-2.7)
(c) Wholesale trade other than food procurement (i+ii+iii+iv)		204	155	-15	-90	-50
		(10.2)	(7.1)	(-0.6)	(-3.8)	(-2.1)
(i) Cotton Corporation of India		-6	35	-97	-81	-129
(ii) Food Corporation of India (Fertilizer)		169	1	-171	-1	-66
(iii) Jute Corporation of India		36	-41	-25	-44	-20
(iv) Other trade		5	160	278	36	165
(d) Other sectors		419	570	712	214	508
		(16.2)	(19.0)	(19.9)	(6.0)	(11.8)
II. Export credit (included under item 2)		156	-70	316	138	120
		(9.5)	(-3.9)	(18.3)	(8.0)	(5.9)
III. Priority sector advances as per cent of net bank credit (including PCs) in the last month of the period		37.7	36.8	38.0	37.5	39.7

\* Provisional.

NOTES :—1. Data are provisional and relate to 50 scheduled commercial banks which account for about 95 per cent of gross bank credit. Further, these gross bank credit data include bills re-discounted with the RBI, IDBI, Exim Bank and other approved financial institutions and participation certificates. Net bank credit data are exclusive of bills rediscounted with RBI, IDBI, Exim Bank and other approved financial institutions.

2. Figures in brackets are percentage variations.

3. PCs—Participation Certificates.

scale industries, however, decelerated. Against an increase of Rs. 2121 crores (19.0 per cent) in credit to this sector during 1982-83, the following year saw a growth of only Rs. 1688 crores (12.7 per cent). Gross bank credit to wholesale trade declined in absolute terms by Rs. 15 crores during 1983-84 in contrast to an increase of Rs. 155 crores in the preceding year. This was on account of decline in credit for cotton, jute and fertilizer to public sector corporations. Growth in credit to other sectors was of the order of Rs. 712 crores (19.9 per cent) during 1983-84 against Rs. 570 crores (19.0 per cent) in

the previous year. Export credit registered a substantial growth of Rs. 316 crores (18.3 per cent) in contrast to a decline of Rs. 70 crores (-3.9 per cent) during 1982-83.

7.13 Partial data available for the current year 1984-85 (upto September 1984) indicate a slightly high rate of growth in gross bank credit at Rs. 2291 crores (5.7 per cent) compared with an increase of Rs. 1636 crores (4.7 per cent) in the corresponding period last year. Growth in credit for public food

procurement was more than double, from Rs. 339 crores in April—September 1983, to Rs. 754 crores in the corresponding months of the current fiscal year. Non-food credit registered an increase of Rs. 1537 crores (4.2 per cent) compared with the increase of Rs. 1297 crores (4.1 per cent) last year. There was a noticeable increase in priority sector advances at Rs. 1479 crores (10.0 per cent) which was larger than the expansion of Rs. 797 crores (6.5 per cent) recorded in the corresponding months of 1983-84. Against the Sixth Plan target of 40 per cent, priority sector advances as a proportion of net bank credit was 39.7 per cent at the end of September 1984 compared with 37.5 per cent at the end of September 1983. Credit to medium and large industry has, however, contracted in the current year so far by Rs. 400 crores whereas in the same period last year, it had expanded by Rs. 376 crores. The decline in credit for wholesale trade has been smaller (Rs. 50 crores) this year than in the same period last year (Rs. 90 crores). Export credit, however, has shown an increase of 5.9 per cent this year upto September 1984 compared with an increase of 8.0 per cent upto September 1983.

#### **Progress of Bank Credit for Weaker Sections during the Sixth Plan Period**

7.14 An important feature of the banking system in recent years has been the rapid expansion of the branch net work with emphasis on coverage of unbanked and underbanked areas. A significant dimension of this has been the emergence of Regional Rural Banks (RRBs) to cater to the needs of the weaker sections of society. By the end of June 1984, 162 RRBs had been established covering 286 districts, compared with the Sixth Plan target of 170 RRBs and 270 districts to be achieved by the end of March, 1985.

7.15 Progress towards the targets laid down for providing credit to the priority sector and weaker sections of society has been satisfactory. Against the overall target of 40 per cent of net bank credit set for priority sector advances to be reached by March 1985, the public sector banks had reached a ratio of 39.6 per cent by the end of June 1984. Direct advances to agriculture at the end of June 1984 constituted 12.9 per cent of total bank credit compared with the Sixth Plan target of 15 per cent. Similarly, advances to weaker sections of society worked out to 8.3 per cent to comparison with the

target of 10 per cent. Under the Differential Rate of Interest (DRI) scheme, credit disbursal upto June 1984 constituted 1.1 per cent of aggregate advances as at the end of the previous year, thus exceeding the target of 1 per cent. The coverage of DRI in respect of SC/ST borrowers has also expanded beyond expectations with 49.4 per cent of total advances going to them against a target of 40 per cent. The banks have also made considerable progress under the Integrated Rural Development Programme (IRDP). In relation to the target of 15 million beneficiaries and Rs. 3000 crores of term credit to be provided during the five-year period of the Sixth Plan, the achievement in the first four years has been 12.58 million beneficiaries with credit disbursed amounting to Rs. 2244 crores.

#### **Developments in Credit Policy**

7.16 Credit policy during 1984-85 was guided by the objective of deploying bank resources to support public sector investment and also to meet the increased demand for credit from the commercial sector following expectations for higher food procurement and industrial growth. However, in view of the high growth of liquidity and build up of inflationary pressures in 1983-84, it was considered equally important to bring about a deceleration in the growth of money stock and regulate liquidity in such a manner that inflationary expectations were kept in check.

7.17 In the slack season policy announcement of 30th April, 1984, some important changes were made with these objectives in mind. The statutory liquidity ratio (SLR) was raised from 35 per cent of total demand and time liabilities to 36 per cent in two phases, namely, 35.5 per cent with effect from July 28, 1984 and 36 per cent with effect from September 1, 1984. This was done partly to curtail the excess liquidity in the banking system and partly for providing resources for vital public sector investments without generating excessive supply of reserve money. To ensure that banks did not face any resource constraint as the year progressed and could plan their resource allocation in a smooth manner before the onset of the busy season, it was decided that one-fifth of the additional cash balances maintained under the 10 per cent incremental cash reserve ratio as on October 31, 1980 would be released in two equal instalments on September 29, 1984 and October 27, 1984. (These

releases were postponed by about a month subsequently). Furthermore, in order to provide greater discretion to banks in the case of private sector parties not covered by the Credit Authorisation Scheme (CAS), the cut-off point for term loans of over three years which required prior authorisation by the Reserve Bank was raised from the earlier level of Rs. 50 lakhs to Rs. 1 crore.

7.18 At the beginning of September 1984, the credit and monetary situation was reviewed and it was found that with the substantial growth in deposits, the banks would be able to meet adequately the credit requirements of the system out of their own resources despite the higher SLR. Considering the comfortable liquidity position of the banking system and the price situation, it was decided to postpone by one month the release of one-fifth of the additional cash balances maintained under the 10 per cent incremental CRR as stipulated in the 1984 slack season policy statement. The release of these balances in two equal instalments was rescheduled for October 27, 1984 and December 1, 1984. The cut-off point for food credit over which 100 per cent refinance was made available was increased from Rs. 3,300 crores to Rs. 4,000 crores with effect from September 28, 1984.

7.19 In the 1984-85 busy season policy statement announced on October 30, 1984, the stance of the credit policy remained one of caution. The basic objective was to provide adequate credit support to sectors where there was a revival of growth, in addition to meeting the credit requirements for the kharif 1984-85 food procurement. Furthermore, since the current year was the final year of the Sixth Five Year Plan, increasing attention was necessary for meeting investment targets in the priority sector. Moreover, while meeting all the legitimate credit requirements, it was also necessary to ensure that the overall increase in liquidity during the year and the growth in reserve money was kept below the rate of increase in 1983-84.

7.20 Two important changes made in credit policy in the busy season were : (a) with effect from November 30, 1984, the cut-off point for food credit refinance was raised from Rs. 4,000 crores to Rs. 4,300 crores. It was envisaged that during the kharif procurement season banks will not face any difficulty in meeting food credit requirements despite the raising of the cut-off point for food credit refinance; (b) the

formula for export refinance was rationalised; since banks had established a fairly high level of refinance limits (from Rs. 201 crores at the end of November 1983 to Rs. 638 crores at the end of September 1984), export refinance was provided, with effect from November 30, 1984, to the extent of 100 per cent of the increase in export credit over the monthly average level for 1983. Under the adjusted refinance formula almost all banks are eligible for refinance to the full extent of the increase in export credit in the second half of 1984-85.

7.21 Apart from the policy announcements made for the busy and slack seasons, steps were also taken for providing adequate resources for specific purposes under various schemes/selective credit control measures announced from time to time. At the beginning of the year, the IDBI announced a new scheme for financing modernisation of small and medium industries. Hitherto, while the modernisation needs of large industries were taken care of by the soft loan scheme operated through the all-India financial institutions, no special concessions were being given to State Financial Institutions (SFIs) and State Industrial Development Corporations (SIDCs) for modernisation of small and medium units. Under the IDBI's new scheme, refinance is provided upto 75 per cent of loans given by banks and upto 100 per cent of loans given by SFCs and SIDCs. Loans not exceeding Rs. 5 lakhs are eligible for refinance automatically, while loans involving larger amounts are eligible for refinance subject to the approval of the Technical Consultancy Organisation in the concerned State/region.

7.22 With effect from April 1, 1984, larger discretionary powers were vested in commercial banks for release of the sanctioned working capital limits falling within the purview of the Credit Authorisation Scheme (CAS). Banks could now put credit proposals on the "fast track" and release funds upto 50 per cent of the additional limits without waiting for the prior authorisation of the Reserve Bank; and upto 75 per cent in the case of predominantly export-oriented manufacturing units whose annual average export turnover was not less than 75 per cent of the turnover of goods manufactured by them during the preceding three calendar years and whose export turnover in the following years would not fall below 75 per cent of total turnover. Release of funds under the "fast track" arrangement was, however, subject to the fulfilment



of certain requirements relating to maintenance of adequate credit discipline by both borrowers and banks.

7.23 In July 1983, the Committee of Direction was constituted by RBI to review and revise, if necessary, the existing working capital norms for different industries in the light of the changes that had taken place since the norms were first prescribed in 1975 by the Tandon Committee. In accord with the recommendation made by the sub-committee on the textiles industry, the Reserve Bank had liberalised the flow of credit for the cotton textile industry by relaxing the norms. For instance, the combined norms for finished goods and receivables for composite mills has been fixed at three months as against the previous 2½ months.

7.24 As a means of promoting agriculture activity, the National Bank for Agriculture and Rural Development (NABARD) has introduced refinance of 80 per cent to 95 per cent of the loans given by banks. The interest chargeable to ultimate beneficiaries (for availing refinance from NABARD) is 10 per cent for small farmers and 12.5 per cent for other farmers. Refinance is provided at 6.5 per cent and 8 per cent, respectively.

7.25 Advances against sensitive commodities to borrowers satisfying all the conditions under the Differential Rate of Interest (DRI) scheme as well as advance upto Rs. 5,000 per borrower (provided he deals with one bank only), have been completely exempted from selective credit control. Advances granted by banks under the scheme for self-employment of educated youth to units engaged in processing, manufacturing or trading have also been completely exempted from selective credit control.

7.26 The Reserve Bank of India also liberalised its credit policy for the sugar industry in the current crushing season by advising the banks to extend advances upto 80 per cent of last year's advances to the mills without waiting for prior authorisation. As regards margins, while no margins need be maintained in respect of buffer stocks, the sugar mills have to maintain a minimum margin of 17.5 per cent against the security of unreleased sugar stocks in respect of levy and freesale stocks.

7.27 In view of the prevailing situation regarding production, demand, stocks and the prices of cotton textiles including cotton yarn, man-made fibres and

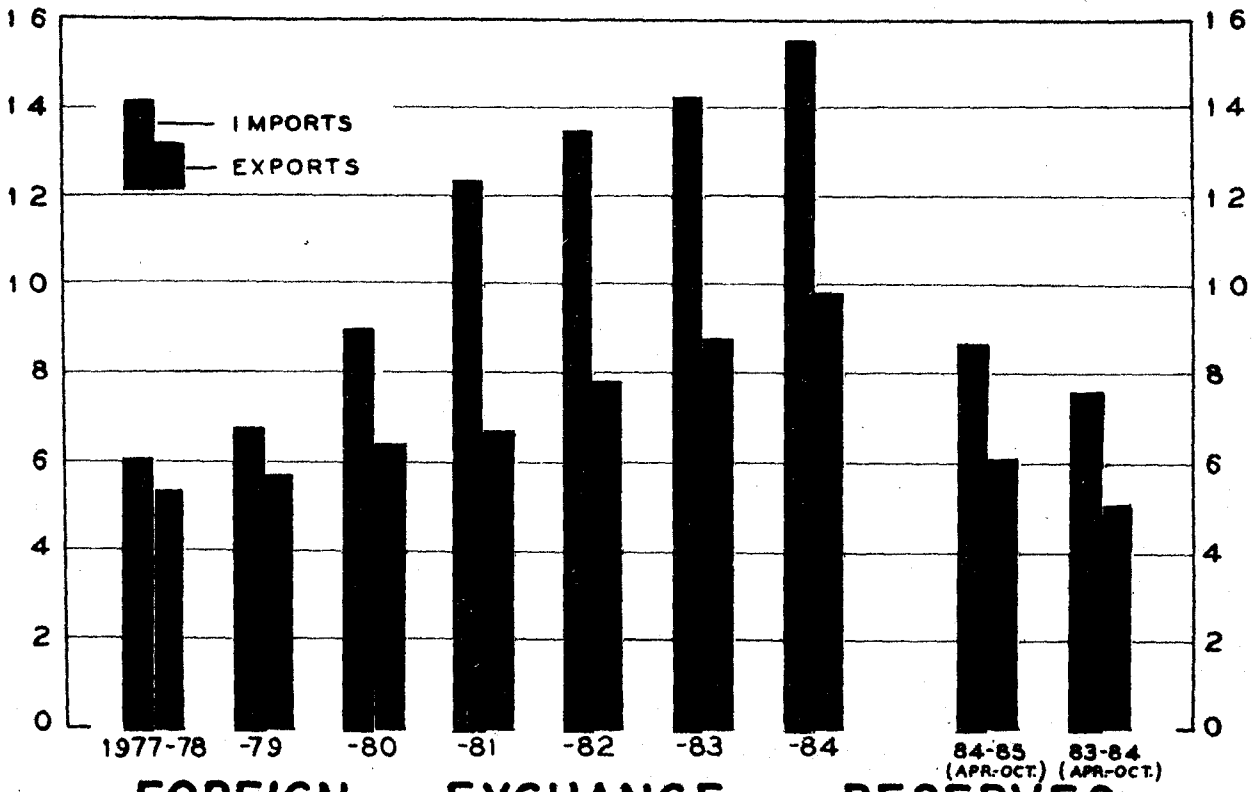
yarn and fabrics made out of man-made fibres (including stocks-in-process), advances against these commodities were exempted from the Selective Credit Control with effect from January 8, 1985.

7.28 The rate of interest charged on advances by scheduled commercial banks to the Food Corporation of India (FCI), State Governments/agencies acting as agencies of FCI for procurement of foodgrains (wheat, paddy/rice and coarse foodgrains) under the full price support scheme of the Government of India, where the sales are at fixed prices through Government approved outlets, was raised from 12.5 per cent to 14 per cent from October 1, 1984. Further, the rate of interest payable on cash balances maintained by scheduled commercial banks with the Reserve Bank of India (excluding the statutory minimum balances of 3 per cent) was raised from 9 per cent to 10 per cent effective from November 16, 1984.

7.29 As stated earlier, in the interest of orderly economic management and maintenance of reasonable price stability, a deceleration in the expansion of overall liquidity (M3) and reserve money creation was considered an important objective of policy in 1984-85. However, the growth of M3 in the current financial year upto end-January 1985 was somewhat higher than that in the corresponding period of the previous year. The expansion in net bank credit to Government in the current financial year continues to be a cause for concern. The movements in the net foreign exchange assets of the banking sector exerted an expansionary effect in the current financial year upto end-January 1985 as against a contractionary effect in the preceding year. With the sizeable expansion of reserve money, the growth of overall liquidity (M3) has been somewhat larger than expected. Food credit expanded at a rapid rate in view of the significant increase in foodgrains stocks consequent on a substantially higher procurement. The non-food credit expansion has also been larger this year with the pick up in industrial output and increased credit to the priority sector. The target of 40 per cent credit for the priority sector is likely to be achieved in the current financial year. While the endeavour should be to provide adequate credit to meet the requirements of productive sectors, the overall emphasis of credit policy should continue to be on moderating the rate of growth of liquidity and curbing inflationary expectations. In view of this, the sources of growth of money stock need to be watched closely, particularly net bank credit to Government.

# FOREIGN TRADE

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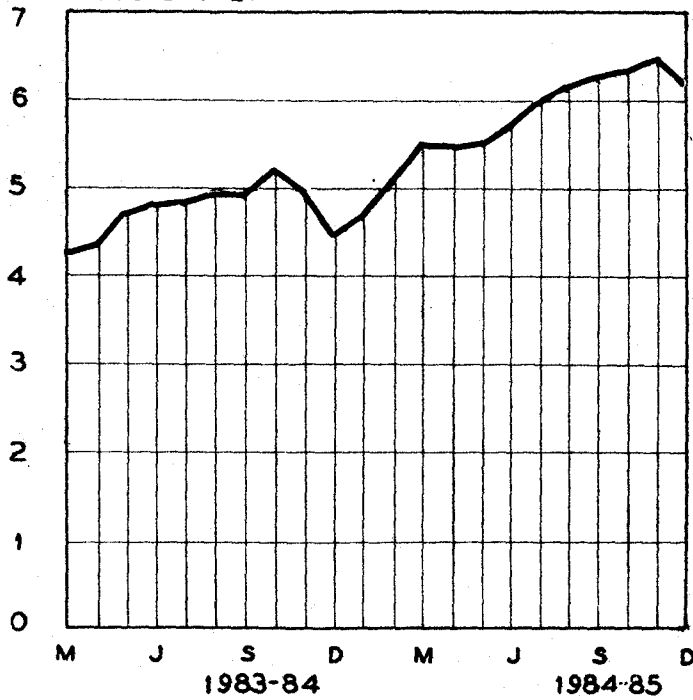
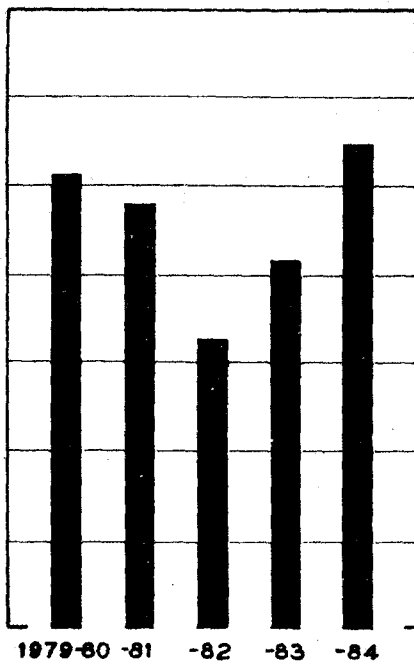


FOREIGN

EXCHANGE

RESERVES

RS. IN '000 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.