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INTERNATIONAL DEVELOPMENT ASSOCIATION

A REVIEW OF THE CAPITAL MARKET IN INDIA

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Currency Equivalents

1 Indian Rupee	=	U.S. $0.21
1 U.S. Dollar	=	Rs. 4.762
Rs. 1 billion	=	$210 million

The fiscal year in India covers the period April-March. Unless otherwise indicated, the reference in the text is to fiscal years. For instance, 1961/62 refers to the period April 1961-March 1962.

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SUMMARY

1. As a result of the development effort undertaken under the Five-Year Plans, the Indian economy has experienced significant growth over the last decade. National income in 1948/49 prices is estimated to have increased from Rs. 88.5 billion in 1950/51 to Rs. 126.9 billion in 1960/61, representing an increase of about 43 per cent over the ten-year period. The average annual increase works out at somewhat less than 4 per cent. Per capita income in real terms in 1960/61 was higher than in 1950/51 by about 18 per cent.

2. According to the estimates of the Indian Planning Commission, the ratio of net investment to national income went up from a little over 5 per cent before the commencement of the First Five-Year Plan in 1951/52 to about 8.5 per cent at its end, and further to about 11 per cent at the end of the Second Five-Year Plan. The ratio was even more than 11 per cent in the first two years of the Second Plan, so that the average ratio during the Second Plan period as a whole appears to have been fairly close to 11 per cent as compared to 6½ - 7 per cent over the First Plan period. In absolute terms, total net investment in current prices amounted to about Rs. 33.6 billion over the First Plan period and Rs. 67.5 billion over the Second Plan period. About 46 per cent of total net investment under the First Plan and 54 per cent of that under the Second Plan was accounted for by the public sector.

3. Most of the investment during the First Plan period (about 94 per cent) was financed by domestic savings. However, with the rise in the level of investment in the following years, the inflow of capital from abroad in the form of utilization of foreign exchange reserves and external assistance showed a considerable increase and accounted for about 30 per cent of total net investment under the Second Plan. Domestic savings appear to have averaged about 8 per cent of national income over the Second Plan period as compared to 6 - 6½ per cent over the First Plan period.

4. The Third Five-Year Plan, which commenced in April 1961, envisages total net investment of about Rs. 104 billion over the five years 1960/61 to 1965/66. Net investment in the public sector is estimated at a minimum of Rs. 63 billion, or more than 60 per cent of the total. The ratio of net investment to national income is expected to go up from about 11 per cent in 1960/61 to about 14 per cent by 1965/66. During the same period, net domestic savings are expected to increase from 8.5 per cent of national income to 11.5 per cent. The requirement of external assistance over the Third Plan period is placed at a total of Rs. 32 billion.

5. The money and capital markets in India reflect the stage of development reached by the country. Alongside well-functioning financial institutions, there exist indigenous bankers and moneylenders who play an important role in financing agriculture, small industries and trade and constitute the so-called "unorganized sector" of the money and capital markets.

6. With the rising tempo of economic development under the Five-Year Plans, the activities of financial institutions have recorded a marked expansion over the last decade. Important changes have been made in the organization and practices of the earlier institutions, and new institutions, including specialized institutions for the provision of long and medium-term finance to large, medium and small scale industries, have been established.

7. Among financial institutions, the commercial banks are the most important. They have an extensive network of branches and play an important role in financing industry, trade and certain other activities as well as in collecting savings. Most of the bank credit is made available in the form of short-term advances. A substantial proportion of the short-term advances to industries is, however, renewed from time to time and represents, in effect, lending for a longer period. Formal term loans, that is, loans sanctioned for more than one year continue to be of a relatively small order.

8. The largest commercial bank is the State Bank of India, the bulk of whose capital is owned by the central bank. The State Bank has established a large number of new branches in rural and semi-urban areas. It has also been extending its activities in the spheres of rural credit, credit to small scale industries, medium-term finance, etc. The other banks also have expanded significantly the network of their branches.

9. The postal savings banks and other small savings schemes have been successful in collecting substantial amounts. More than other financial institutions they have been able to penetrate into the rural areas, but the amounts collected in these areas are relatively small.

10. Life insurance in India was taken over by the government-owned Life Insurance Corporation in 1956. Apart from some decline in that year, new life insurance contracted in each year has been increasing substantially. Nevertheless, life insurance at the end of 1960 covered only a small fraction of the population (less than 2%) and the total amount of life insurance in force was no more than about 16 per cent of national income. There would, therefore, appear to be considerable scope for increasing life insurance, especially in rural areas.

11. Provident funds have become compulsory for a large number of employees in both the public and private sectors. In many cases, provident funds have also been set up voluntarily by employers. The coverage of provident funds is increasing steadily and they have been playing an important role in mobilizing savings.

12. The cooperative credit movement, which made very slow progress for nearly half a century after its inauguration, has been considerably strengthened and expanded over the last decade and the central bank is making available credit facilities to cooperatives at low rates of interest on a greatly increased scale. As a result, cooperative credit has recorded a marked expansion over the last few years. Its share in total borrowings of

the cultivators increased from about 3 per cent in 1951/52 to 10 - 12 per cent in 1959/60, and there has been some further improvement since then. Savings collected by cooperatives in rural areas are, however, relatively small and the thrift aspect of the cooperative movement does not appear to have been adequately emphasized.

13. The special financial institutions set up for the provision of long- and medium-term finance to industries include the Industrial Finance Corporation, Industrial Credit and Investment Corporation of India, National Industrial Development Corporation, State Financial Corporations, National Small Industries Corporation and the Refinance Corporation for Industry. The last mentioned corporation provides only refinance facilities to specified banks and other financial institutions in respect of medium-term loans granted by them to small and medium-size industries. The corporations have obtained the bulk of their funds from the government, World Bank, Agency for International Development of the U.S. Government and (in the case of the IFC and SFCs) through issue of bonds guaranteed by the government.

14. Savings channelled through financial institutions (inclusive of the amounts channelled through small savings certificates) have increased substantially, being of the order of Rs. 4 billion in 1960/61 as compared to about Rs. 2.3 billion in 1955/56 and about Rs. 1.1 billion in 1950/51. Correspondingly, the proportion of such savings to national income is estimated at about 2.8 per cent for 1960/61 as compared to 2.3 per cent in 1955/56 and 1.1 per cent in 1950/51.

15. A little more than two-fifths of the total estimated amount of savings channelled through financial institutions over the three years ending March 1961 represents contractual savings in the form of net additions to life insurance reserves, provident funds, etc.

16. Total savings channelled through financial institutions in 1960/61 were equivalent to about one-fourth of the total estimated net investment in the economy in that year.

17. By far the greater part of the annual savings accruing at financial institutions becomes available to the government either directly by way of budgetary receipts (e.g. in the case of small savings and government provident funds) or indirectly by way of investment in government securities. Some funds are, however, transferred by the government to the private sector by way of loans given directly or through specialized financial institutions.

18. Taking into account individuals' subscriptions to the capital of joint stock companies and certain other transferred savings, the total amount of transferred savings in 1960/61 (without reckoning the small amounts representing additional deposits with merchants, moneylenders, indigenous bankers, etc.), might be placed at around Rs. 4.5 billion, or a little more than 3 per cent of national income.

19. The bulk of the investment in the public sector has been financed by loans from the general public, small savings, accumulations in government provident funds, miscellaneous capital receipts, external assistance in the form of loans and grants and deficit financing (resort to bank credit). Public savings have made only a limited contribution to the financing of investment outlays.

20. In the private sector, large and medium scale industries finance a substantial proportion of their requirements from internal resources consisting of depreciation reserves and retained profits. The share of internal resources in financing total assets formation (including inventories) was relatively low in 1956 and 1957, being about 37 per cent and 28 per cent respectively in the case of 1001 large and medium size companies. It, however, rose in the following years and, in spite of a fairly high level of expenditure on assets formation in 1960, works out at about 56 per cent for that year.

21. The market for shares of companies has broadened significantly in recent years. The volume of funds made available annually to industries by the special finance corporations is also of a sizable order. Moreover, there are signs of an increased response of foreign investors to the expanding investment possibilities in the industrial sector in the country. Medium-term bank credit to industries, however, continues to be rather limited and there would appear to be need as well as scope for a more rapid expansion of this type of credit.

22. Information available about financing of the rest of the private sector, which constitutes the so-called unorganized sector of the economy, is very limited and fragmentary. A small part of the investment is financed by transfer of resources from the public sector in the form of loans and grants. The rest is, however, financed predominantly from the investors' own savings. Further, the bulk of the borrowed funds comes from moneylenders and indigenous bankers.

23. In the field of agriculture, cooperative credit has recorded, as stated earlier, a marked increase over the last decade. The rates of interest charged by moneylenders have also tended to decline somewhat as a result of the expansion of the activities of cooperatives. To support the agricultural development program, the Third Five-Year Plan envisages a further substantial expansion of cooperative credit. Taking into account the credit facilities provided by moneylenders, etc., there does not appear to be a shortage of short-term finance for agriculture. However, the terms for the bulk of the credit are too onerous and there is need for a progressive expansion of institutional credit. At the same time, it is necessary to bring about greater coordination between the provision of short-term credit and other efforts to increase agricultural output, e.g., in regard to supply of irrigation, fertilizers, better seeds, and improved implements. The volume of medium- and long-term credit provided annually by cooperative institutions is rather small, and needs to be increased substantially. In this connection, the government is considering a proposal for setting up an Agricultural Development Finance Corporation to augment the availability of long-term credit. The question of increasing the supply of medium-term funds to cooperatives by the Reserve Bank also needs to be considered carefully.

24. In the field of small scale industries, a well-devised machinery is functioning for the provision of finance, but the volume of funds made available annually has been insufficient in relation to needs. The progress made by the State Financial Corporations has been rather slow. Although most of them are in an early stage of development and there are inherent difficulties in lending to small scale units, there is a widespread feeling that the corporations have adopted an over-cautions approach and that their procedures are rather rigid and cumbersome.

25. To stimulate institutional lending to small scale industries, the government has introduced a scheme for guaranteeing partially the loans advanced to such industries by banks and other financial institutions and the refinance facilities provided by the Refinance Corporation have been extended to loans (medium-term) to small scale units. Proposals for organizing additional industrial cooperative banks in suitable areas to finance industrial cooperatives and for providing government guarantee for loans given by banks and institutional agencies to the Khadi and Village Industries Commission, National Small Industries Corporation, etc. are also under consideration by the government. On the whole, it appears reasonable to expect that the volume of institutional finance available to small scale industries will increase progressively.

26. Institutional facilities for the provision of finance for housing are very limited. The government is, therefore, considering the question of setting up a special institution (Central Housing Board) whose primary object would be to augment the availability of funds for housing and help in developing a market for mortgages. The Life Insurance Corporation is also expected to provide larger amounts for housing.

27. The securities market in India is well-organized and quite active. With the growth of joint stock enterprise and large market borrowings by the government sector, the value and variety of securities available for trading has increased considerably over the last two decades. The increased flow of savings to financial institutions has resulted in a marked rise in the volume of their annual investments in securities (mostly government securities) and the interest of the general public in corporate securities has become considerably more widespread. Investment advisory services, however, exist only on a limited scale.

28. At present there are seven stock exchanges, the most important being those in Bombay and Calcutta. Since 1956, a measure of government control and supervision over stock market activities exists for the whole country. This has helped substantially in curbing malpractices and maintaining orderly conditions in the market.

29. The new issue activity has shown a rising trend in recent years. An interesting development is the growing proportion of new capital raised by new enterprises. Established business leaders and families have continued to play an important role in industrial expansion and forming new companies, but there is evidence to show that a new class of small entrepreneurs is coming up in the country. New issues have been frequently oversubscribed, especially in the case of companies which have foreign participation and whose shares are underwritten by leading underwriters. Substantial progress has been made in developing a proper underwriting system in the country.

30. The market for preference shares and debentures, however, continues to be rather thin. Debentures and preference shares offering such terms as an option for conversion into ordinary shares or with profit sharing

features have not been issued on any significant scale. With the growing need of companies to raise capital to finance their expansion programs, the variety of securities offered by them might be expected to increase in future.

31. Financial institutions play only a limited role in the market for corporate securities. The most important financial institutions from the point of view of operations in this market is the Life Insurance Corporation. Investment trusts have not developed to any significant extent. In view of the widening of public interest in the country in shares in recent years and the growing number and variety of corporate securities available for investment, conditions seem to be particularly favorable for the growth of investment trusts. It therefore appears worthwhile to take suitable steps, including the offer of an adequate tax incentive, for the establishment of these trusts, particularly unit trusts.

32. The Central and State Governments have been raising substantial amounts annually by way of market loans. Local authorities and other semi-government bodies also borrow from the market on a limited scale.

33. The bulk of government bonds is held by the central bank, Central and State Governments and institutional investors like banks, Life Insurance Corporation, provident funds, joint stock companies, charitable trusts and local bodies. Bonds and debentures of local authorities and other semi-government bodies are also held mainly by institutional investors.

34. Under the statutory provisions relating to investment of funds by the financial institutions, it is compulsory for them to invest a part of their funds in government and other approved (mainly government guaranteed) securities; apart from these provisions, it is in any case necessary for the financial institutions, in order to ensure a sound pattern of their assets, to invest a reasonable proportion of their funds in government securities. There is, therefore, a large assured market for government securities.

35. The central bank (Reserve Bank of India) occupies a very important position in the money and capital markets. Apart from regulating credit (through general as well as selective credit controls) and performing other normal central banking functions, it has been playing an important role in expanding institutional facilities for financing not only trade and commerce but also industry and agriculture. It has also made a significant contribution to the development of the market for government bonds.

36. The general level of interest rates in the organized sector of the economy has moved up a little over the last three years. Nevertheless, it continues to be lower than in many other developing countries in which capital is scarce. The rates in the unorganized sector, that is, those charged by indigenous bankers and money lenders, are, on the other hand, high, and at times very high, especially in rural areas, although there appears to have been some decrease in these rates over the past few years, primarily as a result of the expansion of the operations of cooperative credit societies.

CHAPTER I

Economic Growth, Investment and Financing of Investment

A. Economic Growth

1. As a result of the development effort undertaken under the Five-Year Plans, the Indian economy has experienced significant growth over the last decade. National income in 1948/49 prices increased from about Rs. 88.5 billion in 1950/51 to Rs. 118.5 billion in 1959/60 and the preliminary estimate for 1960/61 is Rs. 126.9 billion. The increase in national income over the ten-year period 1950/51 to 1960/61, that is, the period covered by the First and Second Five-Year Plans, thus works out at about 43 per cent. Population increased from about 361 million in March 1951 to 441 million in March 1961, 1/ or by about 22 per cent. The rate of growth in per capita income was, therefore, somewhat less than 2 per cent per annum (Appendix Table 1)

Structure of the Economy

2. The table below brings out the broad structure of the economy:

Table 1

National Income by Industrial Origin

(in current prices)

	1950/51		1960/61 1/	
	Rs. billion	Percentage of Total	Rs. billion	Percentage of Total
Agriculture and related activities	48.9	51	68.6	48
Manufacturing and mining				
Factory establishments 2/ and mining	6.2	7	15.0	11
Small enterprises	9.1	9	11.4	8
Commerce, transport and communications	16.9	18	23.6	16
Other services	14.4	15	23.8	17
Net income from abroad	-0.2	-	-0.4	-
Total national output at factory cost = national income	95.3	100	142.0	100

1/ Preliminary estimates.
2/ Establishments employing at least ten persons if working with power, or at least twenty persons if working without power.
Source: Reserve Bank of India Bulletin for March 1962.

It will be seen that agriculture and related activities still account for a little less than half of the total national output. Over the last decade, the production of large and medium scale industries (factories and mines) has expanded at a much faster rate than in other sectors, but this has not resulted in any striking change in the structure of the economy because of the large share of agriculture in national income. The growth in various sectors of the economy is briefly reviewed below.

Agriculture

3. Production of foodgrains increased from around 53 million tons in 1950/51 to 79 million tons in 1960/61. Production of other agricultural commodities also showed a substantial increase. Total agricultural production in 1960/61 was higher than the 1950/51 level by about 45 per cent (Appendix Table 2).1/

4. The measures taken to increase agricultural production included extension of irrigation, increased use of fertilizers and better seeds, adoption of improved agricultural practices, land reclamation and development, etc. The net area irrigated is estimated to have increased from 51.5 million acres in 1950/51 to about 70 million acres in 1960/61. During the same period, the consumption of nitrogenous fertilizers increased from about 55,000 tons to 230,000 tons and of phosphatic fertilizers from 7,000 tons to 70,000 tons. To some extent, land reform also contributed to the increase in agricultural production. Besides, an agricultural extension service has been introduced throughout the country as part of a comprehensive community development program for rural areas.

Large and Medium Scale Industries

5. Over the past decade, there has been a marked growth and diversification of industries. Production of finished steel increased from about 1 million tons in 1950 to 2.2 million tons in 1960, of coal from 32.5 million tons to 52.6 million tons, and of cement from 2.7 million tons to 7.8 million tons. The increases in output were much larger in a number of the newer industries, particularly in the case of such items as machine tools, diesel engines, power transformers, electric motors, spinning frames, carding engines, automobiles, bicycles, sewing machines, electric fans, radio receivers, ammonium sulphate, superphosphate and caustic soda industries (Appendix Table 3). Several products, including certain types of machinery, were manufactured for the first time in the country.

6. The amount of electricity generated increased from about 5.1 billion kwh. in 1950 to 16.4 billion kwh. in 1960.

1/ Figures relate to crop years beginning July 1.

7. According to the official index (which covers mainly large and medium scale enterprises), total industrial production in 1960/61 was nearly twice as high as in 1950/51. The actual increase appears to have been even larger as the official index does not give adequate weight to new industries, many of which have, as mentioned above, shown far greater increases.

8. The progress of industries has been especially marked since the beginning of the Second Plan period. Further, the public sector has been playing a very important role in industrial development over the past few years. Net investment in large and medium scale industries in the public sector (exclusive of investment in power projects and transfers to the private sector) increased from about Rs. 0.6 billion under the First Plan to about Rs. 8.2 billion under the Second Plan. The bulk of the latter amount represented investment in three new steel plants of one million tons ingot capacity each and in fertilizer factories. Industrial capacity in the private sector was also expanded substantially. Net private investment in large and medium scale industries (exclusive of investment in electricity plants) increased from about Rs. 2.3 billion over the First Plan period to about Rs. 7.3 billion over the Second Plan period.

Village and Small Scale Industries

9. The village and small scale industries, which are widely dispersed throughout the country, provide employment to a very large number of people and meet a significant part of the demand for consumer goods. Although complete information regarding production in this field is not available, existing data indicate significant increases in the output of certain industries. For example, production of handloom cloth increased from about 742 million yards in 1950/51 to 1900 million yards in 1960/61. Substantial increases have also occurred in the small industries' output of such goods as machine tools, sewing machines, electric motors, fans, bicycles, hand tools, etc. The progress of many other small industries, especially village industries, however, appears to have been rather limited.

10. The measures adopted for developing small industries include provision of credit, technical advice, training facilities, supply of machinery on a hire-purchase basis and assistance in marketing, procurement of raw materials, etc. A number of industrial estates have also been constructed in different parts of the country to provide accommodation to small scale units together with power and transport facilities, etc.

Transport and Communications

11. The rising level of economic activity in the country has called for a substantial expansion of transport and communications facilities. About 1180 miles of new railway lines were added during the First and Second Plan periods. Freight carried by railways increased from 91.5 million tons in 1950/51 to 154 million tons in 1960/61. Passenger traffic also showed a significant increase. There was also substantial expansion in road transport, shipping and air services. For example, the mileage of surfaced roads in-

creased from about 97,500 in 1950/51 to 144,000 in 1960/61. During the same period, the number of commercial vehicles on roads increased from about 116,000 to 210,000 and the shipping tonnage from 390,000 GRT to 900,000 GRT.

Social Services

12. Education and medical facilities as well as other social services have also expanded substantially. The average expectation of life at birth has improved by about ten years over the last decade.

B. Trend of Investment

13. The level of total investment in the economy has shown a marked rise over the last decade. Annual estimates of investment, a part of which is dispersed widely over such fields as agriculture, village and small industries, rural and urban housing, etc., can be only rough. According to Planning Commission's estimates, net annual investment in current prices increased from somewhat more than Rs. 5 billion before the First Five-Year Plan began to about Rs. 8.5 billion at its end, and reached a level of about Rs. 16 billion by the end of the Second Five-Year Plan. If allowance is made for price movements as indicated by the indices of wholesale prices, the level of annual investment in terms of 1950/51 prices would appear to have increased to about Rs. 9.7 billion at the end of the First Plan, and to nearly Rs. 13.5 billion by the end of the Second Plan.1/

14. The ratio of net investment to national income increased, according to estimates of investment indicated above, from a little more than 5 per cent at the beginning of the First Plan to about 8½ per cent at its end. For 1960/61, it is estimated at around 11 per cent. Information available for the earlier years of the Second Plan indicates that the ratio was even more than 11 per cent in 1956/57 and 1957/58. On the whole, the average ratio during the Second Plan period appears to have been fairly close to 11 per cent.

1/ In a study prepared by the National Council of Applied Economic Research, which is a private organization, net investment has been estimated at a much higher level - about Rs. 6 billion for 1950/51, Rs. 11.4 billion for 1955/56 and Rs. 16.4 billion for 1957/58 in current prices (Savings in India - A Monograph, by NCAER, 1961). Recently, it has been reported that the estimates of investment and savings prepared by the Central Statistical Organization of the Government are substantially higher than those of the Planning Commission. For example, the C.S.O's estimate of net domestic saving for 1959/60 is reported to be 11.6 per cent of net national product as compared to Planning Commission's estimate of about 8.5 per cent at the end of the Second Plan (Economic Times, February 27, 1962). It may be mentioned in this context that the Planning Commission's estimates probably do not take into account much of the non-monetized investment and changes in inventories in agriculture and trade.

15. The increase in investment has been especially marked in the public sector. Thus, net investment by public authorities is estimated at about Rs. 8 billion for 1960/61 as compared to about Rs. 2 billion in 1950/51 (in current prices). As a result, there has been a substantial increase in the share of public sector in total net investment in the economy over the last decade.

16. Total net investment over the First and Second Plan periods is estimated at about Rs. 33.6 billion and Rs. 67.5 billion respectively (in current prices). Table 2 below shows its breakdown between public and private sectors.

Table 2

Net Investment in First and Second Plans

	First Plan (April 1951-March 1956)		Second Plan (April 1956-March 1961)	
	Rs. billion	% of total	Rs. billion	% of total
Public sector	15.6	46	36.5	54
Private sector a/	18.0	54	31.0	46
Total investment	33.6	100	67.5	100

a/ Excluding investment financed out of resources transferred from the public sector. Such investment is included in the figures for the public sector. For the Second Plan period, such investment is estimated at about Rs. 2 billion.

17. To a very large extent, public sector investment has been devoted to transport, power, irrigation, social services, etc. and heavy and basic industries, especially the iron and steel industry. Investment of this type is needed to accelerate development in the private sector itself. The total output of goods continues to be derived predominantly from private sector investment. According to an estimate published in April 1961, the share of government enterprises in total production of industrial factory enterprises was of the order of 10 per cent, 90 per cent being represented by private sector production; the share of government enterprises in total industrial and agricultural output was less than 2 per cent.1/

18. The distribution of net investment in the public and private sectors by major heads of development is shown in Appendix Table 4.

1/ The Role of Monetary Policy in a Developing Economy by Dr. B.K. Madan. See Reserve Bank of India Bulletin, April 1961.

C. Financing of Investment

19. Table 3 below brings out the broad picture in regard to financing of total net investment, public as well as private, over the First Plan period and in the first three years of the Second Plan. As the annual breakdown of the Planning Commission's estimate of net investment over the Second Plan period is not available, the estimates of net investment shown in the table for 1956/59 are those prepared by the Reserve Bank of India by adding domestic savings estimated directly and the net inflow of capital from abroad; these estimates are, therefore, only broadly comparable to the Planning Commission's estimate of Rs. 67.5 billion for the Second Plan period as a whole.[1/]

Table 3

Financing of Total Net Investment in the First Plan Period and During 1956/59

(Rs. billion, current prices)

	First Plan 5 years, 1951/56	1956/57	1957/58	1958/59	3 years, 1956/59
Net Domestic Savings					
Public savings	5.0	1.3	1.1	1.0	3.4
Private savings[a/]	26.5	8.6	7.1	8.8	24.5
Total	31.5	9.9	8.2	9.8	27.9
Net Inflow of Capital from Abroad[b/]					
Use of foreign exchange reserves	1.2	2.2	2.6	0.4	5.2
IMF credit (net)	-	0.6	0.3	-	0.9
Other capital inflow (net)	0.9	0.8	1.6	3.3	5.7
Total	2.1	3.6	4.5	3.7	11.8
Total Net Investment	33.6	13.5	12.7	13.5	39.7

a/ The figure for the First Plan period has been obtained by deducting from the estimated net investment the total of public savings and the net inflow of capital from abroad. Figures for the period 1956/59 represent estimates prepared by the Reserve Bank of India (Appendix Table 5).

b/ Represents the total of current account deficit (excluding official donations but including half of errors and omissions), imports in kind and retained earnings of branches and subsidiaries of foreign companies minus the increase in private holdings of gold.

Source: Third Five-Year Plan document and the Reserve Bank of India Bulletin for August 1961.

1/ For the First Plan period, the Reserve Bank's estimate of net investment is higher than the Planning Commission's estimate by about Rs. 1.3 billion.

20. It will be seen that most of net investment during the First Plan period was financed from domestic savings. Savings in the public sector, including those of railways and other government enterprises, financed about 15 per cent of net investment, while private domestic savings accounted for as much as 79 per cent of the total. Inflow of capital from abroad consequently financed something like 6 per cent.

21. With the rise in the level of investment in the Second Plan period, the pattern of financing showed a marked change. In the three years 1956/59, domestic savings financed only 70 per cent or so of total net investment, the remaining 30 per cent having been financed by an inflow of capital from abroad. Reliance on external resources on a large scale for financing net investment continued in the following years also.

22. Despite additional taxation of a sizable order,[1] the average annual public savings during 1956/59 were only slightly larger than in the First Plan period. This is explained mainly by the growth of current expenditures, both on non-developmental items like defense, administration and debt services as well as on developmental items like education, health and other social services. To some extent, it is also explained by the fact that the tax yields, without taking into account the revenue attributable to fresh taxation, were not responsive enough to increases in national income.[2]

23. Private savings during the Second Plan period were, on an average, much larger than in the First Plan period. They showed a decrease in 1957/58, but the level in 1958/59 was again a little higher than in 1956/57.

24. Corporate savings constitute only a small part of total private savings. For instance, the total savings of the corporate sector (including cooperatives) amounted to only a little more than Rs. 1 billion during 1956/59. This figure, however, relates, it must be emphasized, to retained net profits only; gross savings of the corporate sector, that is, retained net profits plus additions to depreciation reserves, are of a much larger order.[3]

25. A substantial part of private savings represents savings accumulated at financial institutions. Savings of this type have shown, as mentioned in Chapter III, a considerable expansion over the last decade. In 1958/59, they were of the order of Rs. 3.5 billion. Savings in the form of absorption of new capital issues of joint stock companies have also increased signifi-

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1/ The total yield during 1956/59 from measures of additional taxation is estimated at about Rs. 4.5 billion.

2/ The ratio of tax receipts at the 1955/56 rates of taxation to national income is estimated at 7.1 per cent for 1960/61 as compared to 7.6 per cent in 1955/56.

3/ Over the 3 calendar years 1956 to 1958, the total gross savings of 1001 non-financial public limited companies, which accounted for about 78 per cent of the total paid-up capital of all such companies in the private sector, amounted to about Rs. 2.5 billion.

cantly in recent years. On the whole, however, the increase in domestic savings over the Second Plan period was relatively much smaller than that of investment. For instance, the average ratio of domestic savings to national income increased from 6 - 6½ per cent in the First Plan period to only a little less than 8 per cent during 1956/59. By 1960/61, the rate of domestic savings is estimated to have gone up to about 8.5 per cent of national income as against 10 per cent envisaged at the time of the formulation of the Second Plan. The average rate during the Second Plan period as a whole appears to have been around 8 per cent of national income.

26. According to Reserve Bank estimates,[1/] the marginal savings - income ratio during 1956/59 was somewhat lower than during the earlier three years, (14.2 per cent[2/] during 1956/59 against 19.1 per cent in 1953/56). This is attributed by the Reserve Bank mainly to the net effect on income distribution of such factors as gestation lags (which result in lowering the marginal profits/wages and salaries ratio) in the case of many investment schemes of a highly capital intensive nature, relative movements of wages and prices, etc.

27. The net inflow of capital from abroad in the first three years of the Second Plan amounted to about Rs. 11.8 billion. In 1956/57 and 1957/58, a large part of the inflow represented utilization of foreign exchange reserves and IMF credit. From 1958/59 onwards, however, the bulk of the inflow was by way of external assistance in the form of loans and official grants. Utilization of external assistance in the public and private sectors amounted (without allowing for loan repayments abroad) to about Rs. 7.2 billion during 1956/59. For the Second Plan period as a whole, total utilization of external assistance is estimated at a little over Rs. 14 billion. Of this, about Rs. 5.2 billion represented assistance for import of commodities under the U.S. Government's P.L. 480 program and the rest was utilized largely for steel plants and other industrial projects, railway development program, power projects, ports, etc. The largest amount of assistance came from the U.S.A. The rest of the assitance was provided mainly by the IBRD, the U.K., Canada and other Colombo Plan countries, West Germany, U.S.S.R. and Japan (Appendix Table 6).

1/ "Estimates of Saving and Investment in the Indian Economy: 1950/51 to 1958/59". Reserve Bank of India Bulletin, August 1961.

2/ As calculated with reference to the preceding three years. Calculation with reference to the First Plan period as a whole yields a higher ratio of 17.3 per cent.

28. The Third Five-Year Plan, which commenced in April 1961, envisages total net investment of about Rs. 104 billion over the five years, 1961/66. Net investment in the public sector is estimated at a minimum of Rs. 63 billion, or 73 per cent more than in the Second Plan period, the corresponding estimate for the private sector being Rs. 41 billion (exclusive of investment corresponding to transfer of resources from the public sector), or 32 per cent more than in the Second Plan period.

29. Net annual investment in the economy (in 1960/61 prices) is estimated to go up from about Rs. 16 billion in 1960/61 to Rs. 26 billion in 1965/66. Correspondingly, the ratio of net investment to national income is expected to go up from about 11 per cent in 1960/61 to about 14 per cent in 1965/66.

30. A part of the investment in the Third Plan is to be financed by external assistance, which has been taken at a total of Rs. 32 billion.[1/] Net domestic savings are expected to rise from about 8.5 per cent of national income at the end of the Second Plan to about 11.5 per cent by the end of the Third Plan.

1/ See Chapter IV also.

CHAPTER II

Financial Institutions

31. The structure of money and capital markets in India reflects the stage of development reached by the country. Alongside well-functioning financial institutions, there exist indigenous bankers and moneylenders, who play an important role in financing agriculture, small industries and trade, and constitute what is termed as the "unorganized sector" of the money and capital markets. Attention in this chapter is focused on financial institutions in the organized sector and only a brief reference to indigenous bankers and moneylenders is included at the end.

32. At the time of Independence in 1947, the organized sector comprised a fairly large group of financial institutions, which included the central bank, commercial banks, cooperative banks and credit societies, insurance companies, post office savings banks, postal life insurance fund, provident funds, etc. Since then, the activities of the various financial institutions have shown a marked expansion, particularly over the last decade due largely to the rising tempo of economic development under the Five-Year Plans. Important changes have been made in the organization and practices of the earlier institutions and new institutions, including specialized institutions for the provision of long and medium-term finance to large, medium and small scale industries, have been established.

33. A broad idea of the relative importance of various financial institutions can be obtained from the comparison of their total assets given in the table on the next page. It must, of course, be borne in mind that the figures of total assets bring out only very inadequately the importance of institutions like the IFC and ICICI, a substantial part of whose operations represents underwriting of capital issues and (in the case of IFC) guaranteeing of deferred payments.

Table 4

Total Assets of Financial Institutions

	Rs. million	
Commercial banks	23,732 1/	(Mar. 1962)
Cooperative credit institutions		
(a) State cooperative banks	1,823 2/	(June 1960)
(b) Central cooperative banks	2,588 3/	"
(c) Primary credit societies	3,949	"
(d) Central land mortgage banks	392 4/	"
(e) Primary land mortgage banks	222	"
Postal savings banks and other small savings schemes	8,267	(Mar. 1962)
Life Insurance Corporation	6,225	(Dec. 1960)
Postal life insurance	156	(Mar. 1960)
Provident Funds		
(a) Central Government provident funds	2,853	(Mar. 1961)
(b) Employees' Provident Funds scheme	1,953 5/	(Dec. 1960)
(c) Coal Mines and Assam Tea Plantations Provident Funds	359	(Mar. 1960)
(d) Others	n.a.	
Industrial Finance Corporation	656	(June 1962)
National Industrial Development Corporation	61	(Mar. 1961)
Industrial Credit and Investment Corporation of India	225	(Dec. 1961)
State Financial Corporations	422	(June 1962)
National Small Industries Corporation	64	(Mar. 1961)
Refinance Corporation for Industry	78	(Dec. 1961)
Investment and trust companies	377 6/	(Mar. 1959)
General insurance companies	756 7/	(Dec. 1960)
Employees' State Insurance Corporation	191 8/	(Mar. 1961)

n.a. = not available.

1/ Assets in India only.
2/ Inclusive of loans to central cooperative banks and primary societies.
3/ Inclusive of loans to primary societies.
4/ Inclusive of loans to primary land mortgage banks.
5/ Inclusive of balances held in provident fund accounts of certain employees not covered by the scheme.
6/ Relates to paid-up capital.
7/ Exclusive of assets of three insurance companies for which information is not available.
8/ Relates to investment in government securities only.

34. A brief description of the organization and operations of financial institutions is given in the following sections.

Central Bank

35. The Reserve Bank of India, which is the central bank of the country, was established in 1935. Before that, the Imperial Bank of India (now State Bank of India) performed some of the central banking functions, although the issue of notes continued to be the direct responsibility of the Central Government.

36. The Reserve Bank has a paid-up capital of Rs. 50 million. Almost the whole capital was originally held by private shareholders. In 1949, the Bank was nationalized.

37. Apart from performing the usual central banking functions, the Bank has been playing an important role in developing the structure of institutional finance in the country. The role of the Bank in the capital market is discussed in a separate chapter (see Chapter VIII).

Commercial Banks

38. Among other financial institutions, the commercial banks are the oldest and most important.[1] They have an extensive network of offices and play an important role in financing industry, trade and certain other activities as well as in collecting savings. They have also made substantial investments in government securities.

39. Banks listed in the Second Schedule of the Reserve Bank of India Act, 1934, are know as scheduled banks. To be eligible for inclusion in this Schedule, a bank must have paid-up capital and reserves of not less than Rs. 0.5 million and fulfill certain other conditions.[2] At the end of June 1962, there were 81 scheduled banks, of which 15 were foreign banks. In addition, there were 212 non-scheduled banks, which reported to the Reserve Bank, at the end of March 1962. However, banks belonging to the latter category are mostly of a small-size and restrict their activities to small localities. They accounted for about 2 per cent of total deposits of commercial banks at the end of March 1962.

1/ Commercial banking became well-established in India by the middle of the 19th Century. It, however, made only limited progress until the beginning of the present century.

2/ Only banks which (a) have paid-up capital and reserves of an aggregate value of not less than Rs. 0.5 million, (b) are organized as companies under the Indian Companies Act or incorporated under the laws in force in other countries or are institutions notified by the Central Government in this behalf and (c) satisfy the Reserve Bank of India that their affairs are not being conducted in a manner detrimental to the interests of their depositors are eligible for inclusion in the Second Schedule of the Reserve Bank of India Act, 1934.

40. The foreign banks, other than those incorporated in Pakistan, are also known as exchange banks. The exchange banks initially concentrated on the financing of foreign trade and have specialized in foreign exchange business. In recent years, their share in the financing of foreign trade has decreased significantly. On the other hand, they have been playing a more important part in the financing of internal trade and industries. At the end of 1961, they accounted for about 13 per cent of total deposits of scheduled banks.

41. Among Indian scheduled banks, the State Bank of India is the largest, accounting for a little less than 30 per cent of total deposits of scheduled banks at the end of 1960. Among the rest, 8 major banks accounted for another 39 per cent of total deposits of scheduled banks.

42. Over the last decade, there has been a marked growth of banking facilities as well as banking operations. The number of offices of scheduled banks increased from 2647 at the end of 1951 to 4401 at the end of 1961. The increase was particularly marked in the case of semi-urban and rural areas, which had remained largely outside the scope of commercial banking operations. For instance, the number of offices in places having a population of less than 25,000 increased from 750 at the end of 1951 to 1390 at the end of 1960. As indicated later, the State Bank of India has made an important contribution to the increase in the number of bank offices. The growth of activities of commercial banks is brought out in Appendix Tables 7 and 8.

43. Banks accept current, savings and time deposits. In recent years, many banks have also been issuing cash certificates, mainly of three or five years' duration, but the amount of outstanding cash certificates is relatively small (about Rs. 271 million on September 25, 1959). Total time liabilities of scheduled banks, that is, time deposits (including cash certificates), the time liability portion of savings deposits[1] and certain miscellaneous liabilities, increased from about Rs. 2.8 billion at the end of the fiscal year 1951/52 to Rs. 11.6 billion at the end of 1961/62.[2] A part of the increase was, however, accounted for by the deposits of P.L. 480 counterpart funds with the State Bank of India. Allowing for this, total time liabilities of scheduled banks at the end of 1961/62 amounted to about three and a half times the level reached at the end of 1951/52.

44. Demand liabilities of scheduled banks increased from about Rs. 5.4 billion in 1951/52 to Rs. 9 billion in 1961/62.[2] Since, however, the rate of increase in these liabilities was much smaller than in time liabilities, the ratio of the latter to total liabilities showed a sharp rise.[3]

1/ Savings deposits are withdrawable on demand, but there are restrictions on the amount that can be withdrawn at any one time and the number of withdrawals that can be made in a week or a month.

2/ Figures are exclusive of inter-bank borrowings, but inclusive of inter-bank deposits for which data prior to November 1960 are not available.

3/ The slower rate of growth of demand liabilities is explained partly by the increase in interest rates on time deposits.

45. Total credit extended by scheduled bankshas also shown a marked expansion over the last decade, being about Rs. 14.1 billion at the end of 1961/62[1] as against Rs. 6 billion or so at the end of 1951/52.[2] The increase has been especially marked in the case of advances to industries; consequently, the ratio of such advances to total bank credit has increased substantially. The bulk of the credit is provided in the form of loans, overdrafts and cash credits, the proportion of bills purchased or discounted being relatively small.[3]

46. Reflecting the impact of British banking traditions, the commercial banks in India provide mostly short-term credit. A substantial proportion of the short-term advances to industries is, however, renewed from time to time and represents, in effect, lending for a longer period.[4] Formal term loans, that is, loans sanctioned for a period of more than one year, continue to be small.

47. The bulk of the bank credit isgiven against security. At the end of March 1962, secured advances of scheduled banks represented about 86 per cent of their total credit.

48. Investments of scheduled banks in government securities increased from about Rs. 3 billion at the end of 1951/52 to over Rs. 7 billion at the end of 1959/60. A large part of the increase was, however, due to the investment of P.L. 480 funds in government securities by the State Bank of India. In 1960/61, the scheduled bank's investments in government securities decreased by about Rs. 1.6 billion, due partly to the revision of arrangements regarding the accrual of P.L. 480 funds to the State Bank of India.[5] This was followed by an increase of about 0.4 billion in 1961/62.

49. In recent years, the banks have also been underwriting capital issues of joint stock companies to a significant extent.

50. The commercial banks function under the overall control and supervision of the Reserve Bank of India. As mentioned in Chapter VIII, the Reserve Bank has taken a number of steps to strengthen the banking structure and promote its development along sound lines. A Deposit Insurance Corporation to insure deposits up to Rs. 1,500 per depositor has also been established recently.

1/ Exclusive of inter-bank advances.

2/ Precise information in respect of foreign bills purchased and discounted at the end of 1951/52 is not available.

3/ Cash credits are generally given against pledge or hypothecation of stocks while overdrafts are granted against personal security, government securities, shares and debentures, etc.

4/ See Chapter V.

5/ Since May 12, 1960, these funds are being invested directly in special government securities. Furthermore, the State Bank refunded a part of the past accumulations of these funds to the government in monthly installments of Rs. 120 million during July 1960 - June 1961.

The State Bank of India[1]

51. An important development in the field of banking was the establishment in July 1955 of the State Bank of India on the basis of a special Act; this Act spelled out the conditions for taking over the operations of the Imperial Bank of India, which was the largest commercial bank in the country. The Bank was set up, following the recommendation of the Committee of Direction of the All-India Rural Credit Survey, for the "extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas, and for diverse other public purposes". Its paid-up capital is a little over Rs. 56 million, of which about 92 per cent is held by the Reserve Bank of India and the rest by private shareholders. The Bank functions as an independent institution. The Act requires it to act on business principles, regard being paid to public interest. The Central Government may, in consultation with the Governor of the Reserve Bank of India and the Chairman of the Bank itself, issue directives to it on matters of policy involving the public interest.

52. The Act required the State Bank to open not less than 400 additional branches within a period of five years from the date of its establishment or such extended period as might be specified by the government. The Bank was able to fulfill this obligation a little before the end of five years, that is, by June 1, 1960. By the end of 1960, the number of new branches increased to 429.

53. Most of the new branches have been opened at relatively small places where banking facilities were either inadequate or non-existent. Thus, of the 400 centers at which new branches were opened by June 1, 1960, all except 24 had a population not exceeding 50,000. Seventy-seven places had a population of less than 10,000 and 209 places a population of 10,000 to 25,000. In sixty-four centers, there were no banking facilities when the State Bank opened its branches.

54. Opening of branches in smaller places involves a loss in initial years. These losses are being met partly from a fund which has been created by crediting to it the dividend payable on shares held by the Reserve Bank to the extent of 55 per cent of the issued capital.

55. The total number of State Bank's offices in India at the end of 1961 was 941. Furthermore, eight State-associated banks, which had been incorporated in the former Princely States, have become its subsidiaries. The number of offices of the subsidiary banks was 490 at the end of 1961. Together, the State Bank and the subsidiary banks have a wide network of offices spread all over the country.

1/ The figures given in the paragraphs dealing with the operations of scheduled banks include those for the State Bank of India as the latter is a scheduled bank.

56. The deposits at the new branches opened by the State Bank amounted to about Rs. 283 million at the end of 1959. According to the Chairman of the Bank, there is still considerable scope for collecting additional deposits from semi-urban and rural areas.

57. A sub-committee appointed by the State Bank in July 1960 has recommended the opening of 300 additional branches (including those already established since July 1960) in the rural and semi-urban areas by the bank and its subsidiaries during the five years ending June 1965. This recommendation has been accepted by the bank. 1/

58. The operations of the State Bank of India have been expanding steadily. It is important to note in this connection that nearly two-thirds of the Bank's total outstanding credit at the end of October 1960 was accounted for by industries. Furthermore, the Bank has been extending its activities in the spheres of rural credit, credit to small scale industries, medium-term finance, foreign exchange business, etc. It also acts as an agent of the Reserve Bank in places where the latter has no branches. Although the funds made available by the State Bank to the rural sector and small scale industries as well as in the form of medium-term loans to all industrial units are small in relation to both needs and the bank's aggregate resources, a basis has been established for greater progress in the future.

59. In the field of rural credit, the State Bank has been providing remittance facilities to cooperative banks on an increasing scale. While the Reserve Bank continues to be mainly responsible for financing the cooperative institutions, the State Bank has been providing supplementary finance to some extent. Apart from making advances to cooperative banks, it has been playing a significant role in financing cooperative marketing and processing societies. It has also been subscribing to the debentures of land mortgage banks and granting them interim accommodation (against government guarantee) pending the raising of funds through flotation of debentures. By granting advances against debentures of land mortgage banks, it has been helping to increase their marketability. It has also started financing of industrial cooperatives in certain circumstances and on certain terms and conditions.

60. As at the end of September 1961, the aggregate credit limits sanctioned for cooperative institutions amounted to about Rs. 246 million and the outstanding credit was Rs. 66 million.

61. The Bank has also been lending against warehouse receipts issued by the warehouses of the Central and State Warehousing Corporations, thus encouraging their use as security for bank advances.

62. The Bank's pilot scheme for the provision of coordinated finance to small scale industries by various lending agencies, which was initiated in 1956 at nine branches, has been extended to all branches since January 1959. Important branches numbering 35 have been working as "intensive centers" for achieving better results. At the end of 1961, the limits sanctioned to small scale industries and the amount outstanding were Rs. 101 million and Rs. 51 million respectively. The number of units assisted was

1/ It has also been decided that the branch expansion programs of the State Bank and its subsidiaries would cover 145 and 155 centers respectively.

2,811. The lending procedures under the scheme have been liberalized and the rate of interest does not normally exceed 6½ per cent per annum (inclusive of incidental charges). Furthermore, the Bank has agreed to act, at selected centers, as an agent of State Financial Corporations in their dealings with small scale industries. Agreements with seven State Financial Corporations were in force in 1961, but the Bank's services were utilized only to a limited extent.

63. The State Bank's original statute prohibited it from lending, except in certain specified cases, for more than 6 months or against the security of immovable property. The Act was, however, amended in 1957 and the Bank has made some progress in extending term credit to industries. At the end of 1960, the outstanding medium-term loans amounted to about Rs. 38 million.

64. Thus, the State Bank occupies a unique position in the banking structure of the country. It has undertaken several developmental activities in the public interest and has a good record of performance. Its subsidiaries have also started participating in the various developmental activities.

Cooperative Banks and Credit Societies

65. The cooperative movement, which owes its origin largely to the initiative of the government, was launched in 1904, with the primary objective of providing credit on reasonable terms to agriculturists, artisans, etc. and promoting cooperation and thrift among them. The cooperative credit structure, as it has evolved in the country is federal in character and consists of two distinct types of institutions - one dealing with the provision of short-term and medium-term credit and the other with the provision of long-term credit. The former comprises primary cooperative societies at the base, central cooperative banks at the intermediate level (generally one central bank in a district) and state cooperative banks at the top (generally one bank in each State). The organization for the provision of long-term credit, which is relatively much less developed, consists ordinarily of central land mortgage banks at the State level[1] and primary land mortgage banks at the taluka (sub-division of a district) level. In certain places, where there are no primary land mortgage banks, the central land mortgage banks operate through their own branches or central cooperative banks acting as their agents.

66. Primary credit societies are divided into agricultural and non-agricultural societies. An agricultural credit society operates in a village or a group of villages. Non-agricultural societies cater to the requirements of artisans, traders, salaried employees, etc. in urban and semi-urban areas.

1/ In Madhya Pradesh, where there is no central land mortgage bank, the state cooperative bank has established a separate department for the provision of long-term finance. For the Vidarbha area in Maharashtra also, the Vidarbha Cooperative Bank has established a separate land mortgage banking department.

67. The working capital of primary societies consists partly of share capital, reserves and deposits and partly of borrowings, mainly from central banks. By far the greater part of the funds of agricultural credit societies represents borrowings from central cooperative banks. Deposits with these societies are rather small. Non-agricultural societies have, on the other hand, been able to raise substantial amounts by way of deposits and depend on borrowings only to a limited extent (Appendix Table 9).

68. The funds of the central and state cooperative banks consist partly of share capital, reserves and deposits from cooperative institutions as well as individuals and partly of borrowings. The central banks borrow mainly from state cooperative banks. To some extent, they also borrow from commercial banks, government, etc. State cooperative banks borrow mostly from the Reserve Bank at concessional rates of interest (Appendix Table 10).

69. The central banks lend mostly to cooperative societies, while the state cooperative banks finance mostly the central cooperative banks and other cooperative institutions.

70. The central and state cooperative banks thus provide links between the rural societies and the organized money market and the Reserve Bank and serve as balancing centers for the surpluses and deficits at various points in the cooperative structure for short-term and medium-term credit.

71. Primary land mortgage banks raise a small part of their funds through share capital, deposits, etc. and the rest by way of loans from central land mortgage banks. In the case of the latter, debentures constitute the most important source of funds. They are generally guaranteed by State Governments and subscribed mainly by the Reserve Bank, State Bank and other commercial banks, Life Insurance Corporation, cooperative institutions, etc.

72. For nearly half a century after the inauguration of the cooperative movement, the progress of cooperatives had been very slow. In 1951/52, the share of cooperative institutions in total borrowings of cultivators amounted to only 3 per cent or so. Since then, however, the operations of cooperative credit institutions have shown a marked expansion, especially during the last five or six years. The number of primary credit societies[1] increased from about 125,000 at the end of June 1952 to 224,000 at the end of June 1960. During the same period, their membership increased from about 7.8 million to 19.9 million. The annual amount of loans advanced by them increased from about Rs. 750 million in 1951/52 to Rs. 2.9 billion in 1959/60 (Appendix Table 12).[2]

1/ Including grain banks, which generally make advances in kind. The annual amount of grain banks' advances is, however, small.

2/ Data relating to cooperative credit institutions are for the years beginning July 1.

73. The progress has been especially marked in the case of agricultural credit societies. For example, the annual amount of loans provided by them increased from about Rs. 246 million in 1951/52 to Rs. 1.7 billion in 1959/60, and further to Rs. 2.1 billion in 1960/61. For 1961/62, the loan disbursements are estimated at about Rs. 2.4 billion. The share of cooperatives in the total borrowings of cultivators is estimated to have increased to about 10-12 per cent in 1959/60 and there has been some further improvement since then.

74. The internal resources (share capital, reserves and deposits) of agricultural credit societies, central banks and state cooperative banks have increased at a much lower rate than advances to agriculturists. As a result, their dependence on the Reserve Bank for financing of loan operations has increased considerably. The total amount of short-term loans of the Reserve Bank to state cooperative banks for financing seasonal agricultural operations and marketing of crops increased from about Rs. 65 million at the end of 1951/52 to Rs. 782 million at the end of 1959/60. The proportion of Reserve Bank credit to total outstanding advances of agricultural credit societies and marketing societies increased from about 22 per cent to 46 per cent between 1955/56 and 1959/60.

75. Land mortgage banking has made only limited progress so far. The first land mortgage bank was set up in Punjab in 1920, but the effective beginning of land mortgage banking was in 1929 when a central land mortgage bank was established in Madras. At the end of 1959/60, there were 16 central land mortgage banks and 408 primary land mortgage banks with a total membership of about 767,000.1/ The total outstanding loans of primary land mortgage banks amounted to about Rs. 192 million at the end of 1959/60, while those of central land mortgage banks to individuals added up to another Rs. 100 million.

76. Considerable progress has been made in reorganizing and strengthening the cooperative credit structure, broadly along the lines recommended by the Rural Credit Survey Committee in 1954. The share capital of cooperative institutions at various levels has been augmented by government contributions, which totalled about Rs. 214 million by the end of 1959/60. This was equivalent to a little more than one-fourth of the total contribution by individuals to the share capital of these institutions. These contributions are provided largely out of loans made by the Reserve Bank from a fund (Long-Term Operations Fund)2/ set up by transfer of a part of the Bank's profits, which are otherwise payable to the government. Financial assistance in the form of subsidies and loans has also been made available by the government to cooperative institutions. A number of societies, which were in a weak position, have been revitalized, the number of societies taken up for revitalization in the Second Plan period being about 42,000. In addition, about 15,000 societies were taken up for revitalization during 1961/62. Steps are also being taken to achieve better results in the matter of revitalization of the societies. At the same time, moribund societies are being weeded out. The central banking structure has been rationalized to a considerable extent through a process of amalgamation and elimination of weaker units with a view to establishing

1/ Including about 62,000 nominal members in the case of central land mortgage banks.

2/ See Chapter VIII.

one strong central bank in each district. Training facilities for cooperative personnel have also been expanded substantially. The progress made in linking credit to cooperative marketing of crops so as to facilitate recovery of advances has, however, been rather slow.

77. As suggested by the Rural Credit Survey Committee, a number of large-sized credit societies (about 7,000) were also organized in the first three years of the Second Plan. The program was, however, virtually given up after 1958/59 and the present policy of the government is that "while, as a general rule, cooperatives should be organized on the basis of the village community as the primary unit, where villages are too small, the number of villages to be served by a cooperative society could be increased in the interest of viability".[1]

78. A number of multi-purpose societies, i.e., societies performing more than one function, have also been organized. According to a review of the cooperative movement by the Reserve Bank, however, most of the multi-purpose societies existing at the end of 1957/58 were doing mainly credit work, the value of non-credit business undertaken by them being small.

79. Despite the progress achieved over the past few years, a number of societies continue to be in a weak financial position. Several of them are dormant. A number of central banks also do not come up to the minimum standards[2] recommended by the Standing Advisory Committee on Agricultural Credit in 1952 in respect of paid-up capital and reserves as well as working capital. Overdue loans of agricultural credit societies continue to constitute a large proportion of total loans (over 20 per cent at the end of 1959/60). In view of the large expansion of cooperative credit envisaged in the Third Five-Year Plan, a large scale effort will be necessary for reorganizing and strengthening the institutions at various levels.

Post Office Savings Banks and Other Small Savings Schemes

80. The post office savings banks were established in 1883 with a view to encouraging savings among the middle and working classes. During World War I, the government introduced 5-Year Post Office Cash Certificates. Since then, the types of investment facilities available under the small savings schemes have been increased significantly to suit the needs of different categories of savers. The number of post office savings banks, which are dispersed widely throughout the country in both urban as well as rural areas, was 17,926 at the end of March 1960. Altogether, the small savings schemes have been playing a very important role in mobilizing savings in the country, the net annual collections having shown a marked increase over the last decade.

1/ Third Five-Year Plan, page 202.

2/ About Rs. 0.3 million in respect of paid-up share capital and reserves and Rs. 2-2.5 million in respect of working capital.

81. At present, the small savings schemes consist of (1) post office savings bank deposits which can be withdrawn on demand subject to a limit of Rs. 1,000 in any one week and bear interest at the rate of 3 per cent annum on deposits up to Rs. 10,000 in individual accounts or Rs. 20,000 in joint accounts and of 2½ per cent on the balance of deposits in the individual and joint accounts as well as on all other deposits; (2) 12-Year National Plan Savings Certificates, which are issued in denominations of Rs. 5 to Rs. 5,000 and yield 4¼ per cent per annum compound if held up to the date of maturity; (3) 10-Year Savings Deposits Certificates, which are available in multiples of Rs. 50, offer interest at the rate of 4 per cent, payable annually, and are encashable before maturity (but not during the first year) at the cost of a part of the interest drawn; (4) 15-Year Annuity Certificates, which are available at issue prices of Rs. 1,330 to Rs. 26,600, and offer a yield of 4¼ per cent per annum compound; (5) Cumulative Time Deposits, which can be made monthly in amounts of Rs. 5 to Rs. 200 for a period of 5 to 10 years and of Rs. 5 to Rs. 300 for a period of 15 years, the rate of interest (compound) being 3.3 per cent on a 5-year account, 3.8 per cent on a 10-year account and 4.3 per cent on a 15-year account.

82. The National Plan Savings Certificates are available at post offices engaged in savings bank activities. Cumulative time deposits are also accepted at these post offices. The Treasury Savings Deposit Certificates and the Annuity Certificates are, on the other hand, available at certain offices of the Reserve Bank, branches of the State Bank, Treasuries and Sub-Treasuries, etc.

83. A prize bonds scheme was also introduced in April 1960. The bonds, which were issued in denominations of Rs. 100 and Rs. 5, were bearer bonds repayable at par on or after April 1, 1965, and offered, instead of interest, prizes drawn quarterly out of an amount equal to 3½ per cent per annum on the total value of bonds in each series. The scheme has been discontinued since the end of June 1962, mainly because the receipts had greatly dwindled.1/ An alternative scheme is, however, proposed to be introduced shortly.

84. Income from small savings is exempt from income tax and super tax. Investments in small savings are also exampt from wealth tax. As a result of a further tax concession announced in the current fiscal year, a deduction from income tax is also permitted in respect of deposits in the 10-year and 15-year accounts under the Cumulative Time Deposits Scheme. A similar tax deduction is also permitted in the case

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1/ Explanatory Memorandum on the Budget of the Central Government for 1962/63.

of life insurance premiums and contributions to provident and pension funds. The aggregate amount in respect of which tax deduction can be claimed is, however, limited to one-fourth of the income or Rs. 10,000 per annum, whichever is less.

85. Up to the end of May 1962, the total amount which an individual could invest in all types of small savings, except prize bonds, was Rs. 105,000; this limit has, however, raised substantially as a result of certain changes in the Cumulative Time Deposits Scheme.1/ In the case of prize bonds, there was no limit on individual holdings. However, as stated earlier, the sale of such bonds has been discontinued since the end of June 1962.

86. The small savings movement is directed and coordinated by the National Savings Organization which functions under the overall control of the Central Ministry of Finance. The Organization has regional officers and district organizers in the States. Some of the States have also set up their own complementary organizations.

87. The National Savings Organization has a large network of agents spread throughout the country for promoting sales of National Plan Savings Certificates and Treasury Savings Deposits Certificates. The agents include primary school teachers, employees of various government and non-government establishments, postmasters in rural areas, and institutions like village panchayats (elected bodies), other local bodies in rural areas, cooperative societies, scheduled banks, women's organizations, etc. The agents get a commission of $1\frac{1}{4}$ per cent on sales of National Plan Savings Certificates and $\frac{1}{2}$ per cent on those of Treasury Savings Deposits Certificates. The number of agents increased from 17,264 in 1956/57 to 78,518 in 1959/60.

1/ There is a separate limit for investment under each type of small savings scheme. The main objective of the limits is to preserve the essential character of the schemes which are intended to cater primarily to the needs of small savers as also to restrict the quantum of tax benefit in the case of each individual or institution. The changes made in the Cumulative Time Deposits Scheme in June 1962 included the introduction of a 15-year account and raising of the limit for investment in the 10-year account from Rs. 100 per month to Rs. 200 per month.

Life Insurance Corporation of India

88. Following nationalization of life insurance, the Life Insurance Corporation was established in September 1956 to take over the business of life insurance companies and other insureres, except post offices. It has a paid-up capital of Rs. 50 million, which is owned entirely by the government.

89. The Corporation took over the business of 245 life insurers, including 16 foreign insurers, 3 State Insurance Departments (which provided life insurance on a limited scale) and 75 provident societies (which caterd to the needs of people of moderate means). The assets pertaining to the life insurance business of these insurers aggregated about Rs. 4.1 billion.

90. The main reason for nationalization of life insurance, as given by the Finance Minister of India, was that the business was "not being managed either efficiently or with an adequate sense of responsibility" in the case of a vast majority of companies. Despite the operation of the Insurance Act, it had not been possible to check the various malpractices in regard to investment of funds. Besides, the government felt that the nationalized insurance would be able to spread the insurance habit more widely and, in doing so, would make available substantial sums for the implementation of the country's development plans.

91. After the Partition of the country in 1947, new life insurance contracted in the Indian Union ranged from about Rs. 1.4 billion in 1948 to Rs. 1.6 billion in 1953. Thereafter, it increased sharply to about Rs. 2.4 billion in 1954, due mainly to a reduction of premium rates and influx of new business under staff insurance schemes and estate duty policies. In 1955 also, it was maintained at about the same level as in the preceding year. However, due to heavy lapses, total life insurance[1] in force in India increased from about Rs. 7.1 billion at the end of 1947 to only Rs. 11.3 billion at the end of 1955, representing an average annual increase of about Rs. 525 million.

1/ Including bonuses declared in the case of policies participating in profits.

92. As an initial reaction to nationalization, the amount of new life insurance showed a decline in 1956. Thereafter, it increased at a fairly rapid rate. New insurance contracted in India amounted to about Rs. 2.8 billion in 1957 and Rs. 4.9 billion in 1960. The quality of business, as judged by the lapse ratio,1/ was also better than in the case of private insurance companies. (The ratio has, however, shown an increase since 1959 and efforts are necessary to check this trend.) Total life insurance in force in India increased from about Rs. 11.3 million at the end of 1955 to Rs. 21.8 billion at the end of 1960 Insurance in force outside India also showed a moderate increase (from about Rs. 920 million at the end of 1955 to Rs. 1.1 billion at the end of 1960). The annual premium income (in respect of insurance in India as well as outside India) increased from about Rs. 586 million to Rs. 969 million and the number of policies rose from 4.8 million to 7.7 million.

93. Life insurance in India continues to make steady progress and the annual amount of new insurance contracted in the country increased to about Rs. 6 billion in 1961. As stated earlier, the tax system provides for relief from income tax in respect of payments for life insurance (within certain limits)2/; this tax concession appears to have helped significantly in expanding the volume of life insurance.

94. The bulk of insurance in India is accounted for by endowment and whole life insurance policies. Group life insurance (which is less important from the point of view of accumulation of funds as it involves payments for the risk coverage only) accounted for only a small fraction of new insurance in 1960 and 1961.

95. The gross rate of interest (without deduction of tax) realized on the mean life insurance fund was 4.58 per cent in 1960.

Post Office Life Insurance Fund

96. The post offices write life insurance on a limited scale. The scheme was introduced in 1883 for the benefit of postal employees. Subsequently, it was extended to other government employees as well as to certain categories of semi-government employees, including employees in industrial undertakings where the government has a majority share.

97. The post offices issue whole life as well as endowment policies. The maximum amount for which insurance is available is Rs. 30,000, except in the case of defense services personnel and civilian employees liable to military service for whom the maximum limit is Rs. 20,000.

98. The total number of policies in force at the end of March 1960 was 155,222 for a sum of about Rs. 355 million and the life fund amounted to Rs. 156 million.

1/ Ratio of insurance lapsed minus insurance revived in a year to the mean insurance in force during that year.

2/ See para. 84.

Provident and Pension Funds

99. Provident funds operate over a fairly wide area in both the public and private sectors and cover about 9 million employees. They account for a substantial part of total transferable savings in the economy.[1]

100. In the private sector, a large part of the annual provident fund accumulations is accounted for by the Employees' Provident Fund Scheme which was introduced under an Act in 1952. Initially, the Act applied to only six industries. Since then, it has been gradually extended to a number of other industries, as well as motor transport by road, commerce and trade, hotels, restaurants, film studios, etc. In the industries and other fields brought within the scope of the Act, the Employees' Provident Fund Scheme covers all establishments which employ at least 50 persons and have been in existence for three years as well as those (subject to an exception in the case of cooperative societies) which employ 20-49 persons and have completed five years of existence.[2]

101. In the establishments covered by the Employees' Provident Fund Scheme, it is compulsory to set up provident funds for employees earning up to Rs. 500 per month (basic wage, dearness allowance, including the cash value of food concession,[3] and retaining allowance,[4] if any, paid during the off-season). Employees as well as employers are required to contribute at the rate of $6\frac{1}{4}$ per cent of basic wage, dearness allowance and retaining allowance (if any) paid to employees. In addition, employers have to contribute towards the administrative charges of the scheme. The employees can, if they so desire, contribute up to 8-1/3 per cent of their basic wage, etc. though the employers are, even so, obliged to contribute at the rate of $6\frac{1}{4}$ per cent. If an establishment has its own provident fund, gratuity or pension scheme and the total quantum of benefits offered to employees is not less than that available under the Employees' Provident Fund Scheme, it can be allowed to run its scheme on certain conditions, the most important one being that investments should be made exclusively in Central Government securities. Provident fund accumulations of other establishments, i.e., non-exempted establishments, are also invested exclusively in Central Government securities.

102. At the end of May 1962, the scheme covered about 18,500 establishments and 3.25 million employees.

1/ See Chapter III.

2/ Cooperative societies employing less than 50 persons and working without the aid of power are not covered. On the other hand, all newspaper establishments employing 20 or more persons are covered, regardless of the period for which the establishments have been in existence.

3/ This takes the form of sale of food articles by employers to their employees at concessional prices.

4/ Allowance in lieu of wages.

103. The question of extending the scheme to certain additional industries as well as banks and insurance companies is under consideration by the government. It has also been decided to increase the rate of compulsory contribution to 8-1/3 per cent in the case of both employees as well as employers in the iron and steel, cigarettes, electrical, mechanical and general engineering products and paper industries.

104. The employees in coal mines and assam tea plantations are covered by separate statutory schemes of compulsory provident funds. At the end of 1960, these schemes covered about 0.9 million employees.

105. In a number of cases, provident funds have also been set up voluntarily by employers. The rate of contribution ranges from 6-1/4 per cent to 8-1/3 per cent of salary for employees as well as employers. Pension funds are, however, not common.

106. In the public sector, most of the employees of the Central Government as well as the bulk of the employees of the State Governments, local authorities and other semi-government organizations are covered by provident funds, and the net annual accretion to these funds is of a considerable order (Appendix Table 22). Regular employees of the Central and State Governments, except those belonging to certain specified categories, are also covered by separate pension schemes. The pension schemes, however, do not usually involve any contribution on the part of employees, the pension payments being almost exclusively the liability of the Central and State Governments. Normally, no separate funds are established under the general pension schemes, the pension being provided out of the budgetary resources of the Central and State Governments. Certain minor funds have, however, been established for family pensions, etc., but the annual accretion to such funds is of a small order.

107. The provident funds are broadly of two types - those involving contributions by employees only and those involving contributions by employees as well as employers. Provident funds of the former type have been instituted mainly for pensionable employees as well as temporary employees of the Central and State Governments; contributions to such funds by Central Government employees, which were optional up to the end of March 1960, have been made compulsory. In many States also, the contributions are compulsory. The minimum rate of contributions for Central Government employees, other than those belonging to the railways, is generally 6 per cent of the emoluments.1/ For railway employees, the minimum rate of contribution is 8-1/3 per cent. Provident funds involving contributions by both employers and employees have been instituted for non-pensionable employees, other than temporary employees, of the Central and State Governments as well as employees of local authorities, etc. In the case of Central Government employees, the

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1/ Dearness allowance and certain other allowances paid to government employees are not included in "emoluments".

rate of contribution is generally 8-1/3 per cent for both employees as well as the Government. In the case of other employees, the rate generally ranges from 6-1/4 per cent to 8-1/3 per cent (for employers as well as employees). In some cases, e.g., in the case of Reserve Bank employees, the rate is somewhat higher.1/

Industrial Finance Corporation

108. The Corporation was established in July 1948 under a special Act for the purpose of "making medium and long-term credits more readily available to industrial concerns 2/ in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable". It is authorized to give assistance to public limited companies and cooperative societies only.

109. The Corporation has an authorized capital of Rs. 100 million. As at the end of June 1961, paid-up capital was Rs. 50 million, of which Rs. 20.27 million was owned by the Central Government and the Reserve Bank and Rs. 11.73 million by the Life Insurance Corporation. The rest of the capital was held mostly by scheduled banks (including the State Bank of India) and cooperative banks. The Government had guaranteed repayment of the principal of the share capital and payment of annual dividend on it at a minimum rate of 2-1/4 per cent. In March 1962, the Corporation issued further share capital to the extent of Rs. 20 million. Its paid-up capital has thus increased to Rs. 70 million.

110. Until December 28, 1960, the Corporation was authorized to give assistance by: (a) guaranteeing loans raised in the market and repayable within a period of 25 years; (b) granting loans or advances and subscribing to debentures repayable within a period of 25 years; (c) guaranteeing deferred payments in connection with the import of capital goods from outside India,3/ and (d) underwriting the issue of stocks, shares, bonds or debentures. Since December 29, 1960, it has also been authorized to subscribe

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1/ As mentioned in Chapter III, accumulations in provident funds of government employees are not invested separately; they are taken credit for in the capital budget of the government under the head "unfunded debt". The government pays interest on accumulated balances. Provident fund accumulations in the semi-government sector are invested mainly in government securities.

2/ At present, these are defined as concerns which are engaged or are to be engaged "in the manufacture, preservation or processing of goods or in shipping, or in mining, or in hotel industry or in the generation or distribution of electricity or any other form of power".

3/ The guarantee may be in Indian currency or foreign currency. In case the guarantee is in foreign currency, the enterprise concerned has to make satisfactory arrangements for the availability of the necessary foreign exchange. Risks arising from foreign exchange fluctuations have also to be borne by the enterprise seeking guarantee.

directly to the stock or shares of an industrial concern and provide financial assistance in certain other forms, e.g., guaranteeing of deferred payments in connection with the purchase of capital goods in India, guaranteeing of loans obtained from scheduled banks or state cooperative banks, etc.

111. The Corporation has to function on business principles, "due regard being had by it to the interests of industry, commerce and the general public". The Central Government is authorized to give instructions to it on questions of policy. If the Board of the Corporation fails to carry out these instructions, it may be superseded and replaced by a new Board.

112. To augment its resources, the Corporation has obtained loans from the government, the outstanding amount of such loans being about Rs. 198 million at the end of 1962.

113. The Corporation has also raised substantial amounts through issue of bonds guaranteed by the government. The total amount of bonds outstanding at the end of June 1962 was about Rs. 222 million. Information relating to initial allotments of bonds indicates that a little more than half of the total amount (about 52 per cent) was subscribed by the commercial and cooperative banks while another 29 per cent of the total was subscribed by the Reserve Bank, Life Insurance Corporation and the insurance companies (including the former private life insurance companies).

114. Since 1960, the Corporation has obtained three foreign currency loans - two loans aggregating $30 million (about Rs. 143 million) from the Agency for International Development (formerly the U.S. Development Loan Fund) and one loan of D.M. 15 million (Rs. 17 million) from a West German bank.

115. The Corporation can borrow from the Reserve Bank (a) money repayable on demand or for a fixed period not exceeding 90 days against government securities, and (b) an amount up to Rs. 30 million for fixed periods not exceeding 18 months against securities of the Central Government or against its bonds and debentures maturing within a period of 18 months. No such loans from the Reserve Bank were, however, outstanding at the end of June 1962.

116. The bulk of the assistance made available by the Corporation to industries has been in the form of loans. They are generally granted for purchase of land for factory sites, construction of factory buildings and purchase and installation of machinery. Usually, the maturity period of loans is 10 - 15 years and the minimum amount of a loan is Rs. 1 million. 1/ Loans for the purpose of working capital or repayment of existing liabilities are given only in exceptional cases. Before granting loans, the Corporation satisfies itself that the capital structure of the borrowing concern is sound. The loans are secured by a regular mortgage covering all existing as well as future fixed assets of the borrowing concern. Except in certain

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1/ As mentioned later, loans of a smaller amount are advanced by State Financial Corporations.

cases of imported plant and machinery, the Corporation generally aims at securing a minimum margin of 50 per cent, i.e., loans are advanced to the extent of half the value of the assets mortgaged by the borrowing concern. The Corporation also requires personal guarantees of the managing agents of the borrowing concern or some of its directors where there are no managing agents. The repayment of loans is made in equal or graduated installments, beginning usually three years after the granting of loans. Loans of more than Rs, 10 million to a single industrial concern require the prior approval of the Central Government.1/ Certain other loans also require the prior approval of the Central Government under the directives issued to the Corporation.

117. The annual amounts of loans approved and disbursed by the Corporation since its inception are shown in Appendix Table 13. Total loans approved by the Corporation up to the end of June 1961 amounted to about Rs. 1058 million (inclusive of dollar loans of Rs. 43 million out of the D.L.F. loan). Of these, loans amounting to Rs. 141 million had been subsequently declined or were not to be made available. Besides, loans of Rs. 197 million were awaiting approval of the government or the D.L.F. Loan disbursements increased significantly from 1956/57 onwards and totalled Rs. 574 million by the end of June 1961.

118. The amount of loans approved and disbursed in 1960/61 (July-June) was about Rs. 212 million and Rs. 66 million respectively.

119. Of the total loans of Rs/ 1058 million approved up to the end of June 1961, loans for an amount of Rs. 765 million were for new undertakings, i.e., factories which went into production after August 15, 1957. The remaining loans of Rs. 293 million were granted to old establishments for purposes of renovation, modernization and expansion.

120. More than two-thirds of the total amount of loans approved up to June 1961 was accounted for by loans of more than Rs. 5 million per concern.

121. An important feature of the Corporation's operations is that about 22 per cent of total loans approved represents assistance to cooperative societies (mostly sugar cooperative societies), in view of the declared policy of the government to afford special encouragement to them. In most cases, these loans are guaranteed by the Central Government and the State Government concerned in the ratio of 50:50.

122. The sugar industry accounted for the largest proportion (about 29 per cent) of total loans approved by the Corporation, due mainly to the loans given to cooperative sugar societies. The bulk of the remaining loans was accounted for by the textiles, paper, chemicals, cement, metal, metal products and machinery industries.

1/ Up to December 28, 1960, such loans required government guarantee as to the repayment of principal and payment of interest.

123. In 1957/58, the Corporation started underwriting of capital issues and guaranteeing of deferred payments in connection with import of capital goods. To provide this type of assistance, it has to obtain prior approval of the government in each case. In 1960/61, it also began guaranteeing of deferred payments in respect of indigineous capital goods. As at the end of June 1961, it had approved underwriting of shares and debentures to the extent of Rs. 42 million and deferred payment guarantees for Rs. 255 million. In addition, it approved guaranteeing of a dollar loan of about Rs. 15 million (including interest) to a concern from the U.S. Export Import Bank.

National Industrial Development Corporation

124. The Corporation was set up in October 1954 for the promotion and development of industries. Its paid-up capital (Rs. 3.5 million at the end of March 1961) has been provided wholly by the Central Government. The additional funds required by the Corporation for financing its activities are also made available exclusively by the Central Government in the form of loans and grants.

125. The Corporation was conceived mainly as an instrument of the government for securing a balanced and integrated development of industries in both the public and private sectors. It is primarily a development corporation, entrusted with the task of formulating projects for setting up new industries or developing new lines of production with a view to filling gaps in the industrial structure. It has, in most cases in collaboration with foreign firms and experts, dealt with several projects, especially in fields in which private enterprise was not expected to take the initiative. Some of the projects have already been taken up for implementation in the public sector. Certain schemes, e.g., for the production of aluminum, carbon black, cemented carbides and rayon pulp, in respect of which preliminary studies were carried out by the Corporation, were assigned to the private sector for follow-up action and establishment of production units.1/

126. The Corporation has also been functioning as an agency of the government for granting loans on liberal terms to the cotton textile and jute industries for modernization and rehabilitation, and, more recently, to the machine tools industry for rehabilitation as well as expansion.

127. Up to the end of March 1962, the Corporation sanctioned total loans of about Rs. 238 million for the modernization and rehabilitation programs of the cotton textile and jute industries. Disbursements on these loans amounted to Rs. 88 million. Loans sanctioned for the machine tools industry amounted to Rs. 10 million while disbursements against them were of the order of Rs. 4 million.

128. The Corporation has introduced two new schemes for giving short-term assistance to cotton textile and jute industries. The first scheme is intended to provide domestically produced machinery on a hire-purchase basis.

1/ In 1960/61, the Corporation set up a Technological Consultancy Bureau for dealing with preliminary investigation of projects as well as for the provision of consultancy and engineering services mainly for the public sector projects.

The other scheme aims at providing short-term loans for the installation of imported machinery. Assistance provided under these schemes up to the end of 1961/62 was, however, of a small order.

Industrial Credit and Investment Corporation of India

129. The Corporation was established in January 1955 at the initiative of the IBRD to encourage and assist private industrial development in India. It is a public limited company 1/ with an authorized capital of Rs. 250 million. The issued and paid-up capital is Rs. 50 million. Initially, an amount of Rs. 20 million was subscribed by Indian banks, insurance companies, directors of the Corporation, etc., Rs. 15 million by the general public in India and Rs. 15 million by investors in the U.K. (including the Commonwealth Development Finance Company) and in the U.S.A. With the nationalization of life insurance, the shares owned by life insurance companies in India passed into the hands of the Life Insurance Corporation.

130. The ICICI assists industrial enterprises in the private sector by: (a) providing finance in the form of long or medium-term loans or equity participations, (b) sponsoring and underwriting new issues of shares and other securities, (c) guaranteeing loans raised from other private investment sources, and (d) making available managerial, technical and administrative advice and services.

131. The Corporation grants financial assistance primarily for the purchase of capital assets in the form of land, buildings and machinery, but applications relating to additional permanent working capital may also be considered in suitable cases. Loans are given for periods not exceeding 15 years. All loans and guarantees have to be secured; the form of security may, however, be varied as conditions require. Normally, the lower limit of financial assistance in an individual case is Rs. 0.5 million, but smaller amounts can be made available in appropriate cases.

132. The Government of India advanced to the Corporation in 1955 an interest free loan of Rs. 75 million, repayable in 15 equal instalments commencing after the expiry of 15 years. In 1959, the Government sanctioned another loan of Rs. 100 million out of P.L. 480 funds. This loan is available to the Corporation on call, bears interest at 4-1/2 per cent per annum and is repayable over 10 years beginning in the eleventh year. The IBRD sanctioned four loans to the Corporation for an aggregate amount of $60 million (about Rs. 285 million) by the end of March 1962. Further, the Corporation obtained loans of $5 million (Rs. 24 million) from the U.S.A. through the D.L.F. and of DM 5 million (Rs. 6 million) from West Germany through the Kreditanstalt. The total amount of loans available to the Corporation by the end of March 1962 was thus about Rs. 490 million.

1/ A public limited company is one which does not restrict the number of shareholders of place restrictions on the transfer of shares.

133. The Corporation has been playing an important role in financing industries and developing the capital market through its own activities as well as by encouraging other financial institutions and firms, etc. to collaborate in its operations. Further, in the context of the scarcity of foreign exchange, it has become an important source of foreign exchange loans for industries.

134. Total financial assistance sanctioned by the Corporation in various forms up to the end of 1961 (exclusive of assistance subsequently withdrawn, reduced or not proceeded with) was about Rs. 427 million as shown below:

	(Rs. million)
Foreign currency loans	194.2
Rupee loans and guarantees	102.1
Underwriting of shares and debentures	102.2
Direct subscriptions to shares	28.6
	427.1

By the end of 1961, disbursements against foreign exchange loans amounted to about Rs. 64 million, while those against rupee loans and guarantees totalled Rs. 56 million. The amount of underwriting operations completed was about Rs. 93 million, of which Rs. 40 million in shares and debentures had to be taken up by the Corporation. Actual payments in respect of shares and debentures amounted to about Rs. 38 million. In addition, direct subscriptions to shares amounted to approximately Rs. 26 million. The total amount actually loaned (i.e. disbursed) and invested by the Corporation up to the end of 1961 was thus about Rs. 184 million (Appendix Table 14).

State Financial Corporations

135. An Act to enable State Governments to establish State Financial Corporations on a uniform basis for providing financial assistance to medium and small scale industries was passed by Parliament in 1951. The provisions of this Act are broadly similar to those of the Industrial Finance Corporation Act. All States, except Madras, have set up State Financial Corporations under the Act. In Madras, the Industrial Investment Corporation, which had been established in 1949 under the Companies Act, has been providing financial assistance to medium and small-scale industries. Altogether, there are at present 15 Corporations.

136. At the end of March 1962, the total paid-up capital of the Corporations was about Rs. 158 million,[1] of which Rs. 75 million was owned by State Governments and Rs. 24 million by the Reserve Bank. The bulk of the remaining capital was held by banks, insurance companies and other financial institutions, the amount owned by individuals and others being about Rs. 6 million only. The State Governments have guaranteed repayment of the share capital and payment of a minimum annual dividend.

137. The Corporations have also raised substantial amounts by issuing bonds guaranteed by State Governments. The amount of bonds outstanding at the end of May 1962 was about Rs. 150 million. Information available in respect of initial allotments of bonds indicates that a little more than half of the total amount was subscribed by commercial banks and another one-fourth by the Life Insurance Corporation. Three Corporations, viz. those in Madras, Kerala and Andhra have accepted deposits. The fixed deposits with the Madras Corporation (inclusive of cash certificates) amounted to about Rs. 48 million at the end of May 1962. These have been guaranteed by the Madras Government. The deposits with the Kerala and the Andhra Corporations are, however, very small.

138. The Corporations can obtain short-term advances (for periods not exceeding 90 days) from the Reserve Bank against government and other securities, eligible bills, etc. They can also borrow limited amounts (up to 60% of their paid-up capital) from the Reserve Bank for a period not exceeding 18 months against government securities or their bonds and debentures. Further, they can borrow from the State Governments and avail themselves of the refinancing facilities provided by the Refinance Corporation (see later).

139. The Corporations can provide assistance to medium and small scale industries in the form of loans, subscriptions to debentures, underwriting of issues of stocks, shares, bonds or debentures, guaranteeing of loans raised in the market or from a scheduled bank or a state cooperative bank and guaranteeing of deferred payments in connection with purchase of capital goods within the country.[2] Except in the case of underwriting of securities and guaranteeing of deferred payments, the maximum amount of assistance given by the Corporation to any concern cannot exceed Rs. 2 million, if the concern is a public limited company or a cooperative society, and Rs. 1 million in all other cases.[3]

140. The assistance made available by all Corporations, except the Madras Corporation, has been mainly in the form of loans. These are given primarily for fixed capital requirements, although a part of the loans might also be

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1/ By the end of June 1962, the paid-up capital increased to about Rs. 161 million.

2/ The loans granted by the Corporations and the debentures subscribed by them may carry an option for conversion into stocks and shares and, in the exercise of such an option, the Corporations may convert the loans and debentures into stocks and shares and also subscribe to the related issues of "rights shares".

3/ The provisions of the State Financial Corporations Act do not apply to the Madras Industrial Investment Corporation which has been established, as stated earlier, under the Companies Act.

utilized for meeting working capital needs. The period of loans is normally 10-12 years. As a general rule, the Corporations keep a margin of 50 per cent on the security offered but this requirement (as well as the other terms and conditions) may be relaxed in appropriate cases (see below). In most cases, they also take personal guarantees of directors of an enterprise.

141. As the following figures show, the activities of the Corporations have expanded substantially from 1960/61 onwards.

	Rs. million	
	Loans sanctioned annually	Loans disbursed annually
1958/59	50	33
1959/60	59	40
1960/61	92	48
1961/62	129	81

Nevertheless, the annual volume of the Corporations' loan disbursements continues to be rather small. Besides, the small industries' share[1] of loans granted by the Corporations is relatively minor. For example, of total loan disbursements of a little over Rs. 300 million up to the end of March 1962, the small industries accounted for about Rs. 61 million only, the rest of the amount having been loaned to medium-size industries.

142. The slow progress made by the Corporations is, of course, explained partly by the fact that most of them are in an early stage of development. Certain difficulties are also inherent in lending to small scale units. There is, however, a widespread feeling that the Corporations have adopted an over-cautious approach and that their procedures are rather rigid and cumbersome.

143. The question of liberalizing the lending policies of the Corporations was considered at their annual conferences in 1959 and 1960 and it was decided that the terms and conditions might be relaxed in appropriate cases. Loans given by the Corporations to small industries have been made eligible for guarantee under the scheme introduced by the government in 1960 for guaranteeing loans to small industries (see Chapter V). The Refinance Corporation (see later) has also extended refinance facilities to medium-term loans given by the Corporations. The Conference held in 1961 suggested that the Corporations should examine the feasibility of liberalizing their loan rules in the context of the guarantee facilities available to them and also accepted certain suggestions for relaxing the terms and conditions respecting the granting of loans for working capital. On the whole, therefore, it seems reasonable to expect that the volume of the Corporations' lending will increase progressively in future.

144. The Madras Corporation has also been underwriting capital issues on a significant scale. The total amount of underwritings up to the end of March 1960 was about Rs. 34 million; these underwritings were mostly of the nature of agreements to purchase securities, so that the Corporation's subscriptions to the securities underwritten by it amounted to over Rs. 31 million by the end of February 1960. The Corporation stated in March 1960 that it intended to concentrate largely on pure underwriting operations in future.

1/ At present, a small scale industrial unit is defined as an undertaking whose "investment of a capital nature, including the value of rented premises, if any, but excluding the amounts spent on housing and amenities for workers," is not in excess of Rs. 0.5 million.

145. In several States, the Corporations are also functioning as agents of State Governments for granting loans of smaller amounts to small industries on concessional terms.

146. Almost all Corporations, except the Madras Corporation, had to resort to subventions from State Governments to pay a part of the guaranteed dividends on share capital, though the magnitude of subventions has been declining in the case of several Corporations. The Corporations in Assam, Bombay, Punjab and W. Bengal did not require any subventions in 1961/62.1/

National Small Industries Corporation

147. The Corporation was set up in February 1955 to promote the growth of small industries in India. It has a paid-up capital of Rs. 0.4 million, which is owned entirely by the Central Government.

148. Initially, the main function of the Corporation was to assist small scale units in securing contracts from the government for supply of goods. Subsequently, the Corporation was assigned several other functions; as at the end of 1960/61, these additional functions included: (a) supply of machinery on liberal terms under a hire purchase scheme, (b) development of small industrial units as ancillaries to large units, (c) distribution of raw materials, etc. at reasonable prices, (d) provision of marketing assistance both in internal and overseas markets, (e) construction of two industrial estates to provide factory buildings to small industries and management of one of them, (f) establishment and runninf of two centers to provide training facilities and develop prototypes of machine tools for mass production by small units, etc., and (g) guaranteeing, in the case of manufacture of goods to be supplied to government departments, etc. against orders placed through the auspices of the Corporation, of margins on loans made by the State Bank of India to small industries against the security of raw materials, so as to enable the State Bank to make loans up to 100 per cent of the value of raw materials pledged.2/

149. By the end of March 1961, the Corporation had accepted applications (excluding rejections and withdrawals) for supply of machinery valued at about Rs. 190 million under its hire purchase scheme and delivered machinery valued at Rs. 42 million against these applications.

150. The Corporation has established four subsidiary corporations at Bombay, Calcutta, Madras and Delhi. The main functions of these corporations are the execution of a part of the hire purchase scheme and operation of certain marketing assistance schemes.

151. Before 1960, the funds required by the Corporation to finance its activities were being made available exclusively by the Central Government in the form of loans and grants. In 1960, the Corporation also received a credit of $10 million (about Ts. 48 million) from the D.L.F. for utilization in the operation of its hire purchase scheme.

1/ The Financial Express, August 14, 1962.

2/ The guarantee is limited to Rs. 25,000 in each case and the total amount of such guarantees is not to exceed Rs. 3 million. Commission at the rate of ½ per cent is charged on the amounts guaranteed. The Corporation has agreed to enlarge the scope of the guarantee scheme to cover all stages of production.

Refinance Corporation for Industry

152. The Refinance Corporation was established in June 1958 mainly with the object to channel through it counterpart funds of $55 million (about Rs. 260 million), which had been earmarked for relending to private enterprise in India under the P.L. 480 arrangements. The authorized capital of the Corporation is Rs. 250 million. The paid-up capital is Rs. 125 million of which Rs. 50 million has been subscribed by the Reserve Bank, Rs. 25 million by the Life Insurance Corporation and Rs. 23 million by the State Bank. The balance of the capital is held by 13 other larger scheduled banks. The Government of India has agreed to lend to the Corporation up to Rs. 260 million (out of P.L. 480 funds). The amount actually loaned by the Government to the Corporation up to the end of 1961 was Rs. 50 million. Early in 1962, the Corporation negotiated two further loans aggregating Rs. 20 million from the Government.

153. The Corporation provides refinancing facilities (in the form of loans) to certain selected banks and other institutions against medium-term loans given by them to industrial units in the private sector, mainly for the acquisition of fixed assets. To be eligible for refinancing, the amount of the loan in each case should not exceed Rs. 5 million. Initially, the Corporation provided refinance facilities to only the scheduled banks which had subscribed to its share capital. A quota was fixed for each bank. Only loans given for periods between 3 and 7 years to concerns having paid-up capital and reserves of Rs. 0.5 - 25 million were eligible for refinancing. Loans had to be for the purpose of increasing production in the private sector, mainly in an industry included in the Five-Year Plans. The Corporation charged an interest of 5 per cent per annum on its loans. The banks were required to keep a minimum spread of 1½ per cent between the lending rate and the rate at which they borrowed from the Corporation and not to charge more than the rate charged by local financial agencies like the IFC, etc. In effect, therefore, the banks could usually charge 6½ per cent per annum.

154. The Corporation was not able to lend any significant amount in the first two years. The total amount of applications sanctioned in these two years was about Rs. 40 million. No loans were, however, disbursed in the first year. In 1959, loan disbursements amounted to about Rs. 8.5 million. This slow progress can be attributed partly to the reluctance of scheduled banks to make term loans to industry and their improved liquidity position in 1958 and 1959. In part, it appears to be due to banks' feeling that the return of 1½ per cent allowed to them on loans refinanced by the Corporation was not sufficient to compensate them for the risk and expense involved.

155. To expand its operations, the Corporation made a number of changes in 1960 in the scheme for the provision of refinance facilities. The scheme has been extended to 43 other commercial banks, all State Financial Corporations[1] and 3 state cooperative banks. Loans to small scale industries made by financial institutions covered by the scheme and guaranteed by the Guarantee Organization set up by the government (see Chapter V) have also been made eligible for refinancing. The institutions have been given discretion to charge appropriate interest rates, subject to review by the Corporation. In exceptional cases, the Corporation is willing to extend refinance facilities for loans given for more than 7 years but less than 10 years, as well as for loans given to industrial units whose paid-up capital and reserves amount to more than Rs. 25 million. Loans to any industry which is considered by the Corporation to be in conformity with the purposes of the Five-Year Plans will also be eligible for refinancing. The Corporation's surplus funds, which were earlier kept as short-term deposits with member banks, have been withdrawn and invested in government securities.

156. In 1961, the Corporation agreed to entertain applications for refinancing loans given jointly by two or more banks or by a bank and a term-lending institution such as the Industrial Finance Corporation (provided such loans satisfy the other criteria for refinancing). A proposal for refinancing the medium-term part, viz. instalments falling due within 7 to 10 years, of the longer term loans has also been formulated. Moreover, the Corporation had decided to extend refinance facilities to medium-term export credits (for periods ranging from over 6 months to 5 years) granted to exporters of engineering and capital goods.

157. As a result of the steps taken by the Corporation and such factors as the existence of stringent conditions in the money market and the introduction (in October 1960) of the system of graduated rates of interest on scheduled banks' borrowings from the Reserve Bank[2] (which made it advantageous for certain banks to have recourse to the Corporation), the Corporation's rate of lending has increased substantially from 1961 onwards. For example, loans sanctioned by

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1/ The State Financial Corporations (except the Madras Corporation which has been incorporated under the Companies Act) however, could not avail themselves of the refinancing facilities provided by the Refinance Corporation until April 1962, when the necessary changes were made in the State Financial Corporations Act.

2/ See Chapter VII.

the Corporation in 1961 amounted to about Rs. 107 million as compared to about Rs. 18 million in the preceding year. Loan disbursements totalled Rs. 47 million in 1961 as compared to Rs. 14 million in the preceding year.

Other Financial Institutions

158. The other financial institutions in the organized sector include mainly the general insurance companies, investment and trust companies and the Employees' State Insurance Corporation.

159. At the end of 1961, there were 155 non-life insurers. Of these, 73 were non-Indian insurers. Total assets of Indian insurers amounted to about Rs. 640 million at the end of 1960 and the increase in their reserves during that year was of the order of Rs. 28 million. The assets of foreign insurers in India amounted to about Rs. 116 million at the end of 1960.1/

160. Investment trusts have not made any significant progress in India. At the end of March 1959, there were 595 investment and trust companies with a total paid-up capital of about Rs. 377 million as compared to 610 companies with a total paid-up capital of Rs. 296 million at the end of 1950/51. But most of the companies are entrusted with the management of funds of a few rich individuals and families or of managing agents for investment in the companies controlled by them. By and large, there is little or no evidence of disinterested diversification of investments. Two notable exceptions are, however, provided by the Investment Corporation of India, which had total investments of about Rs. 46 million spread over more than 400 different securities at the end of June 1960 and the Industrial Investment Trust which had investments of about Rs. 13 million spread over more than 200 different securities at the end of 1959.

161. The Employees' State Insurance Corporation, which provides medical, sickness and certain other benefits to factory employees, has been accumulating some funds over the past few years. Its receipts consist mainly of contributions by employers and employees and interest on accumulated balances. The State Governments also contribute towards its expenses by bearing a part of the cost of medical treatment and attendance provided to insured persons. In 1959/60, the receipts of the Corporation amounted to about Rs. 79 million. After allowing for benefit payments and other expenses, the surplus in that year amounted to about Rs. 17 million. A rough idea of the funds accumulated by the Corporation can be obtained from the fact that its investment in government securities amounted to Rs. 191 million at the end of March 1961.

1/ Figures are exclusive of those for one Indian insurer and two foreign insurers.

Indigenous Bankers, Moneylenders, etc.

162. Indigenous bankers and moneylenders have been in existence for centuries. It is difficult to distinguish clearly between them. According to the Indian Central Banking Enquiry Committee, the expression "indigenous bankers" includes any individual or private firm receiving deposits and dealing in bills or lending money.[1] Moneylenders, on the other hand, do not generally receive deposits.

163. Indigenous bankers exist mainly in cities and towns and finance mostly trade and small scale industry. Many of them engage in other forms of business such as trading and acting as commission agents. In a number of cases, the resources of indigenous bankers are of a fairly large order.

164. Moneylenders operate in urban as well as rural areas and make advances for both production and consumption purposes. They may be classified into two broad groups, namely (a) professional moneylenders and (b) non-professional moneylenders, such as landowners, large agriculturists, merchants and traders, etc. According to one estimate prepared in 1954, the number of moneylenders (in both urban and rural areas) was about 300,000.[2]

165. Some other semi-indigenous institutions, such as the loan offices in Bengal and "Nidhies" and "Chit funds" in South India, also perform certain banking functions on a limited scale. They cater mainly to the needs of people belonging to lower income groups. The loan offices and Nidhies invite deposits and make loans. The Chit funds usually involve periodic payments by members with a view to making lump sum loans to one of them at a time. Some of the funds also have a lottery feature.

166. With the expansion of institutional credit facilities, the relative importance of the indigenous credit sector has been decreasing steadily. Nevertheless, this sector continues to be of fairly large dimensions; a broad idea of this can be obtained from the fact that borrowings from indigenous bankers and traders' own funds finance about half of the total volume of trade in the country while the bulk of the funds borrowed by cultivators continues to come from moneylenders and relatives.

167. The financial activities in the unorganized sector are outside the scope of the Reserve Bank's control.[3] There are, however, certain links between the organized and unorganized sectors, and these links are growing continuously. Indigenous bankers supplement their resources by borrowing

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1/ See Report of the Committee on Finance for the Private Sector, 1954, p.66.
2/ Financial Intermediaries in India by M.G. Muller, a mimeographed paper.
3/ Legislation passed in various States imposes certain restrictions on moneylenders' activities, but there is large scale evasion of some of the restrictions, especially those concerning rates of interest.

from commercial banks, especially during the busy season (November-April) when crops are harvested and moved from producers to wholesalers. The outstanding amount of scheduled banks' loans to indigenous bankers was about Rs. 172 million on April 28, 1961 and Rs. 191 million on April 29, 1960. To a very limited extent, bank credit also flows to moneylenders in the form of direct loans or indirectly through indigenous bankers, etc.[1] Further, some credit needs can be covered on either of the two markets. The forces operating in the organized market, therefore, have an impact on operations in the unorganized market as well.

1/ In some cases, small moneylenders borrow from the bigger moneylenders, who, in turn, may borrow from scheduled banks.

CHAPTER III

Savings Channelled through Financial Institutions and Other Transferred Savings

168. With the rising level of national income and the increased effort for the mobilization of savings, the total amount of savings channelled annually through financial institutions has recorded a considerable increase over the last decade, as shown below:

Table 5

Savings Channelled Annually through Main Financial Institutions

	1950/51	1955/56	1958/59	1959/60	1960/61
Commercial banks (time liabilities)	244	396	1113	1031	488
Cooperative banks and credit societies					
Deposits	46	163	275	193	246 2/
Share capital	32 1/	82 1/	97	138	129 2/
Post office savings banks and other small savings schemes (net receipts) 3/	317	641	723	777	1121 4/
Life insurance companies 5/ (life funds)	172 6/	265 6/	340	435	604
Postal life insurance (life funds)	-	7	18	8	8 7/
Employees' State Insurance Scheme (reserves)	-	31	23	17	17 7/
Provident funds (net addition)					
Government employees	119	223	273	343	589
Other employees	119	483	612	653	768
Total	1049	2291	3474	3595	3970

1/ Represents increase in total share capital as separate information in respect of capital owned by individuals is not available.
2/ Provisional.
3/ Exclusive of investments of provident funds. Figures for 1950/51 and 1955/56 have been taken from the Reserve Bank of India Bulletin for March 1960 while those for the later years are calculated on the assumption that about 10 per cent of the net receipts from provident funds in the non-government sector represented investment in small savings.
4/ Includes net receipts of Rs. 158 million from prize bonds.
5/ Life Insurance Corporation since September 1956.
6/ In the case of Indian insurance companies, it is assumed that the ratio of the increase in reserves in respect of the business in India to the total increase in reserves was the same as that of the business in force in India to the total business in force.
7/ Relate to 1959/60.

Note: Figures relating to life insurance companies (Life Insurance Corporation since September 1956) are for calendar years. Figures for cooperative banks and societies are for the years beginning July 1. These figures are assumed to be valid for fiscal years.

169. Thus, the annual amount of savings channelled through financial institutions is estimated at about Rs. 4 billion for the fiscal year 1960/61 as compared to Rs. 2.3 billion in 1955/56 and Rs. 1.1 billion in 1950/51. Correspondingly, the proportion of such savings to national income is estimated at about 2.8 per cent for 1960/61 as compared to 2.3 per cent in 1955/56 and 1.1 per cent in 1950/51.

170. A little more than two-fifths of the total estimated amount of savings channelled through financial institutions over the three years ending March 1961 represents contractual savings in the form of net additions to life insurance reserves, provident funds, etc. The remaining amount represents mainly increases in time liabilities of commercial banks and personal deposits with cooperative credit institutions, individuals' contributions to the share capital of cooperative credit institutions and the net collections under the small savings schemes.

171. Total savings channelled through financial institutions in 1960/61 were equivalent to about one-fourth of the total estimated net investment in the economy in that year.

172. As the review in the following sections brings out, by far the greater part of the annual savings accruing at financial institutions becomes available to the government either directly by way of budgetary receipts (e.g., in the case of small savings, government provident funds, etc.) or indirectly by way of investment in government securities. It has, however, to be remembered that some funds are transferred by the government to the private sector by way of loans given directly or through financial institutions.1/

173. The bulk of the savings collected by financial institutions comes from urban areas. Although more than 82 per cent of the total population lives in rural areas, the savings collected in these areas are relatively small. This is due partly to the low level of incomes and, consequently, the low level of savings of the vast majority of cultivators and other people living in rural areas, and partly on account of the utilization of a large proportion of savings for self-investment in agriculture, small industries, housing, etc.

174. A survey of urban households conducted for 1960 by the National Council of Applied Economic Research in 30 towns and cities in India throws interesting light on the savings habit of the urban population. There is a high degree of concentration of savings. A top group of 15 per cent of the urban households had an income of Rs. 3000 or more and earned about 48 per cent of the aggregate income of urban households. This top group saved nearly as much as the aggregate amount of urban households' savings. In other words, 85 per cent of urban households made almost no net contribution to total saving, the savings of those who saved (about one-third of the total number in this group) being roughly offset by dissavings of others. Among the occupational classes, those engaged in business, self-employed or in managerial, executive and administrative capacities and also those engaged in professional and technical work saved most. The order of saving preferences was found to be as follows: investment in own business; housing; government securities and small savings;

1/ See Chapter V.

and contractual savings.1/

175. The role of the various financial institutions in the mobilization of savings is indicated in the following sections.

A. Savings Accruing at Financial Institutions - other than Contractual

Time Liabilities of Commercial Banks

176. As mentioned in Chapter II, there has been a marked expansion of the commercial banks' time liabilities over the last decade. Excluding P.L. 480 deposits, the average annual increase in commercial banks' time liabilities during the three years 1957/58 to 1959/60 works out at about Rs. 1.1 billion as compared to an increase of Rs. 396 million in 1955/56 and Rs. 244 million in 1950/51. In 1960/61 the rate of annual increase (after adjustment for changes in P.L. 480 deposits) dropped sharply to about Rs. 490 million,2/ but it rose to a new high level of about Rs. 1.4 billion in the following year.

177. The expansion of the banks' time liabilities over the last few years is explained partly by the rising level of incomes and partly by such factors as the extension of banking facilities (particularly to smaller towns), growth of the banking habit and the raising of interest rates on time and savings deposits.

178. Time liabilities include, as mentioned in Chapter II, time deposits (including cash certificates), the time liability portion of savings deposits and certain miscellaneous liabilities. The average annual increase

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1/ The information given in this paragraph has been taken from "The Hindu Weekly Review" January 19, 1962 and "Indian Finance" dated February 10, 1962. More detailed information available for the top 15 per cent of the households indicates that only about 71% of the households in this group had net savings.

2/ The drop in the rate of annual increase in 1960/61 is explained by such factors as the slower rate of deficit-financing by the government, the larger deficit in the balance of payments, the failure of two scheduled banks which temporarily affected to some extent public confidence in commercial banks (as stated later, this probably resulted in some transfer of deposits from commercial banks to post office savings banks), the diversion of some funds to the unorganized sector to take advantage of the substantially higher returns obtainable in that sector and the increase in deposits with some industrial companies which offered higher rates of interest.

in the commercial banks' time deposits, exclusive of P.L. 480 deposits, amounted to about Rs. 860 million during the four years 1957/60 as compared to an increase of Rs. 533 million in 1955 and of Rs. 88 million in 1951.1/ Separate data in respect of the time liability portion of savings deposits are not available. The trend of total savings deposits of scheduled banks is, however, shown below:

Table 6

Savings Deposits of Scheduled Banks

	Total Deposits at End of Year	Increase During the Year
1951/52	1357	-22
1955/56	1694	179
1958/59	2288	206
1959/60	2534	246
1960/61	2818	284
1961/62	3337	519

Source: Reserve Bank of India Bulletins

Thus, the annual rate of growth of savings deposits has risen sharply in recent years. In 1961/62, the increase in savings deposits of scheduled banks amounted to as much as Rs. 519 million.

179. A breakdown of time and savings deposits by various categories of depositors with scheduled banks covered by the Reserve Bank's Surveys of Ownership of Bank Deposits is given in Appendix Table 16.2/ Although the coverage of these surveys is not quite complete, the data indicate the broad trend of deposits of various categories of depositors.

180. Time deposits (other than P.L. 480 deposits) come mainly from individuals belonging to higher income groups, business concerns, governments and local authorities. During the four years 1956/59, the average annual increase in personal time deposits with scheduled banks covered by

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1/ Figures have been taken from the Statistical Tables Relating to Banks in India. In these tables, deposits are classified as current, savings, fixed and others. Figures given in the text pertain to fixed deposits.

2/ The definitions of savings and time deposits adopted for the purpose of the Surveys of Ownership of Bank Deposits are slightly different from those adopted in the case of savings and fixed deposits in the Statistical Tables Relating to Banks in India.

the Reserve Bank's Surveys mentioned above was about Rs. 470 million as compared to the average annual increase of Rs. 35 million during the four years 1950/53.1/ The number of personal time deposits accounts with scheduled banks increased from about 0.3 million at the end of 1951 to 1 million at the end of October 1961.

181. Savings deposits represent mostly personal deposits and come largely from salaried and professional classes. The number of personal savings accounts with scheduled banks (covered by ownership surveys) increased from about 1.9 million at the end of 1951 to over 4 million at the end of October 1961. A little less than three-fourths of the total number of accounts at the end of October 1961, however, had deposits of less than Rs. 500 each and the total amount held in these accounts was about 11 per cent of the aggregate savings deposits.

182. The maximum rates of interest payable on deposits by Indian scheduled banks having deposits of more than Rs. 50 million each and all foreign banks are fixed by an inter-bank agreement. The rates were raised somewhat during 1960/61 in the case of time deposits and from April 1, 1961 in the case of savings deposits.2/ At present, the larger banks, except the State Bank of India, generally pay 3 per cent on savings deposits and time deposits for periods of 30 days or less and up to 5 per cent on deposits for five years or more. The rates offered by the State Bank of India are slightly lower. On the other hand, the rates offered by the smaller banks are somewhat higher.

183. As mentioned in Chapter II, a Deposit Insurance Corporation has been established recently to ensure greater public confidence in banks.

184. The commercial banks are required to keep at least 20 per cent of their deposits in the form of cash (including balances held with the Reserve Bank), gold and/or unencumbered government or other approved securities.

Deposits with Cooperative Banks and Credit Societies

185. The increase in deposits with cooperative banks and credit societies under the category "individuals and other sources", which relates mainly to personal deposits, amounted to about Rs. 246 million in 1960/61 (July-June) as compared to Rs. 163 million in 1955/56 and about Rs. 46 million in 1950/51. (Appendix Table 17).3/

186. Total deposits of cooperative banks and credit societies under the category "individuals and other sources" increased from about Rs. 725 million

1/ Accounts of less than Rs. 500 each have been treated as personal accounts.
2/ The increase in interest rates ranged from about 1/8% per annum on deposits for 61-90 days to about 3/4% per annum on those for 2 years. Deposits for more than 2 years, which were formerly not accepted by banks, were also made acceptable (banks did, however, issue cash certificates for a period of 3 years or more even before 1960/61). The increase in interest on savings deposits was 1/2% per annum.
3/ Figures are inclusive of current deposits for which separate data are not available. The figure for 1960/61 is provisional.

at the end of June 1950 to about Rs. 2 billion at the end of June 1961. The bulk of the increase was, however, accounted for by the state cooperative banks, central cooperative banks and non-agricultural credit societies, which receive deposits largely from urban and semi-urban areas. The amount of savings collected by the cooperative institutions from rural areas is relatively small. For example, deposits with agricultural credit societies amounted to only Rs. 140 million at the end of June 1960, and the annual increase in these deposits was about Rs. 17 million in 1959/60 and Rs. 28 million in 1960/61.

187. About 30 per cent of the deposits held by agricultural credit societies at the end of June, 1960 came from one State, viz. Punjab. A large part of the deposits in that State represented savings out of remittances received from persons employed in urban areas or residing abroad.

188. On the whole, it appears that the thrift aspect of the cooperative movement has not been fully emphasized. Some of the societies, especially the smaller ones, also have not been able to inspire confidence among investors.1/ Furthermore, the higher rates of interest obtainable on loans to others as well as on deposits with merchants, moneylenders, etc. render deposits with cooperatives (or entrusting of funds to other financial institutions) less attractive.

189. The state and central cooperative banks are required to maintain a part of their deposits in fluid form, i.e. in the form of cash, balance with other banks, unencumbered government and other approved securities and undrawn portion of the credit available from banks. The urban cooperative banks (which are classified as non-agricultural credit societies) are also generally required to keep a part of their deposits in fluid form.

Increase in Paid-Up Capital of Cooperative Credit Institutions

190. In recent years, contributions by individuals to the share capital of cooperative credit institutions, have shown a substantial increase (Appendix Table 18). In 1960/61 the additional contributions by individuals amounted, according to preliminary data, to about Rs. 129 million. Furthermore, a major proportion of these contributions was accounted for by agricultural credit societies. Thus, the cooperatives in rural areas have been able to raise much larger amounts through increases in share capital than by way of deposits. This is explained mainly by the fact that borrowings by members from primary societies are generally related to the share capital held by them.

Small Savings

191. Net annual receipts from small savings have shown a considerable increase over the last decade. Total net receipts in 1960/61, exclusive of those from prize bonds introduced in April 1960, are estimated at about Rs. 1040 million as compared to Rs. 684 million in 1955/56 and Rs. 334

1/ Report of the Committee on Cooperative Credit, New Delhi, May 1960, p. 111.

million in 1950/51. In addition, net receipts from prize bonds amounted to about Rs. 158 million in 1960/61. Nevertheless, total net collections over the five years of the Second Plan (about Rs. 4 billion exclusive of receipts from prize bonds) were substantially lower than the target of Rs. 5 billion indicated in the Plan.

192. A part of the receipts from small savings represents investment of provident fund accumulations (see later in the chapter). In the light of the Reserve Bank's estimates of small savings collections from the household sector during the period 1950/51 to 1957/58,1/ the investment of provident fund balances in small savings might be taken to be of the order of 10 per cent of total annual provident fund accumulations in the non-government sector. On this basis, the investment of provident fund balances in small savings in 1960/61 would work out at about Rs. 77 million. Allowance for such investment has been made in estimating total savings channelled through financial institutions.

193. The small savings schemes have the most extensive geographical coverage. As they operate through post offices, treasuries and sub-treasuries, branches of the State Bank of India, etc., and a number of agents spread throughout the country, they have been able to penetrate into the rural areas to a significant extent. Nevertheless, progress made by the small savings movement in rural areas has been rather limited.

194. A breakdown of small savings collections by urban and rural areas is not available. Data made available by the Union Ministry of Finance, however, indicate that a little more than one-fourth of total net receipts in 1959/60 came from seven big cities.2/

195. The progress of the small savings movement in different parts of the country has been very uneven. For example, the net collections per capita in 1959/60 ranged from less than Rs. 1 in Kerala, Madhya Pradesh, Madras,3/ Orissa and Rajasthan to more than Rs. 5 in the Bombay State and more than Rs. 8 in Delhi.

196. The trend of net annual receipts under the various small savings schemes is shown in Appendix Table 19. It will be seen that the 12-Year National Plan Savings Certificates, which were introduced in June 1957 and offer a yield of $4\frac{1}{4}$ per cent compound (if held until maturity), have become a very important medium of collecting small savings in recent years. Over the four years, 1957/58 to 1960/61, total net receipts from the various types of savings certificates (after allowing for discharges of certificates belonging to the earlier series) amounted to about Rs. 2.2 billion as compared to Rs. 1.1 billion from post office savings bank deposits. The annual rate of increase in post office savings bank deposits showed a large decline in 1956/57 and 1957/58, but started rising thereafter, the rise being especially marked in 1960/61, due presumably in part to some diversion

1/ Estimates of Savings in the Indian Economy, Reserve Bank of India Bulletin, March 1960.
2/ Bombay, Calcutta, Delhi, Madras, Ahmedabad, Indore and Shillong.
3/ Net collections of small savings in Madras were exceptionally low in 1959/60.

of deposits from commercial banks as a result of public reaction to the failure of two scheduled banks in that year.

197. Various measures have been adopted to intensify the small savings drive. The measures adopted over the last 6 years include: (a) increase in the number of post offices doing savings bank work and expansion of the network of agents; (b) simplification of the procedure for deposits and withdrawals at post offices and extension of the facility of withdrawal by checks to more post offices; (c) increase in interest rates on small savings in June 1957 and August 1962; (d) increased publicity and propaganda, particularly in rural areas; (e) introduction of the cumulative time deposits scheme in 1959 and of the prize bonds scheme in 1960 (as stated in Chapter II, the prize bonds scheme has been discontinued since the end of June 1962); (f) changes in the cumulative time deposits scheme in 1962, including the provision of an additional tax concession in respect of deposits in the 10-year and 15-year accounts under the scheme; (g) raising of the maximum limits for investment in small savings; (h) issue of gift coupons which can be exchanged for National Plan Savings Certificates and introduction of a payroll savings scheme which enables an employee to have deductions made from his salary for investment in small savings; (i) making available of the facility of pledging savings and treasury deposit certificates with banks, etc., and offer of certain other attractions; (j) special efforts for increasing collections in selected places, issue of boxes (called "hundi" boxes) for deposit of savings in certain places, organization of savings groups, etc.; and (k) increase in the share of State Governments in small savings collections to encourage them to intensify their efforts.

198. Receipts from small savings are treated as budgetary receipts of the government. Credit for receipts from all types of small savings, except prize bonds, is taken under the budget head "unfunded debt". Prize bonds are treated, like other government bonds, as part of the funded debt of the government. Two-thirds of the receipts from small savings are made available to State Governments in the form of interest-bearing loans for financing expenditures included in their capital budgets.1/ The remaining amounts (as well as loan repayments by the States) become available for financing the expenditure of the Central Government on capital account.

Other Non-Contractual Savings

199. These include mainly savings in the form of deposits with the Madras Industrial Investment Corporation and individuals' subscriptions to debentures of land mortgage banks, Industrial Finance Corporation and the State Finance Corporations. The annual amount of such savings is, however, very small.

B. Savings Accruing at Financial Institutions - Contractual

Life Insurance Corporation

200. With the substantial expansion of the life insurance business in recent years, the net increase in life funds (after deducting loans to policy-holders) has shown a marked upward trend. Thus, the net increase in the life fund of the Life Insurance Corporation in respect of the business written in India amounted to about Rs. 604 million in 1960 as compared to about Rs. 241

1/ In the case of prize bonds issued between April 1960 and June 1962, half of the receipts were loaned to State Governments.

million in the 16 months September 1956 to December 1957, and the data available in respect of new life insurance contracted in 1961 indicate a further improvement in that year in the rate of net annual increase in the life fund.

201. The marked growth of life insurance in recent years is explained largely by the expansion of incomes, particularly of middle classes and upper income groups, as a result of the higher level of economic activity. In part it is also due to the various measures taken by the Life Insurance Corporation to popularize life insurance, especially in semi-urban and rural areas. These measures include, apart from increased publicity and propaganda, (a) offer of premium rates which are generally lower than those charged earlier by private insurers; (b) opening of more offices and provision of better facilities for payment of premiums; (c) introduction of new schemes like the Janata Policy Scheme (which was devised to meet the requirements of low income groups), salary savings scheme, group insurance and superannuation schemes and convertible term insurance scheme;1/ and (d) intensified effort in certain rural areas covered by the community development program and issue of policies to people in rural areas, where facilities for medical examination are not available, without requiring them to undergo medical examination subject, of course, to a limit on the amount of insurance provided in each case and other safeguards as to age, term of assurance, etc.

202. As a result of the intensification of efforts at smaller places, new life insurance written at places having a population of less than 100,000 more than doubled between 1957 and 1960. Its proportion to total new insurance contracted in India increased from about 37 per cent in 1957 to 46 per cent in 1960.

203. Although data on life insurance by size of policies are not available, it appears that people in the lower income groups, e.g., small cultivators, artisans and industrial workers, etc., account for only a small proportion of total life insurance. This conclusion is supported by the facts that (a) the response to the Janata Policy Scheme has not been very encouraging, and (b) the average sum assured per new policy (in India) increased from Rs. 3021 in 1955 to Rs. 4097 in 1961. Furthermore, it appears that a number of people in rural areas are ignorant about life insurance.2/

1/ The salary savings scheme enables an employee to have the premium for insurance deducted from his salary. The group insurance and superannuation schemes enable employers to provide life insurance and retirement benefits to their employees at a low cost. The convertible term assurance scheme provides term assurance cover for a maximum period of seven years with option to convert the policy into a limited payment life or an endowment assurance policy.

2/ A recent sample survey conducted by the State Bank of India in an area within 20 miles from the location of one of its branches indicated that all small farmers interviewed were totally ignorant about life insurance. (The purpose of the survey was to find out how far the objects of the State Bank's branch expansion program had been achieved by the new branch at Nandurbar in the State of Maharashtra).

204. At the end of 1960, life insurance covered only a small fraction (less than 2 per cent) of the population. Total life insurance in force was about 16 per cent of national income. There would, therefore, appear to be considerable scope for further continued expansion of life insurance in India, especially in the context of the rising level of incomes.

205. The Life Insurance Corporation is required to invest 25 per cent of its funds (other than funds 1/ regulated by the law of any country outside India) in government securities, another 25 per cent in government or other "approved" securities (mainly securities guaranteed by the government) and a further sum equal to not less than 35 per cent in government securities, other approved securities or approved investments. The approved investments include, among others, first mortgages on immovable property and debentures, preference shares and ordinary shares of concerns which satisfy certain specified criteria, e.g., in regard to payment of interest, dividends, etc., over a certain period. The remaining 15 per cent of funds can be invested in any manner considered appropriate by the Corporation.2/

206. A detailed breakdown of the assets of the Life Insurance Corporation at the end of 1960 as well as those of the former life insurance companies on August 31, 1956, that is, immediately before they were taken over by the Life Insurance Corporation, is given in Appendix Table 21. It will be seen that government securities represented a little more than half of the total assets of the Corporation. Shares and debentures of joint stock companies (mostly non-government companies) constituted about 15 per cent of total assets. Among other assets, the securities of local authorities and other approved securities as well as loans on policies were relatively more important. Mortgages on property, on the other hand, constituted only 1½ per cent of total assets.

207. Apart from a substantial increase in the share of State Governments' securities along with some decrease in that of the Central Government securities, the pattern of investment of funds of the Life Insurance Corporation does not show much change as compared to that of the former life insurance companies at the end of August, 1956.

Postal Life Insurance

208. The annual increase in the postal life insurance funds amounted to about Rs. 8 million in 1959/60.

Employees' State Insurance Scheme

209. The net increase in funds under the Employees' State Insurance Scheme (after allowing for benefit payments and other expenditures) amounted to about Rs. 23 million in 1958/59 and to Rs. 17 million in 1959/60.

1/ Funds pertaining to life insurance contracted outside India.

2/ The investment can be made only after securing the unanimous recommendation of the Corporation's Investment Committee, or, if no such recommendation can be obtained, on the basis of a resolution of the Corporation passed by a majority of at least three-fourths of the members present at the meeting.

Provident Funds

210. In India provident funds have become a very important means of collecting savings. According to rough estimates, the total net accretion to provident funds (contributions plus interest and other receipts minus disbursements) increased from about Rs. 238 million in 1950/51 to more than Rs. 1.3 billion in 1960/61.1/ Information available for various years is set out in Appendix Tables 22 and 23.

211. The increase in annual accretions to provident funds has occurred in both the public and private sectors. Net annual receipts from provident funds for the employees of the Central and State Governments increased from about Rs. 119 million in 1950/51 to Rs. 589 2/ million in 1960/61. In the private sector, net annual receipts under the Employees' Provident Fund Scheme, which was introduced in 1952, amounted to about Rs. 378 million 3/ in 1960/61. Net receipts from provident funds for employees in coal mines and the Assam tea plantations amounted to about Rs. 76 million in 1959/60. Taking into account the accumulations in other provident funds, including those of local authorities, the total net receipts from provident funds in the non-government sector are estimated roughly at about Rs. 768 million for 1960/61 as compared to Rs. 119 million in 1950/51.4/

1/ The estimate for each year represents the total of (a) net accretion to provident funds of government employees, and (b) rough estimate prepared by the Reserve Bank of India in respect of gross contributions to provident funds in the corporate sector (net in the case of the Reserve Bank). See Appendix Table 22. It is assumed that the overestimation on account of non-exclusion of outflows in the form of refunds, loans, etc. to members would be offset by the underestimation as a result of non-inclusion of interest earned on provident fund balances as well as non-inclusion of accumulations in provident funds of employees of local bodies, educational institutions, unincorporated business enterprises, etc. See articles on savings in Reserve Bank of India Bulletins for March 1960 and August 1961.

2/ Inclusive of a small amount representing non-recurring receipts as a result of the transfer to provident funds in 1960/61 of deferred pay in the case of defense services personnel.

3/ After deducting loans given to subscribers for the construction or acquisition of houses. The amount involved is, however, very small.

4/ See footnote 1 above.

212. Net receipts under the Employees' Provident Fund Scheme, Coal Mines Provident Fund Scheme and the Assam Tea Plantations Provident Fund Scheme have to be invested exclusively in Central Government securities (including National Plan Savings Certificates).1/ Provident fund accumulations in the rest of the private sector have to be invested, in so far as exemption from income tax is claimed in respect of contributions, in government and other approved securities, first mortgages on immovable property, post office savings bank deposits and, to a small extent, in deposits with banks.

213. Net receipts from provident funds of employees of local bodies and other semi-government institutions are invested mainly in government securities. Accumulations in the provident funds of government employees are, however, not invested separately; these are treated as part of the unfunded debt of the government and become available (by way of budgetary receipts) for financing the outlays in the capital budgets of the Central and State Governments.

C. Other Savings Transferred to Institutions

Subscriptions to the Capital of Joint Stock Companies

214. The broad position in recent years regarding savings of individuals in the form of absorption of shares and debentures of joint stock companies is shown below:

Rs. million

	Capital raised by non-government companies	Capital issued to non-residents	Capital issued to residents	Increase in holdings of Government and local authorities a/	Increase in holdings of Corporate sector	Increase in holdings of Others
1957	681	76	605	11	177	417
1958	555	75	480	64	204	212
1959 b/	712	63	649	43	262	344

a/ Figures are for fiscal years.
b/ Figures are tentative.

Source: Reserve Bank of India.

1/ Except in the case of establishments which are allowed to run their own schemes, 20 per cent of net annual receipts under the Employees' Provident Fund Scheme have to be invested in National Plan Savings Certificates and the remaining 80% in the bonds of the Central Government. The same pattern is adopted in investing the annual provident fund accumulations in coal mines.

215. Thus, the average annual absorption of savings of individuals and unincorporated organizations in the form of subscriptions to shares and debentures of joint stock companies works out at about Rs. 325 million for the three years, 1957/59.

Deposits of Public with Joint Stock Companies

216. Many joint stock companies, especially the cotton textile concerns, also obtain deposits from the public. Separate data in respect of such deposits are, however, not available. The net annual increase in total deposits with 1,001 companies, which account for a little more than three-fourths of the paid-up capital of non-financial public limited companies in the private sector, amounted to about Rs. 29 million in 1958 and to Rs. 13 million in 1959.

Increase in Share Capital of Non-Credit Cooperatives and in Deposits with them

217. Some savings are also tapped by non-credit cooperatives in the form of contributions to share capital by individuals. The annual order of such savings is, however, small.

D. Aggregate Savings Transferred to Financial as well as Non-Financial Institutions

218. On the whole, the savings channelled through financial institutions as well as the savings made available by individuals to non-financial institutions in 1960/61 might be placed roughly at a total of Rs. 4.5 billion or a little more than three per cent of national income. This estimate does not take into account the increase in deposits with merchants, indigenous bankers, moneylenders, etc., as no data are available in respect of such deposits. The annual increase in these deposits, however, appears to be of a relatively small order.

CHAPTER IV

Financing of Five-Year Plans in the Public Sector

219. Plan outlays in the public sector include net investment as well as certain current developmental expenditures on education, health and other social services, subsidies, etc. Total public sector outlay on development programs under the First and Second Plans is estimated at about Rs. 19.6 billion and Rs. 46 billion respectively, the corresponding estimates of net public investment being Rs. 15.6 billion and Rs. 36.5 billion respectively.

220. The broad picture in regard to financing of the First and Second Plans in the public sector, as shown by the latest estimates of the Planning Commission, is brought out in the following table.

Table 7

Sources of Finance for Plan Outlays in the Public Sector

	First Plan		Second Plan			
	Outcome		Original Estimates		Latest Est.	
	Rs. billion	% of Total	Rs. billion	% of Total	Rs. billion	% of Total
1. Balance from current revenues						
(a) at pre-plan rates of taxation	6.4	32.6	3.5	7.3	-0.5	-1.1
(b) additional taxation			4.5	9.4	10.5	22.8
2. Railways' contribution	1.2	6.1	1.5	3.1	1.5	3.3
3. Loans from the public (net)	2.0 1/	10.2	7.0	14.6	7.8	17.0
4. Small savings (net)	2.4	12.3	5.0	10.4	4.0	8.7
5. Other unfunded debt and miscellaneous capital receipts (net)	2.4	12.3	2.5	5.2	2.3	5.0
6. Budgetary resources corresponding to external assistance	1.9	9.7	8.0	16.7	10.9	23.7
7. Deficit financing	3.3	16.8	12.0	25.0	9.5	20.6
8. Gap in resources 2/	-	-	4.0	8.3	-	-
9. Total plan outlay	19.6	100.0	48.0	100.0	46.0	100.0

1/ Includes gross receipts from market borrowings in the case of State Governments, whose loan repayments have been allowed for under item 5. Net receipts of the Central and State Governments from market borrowings during the First Plan period amounted to about Rs. 1.8 billion.

2/ The gap was to be covered by additional effort to raise domestic resources.

The annual estimates of the contributions of various sources are given in Appendix Table 24.

221. Before discussing the pattern of financial resources for the plans, it seems necessary to point out certain limitations of the data shown above from the point of view of economic analysis. For example, the Planning Commission's estimates in respect of loans from the public relate to net receipts (gross receipts minus repayments) from loans floated by the Central and State Governments in the market, including those subscribed by the Reserve Bank of India and other banks, and a small amount raised in 1960/61 (about Rs. 0.2 billion) from prize bonds introduced in that year. While net receipts from market loans over the Second Plan period are taken at about Rs. 7.6 billion, the net absorption of government loans by the public, excluding banks, over this period appears to have amounted to less than Rs. 2.7 billion, the difference of about Rs. 5 billion being explained by the absorption of government loans by the Reserve Bank, Central and State Governments and other banks. The net absorption by the Reserve Bank and the Central and State Governments is estimated roughly at around Rs. 2.9 billion. The bulk of the remaining difference between net receipts from market loans and their absorption by the public (excluding banks) was accounted for by investment of P.L. 480 counterpart funds in government securities by the State Bank of India.

222. Since the absorption of government loans by the Reserve Bank results in an addition to money supply, it represents deficit-financing rather than borrowings from the public. The absorption of government loans by other banks over the First and the Second Plan periods, except that part of the absorption which was accounted for by the investment of P.L. 480 counterpart funds, also gave rise to an increase in money supply 1/ and, therefore, represented deficit financing. The rupee funds arising as a result of import of commodities under the P.L. 480 program represent the counterpart of external assistance and credit for them has to be taken under external assistance.

223. Budgetary resources corresponding to external assistance over the Second Plan period are estimated by the Planning Commission at Rs. 10.9 billion. This does not take into account the P.L. 480 counterpart funds which were deposited with the State Bank of India (in the U.S. Government Title Account). The total amount of such deposits with the State Bank at the end of the Second Plan was of the order of Rs. 2 billion. Since this amount was invested mostly in government securities, including treasury bills, the total utilization of external assistance in the public sector over the Second Plan period would appear to have been close to Rs. 12.9 billion as compared to about Rs. 1.9 billion in the First Plan period. A part of the P.L. 480 assistance in the Second Plan period, however, might have been utilized for additions to buffer stocks of foodgrains, etc. but precise information in this regard is not available.

1/ The increase in the banks' time deposits over the First and Second Plan periods was much smaller than the increase in credit extended by them to the private sector alone.

224. As regards deficit financing, the Planning Commission's estimates include (a) net drawings by governments on their cash balances, (b) net absorption of treasury bills (including treasury bills subsequently replaced by long-term government securities) by the Reserve Bank, and (c) net increase in the Reserve Bank's advances to State Governments. Estimates of government deficit-financing, as measured by net credit extended to governments by the Reserve Bank as well as other banks in all forms (including absorption of government loans) and net increase in the Central Government's currency liability to the public, have been recently prepared by the Reserve Bank of India. According to these estimates, total deficit-financing over the Second Plan period (after treating deposits of P.L. 480 counterpart funds with the State Bank as an offset to bank credit extended to governments) was of the order of Rs. 12 billion. The corresponding estimate for the First Plan period is about Rs. 2.5 billion.

225. It may, however, be noted that the inflationary impact of deficit-financing was partially offset by drawings on foreign exchange reserves and IMF credit as also, of course, by such factors as increases in national income, increase in the degree of monetization of the economy, etc. The net reduction of foreign exchange reserves over the Second Plan period amounted to about Rs. 6 billion as compared to about Rs. 1.2 billion in the First Plan period. In addition, the net utilization of IMF credit over the Second Plan period amounted to about Rs. 0.5 million.1/

226. We may now compare the pattern of mobilization of resources for plan outlays in the public sector in the Second Plan period with that in the First Plan period. As the estimates given above show, there was a considerable increase in the utilization of external assistance and deficit financing in the Second Plan period. According to the Planning Commission's estimates, budgetary resources corresponding to external assistance amounted to about Rs. 10.9 billion over the Second Plan period as compared to about Rs. 1.9 billion over the First Plan period. Total utilization of external assistance in the public sector over the Second Plan period, inclusive of a small amount which might have been utilized for building up buffer stocks of foodgrains, etc., is estimated, as mentioned earlier, at close to Rs. 12.9 billion. Deficit-financing as measured by the extension of net bank credit to governments and net increase in the Central Government's currency liability to the public, amounted to about Rs. 12 billion over the Second Plan period as compared to about Rs. 2.5 billion over the First Plan period. On the whole, it seems that external assistance and deficit-financing together accounted for

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1/ According to rough estimates prepared recently by the Reserve Bank, the government sector's transactions involved a foreign exchange deficit of nearly Rs. 3.3 billion over the Second Plan period and Rs. 5.6 billion over the First Plan period. See RBI Bulletin for July 1961, p. 1061.

more than half of the total plan outlay over the Second Plan period as compared to about 22 per cent over the First Plan period. Correspondingly, the share of the rest of the sources in financing plan outlays showed a considerable decrease in the Second Plan period.

227. The total contribution from current revenues of the Central and State Governments towards the financing of plan outlays is estimated at about Rs. 10 billion in the Second Plan period as compared to Rs. 6.4 billion in the First Plan period. The entire contribution in the Second Plan period is, however, accounted for by the estimated yield from additional taxation. The balance from current revenues over the Second Plan period at the 1955-56 rates of taxation actually works out at a negative figure of about Rs. 0.5 billion. It must, however, be borne in mind that the entire expenditure on maintenance of social services and similar developmental items at the level reached by the end of 1955/56 is treated as non-plan expenditure for the Second Plan period. Besides, there were considerable increases under certain items of non-plan expenditure, particularly under defense, administration, debt services, etc., during the course of the Second Plan. The tax yields, without taking into account the revenue attributable to additional taxation, were also not responsive enough to increases in national income, the ratio of total tax receipts at the 1955/56 rates of taxation to national income being estimated at 7.1 per cent for 1960/61 as compared to 7.6 per cent in 1955/56.

228. The railways' contribution towards the financing of their development program under the Second Plan (after allowing for depreciation provision and payments of interest and dividends to the Central Government according to prescribed arrangements), is estimated at about Rs. 1.5 billion, which shows a moderate improvement over the performance in the First Plan period.

229. The net absorption of government loans by the public, excluding banks, over the Second Plan period is estimated, as mentioned earlier, at less than Rs. 2.7 billion. The corresponding estimate for the First Plan period is Rs. 2.5 billion. The net absorption of government loans by institutional investors like the Life Insurance Corporation, provident funds and the Employees' State Insurance Corporation showed a substantial increase over the Second Plan period. Holdings of government securities by the rest of the public (excluding banks) as a whole, on the other hand, appear to have shown a sizeable decrease.[1] Net receipts from prize bonds amounted to about Rs. 158 million in 1960/61.

1/ As against the estimated total net absorption of government loans by the public (excluding banks) to the extent of less than Rs. 2.7 billion over the Second Plan period, net investment of the Life Insurance Corporation in government securities amounted to about Rs. 1.2 billion during the period September 1956/December 1960 while net investment (of exempted as well as non-exempted establishments) under the Employees' Provident Funds Scheme, mainly in government securities, amounted to another Rs. 1.3 billion during April 1956 - December 1960. Investments of other provident funds and the Employees' State Insurance Corporation were also of a substantial order.

230. Net collections of small savings recorded a substantial increase over the Second Plan period. Total net collections over this period (exclusive of receipts from prize bonds which are included under loans from the public) amounted to about Rs. 4 billion, or 67 per cent more than in the First Plan period.

231. Under the item "other unfunded debt and miscellaneous capital receipts", a substantial part of the net inflow represents accumulations in provident funds for government employees. Total net accretion to these funds over the Second Plan period amounted to about Rs. 1.7 billion as compared to Rs. 0.9 billion over the First Plan period. The rest of the inflows represent the net result of receipts and disbursements under a number of items in the budgets.

232. A comparison of the actual financing of the Second Plan in the public sector with the scheme of financing originally envisaged for it shows that, despite a shortfall in total outlay, the reliance on external resources turned out to be much larger than visualized at the time of the formulation of the plan. Utilization of external assistance in the public sector over the Second Plan period is estimated, as mentioned earlier, at close to Rs. 12.9 billion as compared to the original estimate of Rs. 8 billion. Further, the drawals on foreign exchange reserves (on account of the transactions of both public and private sectors) amounted to about Rs. 6 billion as compared to the original estimate of Rs. 2 billion.

233. The increased reliance on external resources had its counterpart in a shortfall, as compared to the original expectation, in the contribution of domestic sources as a whole. The balance from current revenues at the pre-plan rates of taxation (1955/56 rates) showed a shortfall of about Rs. 4 billion as compared to the original estimate, due mainly to larger increases in current non-plan expenditures. The yield from additional taxation, however, exceeded the plan target, even after including in this target the additional effort visualized for covering the gap which remained in the scheme of financing for the plan, by about Rs. 2 billion. The railways' contribution was of the same order as envisaged earlier. Small savings showed a shortfall of about Rs. 1 billion. Net receipts from loans from the public exceeded the original target according to the Planning Commission's figure. The actual absorption of loans by the public was, however, considerably smaller than visualized at the time of the formulation of the plan. Net inflow under other unfunded debt and miscellaneous capital receipts was slightly lower than estimated earlier.

234. As for deficit-financing, the Planning Commission's latest estimate places the total for the Second Plan period at about Rs. 9.5 billion as compared to the original estimate of Rs. 12 billion. Since, however, the Planning Commission's estimates leave out the absorption of government loans by the banking system, the comparison just indicated is not of much practical significance. Deficit-financing as measured by the extension of net bank credit to governments and net increase in the Central Government's currency liability to the public is estimated, as mentioned earlier, at about Rs. 12

billion for the Second Plan period. However, as the drawals on foreign exchange reserves were much larger than anticipated earlier, the net inflationary financing of plan outlays was substantially smaller than envisaged at first. Even so, wholesale prices rose by about 28 per cent over the Second Plan period. Although prices at the beginning of the Second Plan period were relatively low, indications are that the rise in prices over this period imposed a good deal of strain on the economy.

235. Reference may also be made to the scheme of financing envisaged for public sector outlay in the Third Plan. The development program included for the public sector in the Third Plan is estimated to involve an outlay of more than Rs. 80 billion. Financial provision for public sector outlays in the Third Plan has, however, been limited to Rs. 75 billion, of which Rs. 12 billion is for current outlay and the rest for net investment. The financial provision could, it is suggested in the Plan, "be improved upon if production and savings increase sufficiently". Table 8 below shows the scheme of financing for public sector outlay in the Third Plan.

Table 8

Third Plan - Scheme of Financing for the Public Sector

	Rs. Billion	% of Total
1. Balance from current revenues (excluding additional taxation)	5.5	7.3
2. Contribution of railways	1.0 1/	1.3
3. Surpluses of other public enterprises	4.5 2/	6.0
4. Loans from the public (net)	8.0 3/	10.7
5. Small savings (net)	6.0	8.0
6. Provident funds (net) 4/	2.7	3.6
7. Steel equalization fund (net) 5/	1.0	1.3
8. Balance of miscellaneous capital receipts over non-plan disbursements	1.7	2.3
9. Additional taxation, including measures to increase the surpluses of public enterprises	17.1	22.8
10. Budgetary receipts corresponding to external assistance	22.0	29.4
11. Deficit financing	5.5	7.3
Total	75.0	100.0

1/ Exclusive of yield from increases in fares and freights. Credit for such yield has been taken under item 9. (Figures given in Table 7 for the railways' contribution over the First and Second Plan periods are inclusive of yields from increases in fares and freights).

2/ In Table 7, surpluses of public enterprises other than railways are included under items 1(a) and 5.

3/ Inclusive of receipts from prize bonds.

4/ Provident funds for government employees only. Investment in government securities of provident funds in the non-government sector are reflected in the figure for loans from the public.

5/ Receipts from surcharge on steel minus certain disbursements.

236. As Table 8 shows, budgetary resources corresponding to external assistance are expected to finance nearly 30 per cent, deficit financing 7 per cent and the rest of domestic resources 63 per cent of the total public sector outlay in the Third Plan.

237. Total utilization of external assistance over the Third Plan period in both public and private sectors has been taken, as mentioned in Chapter I, at Rs. 32 billion. Of this, Rs. 4.5-5.0 billion is expected to finance repayments of foreign loans maturing during the Third Plan. Assistance going directly to the private sector in the form of private capital inflows and loans from IBRD, International Finance Corporation, U.S. Export-Import Bank, etc. has been taken at about Rs. 3 billion. Additions to buffer stocks and retentions of rupee resources by the U.S. authorities out of P.L. 480 assistance are estimated to account for another Rs. 2 billion. The availability of external assistance for financing plan outlays in the public sector (budgetary resources corresponding to external assistance) has, therefore, been taken at Rs. 22 billion.

238. Deficit financing over the Third Plan period is proposed to be limited to Rs. 5.5 billion. This does not take into account the likely absorption of public loans by banks (other than the Reserve Bank), so that the actual money-creating type of financing by the government sector might be expected to be somewhat larger than indicated by the figure just mentioned. It must also be borne in mind that drawings on foreign exchange reserves to any significant extent cannot be counted upon (in view of the low level of these reserves) to offset deficit financing.

239. The targets set in the Third Plan for contributions from other sources are fairly high and will call for maximum effort by the Central and State Governments for mobilization of resources. A detailed examination of the prospects in the case of each source of finance, however, cannot be undertaken in the present study.

CHAPTER V

Financing of Capital Requirements in the Private Sector

240. For the private sector, detailed information on financing of capital requirements is available only in the case of large and medium scale industries. Information available in respect of agriculture, small scale industries, housing, etc., which constitute the so-called unorganized sector of the economy, is very limited and fragmentary. An attempt has, however, been made to bring together the available information with a view to presenting a rounded picture.

Financing of Large and Medium Scale Industries

241. Apart from internal resources consisting of depreciation reserves and retained profits, the main sources of finance for large and medium scale industries are as follows:

a. New issue market
b. Commercial banks
c. Special finance corporations
d. Loans and participation in capital by government
e. Foreign investment

In addition, some concerns also obtain deposits from the public and/or loans from their managing agents.1/

242. As indicated in Chapter VI, the new issue market in India has widened significantly in recent years and, according to preliminary data which are probably somewhat incomplete, the total amount of new capital raised by non-government companies2/ in 1961 through shares and debentures (other than bonus issues, but inclusive of shares and debentures taken up by non-residents) was about Rs. 890 million.

243. Commercial banks play a vital role in financing large and medium scale industries. Reflecting the progress of industrial development, the total credit extended by scheduled banks to industries (other than plantations) increased from a little less than Rs. 2 billion at the end of March 1951 to

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1/ As stated in Chapter VI, the unique institution of managing agents (comprising individuals, firms and companies) has played a very prominent role in the promotion, financing and management of companies in India. Their importance has, however, declined considerably in recent years, mainly as a result of the restrictions placed (with a view to curbing malpractices) on their operations, tenure, remuneration, etc. and the number of companies which can be managed by one managing agency. (Apart from making loans, the managing agents also assist the companies managed by them in obtaining loans from banks, etc. by guaranteeing such loans. The amounts of loans guaranteed by managing agents are, however, dependent mainly on the financial position of the borrowing company and the security offered.)

2/ The capital of government companies, i.e., companies with a majority shareholding by the Central and/or State Governments, is provided mostly from government sources.

over Rs. 6.5 billion by the end of April, 1961. During the same period, the ratio of industrial credit to total credit extended by scheduled banks increased from about 34 per cent to 50 per cent.

244. Commercial banks provide, it may be noted, mainly short-term credit for financing working capital requirements of industries. As a result of encouragement from official quarters and the refinance facilities provided by the Refinance Corporation in respect of loans to medium and small scale industries, there has been an increase in medium-term bank loans (generally for 3-7 years) in recent years. But the total of such loans continues to be small. A part of short-term advances given to industries is, however, renewed from time to time, and constitutes, in effect, lending for a longer period. In many cases there is an understanding that repayment will be after a period of one year.

245. According to the information available for June 30, 1960, in respect of 29 commercial banks, which accounted for more than 85 per cent of total bank credit, loans formally sanctioned for a period of more than one year as well as advances in respect of which there was an understanding that repayment will be after a period of one year accounted for a little more than half (54 percent) of advances to industries and about 30 per cent of the aggregate advances. Loans formally sanctioned for a period of more than one year, however, amounted to less than 5 per cent of total bank credit.

246. Apart from providing finance directly, commercial banks assist industries in raising capital from the market through underwriting of their capital issues. They also indirectly partake in long-term industrial finance through (a) investment in shares and debentures of industrial concerns (b) advances against shares and debentures, and (c) investment in shares and bonds of various financial corporations. Their total investment in shares, debentures and bonds is, however, small, being of the order of Rs. 260 million at the end of 1960. Advances outstanding against shares and debentures totalled about Rs. 1.1 billion at the end of 1961.

247. The special finance corporations, which provide finance directly to large and medium industries, include the Industrial Finance Corporation, Industrial Credit and Investment Corporation of India, National Industrial Development Corporation and the State Financial Corporations.[1/] They have been providing long and medium-term capital to industries on a substantial scale. The order of magnitude of assistance made available by them annually in the form of loans, mainly long and medium-term loans against the security

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1/ Steps are being taken in certain States (e.g. Andhra, Kerala and Uttar Pradesh) to set up Industrial Development Corporations, one of whose functions will be to provide finance in medium range above Rs. 1 million. See "Structure of Industrial Financing in India" by H.T. Parekh in Indian Finance, November 18, 1961.

of fixed assets, is shown below:

	Period	Loans Disbursed Rs. million
Industrial Finance Corporation	July 1960 - June 1961	66
Industrial Credit and Investment Corporation of India	1961	45
National Industrial Development Corporation	Apr. 1961 - Mar. 1962	25
State Financial Corporations	Apr. 1961 - Mar. 1962	81
Total		217

248. While the IFC, ICICI and NIDC make loans mostly to large and medium scale industries, a part of those made by the SFC's (about one-fifth of total loans disbursed by the end of March 1962) is in respect of small scale industries.

249. Apart from loans, the ICICI has been providing equity capital to industries to some extent. Recently, the IFC has also been authorized to participate in equity capital of industrial concerns. In addition, the ICICI, IFC and the Madras Industrial Investment Corporation have been underwriting capital issues. (See Chapter VI). The IFC has moreover been guaranteeing deferred payments in respect of imports of capital goods.

250. The Central and State Governments provide financial assistance to large and medium scale industries mainly in the form of loans and subscriptions to share capital. The total amount of such loans and share subscriptions over the Second Plan period is estimated at about Rs. 200 million, or an average of Rs. 40 million a year.1/

251. Foreign investment in the private sector has recorded a marked increase in recent years. The net inflow of foreign capital in the private sector (other than banking) in the form of (a) net increase in foreign liabilities of branches of foreign companies operating in India, (b) net increase in foreign holdings of shares, including a proportionate share of retained profits, and debentures of Indian companies and (c) net increase in loans from official sources abroad, mainly the IBRD, U.S. Export-Import Bank and the Development Loan Fund, amounted to about Rs. 1528 million over the four years 1956/59, or Rs. 382 million a year, as compared to an annual average of Rs. 163 million during 1954/55 (Appendix Table 25).

1/ See Table 9 on page 63.

252. Of the net foreign capital inflow of about Rs. 1528 million during 1956/59, Rs. 968 million, or more than 60 per cent of the total, represented inflow from official sources. The bulk of this latter amount was accounted for by IBRD loans, mainly to steel and electricity companies. Net inflow of private foreign capital during 1956/59 amounted to about Rs. 560 million as shown below:

	Rs. million[a]
Gross inflow	1105
(a) Retained profits	539
(b) New capital receipts	565
Outflow	546
Net inflow	560

a/ Rounded figures.

The bulk of the capital outflow occurred during 1958 and 1959 and was accounted for largely by the petroleum industry. The outflow in 1959 was, however, much smaller than in 1958.

253. In recent years, there have been signs of an increased response of foreign investors to the expanding investment possibilities in the country. Approvals for allotment of shares to non-residents totalled over Rs. 190 million[1] in 1959 as compared to Rs. 130 million in the preceding year. The rate at which shares were actually allotted to non-residents in 1959 was, however, rather slow; consequently actual share allotments in 1959 (Rs. 63 million) were somewhat lower than those in 1958 (Rs. 75 million). For 1960, data are available only in respect of approvals; these were maintained at roughly the same high level as in the previous year.

254. The broad picture in regard to financing of fixed investment in large and medium scale industries in the private sector during the First and Second Plan periods, as shown by the latest estimates, is brought out in Table 9. It will be seen that the availability of funds from almost all sources, except direct loans and participation by Central and State Governments[2], increased considerably over the Second Plan period. The increase was especially marked in the case of institutional agencies (special finance corporations), new capital issues and direct foreign credits and participation in capital; consequently, their relative importance in financing industries rose substantially.

255. A more detailed picture of financing of capital requirements is available for the corporate sector (non-financial) as a result of studies made by the Reserve Bank of India in respect of selected companies for various years. Data on sources and uses of funds for the selected large and medium public limited companies (non-government)[3] are set out in Table 10.

1/ Exclusive of approvals for switches in existing non-resident investment.

2/ The decrease over the Second Plan period in financial assistance by the Central and State Governments in the form of loans and direct participation in capital appears to have been mainly due to the large increase in the flow of funds from special financial institutions.

3/ A public company is one which does not place any restriction on the number of shareholders, transfer of shares, etc. Both government as well as non-government companies may, therefore, be organized as public companies.

Table 9

Financing of Fixed Investment[a] in Large and Medium Scale Industries in the Private Sector

	First Plan (1951/56)		Second Plan (1956/61)	
	Rs. mil.	% of Total	Rs. mil.	% of Total
From institutional agencies[b]	180	5.3	800	9.4
Direct loans and participation by Central and State Governments	260	7.6	200	2.4
New capital issues[c]	400	11.8	1500	17.6
Internal resources of enterprises (net of repayment liabilities)	1500	41.2	4000	47.1
Direct foreign credits and participation in capital[d]	420-450	12.3-13.2	2000	23.5
Miscellaneous sources (including advances from managing agents)	610-640	17.9-18.8	e/	e/
Total	3400	100.0	8500	100.0

a/ Includes net investment and expenditure on replacement and modernization of plant and machinery to make up a backlog of depreciation, but does not include increase in inventories. Net investment in fixed assets is estimated at about Rs. 2.3 billion for the First Plan period and at Rs. 7.25 billion for the Second Plan period.

b/ Special finance corporations, including the Refinance Corporation.

c/ Including debentures.

d/ Figures shown against this item are not comparable with those given in respect of net inflow of foreign capital on pages 61 and 62, as the former relate to gross inflow and include suppliers' credits but exclude retained profits belonging to non-residents. Further, the coverage of the figures in the table above is restricted to large and medium scale industries.

e/ Included in internal resources of enterprises. At the time of the formulation of the Second Plan, the estimate was Rs. 800 million.

Source: Second and Third Plan documents.

Table 10

Sources and Uses of Funds of Selected Public Limited Companies[1]

(Rs. million)

	5 years 1951/55	1956	1957	1958	1959	1960	5 years 1956/60
Number of Companies	750	1,001	1,001	1,001	1,001	1,001	1,001
Sources of Funds							
Internal resources (depreciation reserves and retained profits)[2]	2,451	979	666	825	962[4]	1,520[5]	4,952
	(59)	(37)	(28)	(49)	(62)	(56)	(45)
External resources							
Paid-up share capital and debentures (excluding capitalized reserves)	378	223	282	251	298	207	1,261
	(9)	(8)	(12)	(15)	(19)	(8)	(11)
Borrowing from banks	265	680	473	113	-38	584	1,812
	(7)	(25)	(19)	(7)	-(2)	(21)	(16)
Other sources[3]	1,037	799	998	504	325	420	3,046
	(25)	(30)	(41)	(29)	(21)	(15)	(28)
Total	1,680	1,702	1,753	868	585	1,211	6,119
	(41)	(63)	(72)	(51)	(38)	(44)	(55)
Total increase in liabilities	4,131	2,681	2,419	1,693	1,547	2,731	11,071
	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Uses of Funds							
Gross fixed assets	2,709	1,388	1,787	1,490	1,059[4]	1,226[5]	6,950
	(66)	(52)	(74)	(88)	(68)	(45)	(63)
Inventory	619	939	521	52	151	1,010	2,673
	(15)	(35)	(21)	(3)	(10)	(37)	(13)
Other assets (including cash and bank balances)	803	354	111	151	337	495	1,448
	(19)	(13)	(5)	(9)	(22)	(18)	(24)
Total increase in assets	4,131	2,681	2,419	1,693	1,547	2,731	11,071
	(100)	(100)	(100)	(100)	(100)	(100)	(100)

1/ The sample of 750 companies for 1951/55 accounted for about two-thirds of the total paid-up capital of non-financial public limited companies in the private sector. The coverage of 1001 companies was about 78 per cent. Data for each year relate to the accounting years of companies that ended during a period of 12 months commencing from July 1 of the year indicated.

2/ Net of advance payments of income tax.

3/ Include borrowings from the International Bank for Reconstruction and Development and the various finance corporations in the country, trade dues, etc.

4/ Not adjusted for downward revaluation of fixed assets by about Rs. 24 billion.

5/ Not adjusted for upward revaluation of fixed assets by about Rs. 1 million.

Note: Figures in brackets indicate percentages of totals.

Source: Reserve Bank of India and its bulletins.

256. As Table 10 shows, a little less than 60 per cent of the total expenditure on assets formation (gross) by the selected public companies during the five years 1951/55 was financed from internal resources, consisting of depreciation reserves and retained profits. This proportion, however, amounted to only about 37 per cent in 1956 for an enlarged sample, due mainly to a sharp rise in the expenditure on assets formation. In the following year, when profits declined substantially, the share of internal resources in financing assets formation decreased further to about 28 per cent. On the other hand, the share of borrowings from banks amounted to about 25 per cent and 19 per cent respectively in 1956 and 1957 (due mainly to large additions to inventories) as compared to 7 per cent during 1951/55. The share of new capital issues as well as other sources, which include borrowings from the IBRD (mostly by steel and electricity companies) and the various finance corporations in the country, trade dues, etc., also was on the whole higher in 1956 and 1957 than during the preceding five-year period.

257. With an improvement in the level of profits and decline in the tempo of investment (mainly as a result of drastic import curbs in force since 1957 and the virtual completion of the investment programs in some industries under the Second Plan), the share of internal resources in financing total assets formation recovered to about 49 per cent in 1958, and increased to 62 per cent in 1959. The share of new capital issues also recorded a substantial increase.

258. In 1960, there was a marked expansion of internal resources. Although total expenditure on assets formation also rose considerably in that year, the share of internal resources in financing this expenditure amounted to about 56 per cent. Net borrowings from banks were also of a large order.

259. Over the five years 1956/60 as a whole, internal resources accounted for about 45 per cent of total assets formation of the selected public limited companies, while new capital issues accounted for about 11 per cent.

260. Data available for private limited companies for the years 1956/59 indicate that, during these four years, about 47 per cent of the total gross assets formation of 333 selected companies, which accounted for about 30 per cent of the total paid-up capital of non-government private limited companies in the sectors covered, was financed from internal resources.

261 The Indian tax system provides certain important concessions to industries. New industrial undertakings are exempt from tax on profits up to 6 per cent of the capital employed for a period of five years. A development rebate equal to 20 per cent of the cost of all new plant and machinery (40 per cent of the cost in the case of new ships) is allowed to be deducted from profits in the year of installation for purposes of determining the amount of taxable profits.[1] In the event of insufficiency of profits,

1/ Up to March 31, 1961, the development rebate was equal to 25 per cent of the cost in the case of new plant and machinery.

the development rebate can be carried forward for a period of eight years. This rebate is in addition to normal depreciation allowance as well as extra shift depreciation allowance. Losses can be carried forward (for a period of 8 years) for being offset against profits in the following years. Inter-corporate dividends derived from companies in specified industries are taxed at a lower rate in the hands of corporate recipients. These and other concessions have not only helped in augmenting the internal resources of industries to some extent but contributed to the positive decision to establish enterprises in certain cases.

262. The Third Five-Year Plan envisages net investment of Rs. 11 billion in large and medium scale industries in the private sector. In addition, expenditure on replacement and modernization of plant and machinery to make up for an existing backlog of depreciation is placed at about Rs. 2.5 billion. As against these requirements, the resources expected to become available for financing fixed investment are placed at about Rs. 12.5 billion, as shown below:

Table 11

Estimates of Resources for Private Fixed Investment in Large and Medium Scale Industries in the Third Plan Period

	Rs. million	% of Total
Institutional agencies	1300	10.4
Direct loan participation by Central and State Governments and other assistance	200	1.6
New capital issues	2000	16.0
Internal resources (net of repayment liabilities)	6000	48.0
Direct foreign credits and participation in capital	3000	24.0
Total	12500	100.0

Thus, there is a shortfall in estimated resources of the order of Rs. 1 billion. In view of this shortfall and the difficult foreign exchange position of the country, the Plan recognizes the possibility of a shortfall in actual performance as compared to the targets for various industries, but an endeavor is to be made to ensure the full achievement of targets in the case of industries of high priority.

263. The pattern of financing envisaged in respect of private fixed investment in large and medium scale industries in the Third Plan period corresponds broadly to that in the Second Plan period.

Financing of Agriculture

264. A good deal of information in respect of financing of agriculture is available for 1951/52 from the Rural Credit Survey Committee Report published in 1954. According to this Report, nearly 69 per cent of gross capital formation (exclusive of purchase of land and livestock) in agriculture in 1951/52 was financed from the cultivators' own resources. Further, more than 90 per cent of the total funds borrowed by cultivators in that year for all purposes (including consumption and repayment of debt) came from moneylenders,[1] professional as well as non-professional, and relatives. The share of cooperatives and commercial banks in the cultivators' total borrowings amounted to about 3 per cent and 1 per cent respectively, while that of the government amounted to another 3 per cent of the total.[2]

265. As mentioned in Chapter II, cooperative credit has recorded a marked increase over the last decade. The annual amount of short and medium-term credit advanced by agricultural cooperative credit societies[3] increased from about Rs. 246 million in 1951/52 to Rs. 2.1 billion in 1960/61, and the estimate for 1961/62 is Rs. 2.4 billion. The annual amount of long-term loans made to individuals by land mortgage banks increased from about Rs. 13 million in 1951/52 to Rs. 86[4] million in 1959/60. Although the total annual borrowings of cultivators have also increased substantially over the last few years, the share of cooperative institutions in these borrowings is estimated to have gone up to about 10-12 per cent by 1959/60 and there has been some further improvement since then.

266. The bulk of the credit made available by agricultural credit societies represents short-term advances, mainly for seasonal agricultural operations and other productive purposes.[5] Medium-term loans, which are given largely for purposes like purchase of cattle, minor improvements to land, etc. are of a relatively small order, the amount of such loans advanced in 1959/60 being about Rs. 150 million, or less than 10 per cent of the total credit advanced by agricultural credit societies. This is explained partly by the fact that the resources available with the societies in the form of own funds (share capital and reserves) and medium-term borrowings from central cooperative banks, etc. are rather limited. It must be mentioned in this connection

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1/ The rates of interest charged by moneylenders are generally high and sometimes very high. See Chapter VII.

2/ Total borrowings of cultivators in 1951/52 are placed at about Rs. 7.5 billion.

3/ Including grain banks, which provide generally short-term advances in kind. The annual amount of grain banks' advances is small, being about Rs. 15 million in 1959/60.

4/ All loans by primary land mortgage banks have been treated as loans to individuals.

5/ There is, however, no effective machinery to ensure that loans are used for purposes for which they are ostensibly intended.

that the funds provided by the Reserve Bank (through the state and central cooperative banks) for medium-term lending by the societies have been small.[1]

267. About 44 per cent of total advances of agricultural credit societies outstanding at the end of 1959/60 was secured by immovable property, 14 per cent by personal guarantees and 15 per cent by agricultural produce.

268. Long-term loans made by land mortgage banks in 1959/60 (mainly against the security of land and other immovable property) were largely for land improvement and purchase of machinery.

269. Although the volume of cooperative credit continues to be very inadequate in relation to needs, it is important to note that its expansion has resulted in some decrease in interest rates charged by moneylenders.

270. An important shortcoming of cooperative credit is that it is often not available at the appropriate time. In many cases the cultivators themselves apply rather late. Efforts are, however, being made to improve the lending procedures of cooperatives.

271. The volume of credit extended to cultivators by commercial banks continues to be very small. Total agricultural advances[2] of scheduled banks amounted to only Rs. 76 million, or less than 0.6 per cent of total bank advances, on April 28, 1961. They were actually much higher (about Rs. 194 million) a year ago, i.e., on April 29, 1960. Commercial banks, however, make available some finance for agriculture indirectly through merchants.

272. As mentioned elsewhere (see Chapter II), the State Bank has been playing a significant role in promoting the development of institutional credit in rural areas. Apart from taking certain other steps, it has been providing finance to some extent to cooperative banks, cooperative marketing and processing societies and land mortgage banks. At times, the other commercial banks also make advances to cooperative banks and take up debentures of land mortgage banks.

273. The State Governments provide financial assistance to cultivators in the form of loans (known as taccavi loans) and subsidies for relief from

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1/ The outstanding amount of the Reserve Bank's medium-term loans to state cooperative banks amounted to about Rs. 76 million at the end of March 1961. Up to October 1960, medium-term loans out of funds provided by the Reserve Bank could be made to ultimate borrowers only against the mortgage of land. Since then, this condition has been waived in the case of loans of less than Rs. 500 each. Further, the Reserve Bank has agreed, to the grant of loans of Rs. 501 - 1000 against the creation of a charge on the borrower's land, provided that certain conditions are fulfilled.

2/ Exclusive of advances to plantations of tea, coffee, etc.

natural calamities like famine, drought, etc., as well as for agricultural development. The latter type of assistance is made available among other purposes, for construction of irrigation facilities, other land improvements, purchase of fertilizers, seeds, etc. Total government assistance made available towards the financing of net private agricultural investment under the Second Plan is estimated at about Rs. 500 million, or about 7 per cent of such investment.

274. Mention may also be made of some schemes under which special credit facilities are available to farmers in certain areas. One such scheme is the Full Finance Scheme which has been in operation in selected areas in certain districts in the State of Madras. The main objective of the scheme is to extend cooperative credit (on an adequate scale) to all families engaged in agricultural production in the selected areas. A second scheme is the Intensive Paddy Cultivation Scheme in the State of Bombay; it envisages, among other things, provision of credit to every cultivator member of a cooperative society to meet fully his requirements for production of paddy under the Japanese method of cultivation and also partially his consumption needs. A third scheme is the one taken up for intensive agricultural development in selected districts on the basis of the suggestions of an Agricultural Production Team sponsored by the Ford Foundation. The scheme aims at providing, in the districts selected, all the essential elements for increasing agricultural production to the extent needed, such as supplies of fertilizers, pesticides, improved seeds and improved implements, credit facilities, scientific demonstrations on a large scale, etc.; credit is to be made available on a scale sufficient to reach all farmers, including those previously considered uncreditworthy, and an effort will be made to link it with marketing. To begin with, the scheme was taken up in one district in each State. Recently, it has been extended to certain additional districts. A proposal has also been formulated for providing special long-term credit facilities (through land mortgage banks) in development project areas as well as for plantation crops.

275. To sum up, it appears that the major part of agricultural investment is financed from the cultivators' own resources. The share of cooperatives in total annual agricultural credit has increased substantially over the past few years, but the bulk of the total credit continues to come from non-institutional sources.

276. To support the agricultural development program, the Third Five Year Plan envisages a considerable increase in the volume of cooperative credit available to cultivators. The annual amount of short and medium-term credit is expected to increase from a little over Rs. 2 billion in 1960/61 to Rs. 5.3 billion in 1965/66. During the same period, the outstanding amount of long-term loans is expected to increase from about Rs. 345 million to a little more than Rs. 1.5 billion. To achieve these targets, the Plan envisages a

considerable strengthening of the cooperative structure and an increased flow of resources to cooperative institutions from the Reserve Bank. Subsidies to cooperatives are also being provided on a larger scale. In addition to subsidies towards management expenses in suitable cases, it has been decided to make outright contributions to the funds of primary societies and cooperative central banks at the rate of 3 per cent and 1 per cent respectively (4 per cent and 2 per cent respectively in intensive agricultural development districts) of the additional credit provided by them over the level in the preceding year. These outright contributions are to be credited to special bad debt reserves and their main objective is to enable cooperatives to provide credit to all classes of cultivators on the basis of their production requirements and repaying capacity. The continuance of the contributions is contingent on extension of credit to the weaker sections of the community. A careful assessment of the contribution of outright grants to the extension of credit facilities is to be undertaken at an appropriate stage.

277. A proposal for setting up an Agricultural Development Finance Corporation to augment the resources available for long-term loans is also being considered by the Reserve Bank in consultation with the Central Government. The loans of the Corporation will be channelled largely through central land mortgage banks.

Financing of Village and Small Scale Industries

278. Apart from own resources of artisans and small entrepreneurs, the main sources of finance for the village small scale industries are as follows:

a. State Financial Corporations
b. National Small Industries Corporation
c. State Bank of India and other commercial banks
d. Cooperative banks and societies
e. Government
f. Indigenous bankers, moneylenders, traders, etc.

The contribution of these various sources to the financing of the village and small scale industries is brought out in detail in the following paragraphs.

279. The SFC's make loans to small industries mainly for the acquisition of fixed assets. The NSIC provides financial assistance mostly in the form of supply of machinery on a hire-purchase basis. In certain cases, the NSIC also guarantees margins on loans advanced to small industries by the State Bank of India (see Chapter II). The total amount of assistance made available by these institutions so far has, however, been rather small. Loan disbursements by the SFC's to small industries totalled about Rs. 61 million by the end of March 1962, while the value of machines delivered by the NSIC on a hire-purchase basis amounted to about Rs. 42 million by the end of March 1961.

280. Commercial banks provide, as in the case of large and medium scale industries, mainly short-term credit to small scale industries for meeting their working capital requirements. As mentioned in Chapter II, the State

Bank of India has been playing a significant role in recent years in financing small industries under its scheme for the coordinated provision of finance to such industries. It has also started to make funds available to industrial cooperatives in certain cases. The other larger commercial banks, however, do not show much inclination to lend to small industries because of the inherent limitations of such industries to provide suitable security and difficulties of credit investigation, assessment of the market for the products of small units, etc. The smaller local banks are perhaps more responsive to the needs of small industries. On the whole, however, the volume of bank credit to small industries is relatively small. A survey conducted by the Reserve Bank showed that the total outstanding advances of all commercial banks (including the State Bank of India) to small industries on October 28, 1960 amounted to about Rs. 368 million or about 3 per cent of the total credit extended by them.

281. The cooperative banks and credit societies also provide funds to small industries on a limited scale, mainly for meeting their working capital requirements. They play a particularly important role in financing industrial cooperatives, like handloom weavers' societies, etc. The annual flow of credit to small industries through the cooperative institutions has been increasing significantly in recent years. The Reserve Bank has been providing special assistance to state cooperative banks for financing handloom weavers' societies 1/ and the question of provision of similar assistance to state cooperative banks for financing cooperative units in other industries is being examined. In certain areas, there are separate industrial cooperative banks for financing industrial cooperatives and a proposal to establish similar banks in some other suitable areas is being considered by the government. It may, however, be noted that the cooperatives account for only a small proportion of the workers engaged in small industries.

282. In view of the emphasis placed on the development of village and small scale industries and the weak financial position of artisans and small entrepreneurs in many cases, the Central and State Governments have been providing substantial financial assistance to small industrial units in the form of loans on easy terms, participation in share capital, subsidies, etc. The assistance is made available for acquisition of fixed assets and, to a limited extent, for meeting working capital requirements. Total government assistance towards the financing of net private investment in village and small scale industries over the Second Plan period is estimated at about Rs. 500 million, or more than one-fifth of such investment. (The figure of Rs. 500 million is inclusive of the assistance provided by the NSIC) 2/

1/ Losses arising in respect of loans provided out of funds made available by the Reserve Bank are to be borne mostly by the Central and State Governments (subject to an upper ceiling in respect of total losses to be borne by the Central Government).

2/ In addition to financial assistance, the government has been providing technical advice, training facilities and assistance in marketing, etc., to small industries. Industrial estates have also been constructed in different parts of the country to provide accommodation to small industrial units, together with power and transport facilities, etc. (See Chapter I).

283. Finally, the small industries depend, for meeting the rest of their requirements of funds, on indigenous bankers, moneylenders, relatives, etc. Precise information in this respect is not available but there is little doubt that small industries borrow substantially from non-institutional lenders, often at high rates of interest.1/

284. A significant development in the field of financing of small industries has been the introduction, as from July 1960, of a scheme for guaranteeing loans granted to such industries by specified banks and other financial institutions, including the State Financial Corporations and State Cooperative Banks, to provide a measure of protection to lending institutions against possible losses. The scheme provides for sharing of losses between the lending institutions and the government in such a manner that the government's share is larger in the case of smaller loans. The maximum amount recoverable from the government against the guarantee in respect of any one advance is limited to Rs. 0.1 million. The guarantee fee has been fixed at $\frac{1}{4}$ per cent per annum of the maximum amount of advance sanctioned. The guarantee would, however, not extend beyond seven years.

285. Loans by financial institutions other than those specified under the scheme are also eligible for guarantee if a specified institution participates in such loans to the extent of at least 25 per cent of the total amount. As a result of a subsequent change, loans involving only risk participation, i.e., participation in resultant losses, if any, by a specified institution, have also become eligible for guarantee.2/

286. The scheme is administered by the Reserve Bank, which has been designated as "Guarantee Organization" for this purpose. Initially, the scheme operated in 22 districts selected on the basis of the relative amounts of outstanding loans to small industries and the potentialities for their expansion in future. By the end of June 1961, it had been extended to 52 districts.

287. Up to the end of July 1962, applications for an aggregate sum of about Rs. 100 million had been accepted for guarantee. Gaurantees for most of the amount (about 94 per cent) were issued in favor of the State Bank of India and its subsidiaries. Recently, the Reserve Bank has recommended that the scheme may be placed on a permanent basis and extended to cover the entire country.

288. The scheme might be expected to help substantially in increasing the flow of institutional credit to small industries.

1/ "The small business sector is forced to turn to the indigenous bankers and other non-institutional sources for much the larger part of its credit needs." See Seminar on Financing of Small Scale Industries in India, Hyderabad, July 20-23, 1959, Vol. II Background Papers, page 65.

2/ This change is intended to facilitate the working of the participation arrangements, particularly in the case of cooperative institutions.

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289. A proposal for providing government guarantee for loans given by banks and institutional agencies to well-established organizations in the field of small industries such as the Khadi and Village Industries Commission (a statutory body which prepares and executes programs for the development of khadi - hand produced cloth - and village industries) and the National Small Industries Corporation has also been formulated.[1]

290. Among other developments, mention may also be made of the extension of refinance facilities by the Refinance Corporation to medium-term loans to small industries. (See Chapter II).[2]

291. To sum up, a well-devised machinery is now functioning in the country for the provision of finance to small industries. Although the annual volume of finance made available so far has been insufficient in relation to needs, it may be expected to increase progressively in the coming years.

Financing of Housing

292. Housing accounts for a substantial part of private investment. Net private investment in housing and other construction (excluding construction for industrial purposes) over the Second Plan period is estimated at about Rs. 10 billion, or about 30 per cent of total net private investment.

293. A small part of private investment in housing is financed by assistance from the government under the housing schemes for industrial workers, low income groups, etc. While assistance under the industrial housing scheme is made available by way of loans as well as subsidies, assistance under other schemes is mainly in the form of loans. Total government assistance towards the financing of private housing investment over the Second Plan period is estimated at Rs. 500 million (exclusive of funds provided by State Governments out of loans made available by the Life Insurance Corporation for middle income group housing), or about 5 per cent of total net private investment in housing and other construction over that period.

294. Funds available for housing from institutional sources are very small. There are no building societies of the type existing in the U.K. or building and loan associations as those in the U.S.A. Commercial banks provide hardly any assistance for housing. Loans for housing by primary cooperative housing societies have been increasing steadily, but their annual volume continues to be small, being of the order of Rs. 36 million in 1959/60 (July-June). Since 1958, a part of the funds loaned by these societies is being made available by the Life Insurance Corporation through the apex cooperative housing societies. Besides, the Corporation has been providing limited

1/ Third Five-Year Plan document, page 433.

2/ Since January 1962, the Reserve Bank has also agreed to grant additional credit to a scheduled bank at the bank rate of 4 per cent up to an amount equal to the increase as compared to a base period in its lending to small scale industries and cooperative institutions, provided the amount is not less than Rs. 0.1 million. Further, the Life Insurance Corporation has decided to make loans to industrial cooperatives and joint stock companies for setting up industrial estates.

amounts (about Rs. 105 million over the three years 1958/61) through State Governments for construction of houses by people in middle income groups.1/ It has also revived mortgage lending and introduced schemes for granting housing loans to policy holders, loans to housing cooperative societies of employees of public limited companies, etc., but the progress made so far in these directions has been rather limited. For example, total disbursements under the scheme for granting loans on mortgage of immovable property amounted to less than Rs. 9 million by the end of June 1962, while those under the scheme for granting housing loans to policy holders, etc., were of an insignificant order.2/ Loans for housing from provident fund accumulations are also of a small order.3/ On the whole, therefore, most of the investment in private housing appears to have been financed so far by the investors' own resources and, to some extent, borrowings from relatives, friends, money-lenders, etc.

295. Apart from private investment, the Central and State Governments as well as other public authorities and bodies undertake substantial housing programs for the provision of accommodation to their employees. Besides, the housing schemes for industrial workers, etc., also involve some outlay on direct construction in the public sector. Nevertheless, the country faces a serious housing problem. As a result of the growth of population and rapid urbanization, the shortage of houses in urban areas is estimated to have increased from about 2.5 million in 1951 to at least 5 million in 1961.4/ Further, it has been roughly estimated that approximately 50 million houses in rural areas would require to be reconditioned or entirely rebuilt.

296. The Third Five-Year Plan makes a much larger allocation for housing in the public sector as compared to the outlay incurred in the Second Plan (the increase being mainly in respect of direct construction in the public sector). Investment in the private sector is also expected to increase moderately from about Rs. 10 billion in the Second Plan period to Rs. 11.3 billion in the Third Plan period.

1/ The Life Insurance Corporation also grants loans to State Governments for construction of houses for their low-paid employees.

2/ The Corporation is considering the question of extending the mortgage lending scheme, which was operating at 21 centers at the end of June 1962, to additional centers and of revising the scheme for granting housing loans to policy holders so as to make it more attractive.

3/ These loans are available only to subscribers to provident funds.

4/ Third Five-Year Plan document , page 680 and Monograph on Housing Situation in India, page 31. The Report of the Ministry of Works, Housing and Supply for 1960/61 places the shortage of housing units in urban areas at a still higher figure.

297. The Life Insurance Corporation is expected to play a significant role in the provision of housing finance to the public as well as the private sectors. Further, the government is considering the possibility of setting up a Central Housing Board. Such an organization could, according to the Third Five-Year Plan document, "help to channel additional funds into housing, encourage the flow of credit on easy terms, amongst other things by means of insured mortgages, improve lending practices and provide the machinery needed for the creation of a sound mortgage market in housing". It is expected to channel funds, including those obtained from the Central Government and the Life Insurance Coporation, to the private sector as well as State Governments or State Housing Boards.1/

1/ State Housing Boards already exist in certain States. They function at present mainly as construction agencies of the State Governments.

CHAPTER VI

Market for Securities

298. The market for securities constitutes a fundamental part of the capital market. By imparting liquidity to securities, it encourages the flow of savings in long-term investments. It thus assists the private sector in raising capital for investment as well as the government and semi-government bodies in raising large amounts by way of loans.

299. The securities market in India is well-organized, and, considering the stage of the country's economic development, it is sufficiently broad and active. With the growth of joint stock enterprise and large market borrowings by the government sector during World War II and under the Five-Year Plans, the value and variety of securities available for trading has increased considerably over the last two decades. The increased flow of savings to financial institutions has resulted in a marked rise in the volume of their annual investments in securities (mostly government securities) and the interest of the general public in corporate securities has become considerably more widespread. Investment advisory services, however, exist only on a limited scale.

Stock Exchanges

300. Stockbroking in India dates back to the end of the 18th century when transactions in the securities of the East India Company used to take place in Calcutta.1/ A regular market in securities, however, developed only in the sixties of the 19th century. An organized stock exchange came into existence for the first time in 1875, when a brokers' association with about 300 members was organized in Bombay. Later on, organized stock exchanges were established at other places also.

301. At present, there are seven stock exchanges, the most important being those in Bombay and Calcutta. The stock exchanges are organized either as voluntary associations of persons or as public joint stock companies or companies limited by guarantee.2/ The year of establishment, number of members and certain other details of organization of each stock exchange are shown in Appendix Table 26.

Government Control of Stock Exchanges

302. The Securities Contracts (Regulation) Act of 1956 lays down the broad framework of control, regulation and superivision of stock exchange activities by the Central Government on an all-India basis. Under the Act, only a stock

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1/ The Stock Exchange: A symposium, published by the Calcutta Stock Exchange Association in 1958.

2/ In a company limited by guarantee, members undertake to contribute up to specified amounts towards meeting the company's liabilities.

exchange recognized by the Central Government is permitted to function in a particular area. The Act also provides for licensing of dealers in securities in other areas, but this provision has not yet been brought into force.

303. The Act applies only to transactions other than spot delivery contracts.[1] The exemption of spot delivery contracts is explained mainly by the fact that such transactions are normally not expected to involve any large scale speculation. The exemption is also expected to help genuine investors. Power has, however, been taken by the Central Government to regulate and control dealings in spot delivery contracts also, if this is considered expedient in the interest of trade or the public. Transactions not involving spot delivery can be entered into, in areas in which recognized stock exchanges exist, only through, with or between members of recognized stock exchanges. Further, any such transaction in contravention of any of the specified by-laws of stock exchanges shall be void as respects the rights of any member of the recognized stock exchange who has entered into such contract and also as respects the rights of any other person who has knowingly participated in the transaction entailing such contravention.

304. A stock exchange is recognized only after the Central Government is satisfied that the rules relating to the constitution of the exchange as well as the by-laws of the exchange for the regulation and control of contracts conform to conditions prescribed for fair dealing and protection of investors. These rules and by-laws can be amended only with the approval of the government. Furthermore, the government is empowered to make or amend them at its own initiative.

305. The Act provides for the representation of the Central Government on each stock exchange by such number of persons not exceeding three as may be nominated by the Central Government.

306. The Central Government has been given a number of other powers. It can call for information from a stock exchange and its members, make inquiries into the affairs of a stock exchange and its members, supersede the governing body of a stock exchange, suspend (in an emergency) such of its business as may be specified, and finally, withdraw the recognition granted to it. To prevent undesirable speculation, the Government may place restrictions on transactions in specified securities. Contracts

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1/ A spot delivery contract is one which provides for the actual delivery of securities and the payment of a price therefor either on the same day as the date of the contract or on the next day, the actual period taken for the dispatch of securities or the remittance of money therefor through the post being excluded from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality.

implying the right to buy or sell securities (so-called options in securities) are prohibited.

307. The rules framed by the Central Government under the powers conferred by the Securities Contracts (Regulation) Act prescribe the qualifications for membership of recognized stock exchanges and requirements with respect to listing of securities, maintenance and preservation of books of account and other documents by every stock exchange and its members, information to be included in the annual reports of stock exchanges and several other matters.

308. To ensure fair dealing, a member of a stock exchange is prohibited from entering into any contract as a principal (i.e., for his own account) with non-members without securing the consent or authority of the latter.

309. On the whole, the rules, by-laws and regulations of stock exchanges are now more or less uniform. The nomination of government representatives on the boards of all recognized stock exchanges has enabled the government to exercise close supervision over stock exchange activities. It has also helped significantly in restraining price manipulations by corporate officials and others having inside knowledge of a company's affairs. The working of stock markets has become more orderly. This has given greater confidence to the investing public in regard to safety of their investments in securities and has contributed a good deal towards the broadening of the market for corporate securities in recent years.

Requirements for Listing of Securities

310. As already mentioned, the rules framed by the government under the Securities Contracts (Regulation) Act specify certain requirements for listing of securities for trading on a recognized stock exchange. Only a company which has offered at least 49 per cent of each class or kind of its securities, except those taken up or agreed to be taken up by the government or foreign participants in the company, for public subscription through newspaper advertisements for at least three days and made the allotment fairly and unconditionally[1] is eligible for listing on a stock exchange.[2] Listing can be granted only on receipt of an application from a company. At the time of application, a company must furnish copies of memorandum and articles of association, prospectuses, other offers of capital for subscription or sale during the last five years, copies of balance sheets and audited

1/ Allotments have to be made in consultation with stock exchange authorities; in cases of over-subscription, companies are required to give preferential treatment to the applicants for a smaller number of shares.

2/ This requirement may be relaxed with the previous approval of the government. In general, companies which were registered before February 21, 1957 and did not initially offer shares to the public and have at present concentrated shareholdings are required to create public interest to the extent of 25-40 per cent in order to be eligible for listing.

accounts for the last five years (or for such shorter period for which accounts have been made up), copies of agreements with promoters, managing agents, underwriters, etc., a brief history of the company since its incorporation, a list of ten largest holders of each class or kind of security and the number of shares or debentures held by each such holder, and certain other particulars. Its articles of association must be in conformity with certain conditions prescribed for safeguarding the interests of investors. It must also undertake to comply with certain conditions designed mainly to facilitate free negotiability and easy marketability of securities. After listing, a company has to furnish from time to time information pertaining to various matters and copies of notices and circulars sent to shareholders, annual reports and accounts, etc.

311. A stock exchange may prescribe additional terms and conditions for listing of securities. If listing is refused to any company, it may appeal to the Central Government.

312. It must be mentioned in this context that the company law in India contains detailed provisions to regulate the formation and working of companies and provide a measure of protection to investors.1/ Listing ensures mainly availability of timely information regarding the affairs of a company and serves as an indirect check and safeguard against manipulations.

313. The government has the power to compel any public company2/ to have its securities listed on a recognized stock exchange by complying with the necessary requirements for this purpose.

314. Government securities are automatically listed on all stock exchanges.

1/ The Indian Companies Act of 1956, which is a comprehensive measure aimed at consolidating and amending the previous law relating to companies, deals with such matters as: (i) company promotion, formation and issue of capital; (ii) company meetings and procedures; (iii) presentation of company accounts, their audit and powers and duties of auditors; (iv) inspection and investigation of the affairs of companies; (v) formation of Boards of Directors and the powers and duties of directors; (vi) terms and conditions of the appointment of managing agents and their powers and duties (see later in this chapter); and (vii) winding up of companies. By an amendment of the Act in 1960, the Government has also been empowered to order special audit of a company's accounts under certain circumstances and, if a likely transfer of shares of a company is expected to involve a change in management prejudicial to public interest, to direct that transfers of shares during a period, not exceeding three years, shall be void.

2/ Under the Indian Companies Act, a joint stock company may be organized as a "private company" or a "public company". A private company is one which (a) restricts the right to transfer its shares; (b) limits the number of its members, other than employees, to 50; and (c) prohibits any invitation to the public to subscribe to its shares or debentures. All other companies are public companies. Further, if 25 per cent or more of the paid-up share capital of a private company is held by one or more corporate bodies, the private company becomes a public company. Both government as well as non-government companies may be organized as public companies or private companies.

A. Market for Corporate Securities

Growth of Joint Stock Enterprise

315. Before discussing the market for corporate securities, we may review briefly the growth of joint stock enterprise in India. The trend during World War II and the post-war period is brought out in the table below:

Table 12

Number and Paid-up Capital of Joint Stock Companies in Selected Years

End of Fiscal Year	Public Companies Number	Public Companies Paid-up Capital	Private Companies Number	Private Companies Paid-up Capital	All Companies Number	All Companies Paid-up Capital
		Rs. billion		Rs. billion		Rs. billion
1938/39	6,859	2.1	4,255	0.8	11,114	2.9
1944/45	n.a.	n.a.	n.a.	n.a.	14,859	3.9
1945/46	10,129	3.2	7,214	1.0	17,343	4.2
1950/51	12,568	5.7	15,964	2.1	28,532	7.8
1955/56	9,575	6.9	20,299	3.3	29,874	10.2
					(61)	(0.7)
1959/60	7,306	8.1	19,615	7.8	26,921	15.9
	(35)	(0.3)	(90)	(4.4)	(125)	(4.7)
1960/61	6,745	8.8	19,363	8.5	26,108	17.3
	(34)	(0.3)	(105)	(4.7)	(139)	(5.0)

Notes: 1. Figures relate to both non-government companies as well as government companies. Separate figures for the latter, where available, are shown in brackets. Companies limited by guarantee are not included.

2. Figures up to 1945/46 relate to Undivided India (i.e., including territories which now form Pakistan).

Sources: Figures up to 1959/60 have been taken from official sources. Figures for 1960/61 have been taken from an article by R.K. Nigam, Director of Research and Statistics, Department of Company Law Administration in "Commerce" dated August 12 and 26, 1961.

316 It will be seen that the number of joint stock companies increased from 11,114 at the end of 1938/39 in Undivided India to 28,532 at the end of 1950/51 in the Indian Union.[1] Thereafter, the increase was rather

1/ As a result of Partition in 1947, about 2,049 companies with a paid-up capital of Rs. 181 million went over to Pakistan.

moderate and from 1956/57 onwards there has actually been a substantial decrease in the number of companies. The paid-up capital, on the other hand, continued to increase steadily and amounted (in the case of non-government as well as government companies) to about Rs. 17.3 billion at the end of 1960/61 as compared to Rs. 7.8 billion at the end of 1950/51 and Rs. 2.9 billion (in Undivided India) at the end of 1938/39. The decrease in the number of companies over the last few years is attributed by the Department of Company Law Administration to the policy of weeding out inactive companies from the registers.1/

317. As Table 12 shows, there has been a considerable decrease over the last decade in the number of public companies.2/ On the other hand, the number of private companies continued to increase steadily up to the end of 1956/57; this is explained primarily by the fact that private companies have a comparative advantage in the matter of disclosure of information and other statutory requirements. In some cases, public companies found it convenient to convert themselves into private companies.3/ From 1957/58 onwards, the number of private companies has also shown a decrease, but the rate of decrease has been much smaller than in the case of public companies.

318. An important feature of the development of joint stock enterprise over the last few years is the marked growth of government companies, that is companies with a majority shareholding by the Central and/or State Governments. The number of such companies increased from 61 at the end of 1955/56 to 139 at the end of 1960/61. Over the same period, their paid-up capital increased from about Rs. 0.7 billion to Rs. 5 billion or by about Rs. 4.3 billion. The larger part of this increase was, however, accounted for by one company, namely the Hindustan Steel Company, which had a paid-up capital of Rs. 3 billion at the end of 1959/60. Most of the capital of government companies has been provided by the Central and State Governments.4/

1/ The Department of Company Law Administration removed from its inception in 1955 up to the end of 1960/61 nearly 9,000 inactive companies from the registers. See "The Contemporary Corporate Scene in India" by R. K. Nigam in "Commerce", August 26, 1961.

2/ See footnote 2 on p.

3/ The Capital Market in India by S.L.N. Simha, p. 44. As a result of an amendment of the Companies' Act in 1960, Government approval is now required for conversion of a public company into a private company.

4/ A high level official study group had recently suggested that a part of the share capital (up to 25 per cent) of selected government companies which are earning reasonable profits and can, therefore, declare reasonable dividends should be thrown open to the public. See Hindu Weekly Review, Madras, dated November 7, 1960.

319. Along with the increase in the number and paid-up capital of companies, there has been a marked diversification of their activities. For example, the combined share of cotton, jute, paper, tea, coffee, coal and sugar industries in the total paid-up capital of companies declined from about 88 per cent at the beginning of the present century to 32 per cent at the beginning of World War II, and, further to 22.5 per cent in 1957/58, the latest year for which industrial breakdowns are available. On the other hand, the share of iron and steel, engineering and chemical industries increased from a little more than 5 per cent in 1938/39 to about 32 per cent in 1957/58.

320. Annual data relating to new companies registered since 1951/52 are set out in Appendix Tables 27 and 28. The total number of new companies (non-government as well as government) registered in the 10 years ended 1960/61 was 13,082 and their total authorized capital was Rs. 18.3 billion.[1]

321. Data available by size of companies indicate that, of the new companies (non-government as well as government) registered during 1951/61, 304 were large companies with an authorized capital of Rs. 10 million or more each. These large companies accounted for nearly 70 per cent of the total authorized capital of all new companies.

322. The share of companies in the total net domestic output of the country increased from about 7 per cent in 1948/49 to about 12 per cent in 1957/58. On the whole, therefore, the corporate sector has been growing at a satisfactory rate.

Companies and Securities Listed on Stock Exchanges and Volume of Transactions

323. Most of the larger non-government public companies are listed on a stock exchange. Some are listed on more than one stock exchange. The position in regard to listing of companies and their securities in February 1961 is shown below:

Table 13

Companies and Securities Listed on Stock Exchanges in February 1961

(Value in Rs. billion)

Name of Stock Exchange	Number of Companies	Number of Issues	Face Value: Ordinary Shares	Face Value: Preference Shares	Face Value: Debentures	Face Value: All Securities	Total Market Value of Securities
Bombay	297	538	2.9	0.6	0.3	3.8	6.5
Calcutta	576	924	2.4	0.5	0.4	3.3	5.5
Madras	249	451	0.8	0.1	0.2	1.1	1.8
Ahmedabad	96	208	0.7	0.1	-	0.8	2.1
Delhi	103	198	0.7	0.2	a/	0.9	1.3
Hyderabad	19	27	0.6	a/	a/	0.6	1.2
Indore	8	9	a/	a/	a/	a/	a/
All Stock Exchanges b/	1203	2111	5.6	1.1	0.8	7.5	12.9

a/ Less than Rs. 0.05 billion.
b/ After eliminating double counting as a result of listing of certain companies on more than one stock exchange.
Source: Stock Exchange, Bombay

1/ Without taking into account the changes subsequent to the registration of companies.

324. Thus, the total number of companies listed on stock exchanges in February 1961 was 1203 and the total face value and market value of listed corporate securities were about Rs. 7.5 billion and Rs. 12.9 billion respectively. The number of listed security issues of companies was 2,111 and the number of listed shares and debentures was over 426 million.

325. Although the number of listed companies is rather small in relation to the total number of existing companies, nearly 80 per cent of the total paid-up capital of all non-government public companies was listed in February 1961. No government company had, however, obtained listing on stock exchanges.

326. A broad idea of the growth of listed stock of companies over the last 15 years can be obtained from the following table:

Table 14

Growth of Listed Stock Since 1946 1/

	1946 2/	1960	1961
Number of listed companies	1125	1150	1203
Paid-up share capital of listed companies (Rs. billion)	2.7 3/	6.1	6.7
Number of share issues of listed companies	1506 3/	1829	1962
Market value of listed shares (Rs.billion)	9.7 4/	n.a.	12.1

1/ Figures relate to shares only. Figures shown in this table for 1961, therefore, differ from those given in Table 13.
2/ Figures are for Undivided India.
3/ Relates to 1057 companies only.
4/ As of March 1947.

Source: Stock Exchange, Bombay

327. Thus, while the number of listed companies has increased only moderately over the last 15 years or so, the face value of listed shares has increased considerably. The number of issues of shares listed on stock exchanges as well as their market value have also increased substantially.

328. Detailed information available for individual stock exchanges for various years is presented in Appendix Table 29.

329. The industrial pattern of listed stock shows a marked regional character. For example, apart from the securities of engineering and metals, cotton textiles and banking and insurance companies, which are quoted on most of the stock exchanges, those of cement, electricity, shipping, chemicals and sugar companies have the largest face value in Bombay; those of jute, paper and mining companies in Calcutta; and those of plantation companies in Madras.

330. Data on volume of trading in securities are not available. According to a rough estimate based on collections of stamp duty, the annual turnover in Bombay of cleared securities, i.e., corporate securities eligible for forward trading (see below), is of the order of Rs. 15-20 billion.1/

Forward Trading

331. To check overtrading and compel members to maintain liquid resources to cover the risk attaching to the volume of their business, the stock exchanges enforce a system of margins. Recently, the exchanges have adopted a uniform scheme of automatic margins. The scheme consists of (i) carry-over margins, and (ii) interim margins. Carry-over margins are levied according to a progressive scale on the aggregate value of net purchases or sales carried over in respect of each security on the forward list; the rate varies from 2 per cent for carry-over business on the first Rs. 0.5 million to 30 per cent on business in excess of Rs. 4 million. Interim margins (calculated in the prescribed manner) become payable on daily net outstanding purchases or sales of a security, when its price rises or falls beyond certain levels.2/ Members are allowed a set-off in the amount of margin on the basis of their security deposits and the value of the right of membership. The scheme also makes it compulsory for clients of members to pay carry-over and interim margins at the prescribed rates.

332. Genuine sales or purchases of securities are exempt from margins, both carry-over and interim, provided an approved bank gives an irrevocable guarantee to deliver, or take delivery of the securities, as the case may be.

333. Forward trading is permitted only in a limited number of securities; these are known as "cleared" securities. The number of such securities in February 1961 was 65 in Bombay, 12 each in Calcutta and Madras, 9 in Ahmedabad and 4 in Delhi. To avoid malpractices, securities for forward trading are selected with great care, the main considerations being that the issues should be sufficiently large and broadly held.

Widening of Public Interest in Shares

334. Precise information in regard to the total number of shareholders is not available. A rough estimate prepared in the Department of Company Law Administration places the number of shareholders in 1957 at about 0.5 million.3/

1/ Source: Stock Exchange, Bombay.

2/ Interim margins are payable when the market price touches a level of (i) 10% above or below the making-up price fixed for the previous clearing, (ii) 15% above or below the making-up price fixed for the clearing preceding the previous clearing and (iii) 5% above or below the last interim margin making-up price when such interim making-up price has been fixed. The rate of interim margin is fixed at 50% of the difference between the interim making-up price fixed for the security in the current clearing and the last interim making-up price or failing that the making-up price for the previous settlement. (See Reserve Bank of India Bulletin for January, 1962.)

3/ The Corporate Sector in India, Department of Company Law Administration.

According to income tax revenue statistics, however, the total number of shareholders whose tax assessments were completed in 1958/59 was only a little more than 141,000. This figure relates to both shareholders who were assessed to tax as well as those who claimed refund of the tax deducted at source because of their incomes being below the taxable limit. It, however, understates the actual number of shareholders, as a number of persons, with incomes below the tax limit, may not have reported (because of ignorance, negligence or other reasons) their dividend incomes for claiming refund of the tax.1/

335. With the flotation of new companies and increase in the capital of the existing ones, the number of investors in shares has increased substantially over the past few years.2/ For example, the number of shareholders whose income tax assessments were completed in 1958/59 was larger than that in 1955/56 by more than 25 per cent. Information available for a number of individual companies is given in Appendix Table 30. It will be seen that the shareholders of the Tata Iron and Steel Company increased from 28,410 in 1952 to 70,000 in 1960, or by nearly 146 per cent. During the same period, the shareholders of Associated Cements increased from 25,415 to 44,067, or by about 73 per cent. The number of shareholders of several other companies has also increased significantly.

336. As mentioned later, there has been a marked improvement in recent years, in the response of the public to new issues of capital. There is evidence to show that an increasing number of persons belonging to middle classes is becoming interested in shares as a form of investment.3/

337. Financial institutions, however, play only a limited role in the market for corporate securities. The most important financial institution from the point of view of operations in the market for corporate securities is the Life Insurance Corporation. Its holdings of shares and debentures of Indian non-government companies at the end of 1960 amounted to a little less than Rs. 900 million, or nearly 7 per cent of the total nominal value of securities of such companies. The Corporation's annual investment in corporate securities is of a substantial order, and, on the whole, its activities exert a stabilizing influence on the market. Commercial bank's holdings of shares and debentures (inclusive of those of the various finance corporations) amounted to about Rs. 260

1/ An estimate prepared recently by the Reserve Bank of India, on the basis of information obtained for a survey of ownership of shares in selected companies, places the number of shareholders owning ordinary shares in 70 non-government public limited companies (mostly the larger ones), which accounted for about 45 per cent of the total ordinary paid-up capital of non-government public limited companies listed on stock exchanges, at around 207,000 at the end of 1959 (after eliminating duplications on account of the holding of shares by the same person in different companies but without making any adjustment for nominee holdings, etc.).

2/ The requirement regarding offer of a large part of the capital of a company seeking listing on a stock exchange has also contributed significantly to a wider dispersal of shareholdings.

3/ The individual shareholders belong to a number of occupational groups and include independent businessmen, managing directors, professionals like doctors, service personnel and retired persons. See Taxation and Private Investment by National Council of Applied Economic Research, New Delhi, 1961.

million at the end of 1960. Investment and trust companies have, as mentioned earlier, not developed to any significant extent, while the holdings of specialized financial corporations like the ICICI, IFC and SFC's are very small. Provident fund accumulations are invested mainly in government and other trustee securities.

Investment Trusts

338. In 1954, the Committee on Finance for the Private Sector recommended the establishment of investment trusts, particularly unit trusts.1/ The question was examined again some time ago and it was suggested that there was "sufficient scope for making a beginning with the establishment of some unit trusts by well-known industrial houses, brokers' firms and insurance companies in India with active encouragement from Government".2/ In view of the widening of public interest in shares in recent years and the growing number and variety of corporate securities available for investment, conditions seem to be particularly favorable for the growth of investment trusts; such institutions can be expected to make a significant contribution towards the mobilization of savings and their channelling into stock exchange securities by offering prospects of a reasonable return together with a hedge against inflation; their activities might also be expected to help in the maintenance of relatively stable conditions in stock markets.

339. At present, dividend income of investment trusts is exempt from super tax but not from income tax. Income distributed by investment trusts, of course, again becomes subject to income tax and super tax in the hands of shareholders or unit holders. According to a view expressed in informed quarters, it will be necessary, in order to enable investment trusts to offer reasonably attractive returns to investors, to exempt trust income from income tax also. It is important to note in this connection that the shares of the Industrial Credit and Investment Corporation, which has a good record of performance, were quoting at a discount of 18 per cent at the end of 1961. In the circumstances, the question of providing suitable incentives for the development of investment trusts needs to be examined carefully.

340. There is no separate legislation for investment trusts in India, investment and trust companies being registered under the Companies Act.

1/ Investment trusts may be organized as corporations or as unit trusts. In the case of the latter, the basis is a trust agreement, which provides, among other things, for the regulation of the powers of management. A unit trust may be constituted as a "fixed" trust or a "flexible" trust. In the case of a fixed trust, the securities underlying a unit or a sub-unit are fixed by the trust agreement and the management has virtually no discretion in the matter of investment of funds. In the case of flexible trusts, on the other hand, the managers have limited discretion in making investments.

2/ See article on Investment Trusts in the Reserve Bank of India Bulletin, October 1960.

It will, therefore, also be necessary to undertake special legislation to regulate the activities of investment trusts and safeguard the interests of investors.

Ownership of Non-Government Companies

341. According to an estimate prepared recently by a research organization,[1] domestic corporations excluding statutory bodies like the Life Insurance Corporation owned somewhat less than 19 per cent of the total share capital (paid-up) of non-government companies in 1957/58. Taking into account the capital held by statutory corporations, the share of all domestic corporate investors in the share capital of non-government companies might be taken roughly at around one-fourth of the total. The remaining three-quarters of the capital is held mainly by individual investors, partnerships, etc.[2]

Security Prices

342. The trend of security prices since 1951/52 is shown in Appendix Table 31. It will be seen that share prices, which had shown a marked increase after the outbreak of the Korean War in June 1950, fell sharply in 1952/53. This was followed by a mild recovery at first and the emergence of boom conditions later on. Share prices, however, again showed a sharp fall in 1957/58. Thereafter, there was a considerable increase, the Reserve Bank's index of variable dividend securities (base: 1952-53 = 100) having risen from 125.4 in 1957/58 to 183.7 in 1961/62, or by about 46 per cent over a period of four years.

343. The rise in share prices in recent years is, of course, explained partly by the rise in the general level of commodity prices. To a significant extent, however, it was due to an expectation of substantial growth of industries in the context of economic planning and the protectionist impact of import controls. Investors were also becoming increasingly aware of the protection offered by equities against erosion of the real value of their investment through creeping inflation.

344. A recent inquiry made by a research organization on a random sample basis, although with a rather limited coverage, throws some light on the motives for investment in shares by individuals and their investment preferences.[3] More than 70 per cent of the respondents with incomes above

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1/ National Council of Applied Economic Research, New Delhi.

2/ As mentioned later, a substantial part of the total capital of non-government companies is held by managing agents, who constitute a separate class of investors and comprise individuals, firms as well as companies.

3/ See Taxation and Private Investment by National Council of Applied Economic Research, pp. 74-75. Of 730 individuals selected for inquiry, 148 sent in replies. Of the latter, 30 individuals had incomes of above Rs. 20,000 per annum.

Rs. 20,000 per annum (i.e., belonging to upper classes) indicated that they invest in shares with the objective of capital appreciation rather than earning secure or high incomes. As capital gains of individuals from assets held for more than one year are not liable to super tax, there is a strong incentive for people with higher incomes to seek capital gains.[1]

345. In the case of respondents with incomes below Rs. 20,000 per year, the majority indicated secure income as the chief investment objective. Some of the people who gave secure income as the chief objective indicated "hedge against inflation" as an equally important consideration.

346. In answer to the question on investment preferences, a large number of individuals gave equity shares as their first preference. Only a few persons indicated preference shares as their first choice.

New Issues of Capital

347. Under the Capital Issues Control Act, all issues of capital in India by companies as well as issues of capital outside India by Indian companies require the consent of government. A government order, however, exempts from this requirement security issues not exceeding Rs. 1 million[2] a year by any company other than a banking company, an insurance company or a provident society incorporated as a company, provided the securities do not represent bonus shares.[3]

348. The control on capital issues was introduced in 1943. Its main objective at present is to direct investment into desired channels, keeping in view the government's overall economic policy. While granting consent, the authorities also consider financial, technical and certain other aspects of a proposal, e.g., whether all the capital asked for is likely to be required in the immediate future or not, whether the applicant company has already at its disposal adequate funds channelled into less desirable investments, the terms of capital issues (whether at par or at a premium), underwriting and brokerage charges, capital structure of the company, timing of the issue so as not to conflict with the Central and State Governments' borrowing programs, terms and conditions on which foreign capital participates with Indian capital, etc.

349. In a number of industries, the control and regulation of investment has been reinforced by the system of licensing introduced under the Industries (Development and Regulation) Act of 1951. Under this Act, a license is required for: (a) establishment of a new undertaking; (b) substantial expansion of an undertaking; and (c) manufacture of new articles. The Act, however, does not apply to small establishments.

1/ Up to 1961/62, all capital gains of individuals were exempt from super-tax.

2/ Prior to August, 1959, the exemption limit was Rs. 0.5 million only.

3/ Debentures taken up by specialized financial corporations like the IFC, ICICI, etc. as well as loans granted by such institutions and banks, etc., are also exempt from the provisions pertaining to government consent under the Capital Issues Control Act.

350. The new issue activity has shown a rising trend in recent years. Total new capital raised through shares and debentures by non-government companies (public as well as private),1/ which reported to the Controller of Capital Issues, amounted to more than Rs. 3.7 billion over the five years, 1957/61.2/ The highest level was reached in 1961, when the amount raised (by reporting non-government companies) was Rs. 887 million according to preliminary data; as usual, this figure of Rs. 887 million might be expected to increase somewhat when fuller information becomes available for 1961. Annual data, together with a breakdown by public and private companies, new and existing companies and types of securities, are given in Appendix Table 32.

351. Of the new capital raised by non-government companies during 1957/61, about Rs. 2.7 billion, or 73 per cent of the total, was raised by public companies and the rest (about Rs. 1 billion) by private companies.

352. A noteworthy feature of the market for new issues is the considerable increase in recent years in the amount of capital raised by new companies. The share capital raised by new non-government companies increased from about Rs. 120 million in 1957 to over Rs. 330 million in 1961. During the same period, the proportion of such share capital to total share capital raised by all non-government companies increased from about 21 per cent to 42 per cent.

353. Consents granted to non-government companies for capital issues through shares (other than bonus issues) and debentures totalled about Rs. 3.6 billion over the three years 1959 to 1961 as against Rs. 2.5 billion over the preceding three years (see Appendix Tables 33 and 34).

354. Information available for non-government non-financial public companies for the period January 1956 - June 1960 shows that large issues, i.e., issues of Rs. 10 million or more, accounted for the major part of total capital issued in each year by such companies.

355. The denomination pattern of share and debenture issues listed on stock exchanges in February, 1961 is shown in Appendix Table 35. Indications are that there has been some preference in recent years for smaller denominations, presumably with a view to attracting small investors.

1/ As the capital of government companies is subscribed mostly by the Central and/or State Governments, it is not taken into consideration here.

2/ Bonus issues are excluded. As some companies might not have reported, the data are incomplete to some extent.

Methods of Floating New Capital Issues

356. Broadly speaking, a public company can float capital issues in the following four ways:

(i) By a "rights" issue to shareholders (by an existing company);
(ii) By invitation to the public to subscribe through issue of a prospectus;
(iii) Through offer for sale, whereby institutions, brokers, etc., who take up a large part of the capital issue of a company, offer the securities for sale to the public at a fixed price; and
(iv) Through private placing with investors.

357. The Indian Companies Act requires that, unless the shareholders decide otherwise in a general meeting, any new issue of share capital by an existing company must in the first instance be offered pro rata to its equity shareholders. A shareholder can renounce his rights in favor of a nominee and thus realize their market value. From a company's point of view also, a rights issue is very desirable as it is the most convenient and least expensive method of floating new issues. This method is, therefore, most important in the case of established companies. New companies resort largely to the prospectus method. The other two methods are used to a limited extent. The device of offer for sale is, however, often utilized by a closely held company for the purpose of creating wider ownership of its shares in order to obtain listing on a stock exchange. It is also utilized by foreign holders of securities either for the purpose of repatriating capital abroad or for having larger Indian participation in foreign enterprises.

358. The table below summarizes the information available in the case of a number of non-government non-financial public companies in regard to the methods of issuing new capital during the five-year period, 1956/60:

Table 15

New Capital Issues by Non-Government Non-Financial Public Companies during 1956/60 1/

(Rs. million)

	Existing Companies	New Companies	Total
Rights issues taken up by shareholders	1184	-	1184
Amount reserved for promoters, directors, etc., and foreign participants	15	248	263
Amount reserved for institutional investors	11	4	15
Amount offered to public, otherwise than by way of rights issues to shareholders	227	285	512
Total amount of new issues	1437	537	1974

1/ Figures relate to capital issues floated and not to amounts actually raised, as in many cases the full amount was not called up at the time of issue.
Source: Stock Exchange, Bombay

Thus, rights issues accounted for more than 80 per cent of the total amount of new capital issued by existing companies. In the case of new companies, on the other hand, more than half of the total amount of capital issues was offered to the public through the prospectus method. Annual data are given in Appendix Tables 36 and 37.

359. A breakdown of the information by types of securities indicates that rights issues accounted for over 90 per cent of the total amount of new equity issues by existing companies.

360. In the case of rights issue by a well-established company whose shares are quoted above par, the government's policy is that the issue should be made at a suitable premium so as to strengthen the financial position of the company and prevent excessive speculation in its shares by reducing windfall gains to shareholders. The premium is determined by the Controller of Capital Issues in consultation with the company concerned. In the case of consents for capital issues in 1959 and 1960, the amount of premium ranged from 2 per cent to 250 per cent.

Response of the Public to New Issues

361. The response of the public to new issues has been very encouraging in recent years, especially from 1959 onwards. Information available for the period 1956/60 indicates that a number of issues were over-subscribed. The extent of over-subscription was exceptionally large in 1960, when a big issue, namely that of Synthetics and Chemicals Ltd. for Rs. 16.5 million was over-subscribed nearly 60 times. Another issue of about Rs. 1.4 million by Hindustan Twyford was over-subscribed 74 times. Certain other issues were also heavily over-subscribed.

362. The unusually large subscriptions in 1960 are explained partly by such factors as expectation of quick profits from capital appreciation in a rising market, submission of applications for larger amounts in anticipation of partial allotment, etc.[1] Nevertheless, there was admittedly a considerable increase in genuine demand.[2]

363. The public response was most enthusiastic in the case of issues of companies which had participation of foreign capital and whose shares were underwritten by the ICICI, IFC or LIC.

1/ Price manipulations by interested parties by offering to sell in advance in the unofficial market shares taken up out of the portion of the capital not offered for public subscription were also responsible for a rush by investors to secure allotment of shares offered for public subscription. To check malpractices, the government now requires an assurance that allotments out of the reserved quota will be made to bona fide investors only.

2/ Under the Companies Act, a company declaring in a prospectus its intention to apply for listing on a stock exchange must do so and obtain listing, failing which, it must refund the subscriptions received. This provision has also assisted in stimulating public response to new capital issues.

Market for Preference Shares and Debentures

364. Despite the marked improvement in recent years in the response of the public to equity issues, the market for preference shares and debentures continues to be rather thin. The total face value of preference shares and debentures listed on all stock exchanges in February 1961 amounted to about Rs. 1.2 billion and Rs. 0.8 billion respectively, or only 15 per cent and 10 per cent of the total face value of all corporate securities. The position is brought out in greater detail in Table 16.

Table 16

Relative Importance of Different Types of Corporate Securities

(Rs. million)

	Ordinary Shares	Preference Shares	Debentures	Total
Nominal value of securities listed on stock exchanges (February 1961)	5581 (75)	1166 (15)	788 (10)	7535 (100)
Capital of 1001 non-government non-financial public companies (1960)	5096 (75)	1055 (16)	606 (9)	6757 (100)
Consents for capital issues by non-government companies during 1951/60 a/	6489 (73)	1192 (13)	1254 (14)	8935 (100)
Capital issues by non-government companies during 1957/61	2905 (78)	306 (8)	506 (14)	3717 (100)

a/ Including figures for government companies up to 1954.

Note: Figures in brackets indicate percentages of totals.
Source: (i) Bombay Stock Exchange (Items 1 and 3), and
(ii) Reserve Bank of India (Items 2 and 4).

365. A considerable part of debenture holdings is accounted for by institutional investors. For example, the value of debentures held by the Life Insurance Corporation and banks amounted to about Rs. 360 million at the end of 1960. In the case of preference shares also, a substantial part of the holdings is accounted for by institutional investors.

366. The rise in prices of equities in recent years has rendered fixed yield securities less attractive.1/ For example, information available with the Bombay Stock Exchange in respect of 5 issues of preference shares for

1/ The pattern of yields of different types of securities is indicated in Chapter VII.

about Rs. 35 million in 1960 by non-financial non-government public companies indicates that, in sharp contrast to the response to equities, four issues of preference shares for about Rs. 32 million were under-subscribed to a considerable extent. (Appendix Table 38).

367. Debentures and preference shares offering such terms as an option for conversion into ordinary shares or a right to participate (to a limited extent) in profits have not been issued on any significant scale in India. However, with the growing need of companies to raise capital to finance their expansion programs, the variety of securities offered by them might be expected to increase in future.

Role of Managing Agents

368. The unique institution of managing agents in India has played an important role in the promotion, financing and management of companies. But for the initiative taken by managing agents, many of India's large scale enterprises would not have come into existence.

369. The term "managing agents" refers to an individual or individuals, a firm, a private company, or a public company appointed to manage a company. Up to August 15, 1960, that is, before the limit of ten companies per managing agency became operative under the Companies Act, some of them managed a very large group of companies.

370. Managing agents usually take up a substantial part of the capital of companies managed by them. Even in the case of large-sized companies in which their shareholdings are relatively small, they provided a substantial part of the capital at the time of promotion and released a part of their shareholdings to the public at a later stage. They also employ a part of the funds of companies under their management for subscribing to the capital of new enterprises. Apart from these direct and indirect subscriptions, the managing agents secure capital from a large circle of friends, relatives and associates. The association of the names of managing agents of good standing and established reputation with new concerns attracts large support from the investing public. To some extent, a managing agency also performs the functions of an underwriter in so far as it takes up a part of the capital not subscribed by the public.

371. Holdings of share capital by managing agencies vary from one industry to another as well as according to the type of managing agency and the size of a managed company. There is also a good deal of regional variation. According to data compiled for 1951/52 by the Department of Company Law Administration in respect of 1340 managing agencies managing 1720 companies, managing agents held about 14 per cent of the total paid-up capital of those

companies.1/

372. To curb malpractices associated with the managing agency system, the Companies Act of 1956 not only placed a limit, as mentioned above, on the number of companies which can be managed by a managing agency but also a number of restrictions with respect to appointment or reappointment of managing agents and their remuneration, tenure and operations. As a result, the importance of the managing system has declined considerably in recent years. The alternative system of Secretaries and Treasurers recognized by the Companies Act has also not become very important. Nevertheless, the business houses associated with important managing agencies continue to play an important role in the promotion of companies, especially the larger ones. There is also evidence to show that a new class of small entrepreneurs is coming up in the country.

Underwriting of New Issues

373. There has been a marked increase in underwriting activity in recent years. The establishment in 1955 of the Industrial Credit and Investment Corporation of India, with underwriting of capital issues as one of its functions, has contributed a good deal to this increase; the Corporation has not only been underwriting capital issues as a regular business but also encouraging other institutions and individuals to join in its operations. The Life Insurance Corporation has also been underwriting substantial amounts; its underwriting operations, however, are usually in the nature of agreements to purchase securities at a discount and have to fit in with its general investment policy.2/ Since 1957/58, the IFC has also entered the field of underwriting and some issues have been underwritten by the Madras Industrial Investment Corporation as well. The other underwriters include banks, brokers, investment and trust companies, etc.3/

1/ According to a study made by Prof. Basu in respect of 180 companies managed by 25 managing agencies incorporated in Calcutta, the shareholding of managing agents was about 17% in the case of 166 public limited companies and 19% in that of 14 private limited companies. The average holding of the European managing agency houses was about 10%, while that of the Indian managing agency houses was as high as more than 42%. An analysis made by the National Council of Applied Economic Research in respect of 125 companies in West Bengal shows that the average holding of shares by British managing agents was about 17% in 1956/57. See The Managing Agency System in Retrospect and Prospect by S.K. Basu and the Managing Agency System by NCAER.

2/ During 1956/60, the amount of new issues underwritten by the Life Insurance Corporation and floated in the market totalled about Rs. 77.6 million. The LIC subscribed to these issues to the extent of Rs. 70.2 million.

3/ Sometimes promoters of companies and State Governments also agree to take up unsubscribed portions of public issues up to specified amounts.

374. The data collected by the Reserve Bank in respect of underwriting of capital issues of non-government non-financial public companies by various institutions in recent years are shown in Table 17. As the data are somewhat incomplete, they indicate only the broad trend in recent years.

Table 17

Underwriting of New Issues

(Rs. million)

Year	Total amount underwritten	Underwritten by					
		ICICI	LIC	IFC	Banks	Investment and Trust Companies	Others (mainly Brokers)
1956	21.1	7.7 (36)	2.0 (9)	-	7.3 (35)	0.5 (2)	3.6 (17)
1957	36.5	8.5 (23)	1.0 (3)	-	-	1.2 (3)	25.8 (71)
1958	77.5	21.3 (27)	11.0 (14)	7.5 (10)	18.6 (24)	7.1 (9)	12.0 (16)
1959	105.7	15.5 (15)	4.7 (4)	8.8 (8)	22.5 (21)	18.9 (18)	35.4 (34)
1960 (Jan.-June)	111.2	16.2 (15)	17.5 (16)	-	38.7 (35)	12.8 (12)	26.1 (23)
Total	352.0	69.2 (19)	36.2 (10)	16.3 (5)	87.1 (25)	40.5 (12)	102.9 (29)

Note: Figures relate to capital issues floated in various years and not to amounts actually raised. Figures in brackets are percentages of totals.

375. It will be seen that (a) the amount underwritten increased steadily from about Rs. 21 million in 1956 to Rs. 111 million in the first half of 1960, and (b) among different underwriting institutions, brokers and banks have played a relatively more important role. These conclusions are supported by data made available by the Bombay Stock Exchange (Appendix Table 39).

376. The Bombay Stock Exchange data also indicate that the proportion of the amount underwritten to total amount issued by non-government non-financial public companies (for which information is available) increased from about 5 per cent in 1956 to 24 per cent in 1958 and was around 20 per cent in 1960. For the entire period of five years, 1956/60, the proportion was about 17 per cent. It must, however, be remembered in this context that existing public companies raise considerable amounts by way of rights issues on such attractive terms as to make underwriting unnecessary. In the case of new companies also, substantial amounts are taken up by promoters, directors, etc. and foreign participants (Table 37). In the case of issues offered to the public otherwise than by way of rights issues, therefore, the proportion of

amount underwritten to total amount issued was considerably larger than in the case of total capital issues. For example, the amount underwritten in the case of issues offered to the public during 1956/60 by newly established non-government non-financial companies (for which information is available) was a little more than half of the total amount of such issues.

377. Information available in respect of issues underwritten to the extent of Rs. 275 million since 1956 indicates that the amount taken up by underwriters declined from about 34 per cent in 1956 to 13 per cent in 1959.

378. Detailed information available in respect of important issues underwritten in recent years shows that there is a certain amount of participation among different underwriters.

379. The underwriting commission ranged from 1 to 3½ per cent in the case of a number of issues during 1956/60. The most common rate, however, appears to be 2 - 2½ per cent.

380. The largest issue underwritten so far was perhaps that of Hindustan Aluminum Corporation in 1960. The total amount of the issue was Rs. 83.5 million, of which the entire public issue of Rs. 46.6 million was underwritten by the ICICI, LIC, certain banks, an investment company and a finance company.

381. On the whole, considerable progress has been made towards developing a proper underwriting system in the country.

B. Market for Government Securities

382. To finance development programs in the public sector under the Five-Year Plans, the Central and State Governments have been raising substantial amounts by way of market loans. Total net receipts[1] from domestic government loans floated in the market in the Second Plan period (1956/61) amounted to about Rs. 7.5 billion as compared to about Rs. 1.8 billion in the First Plan period (1951/56). The total of outstanding marketable rupee loans of the Central and State Governments at the end of 1960/61 amounted to about Rs. 27.8 billion,[2] which was more than three and a half times the face value of total corporate securities listed on stock exchanges.

383. An important development in recent years has been the considerable increase in annual borrowings from the market by State Governments, their total outstanding marketable loans having increased from about Rs. 1 billion at the end of 1952/53 to Rs. 5.3 billion at the end of 1960/61.

384. The securities of the Central Government have the highest credit rating in the country while those of State Governments rank next.

1/ Gross receipts minus repayments.
2/ Exclusive of prize bonds (about Rs. 158 million).

385. The net amounts raised annually from market loans by the Central and State Governments since 1951/52 as well as the amounts absorbed by the public, that is, investors other than the Reserve Bank and Central and State Governments are shown in Appendix Table 40. Total net absorption of loans by the public (including banks) during the First Plan period is estimated at around Rs. 2.9 billion. For the Second Plan period, it is estimated at about Rs. 4.6 billion. A substantial part of the net absorption by the public during the Second Plan period was, however, accounted for by the investment of P.L. 480 counterpart funds by the State Bank of India. Allowing for this, the rest of the absorption by the public during the Second Plan period is estimated at less than Rs. 3 billion.

386. If the absorption of loans by banks over the First and the Second Plan periods is excluded altogether, the net absorption by the rest of the public would work out roughly at around Rs. 2.5 billion[1] for the First Plan period and at less than Rs. 2.7 billion for the Second Plan period.

387. Table 18 below shows the holdings of marketable government loans by various categories of investors. As at the end of March 1961, the Reserve Bank and governments together held more than one-third of the total outstanding loans. The commercial and cooperative banks held about 22 per cent of the total. The Life Insurance Corporation and other insurers (Employees' State Insurance Corporation and general insurance companies) accounted for 14 per cent and statutory provident funds (excluding Assam tea plantations' provident funds) for 8 per cent of the total. A small part was held by finance corporations, non-residents and by the Reserve Bank of India on account of others. The rest amounting to a little less than one-fifth of the total was accounted for by the category "Others", which includes non-statutory provident funds, Assam tea plantations' provident funds, charitable trusts, local authorities, joint stock companies, individuals, etc.

388. Under the statutory provisions relating to investment of funds by the financial institutions, it is compulsory for them to invest a part of their funds in government and other approved (mainly government guaranteed) securities;[2] apart from these provisions, it is in any case necessary for the financial institutions, in order to ensure a sound pattern of their assets, to invest a reasonable proportion of their funds in government securities. There is, therefore, a large assured market for government securities.

1/ It is assumed that the entire increase in treasury bills outstanding with the public was accounted for by banks.

2/ See Chapter III.

Table 18

Holdings of Marketable Loans of Central and State Governments[1]

(Rs. million)

	End of December				End of March					
	1957		1958		1959		1960		1961	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Governments	2,180	10.9	2,268	10.1	2,290	10.2	2,629	10.2	2,676	9.6
Reserve Bank of India (own account)	3,118	15.6	3,059	13.7	3,133	14.0	4,669	18.1	7,071	25.4
Commercial and cooperative banks	4,776	24.0	6,392	28.6	6,186	27.7	7,340	28.4	6,011	21.6
Insurance										
(a) Life Insurance Corporation	2,461	12.3	2,751	12.3	2,818	12.6	3,057	11.9	3,569	12.8
(b) General insurance companies	104	0.5	103	0.5	101	0.5	101	0.4	100	0.4
(c) Employees' State Insurance Corporation	133	0.7	161	0.7	166	0.7	186	0.7	191	0.7
Provident Funds										
(a) Employees' Provident Fund Scheme[2]	993	5.0	1,193	5.4	1,265	5.6	1,546	6.0	1,953	7.0
(b) Coal mines provident funds	105	0.5	141	0.6	150	0.7	186	0.7	222	0.8
Industrial Finance and State Financial Corporations	32	0.2	33	0.1	28	0.1	32	0.1	48	0.2
Reserve Bank of India - held on account of others[3]	274	1.4	326	1.5	392	1.8	412	1.6	385	1.4
Non-residents	359	1.8	339	1.5	339	1.5	345	1.3	343	1.2
Others (residual)	5,407	27.1	5,598	25.0	5,510	24.6	5,302	20.6	5,270	18.9
Total	19,942	100.0	22,364	100.0	22,378	100.0	25,805	100.0	27,839	100.0

1/ Exclusive of a non-marketable loan of Rs. 3 billion taken over by the Reserve Bank in 1958 against cancellation of ad hoc treasury bills and held by it as cover against the note issue. Prize bonds (about Rs. 158 million) are also not included.

2/ Including provident funds of "exempted" establishments, i.e., establishments which are covered under the Employees' Provident Fund Act but allowed to continue their own provident fund schemes.

3/ Securities held mostly in "Administrators' Safe Custody Deposit Account".

Source: Reserve Bank of India Bulletins for February 1960, March 1961 and April 1962.

389. Table 18 also throws light on the pattern of absorption of government loans during the period of two years and three months from January 1958 to March 1960. The details of absorption by the public excluding banks are shown below:

Table 19

Absorption of Loans by the Public Excluding Banks during the Period January 1958/March 1961

	Rs. million
Life Insurance Corporation	1108
Employees' State Insurance Corporation	58
General insurance companies	-4
Employees' Provident Fund Scheme	960
Coal mines provident funds	117
Industrial Finance and State Financial Corporations	16
Reserve Bank of India - on account of others	111
Non-residents	-16
Others (residual)	-137
Total	2213

It will be seen that the bulk of the net absorption by the public excluding banks during the period under reference was accounted for by the Life Insurance Corporation and statutory provident funds. The holdings of general insurance companies, non-residents and the category "others" showed a net decrease.

Flotation of New Loans

390. The Reserve Bank plays a very important role in the flotation of loans by the Central and State Governments. The amount of new loans to be floated each year, their maturity periods, interest rates, issue prices, etc. are determined in consultation with the Bank. Before the loans are floated, the Bank prepares the market with great care. It facilitates the redemption of maturing loans by acquiring sufficient quantities through purchases effected over a fairly long period. It also busy and sells loans of appropriate maturities so as to coordinate the yields with those proposed for new issues.

391. As the money market in India has a well-defined seasonal patter, the Central and State Governments float loans only during the slack season (May -October). The Central Government raises the loans first. Thereafter, the State Governments approach the market. All State Governments usually float their loans simultaneously. The Controller of Capital Issues does not allow joint stock companies to raise capital during the period in which governments are expected to approach the market.

392. The Reserve Bank takes up the unsubscribed portion of Central Government loans. To this extent, therefore, it acts as an underwriter. Even apart from any considerations of making up for the shortfall in public subscriptions, the Reserve Bank has to acquire a sufficient stock of Central Government loans at the time of issue so as to be able to meet the requirements of institutional investors, some of which like the Life Insurance Corporation and provident funds make investments in government securities almost throughout the year. The Reserve Bank's subscriptions to State Governments' loans are, however, generally small. Until a few years ago, the State Governments used to make underwriting arrangements in respect of their loans. In recent years, however, no State Government has resorted to underwriting. There is, of course, a good deal of canvassing by State Governments among the likely investors.

Functioning of the Market for Government Securities

393. The market for government securities is well-organized and fairly active. As the pattern of ownership of government loans indicates, it is dominated by institutional investors. The Reserve Bank itself conducts open market operations on a significant scale. While these operations usually help in reinforcing the credit policy, their more important objective is to facilitate government borrowings and maintain orderly and stable conditions in the government securities market.

394. The Reserve Bank deals through brokers on its approved list. Generally, it is an outright buyer in short-dated loans and an outright seller in new issues and long-dated loans. It also engages in "switches" involving normally purchases of short-dated loans against sales of long-dated loans.

395. The other major institutions operating in the market for government securities are commercial banks, Life Insurance Corporation and provident funds. Commercial banks generally invest in government securities during the slack season and sell such securities in the busy season to raise funds for financing movement of crops, etc. The Life Insurance Corporation and provident funds invest in government securities, as mentioned earlier, almost throughout the year.

396. In recent years, the banks and Life Insurance Corporation have shown a tendency towards entering into transactions of a large magnitude directly with the Reserve Bank, but the latter has discouraged this practice by so adjusting its price as to charge in effect a brokerage in such cases.

Treasury Bills

397. In addition to loans, Treasury Bills outstanding at the end of 1960/61 amounted to about Rs. 11.1 billion. Of these, ad hoc Treasury Bills of the value of Rs. 8.9 billion were held by the Reserve Bank of India; these ad hocs were created to replace sterling securities transferred to the U.K. Government in 1948 and thereafter for replenishing Central Government's cash balances. The bulk of the remaining Treasury Bills was held by State Govern-

ments and other approved bodies, the amount of those outstanding with the public, mainly banks, being only Rs. 291 million. There is thus no active market for Treasury Bills in India.

C. Market for Securities of Local Authorities and Other Semi-Government Bodies

398. Local authorities (port trusts, city corporations and municipalities) and other semi-government bodies like the Industrial Finance Corporation, State Financial Corporations, Electricity Boards and State Transport Corporations also raise some amounts by floating loans, debentures or bonds in the market. These securities are usually guaranteed by the government and have a very high credit rating.

399. The total amount of outstanding securities of the local authorities covered by the Reserve Bank's Survey of Borrowings and Investments of Local Authorities for 1959/60 was about Rs. 1.0 billion at the end of March 1960, as shown below:

(Amount in Rs. million)

	Number Covered[a]	Market Borrowings Outstanding at the End of March 1960
Port Trusts	4	306
City Corporations	14	690
Municipalites (with population of 0.1 million or more)	42	19
Total	60	1015

a/ Excludes some corporations and municipalities, which did not furnish the information asked for by the Reserve Bank.

Net borrowings of local authorities from the market in 1959/60 amounted to about Rs. 69 million (cash subscriptions Rs. 95 million less repayments Rs. 26 million), the entire amount of borrowings being accounted for by one port trust and four city corporations.

400. About 48 per cent of the total outstanding loans of local authorities at the end of March 1960, was held by local authorities themselves (almost wholly by port trusts and city corporations). The bulk of the rest was held by the Life Insurance Corporation.[1]

401. The total amount of outstanding bonds of the Industrial Finance Corporation at the end of June 1962 was about Rs. 222 million. The bulk of this amount was accounted for by the Reserve Bank, commercial banks, Life Insurance Corporation, and other insurance companies. The securities of other semi-government bodies would also appear to have been absorbed mainly by institutional investors.

1/ The Life Insurance Corporation's holdings of securities of all local authorities amounted to approximately Rs. 400 million at the end of 1959.

D. Market for Debentures of Land Mortgage Banks

402. Mention may also be made of debentures issued by land mortgage banks. The amount raised in 1960/61 and 1961/62 by floating such debentures was about Rs. 68 million and Rs. 153 million respectively (without deducting repayments).

403. The debentures, which are generally guaranteed by the State Governments concerned, are of two types: (a) ordinary debentures and (b) rural debentures. Ordinary debentures are floated mostly for a period of 15 years or more and offer interest at rates slightly higher than those in the case of government loans, i.e., generally up to $4\frac{1}{2}$ per cent per annum. They are taken up mainly by institutional investors like cooperative banks and societies, commercial banks and the Life Insurance Corporation. The Reserve Bank's policy has been to take up, if necessary, up to 20 per cent of the amount of such debentures, but, in actual practice, it has been required only to subscribe to a much smaller part of total issues in recent years.

404. Rural debentures were introduced for the first time in 1957/58. They are issued mainly with the object of mobilizing rural savings. Each issue of rural debentures is split up in two parts, one for 7 years to be offered exclusively to individuals and the other for 15 years to be offered exclusively to the Reserve Bank. Debentures offered to individuals yield $4\frac{1}{2}$ - 5 per cent per annum. To keep down the average rate of interest on rural debentures, the Reserve Bank had agreed to accept a lower rate on those taken up by it.

405. The amount of rural debentures floated so far has, however, been relatively small. For example, subscriptions to such debentures totalled only Rs. 13.3 million in 1961/62. Of this total amount of Rs. 13.3 million, Rs. 6.2 million was subscribed by the public and the remaining amount represented the Reserve Bank's contribution.

CHAPTER VII

Structure of Interest Rates and Capital Yields

406. During World War II and the immediate postwar period, interest rates in the organized money and capital markets in India remained generally low in pursuance of the cheap money policy. From 1947 onwards, however, the rates tended to harden. Following the outbreak of the Korean War in June 1950, there was a considerable increase in the demand for funds and money market conditions became abnormally stringent. As a result, the bank rate, which had remained practically unchanged at 3 per cent since the inception of the Reserve Bank of India in 1935, was raised to 3½ per cent in November 1951.1/ This led to an immediate increase in money rates by ½ per cent, and, as the busy season progressed, the rates hardened further.2/ The policy of price support to the market for government securities was also revised. This, together with the change in bank rate, led to a fall in the prices of government securities and, consequently, an increase in their yields. For example, the yield on the Central Government loan maturing in 1986 or later increased from about 3.2 per cent in October 1951 to 3.7 per cent in December 1951.

407. After a period of relative stability, interest rates tended to rise again, and in May 1957, the bank rate was raised to 4 per cent.

408. Since May 1957, the bank rate has remained formally unchanged at 4 per cent. But, as part of the policy of credit control, the Reserve Bank raised as from October 1960 the cost of scheduled banks' borrowings from it by instituting a system of graduated interest rates. The scheduled banks were also directed to adhere to a minimum lending rate of 5 per cent per annum on all advances except those to other banks and bank employees, and, in addition, to raise their average lending rates at least by ½ per cent per annum, the base period for comparison being the year ended June 1960.3/ As a result, there has been an increase in the lending rates of

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1/ Bank rate refers to the basic rate at which the central bank makes available short-term credit to scheduled banks against government securities, eligible bills, etc. In January 1952, the Reserve Bank introduced a scheme for providing credit to scheduled banks at a concessional rate against usance bills created for the purpose, so that the effective cost of scheduled banks' borrowings from the Reserve Bank did not increase as much as indicated by the change in bank rate.

2/ Reserve Bank of India Report on Currency and Finance for 1951/52, p. 51.

3/ Banks whose average lending rates were 9 per cent or more per annum on June 30, 1960, were later exempted from the stipulation with respect to the raising of average rates.

commercial banks. For example, the average annual rate of interest on scheduled banks advances was about 6.5 per cent during the half year ended December 1961 as compared to 5.8 per cent in the first half of 1960. Interest rates on bank deposits have also been revised upwards. At the same time, the yields on government bonds, industrial debentures and preference shares have edged up a little (Table 20 below). The yield on ordinary shares, as measured by the ratio of dividends to market prices has, on the other hand, shown a decrease. This is explained mainly by the fact that investors have been increasingly attracted to equities in recent years by the prospects of capital gains, protection offered against erosion of the real value of capital through creeping inflation, etc.

Table 20

Average Yields on Securities after deduction of tax a/

Year or Month	Central Govt. Securities: 3% Conversion Loan 1986 or later	Central Govt. Securities: Others b/	Debentures	Preference Shares	Variable Dividend Securities
1959/60 c/	2.84	2.59	3.97	5.44	5.27
1960/61	2.85	2.68	4.11	5.32	4.88
1961/62	2.91	2.71	4.15	5.64	4.68
June 1962	2.96	2.78	4.36	4.83	4.68

a/ Income tax at the maximum rate and surcharge (aggregating roughly 30 per cent of the taxable yields) have been deducted in calculating the yields shown sbove. The yields for persons whose total incomes are below the exemption limit fixed for income tax purposes, as well as for those whose incomes are not assessable at the maximum rate of income tax, are, therefore, higher than indicated above.

b/ Average of four loans.

c/ Average of nine months.

Source: Reserve Bank of India Bulletin, July 1962.

409. Since July 1962, there has been some further upward adjustment of interest rates. As a result of a revision since July 2, 1962 of the system of graduated interest rates on scheduled banks' borrowings from the Reserve Bank, the amounts which the banks can borrow at the bank rate of 4 per cent have been reduced considerably and additional borrowings have become more costly (see below). The Life Insurance Corporation has raised the rate of interest on loans under its general scheme of mortgage lending

by ½ per cent per annum. The Industrial Finance Corporation has also raised its rate of interest on rupee loans by ½ per annum and the Industrial Credit and Investment Corporation of India has decided to raise its rates by ½ per cent per annum in the case of rupee loans and by roughly ¼ per cent in the case of foreign exchange loans. Interest on post office savings bank deposits has been raised by ½ per cent per annum. The redemption yields offered on Government loans floated in July and August 1962 were also higher by about 0.25 - 0.4 per cent per annum as compared to those offered on loans floated in the previous year.1/

410. Nevertheless, the general level of interest rates in the organized sector of the economy continues to be lower than in many other developing countries in which capital is scarce. On the other hand, the rates in the unorganized sector, that is, those charged by indigenous bankers and money lenders, are high, and at times very high, especially in rural areas, although there appears to have been some decrease in these rates over the past few years primarily as a result of the expansion of the operations of cooperative credit societies.

Pattern of Interest Rates and Capital Yields

411. The broad pattern of interest rates and capital yields (gross of taxes) is shown in the following table:

1/ Except in the case of one loan of the Central Government, the maturity periods of the loans floated in 1962 were longer by 1-3 years as compared to those in the previous year.

Table 21

Interest Rates and Capital Yields at the End of July 1962

	Per Cent Per Annum
Rates on loans of scheduled banks:	
(a) Average rate on short-term advances	$6\frac{1}{2}$ 1/
(b) Rates on medium-term loans to first class concerns	$6\frac{1}{2}$-7
Rates on deposits of larger scheduled banks (other than the State Bank):	
(a) Savings deposits	3
(b) Deposits for 61-90 days	$3\frac{1}{2}$
(c) Deposits for 1 year or more but for less than 2 years	4
(d) Deposits for 5 years or more	5
Rates on long-term loans of financial institutions:	
(a) Industrial Finance Corporation (rupee loans)	7
(b) Industrial Credit and Investment Corporation (rupee loans)	7
(c) Life Insurance Corporation (mortgage loans)	6-7
(d) State Financial Corporations	6-7
Rates charged usually by cooperative credit societies on short and medium-term loans	6-9 3/8 2/
Yield on government and semi-government bonds maturing after 6 years or more:	
(a) Bonds of the Central Government	3.8 - 4.3 3/
(b) Bonds of State Governments	4.1 - 4.5
(c) Bonds of local authorities and other semi-government bodies	4.1 - 4.8
Average yield on corporate securities:	
(a) Debentures	5.9 4/
(b) Preference shares	8.1 4/
(c) Ordinary shares	6.7 4/
Rates generally charged by moneylenders	12 - 25

1/ Relates to the half-year ended December 1961.
2/ Relate to the year ended June 1961.
3/ Average for July 1962.
4/ Represents average annual yield in the fiscal year 1961/62.

The position is brought out in greater detail in the following sections.

Rates of Interest Charged by Commercial Banks

412. The rates of interest charged by commercial banks on loans and advances vary generally with the type of security offered, status of borrower, purpose of loans, maturity period, etc. The table below shows the distribution of loans and advances of 14 selected banks by interest rate charges as at the end of 1961.

Table 22

Loans and Advances of 14 Selected Banks[1/] by Rates of Interest at the end of 1961

Rate of Interest (per cent)	Amount of Loans and Advances (Rs. million)	Proportion of Total (per cent)
Up to 5 (inclusive)	1178	12.5
More than 5-6 (inclusive)	3341	37.8
More than 6-7 (inclusive)	3103	35.2
Over 7	1200	13.6
	8822	100.0

1/ These banks accounted for 77.7 per cent of the total loans and advances of scheduled banks. Loans and advances include money at call and short notice and due from banks but exclude bills purchased and discounted.

Source: Reserve Bank of India.

It will be seen that a little less than three-fourths of the total loans and advances were contracted at rates of interest ranging from over 5 per cent per annum to 7 per cent per annum. Loans carrying interest rates of more than 7 per cent per annum constituted less than one-seventh of the total.

413. As already mentioned, the Reserve Bank has prescribed the minimum lending rate for scheduled banks. No limits have been fixed for maximum rates. Competition among banks is, however, very keen and this tends to keep down their normal lending rates.

414. By tradition, the State Bank of India generally charges somewhat lower rates as compared to those of other major scheduled banks. Its prime rate, i.e., the rate which it charges to borrowers of the highest standing, is 5 per cent per annum, which is the minimum prescribed by the Reserve Bank for scheduled banks.

415. The average annual rate of interest on loans and advances of all schedule banks works out at about 6.5 per cent for the half-year ended December 1961 as compared to 6 per cent for the half-year ended December 1960 and 5.8 per cent for the first half of 1960.

416. Data available by size of banks indicate that the average rate of interest on loans and advances of smaller banks is higher than on those of larger banks. For example, the average rate during the half-year ended June 1960 was about 7 per cent in the case of scheduled banks having deposits of less than Rs. 50 million each as compared to 5.4 per cent in the case of those having deposits of Rs. 1 billion or more each. In the case of non-scheduled banks, the average rate was about 9 per cent in 1959.

417. The average rate of discount on bills is higher than the average rate of interest on loans and advances, the difference being especially marked in the case of foreign bills. For example, the average rate of discount of scheduled banks in the half-year ended June 1960 was about 6.3 per cent in the case of inland bills and 8.4 per cent in the case of foreign bills. The higher rate of discount on foreign bills is explained partly by such factors as the inclusion of commission on exchange transactions, inclusion of interest on overdue bills, etc.

418. The scheduled banks can obtain short-term advances from the Reserve Bank against eligible securities, bills,1/ etc. Normally, banks borrow substantial funds from the Reserve Bank during the busy season (November to April) in order to finance a part of their credit expansion. However, in the slack season (May-October), when bank credit against agricultural commodities contracts, the outstanding amount of the Reserve Bank's advances drops to a low level. As already mentioned, the Reserve Bank has instituted since October 1960 a system of graduated interest rates on scheduled banks' borrowings from it. Each scheduled bank is assigned a quota for each quarter for borrowing at the bank rate of 4 per cent. Up to July 1, 1962, this quota was equal to 50 per cent of the average of the statutory reserves required to be kept by each bank with the Reserve Bank in the previous quarter against its demand and time liabilities. Additional borrowings not exceeding an equal amount were charged at the rate of 5 per cent while further additional borrowings were charged at the rate of 6 per cent. The system has, however, been revised starting July 2,

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1/ The banks usually do not rediscount bills with the Reserve Bank but lodge them as security against advances.

1962, in order to tighten somewhat further the conditions for borrowing by the scheduled banks from the Reserve Bank. Under the revised system, the amounts which a scheduled bank can borrow in a quarter at the bank rate of 4 per cent are limited to 25 per cent of the average of the statutory reserves required to be kept by it with the Reserve Bank in the preceding quarter, the additional borrowings being charged at the rates of 5-6½ per cent.

419. The average rate of interest charged by the Reserve Bank on scheduled banks' borrowings outstanding at the end of March 1961 was 5.46 per cent, which indicates that borrowings at the slab rate of 6 per cent[1] were not of an insignificant order during the busy season of 1960/61.[2]

420. As stated in Chapter II, medium-term loans by specified banks and other financial institutions to medium and small size industries are eligible, subject to certain conditions, for refinancing by the Refinance Corporation at the rate of 5 per cent per annum. Initially, the banks were required to charge generally 6½ per cent on loans refinanced by the Corporation. In 1960, however, the banks were given the discretion to charge appropriate rates of interest on such loans, subject to review by the Corporation.

Rates of Interest Charged on Long and Medium-Term Loans by Special Finance Corporations

421. As stated earlier, the Industrial Finance Corporation has recently raised its rate of interest on rupee loans by ½ per cent per annum. It now charges 7½ per cent per annum on such loans but allows a rebate of ½ per cent for repayment of principal and payment of interest on due dates. The effective rate of interest on rupee loans is thus 7 per cent per annum. On dollar loans made available out of the credit received from the D.L.F., the effective rate of interest is 7-3/4 per cent per annum plus ¼ per cent per annum for incidental expenditure.

422. Until recently, the Industrial Credit and Investment Corporation generally charged 6½ per cent per annum on rupee loans and 7-3/4 per cent plus a non-recurring fee of ¼ per cent on foreign exchange loans. In August 1962, the Corporation decided to raise its rate of interest to 7 per cent per annum on rupee loans and to 8 per cent per annum on foreign exchange loans.[3]

1/ As mentioned earlier, the highest slab rate up to July 1, 1962 was 6 per cent.

2/ The average rate of interest charged by the Reserve Bank on scheduled banks' borrowings outstanding on March 30, 1962 was 4.84 per cent. This indicates that the scheduled banks' total borrowings from the Reserve Bank in the busy season of 1961/62 were much smaller than in the preceding busy season.

3/ The non-recurring fee of ¼ per cent, which the Corporation had been charging on foreign exchange loans, has been discontinued.

423. The National Industrial Development Corporation charges 7½ per cent per annum on loans to the cotton textile and jute industries but allows a rebate of 1½ per cent for payment of interest and repayment of principal by due dates.1/ The effective rate of interest on loans to the cotton textile and jute industries is thus 6 per cent. In addition, the Corporation charges a non-recurring fee of ½ per cent. The rate of interest charged on loans to the machine tools industry is a little lower.

424. The effective rates (i.e., after taking into account rebates) charged by State Financial Corporations generally range from 6 per cent to 7 per cent per annum.2/ The National Small Industries Corporation charges interest at rates ranging from 3½ - 6 per cent per annum in the case of supply of machinery to small industries on a hire-purchase basis. In addition, it levies a service charge at the rate of 5 per cent of the value of machinery supplied.

Rates of Interest Charged by the Life Insurance Corporation on Mortgage and Housing Loans

425. The rate of interest charged by the Life Insurance Corporation on mortgage loans in general is 8 per cent per annum, but a rebate of 1 per cent is allowed for punctual payment of the instalments of principal and interest. The rate of interest on housing loans to policy holders is 7 per cent per annum with a rebate of ½ per cent for punctual payment. The scheme for granting loans to housing cooperative societies of employees of public limited companies (on guarantee by companies as to repayment of principal and interest) provides that the rate of interest will not be less than 6½ per cent per annum with a rebate of ½ per cent for punctual payment (housing cooperatives of employees of the Corporation are, however, charged a much lower rate of interest).

Rates of Interest Charged on Loans by Cooperative Credit Institutions

426. The lending rates of primary cooperative societies, which provide most of the credit to ultimate borrowers (agriculturists, artisans, etc.), differ from place to place. The usual rates in 1960/61 ranged mostly from 6 per cent to 9-3/8 per cent. As mentioned elsewhere,3/ a large part of the funds lent by cooperative societies is made available by the Reserve Bank at concessional rates of interest through the state and central cooperative banks. The Reserve Bank charges the state cooperative banks 2 per cent per annum on short-term loans for agricultural operations

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1/ Up to July 30, 1960, the rebate was being allowed at the rate of 2½ per cent.

2/ Loans made out of State Governments' funds under agency arrangements carry much lower rates of interest.

3/ See Chapters II and VIII.

and marketing, $2\frac{1}{2}$ per cent on medium-term loans for agricultural purposes[1] and short-term loans for the production and marketing of handloom goods, and 4 per cent on all other loans. The state cooperative banks generally charge higher rates of interest on loans to central cooperative banks, which, in turn, generally charge higher rates on loans to primary societies.

Interest on Deposits with Commercial Banks

427. The maximum rates of interest payable on deposits by the larger banks, except the State Bank of India, and certain other scheduled banks are fixed by an inter-bank agreement. Such an agreement came into operation for the first time in October, 1958. Since then, it has been revised on five occasions. The maximum rates effective at present range from 3 per cent on saving deposits and term deposits of 3 - 30 days to 5 per cent per annum on deposits for 5 years or more. Banks having deposits of not more than Rs. 500 million are allowed to pay slightly higher rates on term deposits.

428. In the last 2 years the rates of interest actually paid on savings and term deposits by the major scheduled banks, except the State Bank of India, have been generally around the ceiling levels. As a matter of convention, the State Bank of India usually offers somewhat lower rates of interest. The smaller banks, on the other hand, pay, on an average, somewhat higher rates of interest.

Rates of Interest on Deposits of Cooperative Institutions

429. The rates of interest offered on deposits by the state and central cooperative banks are generally influenced by those of scheduled banks. In a number of cases, however, the former tend to be lower than the latter.

430. The rates offered on deposits by primary cooperative societies vary from place to place. According to information made available by the Madras State Cooperative Bank, the rates in Madras in 1961 generally ranged from $3\frac{1}{2}$ to $5\frac{1}{2}$ per cent on fixed deposits for different periods. One urban bank in Madras paid as much as 6 per cent on deposits for 5 years.

Rates of Interest on Small Savings

431. The rates of interest on small savings range from $2\frac{1}{2}$ - 3 per cent on savings deposits to 4.3 per cent (compound) on a 15-year account under the Cumulative Time Deposits Scheme. Interest on small savings is, however, free of income tax and super tax and some further relief from taxation

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1/ Before November 1960, the Reserve Bank charged only 2 per cent per annum on medium-term loans for agricultural purposes.

is provided in respect of investments in small savings.[1/] The gross yield from small savings for those whose incomes are assessable to tax is, therefore, much larger than indicated above, the extent of difference in each case depending on the size of the income.

Rate of Interest on Treasury Bills

432. The average rate of interest on 91 days treasury bills was about 2.6 per cent per annum in 1961/62.

Rate of Interest on Government Loans

433. The coupon rate of interest on loans raised by the Central Government in 1962 ranged from 3-3/4 per cent per annum on that maturing after 6 years to 4½ per cent on that maturing after 23 years. As the loan maturing after 6 years was issued at a small discount, the redemption yield on it was slightly higher. On the basis of prevailing market prices, the actual yield on Central Government bonds ranges from about 3.8 per cent on those maturing after 6 years to 4.3 per cent on those maturing in 1986 or later. The nominal as well as the actual rates of interest on State Governments' loans are somewhat higher than in the case of Central Government loans of a corresponding maturity. For instance, the coupon rate of interest on State Governments' loans floated in 1962 with a maturity period of 12 years was 4½ per cent per annum. These loans were offered either at par or at a small discount, so that the redemption yields ranged from 4.5 per cent to 4.55 per cent.

Rate of Interest on Semi-Government Loans and Debentures

434. Loans and debentures of local authorities and other semi-government bodies, like the Industrial Finance Corporation, State Financial Corporations, State Electricity Boards, etc., are usually guaranteed by the government and the coupon rates of interest offered on such loans and debentures in recent years have ranged mostly from 4 per cent to 4-3/4 per cent per annum.

Rate of Interest on Debentures of Joint Stock Companies

435. The rate of interest on debentures issued by joint stock companies over the period January 1957 through June 1960 was 6-6½ per cent per annum in a large number of cases. The debentures were usually issued at par and the maturity period was mostly 8 - 16 years. Smaller concerns generally offered higher rates of interest, and in the case of a few very small issues the rates amounted to 6½-7½ per cent, tax-free, that is, 9.3-10.7

1/ As mentioned in Chapter II, investments in small savings are exempt from wealth tax. Further, a person can claim (within certain limits) tax deduction in respect of deposits in the 10-year and 15-year accounts under the Cumulative Time Deposits Scheme.

per cent gross. In the case of three issues, on the other hand, the rate of interest ranged between 5-5½ per cent per annum gross.

436. As indicated earlier, the yield on debentures has shown some increase over the last two or three years. The average (weighted) yield in 1961/62 was about 4.2 per cent tax-free, or roughly 5.9 per cent gross, as compared to 4 per cent tax-free or 5.7 per cent gross in 1959/60. By June 1962, the average yield increased to approximately 4.4 per cent tax-free, or about 6.2 per cent gross.

437. It must, however, be borne in mind that the market for debentures is very thin and that a substantial part of the holdings of debentures is accounted for by institutional investors.1/ As debentures are a close substitute for government securities, the yields on the former are influenced to a significant extent by those on the latter.

Yield on Preference Shares

438. In the case of new issues of preference shares over the period January 1957 - June 1960, the rate of dividend generally ranged from 6 per cent to 7 per cent, tax-free, i.e. between 8.6 per cent and 10 per cent gross. The Reserve Bank data place the average weighted tax-free yield on preference shares on the basis of market prices at about 5.4 per cent for 1959/60, 5.3 per cent for 1960/61, and at 5.6 per cent for 1961/62. In June 1962, it was 5.8 per cent. The gross yield works out roughly at 8.1 per cent for 1961/62 and at 8.3 per cent for June 1962. Data for individual industries indicate that the average yield in 1961/62 was over 9.5 per cent gross in the sugar, jute textiles and coal industries. On the other hand, it was lower than the overall average in the general engineering, iron and steel, electricity and chemical industries.

Yield on Ordinary Shares

439. The average yield on ordinary shares of joint stock companies in 1961/62, as measured by the ratio of dividends to market prices, ranged from about 2.9 per cent tax-free, or a little more than 4 per cent gross, in the silk and woollen industries to 7.1 per cent tax-free, or about 10.1 per cent gross, in the case of general insurance companies. The overall average was about 4.7 per cent tax-free, or about 6.7 per cent gross.2/ The dividend-price ratios, however, do not reflect fully the actual returns on equity capital as a part of profits is retained by enterprises and security prices are influenced not only by considerations

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1/ See Chapter VI.
2/ In June 1962 also, the overall average was about the same as for the fiscal year 1961/62.

of current profits and dividends but also by prospects of future increases in them. The actual returns on equities are, therefore, generally higher than indicated by dividend-price ratios. A significant part of the returns, of course, represents premiums for risk-taking. On the other hand, allowance must be made for the fact that equities provide an automatic cover against the erosion of the real value of investment through inflation.

440. The trend of profits and dividends in recent years in the case of 1001 non-government public limited companies covered by the Reserve Bank's latest review of finances of large and medium-size companies is shown in Table 23. The figures of profits after tax and dividends for 1958, 1959 and 1960 are, however, not comparable with those for earlier years, since, as a result of a change in the system of company taxation, dividends declared by companies whose accounting years ended after March 1959 are subject to tax in the hands of shareholders whereas the dividends shown for the period 1955-57 are free of income tax.

Table 23

Trend of Profits and Dividends in the Case of 1001 Non-Government Non-Financial Public Limited Companies1/

	1955	1956	1957	1958	1959	1960
Profits before tax2/ (Rs. million)	1185	1313	1087	1226	1634	1877
Profits after tax (Rs. million)	681	725	569	660	1037	1157
Dividends (Rs. million)	391	427	428	472	645	712
Retained profits (Rs. million)	290	298	141	188	392	445
Profits before tax as percentage of net worth3/	15.7	15.9	12.4	13.3	16.6	17.6
Profits after tax as percentage of net worth3/	9.0	8.8	6.5	7.2	10.5	10.8
Dividends on ordinary shares as percentage of paid-up capital4/	8.9	9.4	8.7	9.0	11.8	n.a.
Dividends on preference shares as percentage of paid-up capital4/	5.5	4.6	4.6	5.2	6.6	n.a.
Dividends on ordinary as well as preference shares as percentage of paid-up capital5/	8.3	8.5	8.0	8.3	10.9	11.6

1/ These companies accounted for about 78 per cent of the paid-up capital of non-government non-financial public companies. Data for each year relate to the accounting years of companies that ended during a period of 12 months commencing from July 1 of the year indicated.
2/ After allowing for depreciation.
3/ Paid-up capital plus free reserves.
4/ Paid-up capital includes capitalized reserves. Data relate to 1001 companies selected for review of finances for the year 1959. This is, however, not expected to make any material difference to the position.
5/ Including capitalized reserves.
Source: Reserve Bank of India Bulletin for September, 1961.

441. As the above table shows, profits showed a large decline in 1957. The ratio of dividends on ordinary shares to paid-up capital also decreased somewhat, but the total amount of dividends was of the same order as in the preceding year. Retained profits, on the other hand, showed a sharp drop. Profits, however, recovered to some extent in 1958 and showed a marked rise in 1959. In 1960, they recorded a further substantial increase. Retained profits were also of a fairly large order in 1959 and 1960, being on the average about 38 per cent of aggregate profits after tax.

Interest Rates in the Unorganized Sector

442. The rates of interest charged by indigenous bankers and moneylenders, particularly in rural areas, are naturally much higher than those prevailing in the organized sector. The rate at which indigenous bankers discount the bills of small traders (i.e. the "bazaar" bill rate) was generally 12 per cent in Bombay and around 14 per cent in Madras in 1961. The rates of interest charged by moneylenders in rural areas range generally between 12 per cent and 25 per cent per annum, although in certain parts of the country they are as high as 35 per cent per annum and at times even more. The laws in various States prescribe the maximum rates of interest which may be charged by moneylenders, but these rates are evaded in several ways. Over the past few years, however, there appears to have been some decrease in the moneylenders' rates due mainly to the expansion of the operations of cooperative credit societies.

443. The higher rates of interest in the unorganized sector are explained partly by such factors as the higher risk involved, small size of loans, flexibility of terms, etc. and partly by the relative scarcity of funds in relation to demand for them. It has also to be remembered that moneylenders provide loans to a substantial extent for consumption purposes like expenditure on clothes, marriages, medical treatment, education, etc.

CHAPTER VIII

Role of the Central Bank in the Capital Market

444. The primary function of the Reserve Bank of India (central bank) is to regulate the monetary system of the country so as to promote the maintenance of economic stability and to assist the growth of the economy within the framework of the general economic policy of the government.[1] It manages note issue,[2] controls and regulates banking and credit, acts as banker to the Central and State Governments, administers foreign exchange control and plays an important role in the maintenance of the exchange value of the rupee. In addition, it performs a variety of developmental and promotional functions with a view to expanding the institutional facilities for financing not only trade and commerce but also agriculture and industry.

445. Brief reference to the activities of the Reserve Bank in the capital market has been made in the relevant chapters; a more complete account is, however, given below.

Regulation of Credit

446. An important objective of credit policy in recent years has been to curb inflationary pressures in the economy without affecting the availability of finance for essential needs which are on the increase. The policy, therefore, has been one of "controlled expansion" of credit.

447. To regulate credit, the Reserve Bank possesses the usual instruments of general credit restraint such as changes in the bank rate, open market operations, variation of reserves which commercial banks are required to maintain with it as well as extensive powers of selective credit control. It can also regulate directly the lending rates of commercial banks. In addition, it uses the method of moral persuasion; since the bulk of the deposits is held by about a dozen banks (including the State Bank of India, the bulk of whose capital is held by the Reserve Bank), it is possible for the Reserve Bank to achieve some results through persuasion.

448. Bank rate changes have not been frequent in India. In fact, they are regarded as symptomatic of fundamental shifts in the pattern of interest rates.[3] The bank rate in force at present, viz. 4 per cent per annum, has remained unchanged since May 1957, but the effective cost of borrowing by commercial banks from the Reserve Bank has been raised significantly since October 1960 as a result of the introduction of a system of graded interest rates on such borrowings. Further, the Reserve Bank also issued a directive to scheduled banks to raise their lending rates (see Chapter VII).

1/ The Reserve Bank of India, Functionas and Working, 1959, page 7.

2/ One rupee notes are issued by the Government. Notes of other denominations are issued exclusively by the Reserve Bank.

3/ See speech of the Governor of the Reserve Bank at the Annual General Meeting of the Indian Institute of Bankers on August 10, 1961. Published in Reserve Bank of India Bulletin for August, 1961.

449. Open market operations are confined mainly to government bonds as there is hardly any market for treasury bills (see Chapter VI). There is no restriction as to either the quantity or the maturity of government securities which the Reserve Bank can hold. At the end of March 1960, the Bank had an investment portfolio (exclusive of ad hoc treasury bills and non-marketable securities) of about Rs. 3.5 billion, the bulk of which was in the form of central government securities. It is replenished from time to time by subscriptions to new loans at the time of their flotation, creation of special issues by the government, etc.

450. As mentioned in Chapter VI, the more important objective of open market operations in India is to maintain orderly conditions in the government securities market and facilitate government's borrowing and refunding operations. These operations, therefore, play only a limited role in regulating credit supply.

451. The scheduled banks are required to maintain with the Reserve Bank a minimum cash reserve of 5 per cent of their demand liabilities and 2 per cent of their time liabilities.[1] The Bank has the power to vary these requirements between 5 per cent and 20 per cent in respect of demand liabilities and between 2 per cent and 8 per cent in respect of time liabilities. Further, the Bank can require scheduled banks to maintain with it, subject to the limits just mentioned, additional reserves computed with reference to the increase in their demand and time liabilities after a certain date.

452. The device of variable reserves was used for the first time in 1960. The scheduled banks were directed to maintain with the Reserve Bank additional reserves equal to 25 per cent of the increase in their total liabilities (demand as well as time) after March 11, 1960. Later, the proportion was raised to 50 per cent in the case of the increase in liabilities from May 6, 1960 onwards. The additional reserve requirement was, however, withdrawn in two stages in the following busy season (November 1960 - April 1961).

453. Selective credit controls, which seek to regulate the use of credit for certain specific purposes, have been operated systematically since about the middle of 1956. They have been used fairly widely, primarily in respect of advances against foodgrains and other selected commodities like sugar, groundnuts, cotton textiles, raw jute and jute textiles and advances against shares. In a number of instances, they have helped significantly in checking speculative hoarding of commodities.

454. In the busy season (usually November - April), commercial banks finance a substantial proportion of their credit expansion by resort to short-term borrowing from the Reserve Bank against government securities, eligible bills, etc. (As mentioned in Chapter VII, the outstanding amount of

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1/ A non-scheduled bank is also required to maintain a minimum cash reserve of 5 per cent of its demand liabilities and 2 per cent of its time liabilities either with itself or with the Reserve Bank, or both.

Reserve Bank's advances drops to a low level in the slack season when bank credit against agricultural commodities shows a contraction). Between November 24, 1961 and March 30, 1962, net borrowings of scheduled banks from the Reserve Bank amounted to about Rs. 507 million, or 28 per cent of their credit expansion during that period. In the corresponding period of 1960/61, the scheduled banks financed about 37 per cent of their credit expansion by borrowings from the Reserve Bank. This dependence of scheduled banks on borrowings from the Reserve Bank enables the latter to exercise more effective control over bank credit.

455. The dependence on the Reserve Bank for financing credit expansion is very large in the case of cooperative institutions (see below); correspondingly, the Reserve Bank is in a position to exercise much greater influence on the lending policies of these institutions. However, in view of the inadequacy of credit facilities for agriculture, small industries, etc., the policy in the field of cooperative finance has been one of large scale expansion.

456. Mention may be made here of two factors which limit to some extent the role of money and credit policies in India. These are: (a) existence of a large non-monetized sector, and (b) existence of an unorganized credit sector (within the monetized sector). According to a rough estimate, the non-monetized sector comprising output consumed by producers themselves or involved in payments in kind perhaps represents one-third of the economy.1/ The unorganized credit sector is also, as mentioned elsewhere, of fairly large dimensions. The relative importance of non-monetized sector as well as the unorganized credit sector has, however, been diminishing steadily. Besides, as mentioned in Chapter II, the links between the unorganized sector and the organized sector of money and capital markets are growing, so that the forces operating in the organized sector have some impact on activities in the unorganized sector as well.

457. The Reserve Bank also provides credit to the government, mainly against issue of ad hoc treasury bills.2/ There is no statutory limit on the extension of credit by the Bank to the government.

1/ The Role of Monetary Policy in a Developing Economy by Dr. B.K. Madan. Reserve Bank of India Bulletin, April 1961, p. 531.

2/ As mentioned in Chapter IV, a part of the Reserve Bank's holdings of treasury bills has been replaced in recent years by long-term securities,

Control, Supervision and Development of Banking

458. Besides powers of credit regulation, the Reserve Bank has wide powers for control and supervision of commercial banks.

459. A commercial bank has to obtain a license from the Reserve Bank for carrying on or commencing banking business in India.1/ Banks already in operation at the time of commencement of the Banking Companies Act of 1949 are allowed to carry on banking business until a license is refused to them. The main object of this requirement is to ensure continuance and growth only of banks operating along sound lines and discourage indiscriminate establishment of banks. As at the end of June 1961, the total number of banks which had licenses was 65. These banks, together with the State Bank of India and its subsidiaries, which do not require a license, accounted for about 96 per cent of the total deposits of all commercial banks working in the country. Licenses had been refused to 138 banks, mostly non-scheduled banks, by the end of June 1961.

460. The Reserve Bank also exercises control over expansion of bank branches. Banks have to obtain permission of the Reserve Bank for opening new branches or changing the location of the existing ones. The Reserve Bank's policy in this respect is guided by the general objective of extending banking facilities to areas where they are not available or are inadequate, e.g., rural and semi-urban areas.

461. Among other powers of the Reserve Bank, the most important is that of inspection of banks. The primary object of inspection is to help banks develop sound banking traditions by inviting their attention to defects in their working. In the course of inspection, the Reserve Bank examines a bank's affairs with particular reference to the methods of operation, investments and lending policies, state of assets, quality of management, extent to which it has complied with statutory provisions, etc.

462. Alongside control and supervision, the Reserve Bank has been giving increasing attention in recent years to the development aspect of banking. An important step in this direction was, as mentioned elsewhere, the establishment of the State Bank of India, which is contributing significantly to wider extension of banking facilities. In addition, the Bank has sought to promote banking development through progressive extension of remittance facilities available to banks.

463. To strengthen the banking structure, the Reserve Bank has been encouraging voluntary amalgamation of banks in suitable cases. In 1960, the Bank was empowered to formulate, with Government approval, schemes for compulsory reorganization and amalgamation of banks. As the framing of a scheme of reorganization or amalgamation generally requires a reasonable

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1/ The Reserve Bank also advises the Central Government on applications received from banking and investment companies for issue of capital.

period for investigation into the affairs of a bank, consultations, etc., the Reserve Bank has first to approach the Central Government for the issue of an order for the suspension of business (subject to certain exceptions, e.g., limited payments to depositors) by the bank concerned. In 1960 and 1961, such orders were issued in the case of 38 banks.[1] Of these banks, 30 were amalgamated with other banks and one was allowed to go into liquidation. Four banks were ordered (by court) to be wound up. In the case of two banks, the orders for the suspension of business were withdrawn on the guarantee of their Directors for making payments to the depositors from their personal assets, if necessary. The future set-up of one bank was under consideration.[2]

464. Over the past decade, while deposits of banks have recorded a marked expansion, the total of their paid-up capital and reserves has shown only a moderate increase. As a result, the ratio of paid-up capital and reserves of banks to their deposits has shown a large decline, being about 5 per cent in the case of scheduled banks in 1960 as compared to 9 per cent in 1950. The liquidity ratio (ratio of liquid assets to deposits) has also declined progressively in recent years. The Reserve Bank has, therefore, formulated proposals for: (a) strengthening the capital funds of banks, and (b) raising cash and liquidity requirements in their case.[3] The first proposal has already reached the implementation stage. In a letter addressed to scheduled banks (in December 1961)[4] the Governor of the Reserve Bank has asked them to observe the convention of transferring at least 20 per cent of their declared profits to published reserves till such time as the published reserves and paid-up capital reach at least 6 per cent of deposits.[5] Further, it has been suggested that banks having a smaller ratio of capital funds to deposits should attempt to raise additional capital from the market, and where possible, by making calls on unpaid capital.

465. The Reserve Bank is also closely associated with the recently set up Deposit Insurance Corporation. The entire capital of Rs. 10 million of the Corporation has been subscribed by the Reserve Bank and the Governor of the Bank is the Chairman of the Corporation.

Development of the Market for Government Securities

466. The role of the Reserve Bank in the market for government securities has been dealt with in detail in Chapter VI. Briefly, the Bank has made a significant contribution to the development of this market by maintaining

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1/ The deposits of these banks amounted to about Rs. 190 million.

2/ Since taken into liquidation.

3/ As mentioned in Chapter III, commercial banks are at present required to keep at least 20 per cent of their deposits in the form of cash (including balances held with the Reserve Bank), gold or unencumbered government or other approved securities.

4/ Subsequently, the Reserve Bank made it clear that all Indian banks (scheduled as well as non-scheduled) were expected to follow this convention.

5/ A bank whose reserves are less than the paid-up capital has the statutory obligation (under the Banking Companies Act) to transfer at least 20 per cent of its net profits to reserves until the reserves become equal to the paid-up capital.

orderly conditions for dealings in government securities, judicious handling of the borrowing and refunding operations of the Central and State Governments (as well as of semi-government bodies), fostering the growth of financial institutions, etc.

Expansion and Coordination of Cooperative Credit Facilities

467. Under the Statute of its incorporation, the Reserve Bank has been entrusted with a special responsibility for the expansion and coordination of agricultural credit facilities. In the beginning, this involved provision by the Bank of advice on agricultural finance rather than agricultural finance itself.[1] The finance could by and large be channelled only through state cooperative banks and central cooperative banks. Few of them, however, came to the requisite standards and even these few were not doing much business. The amount of finance made available by the Reserve Bank was, therefore, very small. For example, at the end of 1948/49, the state cooperative banks owed less than Rs. 10 million to the Reserve Bank.

468. Over the past decade, the Reserve Bank has been playing a very important role in the sphere of cooperative credit. It has been providing short and medium-term credit at relatively low rates of interest to state cooperative banks on a significantly increasing scale, subscribing to a limited extent to debentures of land mortgage banks[2] and making loans to State Governments for subscribing to the share capital of cooperative institutions so as to strengthen the capital base of these institutions and augment their borrowing capacity. Besides, it has been assisting in the formulation of schemes for reorganizing the cooperative movement and provision of training facilities to cooperative personnel.[3]

469. The table below brings out the increase in recent years in the flow of resources to cooperative institutions from the Reserve Bank and also indicates the rates of interest charged by the Bank on loans and advances to state cooperative banks. As at the end of June 1960, the proportion of outstanding loans of the Reserve Bank to state cooperative banks for agricultural operations and marketing of crops amounted to over 45 per cent of the total outstanding amount of credit extended (by primary societies) for these purposes to ultimate borrowers.

1/ The Role of the Reserve Bank of India in the Development of Credit Institutions, R.R. Kale Memorial Lecture in 1960 by B. Venketappiah, Deputy Governor of the Reserve Bank, p. 4.

2/ As mentioned in Chapter II, the State Bank of India also subscribes to debentures of land mortgage banks.

3/ In 1953, the Government of India and the Reserve Bank together set up a Committee to formulate and implement a scheme for training cooperative personnel. The Reserve Bank has undertaken the financial responsibility in regard to the training of higher and intermediate level personnel. The rest of the funds required for the training programs are provided by the Government.

Table 24

Reserve Bank of India and Cooperative Credit[1]

Rs. million

	1950/51		1955/56		1960/61	
	Disbursements	Outstanding Amount	Disbursements	Outstanding Amount	Disbursements	Outstanding Amount
Short-term advances to state cooperative banks for:						
(a) Seasonal agricultural operations and marketing of crops (at 2% below bank rate)[2]	54	34	230	124	1317	791
(b) Production and marketing activities of handloom weavers (at 1½% below bank rate)	-	-	-	-	24	24
(c) Other purposes (at bank rate)	4	3/	4	1	83	2
Medium-term loans to state cooperative banks for agricultural purposes (at 2% below bank rate)[4]	-	-	4	5	47	76
Subscriptions to debentures of land mortgage banks						
(a) Ordinary debentures	1	2	1	7	3/	7
(b) Rural debentures	-	-	-	-	3	11
Long-term loans to State Governments for contribution to share capital of cooperative credit societies	-	-	-	-	27	200
Total	59	36	239	137	1501	1111

1/ Figures are for fiscal years beginning April 1. Outstanding amount shown in the table is as at the end of the year indicated.
2/ As from November 15, 1951. Prior to this date, the rate of interest was 1½% below bank rate. Bank rate at present is 4 per cent per annum.
3/ Less than Rs. 0.5 million.
4/ Rate of interest raised to 1½% below bank rate as from November 1, 1960.

Source: Report on Currency and Finance for 1960/61, Reserve Bank of India.

470. Following a recommendation of the All-India Rural Credit Survey Committee, the Reserve Bank established in 1956 two funds for promoting cooperative development, viz., the National Agricultural Credit (Long-Term Operations) Fund and the National Agricultural Credit (Stabilization) Fund. The Long-Term Operations Fund has been established for making: (i) long-term loans (for a maximum period of 20 years) to State Governments to enable them to subscribe directly or indirectly to the share capital of cooperative institutions, (ii) medium-term loans (for periods between 15 months and 5 years) to state cooperative banks for agricultural purposes, (iii) purchase of debentures of central land mortgage banks and (iv) long-term loans (for a maximum period of 20 years) to central land mortgage banks. Transfers to this Fund (out of the Reserve Bank's profits which are otherwise payable to the Central Government) aggregated Rs. 500 million by the end of June 1961. Up to the end of March 1961, disbursements out of the Fund totalled about Rs. 375 million and the amount outstanding in respect of loans disbursed and purchases of debentures[1] was about Rs. 287 million.

471. The Stabilization Fund is to be applied for making medium-term loans and advances to state cooperative banks to enable them to convert their short-term credit into medium-term credit wherever such conversion becomes necessary as a result of drought, famine or other natural calamities. Total transfers to this Fund (out of Reserve Bank's profits) amounted to Rs. 60 million by the end of June 1961; the Fund had not been drawn upon until then.

472. As a complement to the provision of more liberal financial assistance, the Reserve Bank has undertaken a scheme of voluntary inspection of cooperative banks and some primary societies. These inspections are designed to serve the wider purpose of improving the machinery and operations of cooperative credit, and are complementary to the inspections made by the Registrars of Cooperative Societies under the auspices of State Governments.

Expansion of Facilities for Long and Medium-Term Industrial Finance

473. The Reserve Bank has played an active part in the setting up of special institutions like the Industrial Finance Corporation, State Financial Corporations and the Refinance Corporation for Industry to provide long and medium-term credit to industries. The Bank has subscribed a part of the capital of these institutions and rendered organizational assistance to them. In addition, it provides marginal financial assistance to the I.F.C. and the SFC's. (See Chapter II).[2]

1/ Purchases of ordinary debentures of land mortgage banks were not financed from the Long-Term Operations Fund.

2/ The Bank has also agreed to forego the dividends accruing on its shares in the Industrial Finance Corporation; these dividends, as well as those accruing to the Central Government, are being credited to a special reserve fund. This arrangement is to continue until the special reserve fund amounts to Rs. 5 million.

474. The Reserve Bank is represented on the Board of Directors of the institutions mentioned above, and is closely associated with their working, especially in the case of State Financial Corporations and the Refinance Corporation.[1] The Bank's advice is sought on several important matters of policy, including issue of bonds or debentures by the IFC and SFC's. It has also been conducting inspections of SFC's.

475. The association of the Reserve Bank as well as the government with various Corporations, has helped in bringing about a measure of coordination between the activities of various lending agencies in the field of industrial finance.

476. More recently, the Bank has been entrusted with the administration of the scheme of guaranteeing loans to small scale industries by specified financial institutions.

1/ In the case of the Refinance Corporation, the Governor of the Reserve Bank is the Chairman of the Board of Directors. One of the Deputy Governors of the Bank is also represented on the Corporation's Board and the Chief of the Industrial Finance Department of the Bank is the Corporation's General Manager.

CHAPTER IX

Concluding Remarks

477. In the preceding chapters, the most important features of the capital market of India and the main developments concerning this market since the country became independent have been examined in detail. The purpose of these concluding remarks is to recapitulate briefly the major elements of progress achieved in developing the capital market and its financial institutions as well as to mention once again some fields where further action appears to be particularly appropriate. Many of the measures taken in India are no doubt of considerable interest to other developing countries which are in need of more domestic financial resources and better institutional facilities as a prerequisite to the stepping up of their development effort. Major features of progress in India, then, have been as follows:

(a) Despite low incomes, it has been possible to increase substantially the flow of savings to financial institutions over the last decade. Political stability and confidence of savers in institutions as well as in currency have, of course, greatly assisted in this process;

(b) The commercial banks have expanded significantly the network of their branches and enlarged their role in financing industry, trade and certain other activities as well as in collecting savings. The State Bank of India, the largest commercial bank, has been particularly active in establishing a large number of new branches in rural and semi-urban areas. Also, it has been extending its activities in the spheres of rural credit, provision of credit to small scale industries and medium-term finance;

(c) Substantial amounts of savings have been collected through the government's small savings schemes. Total net collections in 1960/61 (exclusive of receipts from prize bonds) were more than three times the level in 1950/51.

(d) Life insurance in India has shown marked expansion in recent years. Provident funds also operate over a fairly wide area in both the public and private sectors. Contractual savings in the form of net additions to life insurance reserves, provident funds, etc., probably amounted to more than 40 per cent of the total savings channelled through financial institutions (including small savings certificates) over the three years ended March 1961.

(e) The activities of cooperative credit institutions have expanded considerably over the last decade, mainly as a result of strong support (including participation in share capital, subsidies, etc.) by the government and increased credit made available by the central bank at low rates of interest. The Third Five-Year Plan envisages a further substantial expansion of cooperative credit.

(f) The network of special finance corporations has been strengthened; they provide substantial funds to large and medium scale industries, mainly for financing fixed investment.

(g) In the field of small scale industries, a well-devised machinery is functioning for the provision of finance. A scheme for guaranteeing partially the loans advanced to small scale industries by banks and other financial institutions has also been introduced. Proposals for organizing additional industrial cooperative banks in suitable areas to finance industrial cooperatives and for providing government guarantee for loans given by banks and institutional agencies to the Khadi and Village Industries Commission, National Small Industries Corporation, etc., are under consideration by the government. On the whole, it appears reasonable to expect that the volume of institutional finance available to small scale industries will increase progressively;

(h) The market for securities is well-organized and quite active. The interest of the general public in corporate securities has become more widespread and companies have been able to raise substantial amounts through new capital issues. A good deal of progress has been made in developing a proper underwriting system;

(i) Apart from performing other functions, the central bank has been playing an important role in expanding and diversifying the system of institutional credit facilities. It has also made a significant contribution to the development of the market for government securities.

478. In spite of considerable progress achieved in these various fields, efforts will be required to stimulate the further development of the capital market and its institutions. A number of lines for further action, emerging from the analysis in the previous chapters, may be summarized as follows:

(a) Scope remains for a further increase in collections from small savings. The progress of the small savings movement in different parts of the country has been very uneven and although the various savings schemes have penetrated into the rural areas, amounts collected in these areas so far have been relatively small;

(b) Similarly, there is scope for a further stepping up of contractual savings from life insurance and provident fund schemes;

(c) In spite of the expanded activities of cooperative credit institutions, the share of cooperative credit in total borrowings of cultivators is still at a low level (10 - 12 per cent in 1959/60). Savings collected by cooperatives in rural areas are also relatively small and the thrift aspect of the cooperative movement does not appear to have been adequately emphasized;

(d) Taking into account the credit facilities provided by moneylenders, etc., there does not appear to be any shortage of short-term credit for agriculture. However, the terms for the bulk of the credit are too onerous and there is need for a further expansion of institutional credit. At the same time, it is necessary to bring about greater coordination between the provision of short-term credit and other efforts to increase agriculture output, e.g., in regard to supply of irrigation, fertilizers, better seeds and improved implements. The amount of medium and long-term funds provided annually by cooperative institutions is rather small and needs to be increased substantially;

(e) The volume of medium-term bank credit (for 3 - 7 years) to industries continues to be relatively small and there would appear to be need for a further substantial expansion of this type of credit. The Refinance Corporation, which provides refinance facilities in respect of medium-term loans to medium and small-size industries by banks and other financial institutions may be expected to make a growing contribution in this field.

(f) In spite of progress, the volume of funds made available to small scale industries has been insufficient in relation to needs. Various measures taken or under consideration to improve the situation have been mentioned already. As in agriculture, the problem of extending additional credit facilities to small scale industries is related to a wider background, viz. the need to strengthen the technical and economic foundation of these enterprises through technical assistance, construction of industrial estates, provision of marketing facilities, etc.

(g) Institutional facilities for the provision of finance for housing are very limited. There appears to be need, therefore, for establishing a separate institution for increasing the availability of funds for housing and developing a market in mortgages;

(h) In the context of the securities market, the market for preference shares and debentures continues to be rather thin. Debentures and preference shares offering such terms as an option for conversion into ordinary shares or participation in profits have been issued only in a limited number of cases;

(i) Investment trusts have not been developed to any significant extent. In view of the widening of public interest in shares in recent years and the growing number and variety of corporate securities available for investment, conditions seem to be particularly favorable for the growth of investment trusts. It, therefore, appears worthwhile to take suitable steps, including the offer of an adequate tax incentive, for the establishment of such trusts, particularly unit trusts.

STATISTICAL APPENDIX

Statistical Appendix (continued)

Statistical Appendix (continued)

Table 1

National Income

Year 1/	National Income (Rs. billion)		Per Capita Income (Rs.)		Index No. of National Income (1948/49 = 100)		Index No. of Per Capita Income (1948/49 = 100)	
	At current prices	At 1948/49 prices	At current prices	At 1948/49 prices	At current prices	At 1948/49 prices	At current prices	At 1948/49 prices
1948/49	86.5	86.5	249.6	249.6	100.0	100.0	100.0	100.0
1949/50	90.1	88.2	256.0	250.6	104.2	102.0	102.6	100.4
1950/51	95.3	88.5	266.5	247.5	110.2	102.3	106.8	99.2
1951/52	99.7	91.0	274.2	250.3	115.3	105.2	109.8	100.3
1952/53	98.2	94.6	265.4	255.7	113.5	109.4	106.3	102.4
1953/54	104.8	100.3	278.1	266.2	121.2	116.0	111.4	106.6
1954/55	96.1	102.8	250.3	267.8	111.1	118.8	100.3	107.3
1955/56	99.8	104.8	255.0	267.8	115.4	121.2	102.2	107.3
1956/57	113.1	110.0	283.4	275.6	130.8	127.2	113.5	110.4
1957/58	113.9	108.9	279.6	267.4	131.7	125.9	112.0	107.1
1958/59	126.0	116.5	303.0	280.2	145.7	134.7	121.4	112.2
1959/60	129.4	118.5	304.7	279.0	149.7	137.0	122.1	111.8
1960/61 2/	142.0	126.9	327.3	292.5	164.2	146.7	131.1	117.2

1/ Fiscal year beginning April 1.

2/ Preliminary estimates.

Source: Economic Survey for 1961/62, Government of India, New Delhi.

Table 2

Agricultural Production 1/

Commodity	Unit	1950/51	1955/56	1958/59 2/	1959/60 2/	1960/61 3/
Foodgrains 4/						
Rice	Million tons	20.9	27.1	30.3	31.0	33.7
Wheat	" "	6.6	8.6	9.8	10.1	10.7
Other Cereals	" "	16.3	19.2	22.5	22.1	22.4
Pulses	" "	8.5	10.9	12.9	11.5	12.5
Total	" "	52.3	65.8	75.5	74.7	79.3
Oilseeds	" "	5.1	5.6	6.9	5.9	6.5
Sugar cane	" "	5.6	6.0	7.1	7.7	8.7
Cotton	Million bales 5/	2.9	4.0	4.7	3.7	5.4
Jute	Million bales 6/	3.3	4.2	5.2	4.6	4.0
All Commodities (Index number: 1949/50 = 100)		95.6	116.8	132.0	128.7	139.1

1/ Figures relate to years beginning July 1.
2/ Partially revised estimates.
3/ "Final" estimates (subject to revision).
4/ Estimates for 1950/51 and 1955/56 have been adjusted for changes up to 1956/57 in the coverage of crop statistics and techniques of estimation.
5/ Bale = 392 lb.
6/ Bale = 400 lb.

Source: Third Five-Year Plan and Economic Survey for 1961/62.

Table 3

Industrial Production - Selected Goods

	Unit	1950	1955	1960	1961 1/
Capital Goods					
Diesel engines:					
Vehicular type	'000 nos.	-	3.9	9.7	9.5
Stationary type	'000 nos.	4.6	10.2	41.7	44.4
Power transformers	'000 k.v.a.	172	565	1,248	1,762
Power driven pumps	'000 nos.	30.0	34.8	102.0	126.2
Electric motors	'000 h.p.	81.6	252.0	680.4	820.9
Complete Ring Spinning Frames	nos.	276 2/	864	1,128	1,400
Looms	nos.	2,508 2/	2,736	5,628	7,597
Carding engines	nos.	108 3/	600	1,068	1,312
Machine tools	mill. rupees	2.7	7.4	60.1	76.0
Automobiles	'000 nos.	14.6	23.1	51.7	54.3
Intermediate Goods					
Coal	mill. tons	32.5	38.8	52.6	56.1
Finished steel	mill. tons	1.0	1.3	2.2	2.9
Aluminium (virgin metal)	'000 tons	3.7	7.3	18.5	18.6
Cement	mill. tons	2.7	4.6	7.8	8.2
Sulphuric acid	'000 tons	104	169	360	411
Caustic Soda	'000 tons	11	35	99	120
Soda ash	'000 tons	44	79	145	177
Ammonium Sulphate	'000 tons	48	399	388	395
Super-phosphate	'000 tons	53	75	322	367
Paper and paper boards	'000 tons	111	188	345	364
Rubber tires and tubes	mill. nos.	8.9	13.1	26.2	27.3
Electricity generated	mill. kwh.	5,107	8,468	16,433	19,012
Consumer Goods					
Cotton cloth	mill. metres	3,351	4,658	4,616	4,699
Footwear	mill. pairs	21.4	40.5	53.8	55.6
Sewing machines	'000 nos.	31	101	296	314
Electric fans	'000 nos.	193	282	991	1,050
Radio receivers	'000 nos.	44	201	267	326
Bicycles	'000 nos.	103	491	1,051	1,055
Sugar	'000 tons	992	1,620	2,485	3,027
Tea	mill. kg.	278	303	314	350

1/ Provisional figures.
2/ Relates to 1951.
3/ Relates to 1952.

Source: Economic Survey for 1961/62, Government of India, New Delhi.

Table 4

Investment under the Second and Third Plans

	Rs. Billion						Percentages					
	Second Plan			Third Plan			Second Plan			Third Plan		
	Public Sector	Private Sector 1/	Total	Public Sector	Private Sector 1/	Total	Public Sector	Private Sector 1/	Total	Public Sector	Private Sector 1/	Total
Agriculture and community development	2.10	6.25	8.35	6.60	8.00	14.60	6	20	12	11	19	14
Major and medium irrigation	4.20	2/	4.20	6.50	2/	6.50	12	2/	6	10	2/	6
Power	4.45	0.40	4.85	10.12	0.50	10.62	12	1	7	16	1	10
Village and small industries	0.90	1.75	2.65	1.50	2.75	4.25	2	6	4	2	7	4
Organized industry and minerals	8.70	6.75 3/	15.45	15.20	10.50 3/	25.70	24	22	23	24	26	25
Transport and communications	12.75	1.35	14.10	14.86	2.50	17.36	35	4	21	24	6	17
Social services and miscellaneous	3.40	9.50	12.90	6.22	10.75	16.97	9	31	19	10	26	16
Inventories	-	5.00	5.00	2.00	6.00	8.00	-	16	8	3	15	8
Total	36.50	31.00	67.50	63.00	41.00	104.00	100	100	100	100	100	100

1/ Exclusive of investment financed out of resources transferred from public sector. Such investment is included in figures for public sector.
2/ Included under agriculture and community development.
3/ Do not include outlay on modernization and replacement.

Source: Third Five Year Plan, Planning Commission, New Delhi.

Table 5

Reserve Bank's Estimates of Net Domestic Savings 1/
(Rs. million, current prices)

	Government Sector 2/	Domestic Corporate Sector 3/	Household Sector 4/		Total
			Urban	Rural	
1950/51	938	322	3,200	1,899	6,359
1951/52	1,923	565	598	1,950	5,036
1952/53	884	43	3,058	1,868	5,853
1953/54	710	229	2,986	2,062	5,987
1954/55	822	389	3,927	1,689	6,827
1955/56	699	543	6,104	1,756	9,102
1956/57	1,289	537	5,960	2,144	9,930
1957/58	1,144	172	4,815	2,051	8,182
1958/59	1,030	343	5,952	2,423	9,748

1/ Do not include household sector's saving in the form of inventories in agriculture and trade, non-monetized investment and consumers' durables.

2/ Includes local authorities and government corporations.

3/ Includes cooperatives.

4/ Includes unincorporated enterprises, educational institutions, etc.

Source: Reserve Bank of India Bulletin for August, 1961.

Table 6

External Assistance
(Rs. million)

	Aid Utilized up to the end of First Plan	Aid Utilized during the Second Plan Period
Loans and credits repayable in foreign currencies		
World Bank loans	338.2	2,227.9
Loans from foreign countries		
U.S.A.	903.1	361.7
U.S.S.R.	-	729.8
U.K.	-	1,218.5
W. Germany	-	1,198.7
Canada	-	157.1
Japan	-	160.1
Sub-total	903.1	3,825.9
Loans repayable in rupees (from the U.S.A.)	22.9	1,168.3
Grants:		
U.S.A.	442.6	855.9
Colombo Plan countries		
Canada	197.0	603.0
Australia	52.0	74.4
New Zealand	3.3	29.0
U.K.	0.3	4.3
Norway	6.6	18.7
W. Germany	-	6.1
U.S.S.R.	-	11.5
Sub-total	701.8	1,602.9
Other assistance (from the U.S.A.)1/		
P.L. 480 assistance	-	5,178.8
P.L. 665 assistance	50.7	268.1
Third country currency assistance	-	25.1
Sub-total	50.7	5,472.0
Grand Total	2,016.7	14,297.0

1/ Including grants.
Source: Economic Survey for 1961/62, Government of India, New Delhi.

Table 7

Scheduled Banks - Business in India
(At end of the year[1])

(Rs. million)

	1951/52	1955/56	1960/61	1961/62
Demand liabilities				
Inter-bank borrowings	253	49	140	190
Others[2]	5,420	6,308	8,275	8,965
Time liabilities				
Inter-bank borrowings	10	30	111	133
Others[2]	2,801	4,124	10,631	11,596
Borrowings from Reserve Bank				
Against usance bills and/or promissory notes	278	274	454	407
Others	263	377	491	123
Borrowings from State Bank and/or a notified bank	3/	197	185	176
Bank credit				
Advances[4]	5,301	6,125	11,277	11,901
Inland bills purchased and discounted	504	1,020	1,594	1,807
Foreign bills purchased and discounted	n.a.	468	492	485
Investments in government securities	2,961	3,599	5,586	6,014
Money at call and short notice	122	63	208	375
Balances with Reserve Bank	448	489	710	746
Balances with other banks in current account	114	108	178	178
Cash	340	358	456	489

1/ Fiscal year. Figures relate to last Friday of each year.
2/ Figures are inclusive of inter-bank deposits for which data prior to November 1960 are not available. On March 30, 1962, inter-bank demand and time deposits amounted to about Rs. 537 million and Rs. 148 million respectively.
3/ Included under inter-bank borrowings.
4/ Inclusive of inter-bank advances for which separate figures prior to November 1960 are not available. On March 30, 1962, inter-bank advances amounted to about Rs. 117 million.

Source: Reserve Bank of India Bulletins.

Table 8

Scheduled and Non-Scheduled Banks - Liabilities and Assets
(At end of the year)

(Rs. million)

	1951	1955	1959	1960
Liabilities				
Paid-up capital 1/	414	411	412	413
Reserves	296	311 2/	343 2/	340 2/
Deposits and other accounts				
Fixed	2,635	3,919	10,502	10,280
Savings	1,507	1,851	2,744	2,918
Current and contingency accounts	5,461	5,671	6,668	6,886
Others	135	151	91	134
Borrowings from banks, agents, etc.				
In India	452	481	579	922
Outside India	53	21	36	63
Other liabilities	2,332	2,961	3,415	4,204
Total	13,285	15,777	24,790	26,160
Assets				
Cash and balances with Reserve Bank as well as other banks	1,498	1,513	2,271	2,348
Money at call and short notice	127	156	360	290
Investments				
Government and other trustee securities	3,120	4,222	8,092	6,749
Shares, debentures and bonds	261	180	272	259
Other investments	238	198	222	234
Advances				
In India	5,346	5,492	8,432	10,318
Outside India	292	212	291	324
Bills purchased and discounted				
Payable in India	468	897	1,163	1,251
Payable outside India	309	437	571	565
Other assets	1,626	2,470	3,116	3,822
Total	13,285	15,777	24,790	26,160

1/ Includes calls received in advance and forfeited shares. Figures relate to Indian banks only.
2/ Relate to Indian banks only.

Source: Statistical Tables Relating to Banks in India.

Table 9

Cooperative Banks - Liabilities and Assets
(At the end of the year 1/)
(Rs. million)

	State Cooperative Banks				Central Cooperative Banks			
	1950/51	1955/56	1958/59	1959/60	1950/51	1955/56	1958/59	1959/60
Working Capital								
Paid-up capital								
Held by government	(16	19	46	56	(40	85	56	88
Held by others	(	25	60	90	(		175	227
Reserves	22	33	44	51	48	66	86	102
Deposits								
From cooperative institutions	90	178	363	373	124	183	298	379
From individuals and other sources	131	189	221	229	254	374	482	575
Borrowings								
From Reserve Bank and State cooperative banks	31	141	640	852	79	197	707	1,005
From government	19	47	60	59	(18	17	36	45
From others	35	2	44	38	(	4	56	53
Other liabilities	n.a.	n.a.	42	60	n.a.	n.a.	82	86
Total liabilities 2/	n.a.	n.a.	1,520	1,808	n.a.	n.a.	1,978	2,560
Loans and advances								
To cooperative institutions	159	322	975	1,263	310	508	1,274	1,726
To others	20	26	37	36	32	35	34	35
Investments 3/	114	184	320	282	141	233	360	411
Other assets	n.a.	n.a.	199	242	n.a.	n.a.	334	416
Total assets 2/	n.a.	n.a.	1,531	1,823	n.a.	n.a.	2,002	2,588

1/ Year ending June 30.
2/ The reasons for difference between total liabilities and assets are not known.
3/ Including fixed deposits.

Source: Statistical Statements Relating to Cooperative Movement in India

Table 10

Cooperative Credit Societies - Liabilities and Assets
(At the end of the year 1/)
(Rs. million)

	Agricultural Credit Societies				Non-Agricultural Credit Societies			
	1950/51 2/	1955/56	1958/59	1959/60	1950/51	1955/56	1958/59	1959/60
Working capital								
Paid-up capital								
Held by government	84	168	44	52	121	191	3/	3/
Held by others			328	418			265	306
Reserves	89	124	145	160	54	90	110	121
Deposits								
From cooperative institutions	2	6	3	6	7	6	10	9
From individuals and other sources	43	64	96	112	343	529	748	824
Borrowings								
From cooperative banks	188	418	1,035 4/	1,419 4/	39	35	54 4/	56 4/
From government	4	10	24	30	3	7	6	7
From others	n.a.	n.a.	34	40	n.a.	n.a.	22	51
Other liabilities	n.a.	n.a.	98	127	n.a.	n.a.	68	99
Total liabilities 5/	n.a.	n.a.	1,807	2,364	n.a.	n.a.	1,283	1,473
Loans and advances	291	598	1,350	1,777	405	609	905	1,065
Investments	12	30	211	269	117	177	228	245
Other Assets	n.a.	n.a.	301	394	n.a.	n.a.	178	199
Total Assets 5/	n.a.	n.a.	1,862	2,440	n.a.	n.a.	1,311	1,509

1/ Year ending June 30.
2/ Inclusive of figures for grain banks.
3/ Less than 0.5 million.
4/ Borrowings from central cooperative banks only.
5/ The reasons for difference between total liabilities and assets are not known.

n.a. = not available.

Source: Statistical Statements Relating to Cooperative Movement in India.

Table 33

Land Mortgage Banks - Liabilities and Assets
(At the end of the year 1/)
(Rs. million)

	Central land mortgage banks 2/				Primary land mortgage banks			
	1950/51	1955/56	1958/59	1959/60	1950/51	1955/56	1958/59	1959/60
Paid-up capital								
Held by government	3	8	16	18	5	9	13	16
Held by others			13	17				
Reserves	3	5	8	10	2	2	4	5
Deposits	3/	3/	5	5	3/	3/	2	3
Debentures	67	149	245	271	1	1	3/	3/
Other borrowings								
From cooperative banks	1	2	5	20	57	100	146	181
From government	2	9	13	20	1	-		
From others	-	12	8	13	1	1		
Other liabilities	n.a.	n.a.	13	12	n.a.	n.a.	10	16
Total liabilities 4/	n.a.	n.a.	326	386	n.a.	n.a.	175	221
Loans								
Banks and societies	60	131	156	185	n.a.	n.a.	152	192
Individuals	n.a.	n.a.	70	100	63	105		
Investments	17 5/	52 5/	87 6/	85 6/	n.a.	n.a.	8 7/	11 7/
Other assets	n.a.	n.a.	18	22	n.a.	n.a.	16	19
Total assets 4/	n.a.	n.a.	331	392	n.a.	n.a.	176	222

1/ Year ending June 30.
2/ Including land mortgage banking departments of two state cooperative banks.
3/ Included under "other borrowings".
4/ The reasons for difference between total liabilities and assets are not known.
5/ Includes cash and bank balances for which separate data are not available.
6/ Investments out of balances held in sinking and other reserve funds only.
7/ Government and other trustee securities only.

n.a. = not available.

Source: Statistical Statements Relating to Cooperative Movement in India.

Table 12

Annual Advances of Cooperative Credit Societies
(Rs. million)

Year 1/	Agricultural Credit Societies	Grain Banks	Non-Agricultural Credit Societies	Total
1950/51	229	2/	473	702
1951/52	242	4	510	756
1952/53	257	3	543	803
1953/54	297	3	605	905
1954/55	355	4	621	980
1955/56	496	6	721	1,223
1956/57	673	5	821	1,499
1957/58	961	10	868	1,839
1958/59	1,255	10	1,102	2,367
1959/60	1,691	15	1,174	2,880

1/ Beginning July 1.

2/ Included under agricultural credit societies.

Source: Statistical Statements Relating to the Cooperative Movement in India.

Table 13

Loans Approved and Disbursed by the Industrial Finance Corporation[1]

Year (July-June)	Number of applications approved	Amount of loans approved[2]	Amount of loans disbursed
		(Rs. million)	(Rs. million)
1948/49	21	34.2	13.3
1949/50	23	37.7	20.8
1950/51	17	23.9	23.8
1951/52	33	44.5	17.8
1952/53	14	14.4	25.0
1953/54	29	52.7	28.2
1954/55	27	73.4	16.4
1955/56	44	151.3	22.0
1956/57	51	119.1	97.8
1957/58	22	77.8	83.3
1958/59	19	37.9	74.8
1959/60	29	179.2	84.1
1960/61	57	212.1	66.2
Total	386	1058.2	573.5

1/ In addition to making loans, the Corporation provides assistance to industries in the form of underwriting of capital issues, guaranteeing of deferred payments, etc.

2/ Including loans subsequently declined or not to be made available and loans requiring government or D.L.F. approval.

Source: Report of the Industrial Finance Corporation for 1960/61.

Table 14

Financial Assistance Sanctioned and Disbursed by the Industrial Credit and Investment Corporation of India

(Amount in Rs. million)

	Up to December 31, 1959			During 1960			During 1961			Total		
	No. of operations	Amount sanctioned	Amount disbursed	No. of operations	Amount sanctioned	Amount disbursed	No. of operations	Amount sanctioned	Amount disbursed	No. of operations	Amount sanctioned	Amount disbursed
Loans and Guarantees:												
Rupees	13	35.0	34.6	19	30.5	5.1	16	36.6	16.4	48	102.1	56.1
Foreign exchange	22	67.4	22.8	24	58.9	12.6	50	67.9	28.2	96	194.2	63.6
Total	35	102.4	57.4	43	89.4	17.7	66	104.5	44.6	144	296.3	119.7
Underwriting:1/												
Ordinary shares	17	39.3	11.4	5	7.6	3.2	5	7.0	2.7	27	53.9	17.3
Preference shares	15	33.8	5.7	2	3.0	4.0	-	-1.5 2/	5.7	17	35.3	15.4
Debentures	2	10.0	2.9	1	3.0	2.4	-	-	-	3	13.0	5.3
Total	34	83.1	20.0	8	13.6	9.6	5	5.5	8.4	47 3/	102.2	38.0
Direct Subscription:												
Ordinary shares	22	17.0	10.0	13	2.0	3.8	9	3.5	6.5	44	22.5	20.3
Preference shares	6	6.6	6.1	-	-	-	-	-0.5 2/	-	6	6.1	6.1
Total	28	23.6	16.1	13	2.0	3.8	9	3.0	6.5	50 4/	28.6	26.4
Grand Total	97	209.1	93.5	64	105.0	31.1	80	113.0	59.5	241	427.1	184.1

1/ Amount sanctioned refers to the amount of shares and debentures underwritten by the Corporation while the amount disbursed indicates the amount paid by the Corporation in respect of shares and debentures which it had to take up.
2/ Previous year's sanction reduced.
3/ 10 operations cover both Ordinary and Preference shares.
4/ 4 operations cover both Ordinary and Preference shares.

Source: Annual Report of the Industrial Credit and Investment Corporation of India for 1961.

Table 15

Annual Increase in Time Liabilities of Commercial Banks

(Rs. million)

	Scheduled Banks 1/	Non-Scheduled Banks 2/	All Commercial Banks
1950/51 3/	244	4/	244
1951/52	- 80	123	43
1952/53	291	45	336
1953/54	164	- 17	147
1954/55	497	11	508
1955/56	370	26	396
1956/57	593	27	620
1957/58	2489	-133	2356
1958/59	1920	- 2	1918
1959/60	2081	43	2124
1960/61	-576	- 45	-621
1961/62	962	- 37	925

1/ Figures up to 1960/61 are inclusive of changes in inter-bank deposits for which data prior to November 1960 are not available.
2/ Figures relate to deposit liabilities only.
3/ Fiscal years beginning April 1. Figures from 1956/57 onwards are not comparable with those for earlier years due to deposits of P.L. 480 funds with the State Bank up to June 1960 and subsequent refund of a part of these deposits by the State Bank. See text, pp. 13 and 14.
4/ Less than Rs. 1 million.
Source: Banking and Monetary Statistics of India and Reserve Bank of India Bulletins.

Table 16

Ownership of Time and Savings Deposits of Scheduled Banks

(Rs. million)

	End of 1950	End of 1955	End of 1959	October 28, 1960	October 27, 1961
Time deposits					
Personal 1/	1,295	1,761	3,636	3,960	4,517
Deposits of non-financial business concerns 2/	465	769	1,424	1,701	1,759
Deposits of financial concerns 2/	117	159	509	536	618
Deposits of government and local authorities	3/	367 4/	1,065 4/	699	832
Others	391 4/	285	3,527 5/	651	896
Total	2,268	3,341	10,161 5/	7,547	8,622
Savings deposits					
Personal	1,318	1,578	2,408	2,588	3,025
Others	52	47	74	79	93
Total	1,370	1,625	2,482	2,667	3,118
Total savings and time deposits	3,638	4,966	12,643	10,214	11,740

1/ Unclassified deposits, i.e. deposits of less than Rs. 500 each have been treated as personal deposits.
2/ Figures from 1960 onwards include deposits of concerns owned and/or managed by government.
3/ Included under other deposits.
4/ Includes deposits of government concerns.
5/ Inclusive of P.L. 480 and P.L. 665 deposits. Figures for the subsequent years are exclusive of such deposits.
Source: Banking and Monetary Statistics of India and Reserve Bank of India Bulletins.

Table 17

Annual Increase in Deposits with Cooperative Credit Institutions from "Individuals and Other Sources" (exclusive of deposits of cooperative institutions)1/

(Rs. million)

	1950/51	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61 2/
State cooperative banks	-0.9	-2.9	7.7	-10.1	24.9	38.1	16.8	-15.1	31.1	7.5	59.2
Central cooperative banks	19.9	13.5	6.7	11.7	31.9	56.3	19.6	50.0	38.8	92.8	91.8
Agricultural credit societies	3.6	-0.6	-0.3	2.3	6.5	13.8	7.5	10.7	12.9	16.9	27.5
Non-agricultural credit societies	24.2	21.9	15.9	38.9	63.6	45.5	108.9	-81.2	191.2	76.0	65.0
Grain banks	3/	3/	0.1	0.2	0.4	0.7	-0.3	1.2	-1.3	0.3	0.6
Central land mortgage banks 4/	-0.8	5/	1.7	0.9	0.1	9.0	-8.8	0.9	1.4	-0.6	0.9
Primary land mortgage banks 4/	0.2	5/	0.1	0.3	5/	-0.1	0.2	0.8	0.6	0.4	1.2
Total	46.2	31.9	31.9	44.2	127.4	163.3	143.9	-32.7	274.7	193.3	246.2

1/ Figures are for years beginning July 1.
2/ Preliminary figures.
3/ Included in figures for agricultural credit societies.
4/ Figures up to 1956/57 relate to changes in deposits as well as loans from individuals and other sources (excluding government, cooperative institutions, etc.) while those for 1958/59 to 1960/61 relate to changes in total deposits. The figure for 1957/58 represents the difference between outstanding deposits and loans from individuals and other sources at the end of 1956/57 and total deposits outstanding at the end of 1957/58.
5/ Less than 0.1.

Source: Statistical Statements Relating to the Cooperative Movement and the Reserve Bank of India.

Table 18

Annual Increase in Paid-up Capital of Cooperative Credit Institutions[1]

(Rs. million)

	1950/51	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61[2]
State cooperative banks	2.3	3.2	2.7	5.8	4.9	11.3	9.4	31.7	20.9 (0.1)	40.5 (0.02)	36.2 (-0.2)
Central cooperative banks	5.0	5.8	5.6	8.1	9.2	15.8	26.1	59.6	60.6 (-0.3)	83.5 (0.2)	74.9 (-0.1)
Agricultural credit societies	12.3	12.1	9.8	15.3	18.3	35.4	30.3	83.9	89.6 (67.5)	97.9 (90.3)	107.6 (102.5)
Non-agricultural credit societies	11.6	12.4	10.5	15.8	14.4	16.5	17.5	31.8	24.8 (24.7)	41.0 (41.0)	18.3 (18.0)
Grain banks	3/	3/	-0.7	0.2	0.2	0.7	-0.1	2.0	1.0	1.9	2.3
Central land mortgage banks	0.5	1.2	0.6	0.7	0.5	1.8	3.1	11.6	6.5 (1.8)	5.9 (2.0)	8.3 (2.8)
Primary land mortgage banks	0.6	0.6	0.9	0.6	0.5	0.8	1.3	0.8	1.8	3.0	4.1
Total	32.3	35.3	29.4	46.5	48.0	82.3	87.6	221.4	205.2 (96.6)	273.7 (138.4)	251.7 (129.4)

Note: All figures, except those in brackets, relate to changes in total capital, including capital held by the government and cooperatives. Figures in brackets for 1958/59 to 1960/61 represent changes in capital held mainly by individuals; similar information for earlier years is not available.

1/ Figures are for years beginning July 1.
2/ Preliminary figures.
3/ Included in figures for agricultural credit societies.

Source: Statistical Statements Relating to the Cooperative Movement and the Reserve Bank of India.

Table 19

Net Annual Receipts from Small Savings[1]

(Rs. million)

	1950/51	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61
Post Office Savings Bank Deposits	163	128	178	142	246	370	313	180	202	277	445
National Savings Certificates[2]	173	178	185	203	198	193	190	-222	-258	-210	-186
10-Year National Plan Certificates[3]	-	-	-	-	74	90	90	-22	-21	-12	-10
12-Year National Plan Savings Certificates[4]	-	-	-	-	-	-	-	714	813	689	651
10-Year Treasury Savings Deposit Certificates[5]	53	131	73	65	51	41	30	51	52	94	121
15-Year Annuity Certificates[6]	-	-	-	-	5	4	4	5	5	5	7
Cumulative Time Deposits[7]	-	-	-	-	-	-	-	-	1	8	18
Post Office Cash & Defence Savings Certificates and Defence Savings Deposits	-55	-52	-35	-31	-22	-14	-12	-10	-10	-8	-6
Prize Bonds	-	-	-	-	-	-	-	-	-	-	158
Total Net Receipts	334	385	401	379	552	684	615	696	784	843	1198

1/ Figures are for fiscal years beginning April 1.
2/ Include 12-year, 7-year and 5-year certificates, the last being discontinued with effect from July 1953 and the others from June 1, 1957.
3/ Issued from May 10, 1954 to May 30, 1957.
4/ Issued from June 1, 1957.
5/ Interest on Treasury Savings Deposit Certificates issued since June 1, 1957 raised from 3½ per cent per annum to 4 per cent per annum.
6/ First series issued from July 1954 to December 1957 and second series from January 1958.
7/ Commenced from January 2, 1959.

Source: Figures for the period 1956/57 to 1960/61, except the one in respect of prize bonds, have been supplied by the Ministry of Finance, New Delhi. The rest of the figures have been taken from the Reserve Bank Reports on Currency and Finance and the Reserve Bank bulletin for July 1962.

Table 20

Annual Increase in Life Insurance Funds
(Other than the Postal Life Insurance Fund)

(Rs. million)

	1950	1951	1952	1953	1954	1955	1956 (Jan.-Aug.)	1956/57 (Sept.56-Dec.57)	1958	1959	1960
Indian insurers (other than provident societies)*											
(a) Increase in life insurance funds 1/	185 2/	148	217	249	278	271	179	300 (244)	374 (347)	475 (449)	651 (621)
(b) Increase in loans on policies	15 2/	36 2/	39	37	39	5 2/	25 2/	3 3/ (3)	9 (7)	10 (14)	29 (17)
(c) Net increase in life insurance funds	170	112	178	212	239	266	154	297 (241)	365 (340)	465 (435)	622 (604)
Non-Indian insurers - increase in life insurance funds 1/	16	15	20	26	19	23	4/	4/	4/	4/	4/
Provident societies - net increase in life insurance funds	1	5/	1	1	1	1	4/	4/	4/	4/	4/

* Life Insurance Corporation from September 1956 onwards. Figures in brackets pertain to the Corporation's business in India.

1/ Based on data given in revenue accounts of insurance companies. Information regarding loans on policies is not available in the case of non-Indian insurers.
2/ As the data available for certain years are somewhat incomplete, these figures indicate only the rough order of annual increases.
3/ Assumed to be same as in the case of loans on policies in India.
4/ Included in figures for Indian insurers.
5/ Less than 0.5 million.

Source: The Indian Insurance Year Books and Life Insurance Corporation.

Table 21

Assets of Life Insurance Companies at the end of August 1956 and of the Life Insurance Corporation at the end of 1960

	August 31, 1956 1/		December 31, 1960 2/	
	Amount (Rs.mil.)	Percentage of total	Amount (Rs.mil.)	Percentage of total
Government of India Securities	1710	41.2	2283	36.7
Indian State Government securities	337	8.1	949	15.2
Foreign securities:				
Securities of governments, municipalities, etc.	132	3.2	128	2.0
Debentures and shares of joint stock companies	16	0.4	5	0.1
Government guaranteed and other approved securities	302	7.3	416	6.7
Shares and debentures of companies in India 3/				
Ordinary shares	230	5.5	475	7.6
Preference shares	134	3.2	207	3.3
Debentures	205	5.0	238	3.9
Mortgages on Property	150	3.6	92	1.5
Loans on policies	359	8.7	436	7.0
Land and house property	193	4.7	265	4.3
Other assets	382	9.1	731	11.7
Total	4150	100.0	6225	100.0

1/ Figures relate to assets of life insurance business of Indian and non-Indian insurers as well as provident societies.

2/ Figures relate to assets of the Life Insurance Corporation in respect of life business only.

3/ Include shares and debentures of companies which are incorporated outside India but have their principal factories or works in India (Rs. 22 million at the end of 1960) and some shares and debentures (other than those representing "approved" securities) of cooperatives.

Source: Reserve Bank of India Bulletin for November, 1962.

Table 22

Total Annual Accruals to Provident Funds[1]

(Rs. million)

	1950/51	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61
Central Government (net)	85	102	86	149	156	162	181	193	185	228	432[2]
State Governments (net)[3]	34	45	38	52	64	61	69	77	88	115	157[4]
Reserve Bank of India (net)	2	2	3	3	4	4	4	5	5	6	7
Scheduled and A2 Class non-scheduled banks (contributions of employees and employers)[5]	15	16	17	17	18	24	24	27	30	33	36
Insurance companies including Life Insurance Corporation (contributions of employees and employers)	8	10	10	11	12	13	15	14	19	19	20
Non-financial corporate sector[6] (contributions of employees and employers)	94	112	186	396	434	442	452	514	558	595	705
Total	238	287	340	628	688	706	745	830	885	996	1357

1/ Estimates are for fiscal years beginning April 1.
2/ The increase in 1960/61 as compared to the 1959/60 level is explained largely by the extension of compulsory provident funds to almost all Central Government employees since April 1960. (To some extent, the increase was also due to the transfer to provident funds in 1960/61 of deferred pay in the case of defense services personnel.)
3/ Figures up to 1955/56 are for Part A and B States only. The figure for 1950/51 does not include net accrual in the former Travancore-Cochin State.
4/ As per data made available by the Planning Commission, New Delhi.
5/ Non-scheduled banks having paid-up capital and reserves of Rs. 0.5 million and above belong to the A2 Class.
6/ Including enterprises covered by statutory provident funds. Data on net accruals to statutory provident funds are set out in Appendix Table 23.

Source: Reserve Bank of India. (As mentioned in footnote 3 above, the figure of net accretions to providents of State Governments' employees in 1960/61 has been made available by the Planning Commission, New Delhi.)

Table 23

Net Annual Accruals to Statutory Provident Funds in the Private Sector[1]

(Rs. million)

	1952/53	1953/54	1954/55	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61	1961/62
Employees' Provident Funds										
Non-exempted establishments	15[2]	66[3]	50	66	85	160	146	147	177	225
Exempted establishments	51	106	116	115	135	141	116	152	201	197
Total	66[2]	172[3]	166	181	220	301	262	299	378	422
Coal Mines Provident Fund	6[4]	7[4]	7[4]	15	28	34	37	43	n.a.	n.a.
Assam Tea Plantations Provident Fund	-	-	-	22	35	28	32	33	35[4]	n.a.
Grand Total	72	179	173	218	283	363	331	375	n.a.	n.a.

1/ Figures pertaining to Employees' Provident Funds and Coal Mines Provident Fund are for fiscal years beginning April 1, while those for Assam Tea Plantations Provident Fund are for years beginning October 1.
2/ Exclusive of interest earned on investments.
3/ Inclusive of interest earned in 1952/53.
4/ Figures relate to contributions only. Information regarding other receipts and disbursements is not available.

Source: Central Commissioner of Employees' Provident Fund and Ministry of Labor. (Reserve Bank in the case of figures in respect of the coal mines provident fund for the years 1952/53 to 1954/55).

n.a. = not available

Table 24

Financing of Annual Outlays in the Public Sector under the First and Second Plans

(Rs. billion)

	FIRST PLAN						SECOND PLAN						
	Outcome						Latest estimates						Original estimates for five-year period
	1951/52	1952/53	1953/54	1954/55	1955/56	Total	1956/57	1957/58	1958/59	1959/60	1960/61	Total	
Balance from current revenues													
(a) at pre-Plan rates of taxation	1.83	0.99	0.87	1.23	1.45	6.37	0.94	0.01	-0.36	-0.10	-0.99	-0.50	3.50
(b) additional taxation							0.54	1.78	2.18	2.77	3.25	10.52	4.50
Railways' contribution	0.38	0.23	0.13	0.19	0.22	1.15	0.33	0.29	0.22	0.36	0.30	1.50	1.50
Loans from the public (net)	-0.23	0.16	0.02	1.20	0.89	2.04	1.44	0.73	2.30	1.81	1.52	7.80	7.00
Small savings (net)	0.39	0.40	0.40	0.56	0.68	2.43	0.61	0.70	0.79	0.86	1.04	4.00	5.00
Unfunded debt and miscellaneous capital receipts (net)	-0.45	-	1.46	0.48	0.90	2.39	-0.45	-0.52	1.22	1.31	0.74	2.30	2.50
Budgetary receipts corresponding to external assistance	0.65	0.46	0.19	0.16	0.43	1.89	0.39	0.89	2.30	1.98	5.34 1/	10.90 1/	8.00
Deficit financing	0.02	0.44	0.36	0.94	1.57	3.33	2.53	4.96	1.36	1.12	-0.49	9.48	12.00
Gap 2/	-	-	-	-	-	-	-	-	-	-	-	-	4.00
Total plan outlay	2.59	2.68	3.43	4.76	6.14	19.60	6.33	8.84	10.01	10.11	10.71	46.00	48.00

1/ Include investment of P.L. 480 counterpart funds in special government securities to the extent of Rs. 2.4 billion.
2/ This was to be covered by additional effort to raise domestic resources.

Source: Planning Commission, New Delhi.

Table 25

Inflow of Foreign Capital in the Private Sector 1/

(Rs. million)

	1954 and 1955 (annual average)	1956	1957	1958	1959
Private foreign capital					
Gross inflow:					
(i) Retained earnings	120	195	95	98	151
(ii) Cash inflow	15	31	59	48	33
(iii) Non-cash inflow	64	85	114	123	72
Total	199	312	269	268	256
Outflow	50	63	91	244	148
Net inflow	149	249	179	24	108
Official capital (net) 2/	14	121	321	253	273
Total net inflow of foreign capital	163	370	500	277	381

1/ Figures exclude foreign investments in the banking system. Totals may not add up because of rounding.

2/ Mainly from the IBRD and other official agencies such as the U.S. Export Import Bank and the Development Loan Fund.

Source: Reserve Bank of India Bulletin, May 1961.

Table 26

Organization of Recognized Stock Exchanges
(As of January 1961)

Name of Stock Exchange	Year of Establishment	Type of Association	Date of Government Recognition	Period of Recognition	Entrance Fee/ Par Value of Share (Rs.)	Current Value of Share or Membership Right or "Card" (Rs.)	Membership Security Deposit (Rs.)	Annual Subscription (Rs.)	No. of Members	No. of Active Members	No. of Authorized Assistants or Clerks of Members	No. of Remisiers 1/
Bombay	1875	Voluntary non-profit making association	8/31/1957	Permanent	-	28,001	20,000	15	504	409	1,537	220
Calcutta	1908 (Incorporated in 1923)	Public limited company	10/10/1957	5 years	10,000	8,400	20,000	48	619	408	355	-
Madras	1937 (Reorganized in 1958)	Company limited by guarantee	10/15/1957	5 years	2,500	-	5,000 (10,000 per firm)	180	37	30	21	-
Ahmedabad	1894	Voluntary non-profit making association	9/16/1957	5 years	6,101	-	5,000	25	462	156	427	-
Delhi	1947	Public limited company	12/9/1957	5 years	4,000	8,200	One additional share	-	105	94	55	-
Hyderabad	1943	Company limited by guarantee	9/29/1957	5 years	2,571		3,000	64	57	8	-	-
Indore	1930	Voluntary non-profit making association	12/24/1958	5 years	1,001		3,000	10	n.a.	n.a.	n.a.	n.a.

1/ Appointed by members. They cannot transact any business except through the appointing members or their authorized assistants or clerks.

Source: Bombay Stock Exchange

Table 27

New Registrations of Companies During the First and Second Plan Periods
(Rs. million)

Period	Public Companies		Private Companies		Total	
	No.	Authorized Capital	No.	Authorized Capital	No.	Authorized Capital
First Plan						
1951-52	568	721	1,298	802	1,866	1523
1952-53	287	211	1,046	753	1,333	964
1953-54	204	229	989	1325	1,193	1554
1954-55	211	1695	992	565	1,203	2260
1955-56	186	679	1,262	890	1,448	1569
Total	1,456	3535	5,587	4335	7,043	7870
Second Plan						
1956-57	84	541	764	1565	848	2106
1957-58	65	527	896	500	961	1027
1958-59	58	587	1,037	2257	1,095	2844
1959-60	87	671	1,365	934	1,452	1605
1960-61	153	1572	1,530	1295	1,683	2867
Total	447	3898	5,592	6551	6,039	1,0449
Grand Total	1,903	7433	11,179	1,0886	13,082	1,8319

Note: Figures of authorized capital of newly registered companies relate to the time of registration of companies and do not cover subsequent increases.

Source: Article entitled, "The Contemporary Corporate Scene in India" by R.K. Nigam, Director, Research & Statistics, Dept. of Company Law Administration. See Commerce, August 26, 1961.

Table 28

Government Companies Set Up During the First and Second Plan Periods
(Rs. million)

	No. of Companies	Authorized Capital	Paid-up Capital 1/
First Plan			
1951-52	4	415	234
1952-53	4	168	70
1953-54	4	3060	3035
1954-55	3	115	55
1955-56	6	318	170
Total	21	4076	3564
Second Plan			
1956-57	13	1199	644
1957-58	18	86	16
1958-59	16	983	46
1959-60	23	301	4
1960-61	17	314	n.a.
Total	87	2883	710
Grand Total	108	6959	4274

1/ As of March 31, 1960.

Source: Article entitled, "The Contemporary Corporate Scene in India" by R.K. Nigam, Director, Research & Statistics, Dept. of Company Law Administration. See Commerce, September 2, 1961.

Table 29

Companies and Securities Listed on Individual Stock Exchanges in Various Years

Name of Stock Exchange	Year	No. of Listed Companies	No. of Stock Issues Listed	Paid-up Capital (Rs. million) Ordinary Shares	Pref. Shares	Deb.	Total 1/	Market Value of Total Capital (Rs. million)	Average per Company (Rs. million) Total Paid-Up Capital 1/	Market Value of Capital	No. of Issues on the Cleared Securities List*
Bombay	1946	197	271				1233		6.3		28
	1958		358	2460	356	63	2879	4319			67
	1960	275	479	2592	472	332	3396		12.3		67
	1961	297	538	2946	556	310	3812	6451	12.8	21.7	65
Calcutta	1946	576	807				1475		2.6		
	1958		848	2360	356	161	2877				13
	1960	570	918	2336	535	340	3211		5.6		12
	1961	576	924	2357	547	354	3258	5481	5.7	9.5	12
Madras	1946	192	298				406		2.1		
	1958		384	608	102	143	853	1135			12
	1960	246	446	718	109	109	1006		4.1		12
	1961	249	451	819	120	182	1121	1801	4.5	7.2	12
Ahmedabad	1946	81	82				154 2/		2.8 2/		
	1958		162	354	131		485				14
	1961	96	208	679	157	-	836	2145	8.7	22.3	9
Delhi	1946	73	92				729 3/		12.2 3/		
	1961	103	198	683	159	6	848	1269	8.2	12.3	4
Hyderabad	1958		28	108	37		145	138			
	1961	19	27	596	35	2	633	1211	33.3	63.8	-
Indore	1961	8	9	29	2	-	31	47	3.9	5.9	-

1/ Figures for 1946 pertain to ordinary and preference shares only.
2/ Figures pertain to 56 companies only.
3/ Figures pertain to 60 companies only.

* Securities in which forward trading is permitted are known as "cleared" securities. See page 83 of the text.

Source: 1946 - Report on The Regulation of the Stock Market in India by P.J. Thomas
1958 - The Capital Market of India by S.L.N. Simha
1960 - "Scope of Stock Exchanges" by Raj K. Nigam, Commerce Annual, 1960
1961 - Bombay Stock Exchange Records

(Table prepared by Bombay Stock Exchange)

Table 30

Increase in the Number of Shareholders of Certain Companies

Name of Company	Number of Shareholders			% Increase in 1960 over	
	1947	1952	1960	1947	1952
Tata Iron & Steel		28,410	70,000		146
Associated Cements	22,450	25,415	44,067	96	73
Scindia Steam	24,700	31,000	39,432	60	27
Tata Chemicals	9,496	10,138	14,881	57	47
Voltas		3,937 1/	6,586		67 2/
Bombay Burma		6,959	8,873		28
Orissa Cement		3,556 3/	8,191		130 4/
Sirpur Paper	1,427	1,112	3,393	138	205
Belapur	2,725		3,920	44	
Svadeshi Mills	2,135	2,690	3,693	73	37
Tata Mills	2,668	2,604	4,919	84	89
Tata Power		7,446	10,723		44
Tata Hydro	5,660	7,869	10,659	88	35
Andhra Valley Power		3,459	5,319		54
New India Assurance	10,800		13,694	27	
Central Bank	20,400	23,263	24,707	21	6
Bank of India		8,549	10,154		19
Union Bank	6,180	6,040	8,056		33

1/ Relates to 1957.
2/ Increase in the number of shareholders in 1960 as compared to that in 1957.
3/ Relates to 1955.
4/ Increase in the number of shareholders in 1960 as compared to that in 1955.

Source: Bombay Stock Exchange

Table 31

Index Numbers of Security Prices[1]

Year[2] or Month	Group Indices: Government Securities	Debentures	Preference Shares	Variable Dividend Industrial Securities	Selected Sub-group Indices of Variable Dividend Industrial Securities: Coal	Sugar	Cotton Textiles	Jute Textiles	Iron and Steel	Transport Equipment	Electrical Machinery	Machinery other than Transport & Electrical	Basic Industrial Chemicals	Cement	Paper	Electricity	Shipping and other Transport
								Base: 1938 = 100									
1951-52	95.8		97.2	127.8	126	97	169[3]	100	163			172[4]	176	144	128	90	99
1952-53	91.7		90.8	107.3	91	84	135[3]	78	131			140[4]	135	141	114	83	86
								Base: 1949-50 = 100									
1952-53	90.1		87.3	94.0	84	85	94	91	97			101[4]	94	113	151	115	88
1953-54	90.4	101.1	87.3	95.6	78	85	96	82	107			113[4]	99	116	159	116	94
1954-55	90.5	100.7	88.4	112.9	82	101	107	93	140			156[4]	132	141	211	123	108
1955-56	90.9	100.8	87.3	121.6	81	105	118	95	154			189[4]	144	164	256	123	106
1956-57	90.5	100.1	82.9	121.2	78	105	134	70	147			188[4]	144	176	266	112	118
1957-58	89.3	98.1	74.5	100.3	67	95	105	52	119			151[4]	131	141	211	103	117
								Base: 1952-53 = 100									
1957-58[5]	98.3	99.6	88.0	125.4	89	160	120	63	116	175	163	148	109	125	160	89	123
1958-59	99.9	100.1	87.2	137.3	107	164	114	80	145	198	143	166	123	129	185	93	134
1959-60	101.2	101.8	92.2	155.3	114	179	129	97	161	288	133	198	167	136	209	90	125
1960-61	101.0	100.8	87.2	171.7	120	187	151	90	160	399	140	211	208	144	224	82	108
1961-62	100.9	101.1	83.2	183.7	123	158	180	91	164	405	165	218	212	149	211	84	96
Mar.-62	100.7	100.9	82.6	192.2	160	145	201	102	156	399	177	237	206	164	224	87	94
June-62	100.7	99.7	81.8	189.9	165	138	188	104	164	392	185	247	199	167	231	86	94

1/ Annual and monthly averages.
2/ Fiscal year beginning April 1.
3/ Indices for cotton, woollen and silk textiles.
4/ Indices for general engineering securities.
5/ Average of 40 weeks.

Source: Reserve Bank Reports on Currency and Finance and Monthly Bulletins.

Table 32

Capital Raised by Non-Government Companies through Shares and Debentures

(Rs. million)

Type of Issue	1957			1958			1959			1960			1961 (Preliminary)			5 years, 1957/1961		
	Public Companies	Private Companies	Total	Public Companies	Private Companies	Total	Public Companies	Private Companies	Total	Public Companies	Private Companies	Total	Public Companies	Private Companies	Total	Public Companies	Private Companies	Total
Initial 1/																		
Ordinary	70.8	36.8	107.6	57.8	73.8	131.6	97.6	171.1 3/	268.7	141.1	129.7	270.8	225.4	96.6	322.0	592.7	508.0	1100.7
Preference	8.7	4.1	12.9	8.0	0.8	8.8	6.8	1.4	8.2	4.4	0.3	4.7	15.8	0.9	16.7	43.7	7.5	51.3
Total	79.5	40.9	120.5	65.8	74.6	140.4	104.4	172.5	276.9	145.5	130.0	275.5	241.2	97.5	338.7	636.4	515.5	1152.0
Further 2/																		
Ordinary	323.9	86.8	410.7	152.7	84.6	237.3	209.5	90.4 3/	299.9	338.1	94.8	432.9	334.8	88.4	423.2	1359.0	445.0	1804.0
Preference	47.0	4.2	51.1	47.6	6.3	53.9	38.1	1.3	39.4	71.6	1.5	73.1	36.1	1.3	37.4	240.4	14.6	254.9
Total	370.9	91.0	461.8	200.3	90.9	291.2	247.6	91.7	339.3	409.7	96.3	506.0	370.9	89.7	460.6	1599.4	459.6	2058.9
Debentures	92.8	5.4	98.1	124.0	1.1	125.1	96.9	3.5	100.4	93.9	-	93.9	82.0	6.0	88.0	489.6	16.0	505.5
Grand Total	543.3	137.2	680.5	390.1	166.6	556.7	448.9	267.7	716.6	649.1	226.3	875.4	694.1	193.2	887.3	2725.5	991.0	3716.5

Note: Data relate to capital raised against consents granted by the Controller of Capital Issues as well as under the Exemption Order but do not cover bonus issues. They are based on reports received from companies/registrars of companies up to April 15, 1962 and do not take into account capital raised by companies for which no reports were received up to that date. For 1957, figures do not add up to totals because of rounding.

1/ Capital issues by new companies.
2/ Capital issues by existing companies.
3/ Including Rs. 0.5 million in respect of government companies.

Source: Reserve Bank Report on Currency and Finance for 1960/61 and the Ministry of Finance, Government of India.

Table 33

Consents for Capital Issues by Non-Government Companies

(Rs. million)

	Shares 1/	Debentures	Total
1951	412	41	453
1952	214	30	244
1953	416	117	533
1954	662	203	865
1955	698	174	872
1956	987	103	1090
1957	683	91	774
1958	500	163	663
1959	1024	99	1123
1960	943	196	1139
1961	1115	212	1327

1/ Ordinary as well as preference shares. Bonus issues are not included.

Source: Reserve Bank Reports on Currency and Finance and Bulletin for February 1961.

Table 34

Consents for Capital Issues by Non-Government Companies - Breakdown by Public and Private Companies[1]

(Rs. million)

	1951	1952	1953	1954	1955	1956	1957	1958	1959
Public companies									
Shares[2]	294	166	368	607	559	870	424	380	784
Debentures	41	30	115	200	103	99	92	175	123
Total	335	196	483	807	662	969	516	555	907
Private companies									
Shares[2]	118	48	48	55	139	116	277	131	334
Debentures	1/	-	2	3	71	5	5	8	10
Total	118	48	50	58	210	121	282	139	344
All companies									
Shares[2]	412	214	416	662	698	986	701	511	1118
Debentures	41	30	117	203	174	104	97	183	133
Total	453	244	533	865	872	1090	798	694	1251

1/ Figures for the years after 1955 have been revised but the breakdown of revised figures by public and private companies is not readily available. The revised figures for public and private companies combined are shown in Table 33.

2/ Exclusive of bonus issues.

Source: Reserve Bank of India Bulletin, February 1961.

Table 35

Denomination Pattern of Stock Issues listed on Stock Exchanges in February 1961

Denomination Rs.	Ordinary Shares: No. of Stock Issues	Ordinary Shares: No. of Units issued ('000)	Preference Shares: No. of Stock Issues	Preference Shares: No. of Units issued ('000)	Debentures: No. of Stock Issues	Debentures: No. of Units issued ('000)
1	25	18,149	-	-	-	-
2	41	25,319	1	69	-	-
5	46	31,447	11	1,247	-	-
10	594	218,488	116	8,467	-	-
25	30	5,781	14	589	-	-
50	63	5,040	40	550	-	-
75	1	3,671	-	-	-	-
100	367	20,058	448	10,060	54	1,876
250	17	163	6	14	-	-
500	11	31	3	13	29	124
1000	10	90	5	17	56	303
5000	-	-	-	-	4	28
Others	98	74,222	15	579	6 1/	n.a.
Total	1303	402,459	659	21,605	149 1/	n.a.

1/ Denomination not known.

n.a. = not available.

Source: Bombay Stock Exchange.

Table 36

Details of New Capital Issues by Existing Non-Government Non-Financial Public Companies[1/]

(Amount in Rs. million)

Year	Type of Security	Total Issues		Right Issues		Issued through Prospectus					
								Amount reserved for			Amount offered to public
		No.	Amount	No.[2/]	Amount	No.[2/]	Amount	Promoters, Directors, etc.	Foreign participants	Institutional investors	
1956	Ordinary shares	35	287.3	34	284.3	2	3.0	-	-	-	3.0
	Pref. shares	15	24.3	14	22.1	2	2.2	-	-	-	2.2
	Debentures	2	0.2	-	-	2	0.2	-	-	-	0.2
1957	Ordinary shares	53	218.9	51	183.1	8	35.8	1.8	5.2	0.2	28.6
	Pref. shares	10	16.7	8	13.4	4	3.3	0.2	-	-	3.1
	Debentures	4	4.3	-	-	4	4.3	-	-	-	4.3
1958	Ordinary shares	41	164.9	40	156.7	3	8.2	-	-	-	8.2
	Pref. shares	11	44.2	10	27.4	3	16.8	-	-	-	16.8
	Debentures	6	45.8	-	-	6	45.8	-	-	-	45.8
1959	Ordinary shares	74	272.6	72	249.1	5	23.5	0.9	0.4	-	22.2
	Pref. shares	24	106.3	21	74.8	6	31.5	2.0	-	-	29.5
	Debentures	5	39.4	-	-	5	39.4	-	-	-	39.4
1960	Ordinary shares	76	188.8	70	164.1	8	24.7	3.3	0.6	10.0	10.8
	Pref. shares	10	16.7	7	8.6	4	8.1	0.1	-	0.7	7.3
	Debentures	2	6.0	-	-	2	6.0	-	-	-	6.0
Total	Ordinary shares	279	1132.5	267	1037.3	26	95.2	6.0	6.2	10.2	72.8
	Pref. shares	70	208.2	60	146.3	19	61.9	2.3	-	0.7	58.9
	Debentures	19	95.7	-	-	19	95.7	-	-	-	95.7

1/ Data are somewhat incomplete as information for all companies is not available.
2/ Certain issues involved a rights issue as well as a prospectus issue.

Source: Bombay Stock Exchange

Table 37

Details of Initial Capital Issues by Newly Established Non-Government Non-Financial Public Companies[1]

(Amount in Rs. million)

Year	Type of shares	Total Issues		Amount reserved for			Amount offered to public
		No.	Amount	Promoters, directors, etc.	Foreign participants	Institutional investors	
1956	Ordinary	5	20.5	5.7	5.0	-	9.8
	Preference	5	11.4	3.7	0.2	-	7.5
1957	Ordinary	2	7.2	3.6	-	-	3.6
	Preference	1	1.0	0.5	-	-	0.5
1958	Ordinary	5	55.0	16.0	15.8	0.2	23.0
	Preference	1	1.0	-	-	-	1.0
1959	Ordinary	9	96.8	40.6	16.2	-	40.0
	Preference	6	24.8	1.2	-	-	23.6
1960	Ordinary	31	264.1	102.0	35.5	3.5	123.1
	Preference	10	55.3	1.9	-	0.5	52.9
Total	Ordinary	52	443.6	167.9	72.5	3.7	199.5
	Preference	23	93.5	7.3	0.2	0.5	85.5

1/ Data are somewhat incomplete as information for all companies is not available.

Source: Bombay Stock Exchange

Table 38

Subscriptions to New Issues of Preference Shares of Non-Government Non-Financial Public Companies

(Rs. million)

	All Issues		Issues Fully Subscribed		Issues Undersubscribed				Issues Oversubscribed			
Year	No.	Amount Offered	No.	Amount Offered	No.	Amount Offered	Amount Applied for	Amount Applied for as % of Amount Offered	No.	Amount Offered	Amount Applied for	Amount Applied for as % of Amount Offered
1957	1	1.3	-	-	1	1.3	1/	-	-	-	-	-
1958	1	1.0	-	-	1	1.0	0.1	10	-	-	-	-
1959	5	11.7	2	0.9	-	-	-	-	3	10.8	13.4	124
1960	5	34.9	-	-	4	32.4	6.6	20	1	2.5	2.8	112
Total	12	48.9	2	0.9	6	34.7	6.7	19	4	13.3	16.2	122

1/ Negligible

Source: Bombay Stock Exchange

Table 39

Underwriting of New Capital Issues of Non-Government Non-Financial Public Companies[1]

(Rs. million)

Year	Total amount of new issues	Amount underwritten by						
		ICICI	LIC	IFC	Banks	Brokers	Others[2]	All underwriters
1956	344	8	-	-	8	3/	1	17
1957	248	9	1	-	-	15	1	26
1958	311	18	12	7	19	11	8	75
1959	540	15	4	9	28	33	19	108
1960	531	10	13	2	50	22	14	111
Total	1974	60	30	18	105	81	43	337

1/ Data are somewhat incomplete as information for all companies is not available.
2/ Mainly investment companies.
3/ Less than 0.5 million.

Source: Bombay Stock Exchange

Table 40

Loans of Central and State Governments and their Absorption[1]

(Rs. billion)

	Net market borrowings by the Central and State Governments			Net cash receipts from public[2]	Net sales in open market by Reserve Bank[3]	Total net absorption by public[2][4]
	Cash receipts (1)	Cash payments (2)	Net receipts (3)	(4)	(5)	(6)
First Plan						
1951/52	243	492	- 249	+ 17	- 113	- 96
1952/53	158	29	+ 129	+ 129	+ 205	+ 334
1953/54	604	639	- 35	+ 463	+ 342	+ 805
1954/55	1607	500	+1107	+ 672	+ 253	+ 925
1955/56	986	166	+ 820	642	+ 289	+ 931
Total	3598	1826	+1772	+1923	+ 976	+2899
Second Plan						
1956/57	1437	30	+1407	+ 897	- 191	+ 706
1957/58	997	290	+ 707	+ 281	+ 852	+1133
1958/59	2416	148	+2268	+1056	+ 890	+1946
1959/60	2083	336	+1747	+ 825	+ 606	+1431
1960/61	1794	454	+1340	+ 614	-1251	- 637
Total	8727	1258	+7469	+3673	+ 906	+4579
Third Plan						
1961/62[5]	1857	500	+1357	+ 730	- 370	+ 360

1/ Figures from 1956/57 onwards are inclusive of investment of P.L. 480 funds. Those for 1960/61 and 1961/62 are not strictly comparable to the figures for the earlier years consequent on the change in the arrangements in regard to P.L. 480 funds from May 12, 1960 (see text, pp. 13 and 14).

2/ The term "public" in this table includes all investors other than the Reserve Bank and Central and State Governments.

3/ Including transactions of the Central Government's Cash Balance Investment Account.

4/ Figures do not take into account transactions on the State Governments' Cash Balance Investment Accounts, the Reserve Bank's operations in State Government loans and repayment of State loans held by State Governments.

5/ Provisional.

Source: Reserve Bank of India Bulletin, April 1962.