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INDIA NEWS

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Reserve Bank of India Releases Credit Policy

Monetary and Credit Policy for the Second Half of 1997-98

1. The current macro-economic situation continues to remain satisfactory. The monsoon conditions have assured that agricultural performance would improve and be supportive of potential growth of industrial activities. Although industrial production in the first four months of 1997-98 was sluggish relative to the trends in the comparative periods of the past two financial years, factors such as the increased rural incomes, upward wage revisions in the Government sector, fiscal incentives and the expected recovery in world trade would augment demand and result in improved consumption, investment and exports.

2. Monetary developments indicate that M3 is moving around the projected trajectory of 15.0 - 15.5 per cent for 1997-98. Aggregate deposits of banks have continued to grow strongly during the current year so far. Non-food credit has shown a pick up in recent period. Besides, banks' investments in commercial paper, bonds/debentures/shares of Public Sector Undertakings (PSUs) and private corporate sector have shown a strong growth as compared with that in the previous year. Consequently, the total flow of resources from banks to commercial sector this year so far has been significantly larger than in the corresponding period of the previous year. Corporates could also avail of funds from abroad through the external commercial borrow-

ings and GDR routes. The capital markets, however, continued to be somewhat sluggish. A heartening feature of the current financial year so far is the perceptible deceleration of the inflation rate notwithstanding the upward revisions in the prices of administered items. The year-on-year increase in the Wholesale Price Index was 4.1 per cent as on October 4, 1997 as compared with 6.5 per cent a year ago. The annual rate of inflation as measured by the Consumer Price Index was also perceptibly lower at 4.7 per cent in August 1997 as compared with 8.9 per cent a year ago.

3. Reflecting the decline in the inflation rate and the improved liquidity in the banking system as also responding to the signals given by the Bank Rate reduction in June 1997, interest rates, both short-term and long-term, have moved down sharply in 1997-98 so far, notwithstanding the completion of a predominantly large part of Government's market borrowing programme. Banks have also reduced their Prime Lending Rates (PLRs) substantially. The foreign exchange market was stable during the current year so far, barring a brief period at end-August and during the first week of September 1997. Foreign currency assets of the Reserve Bank increased by US \$3,744 million over the level at end-March 1997 to US \$26,111 million by October 10, 1997.

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Power Generation Up By 7 Percent

The overall power generation in the country during the first 6 months from April-Sept '97 grew by 7% over the generation in the corresponding period of 1996. A total of 204.74 Billion Units of electricity was generated during the first half of the current financial year against the generation of 191.37 Billion Units last year. The growth in thermal, nuclear and hydro generation over the previous year has been 6.2%, 43.4% and 6.5% respectively.

The Union Ministry of Power has been closely associating itself with the efforts aimed at stepping up power generation during the year. Recently it has launched a programme for accelerated generation, avacuation and refurbishment (PAGER) through which it is assisting the utilities both at the Centre and in the States to procure requisite quantities of fuel for generation, sort out the transportation bottlenecks as also improves their liquidity. The transmission constraints which sometimes require the generating stations to back down are also being addressed through this programme as also renovation and modernisation of selected power stations.

The current year's programme of generation envisages generating 423 billion units as against an aggregate generation of 394.4 billion units during the last financial year i.e. a rate of growth of 7.2%. The Plant Load Factor (PLF) of thermal power stations, which account for almost three-fourths of electricity generation in the country is sought to be stepped up from 64.3% achieved last year to 65.4%. PLF of first 6 months of the current year was 62% as against the PLF of 61.6% during the corresponding period last year.

The Union Power Ministry of Power is coordinating with the targeted rate of growth of generation of 7.2% for the current year is fulfilled even though the capacity addition in the country during the preceding year 1996-97 was only 2%. Growth in generation during the year 1996-97 was 3.8%.

Beni Prasad Verma Inaugurates Indo-US Telecommunications Conference

India has an ambitious plan of providing over 23 million telephones in the coming five years, thereby almost doubling the availability of telephones from the present level. He said that this would open up a plethora of opportunities for investment in terms of finance and technology, development of infrastructure and modernisation.

The Minister of Communications, Beni Prasad Verma has said that the private sector is playing a commendable role and complementing the efforts of the Government in providing the state-of-the-art telecom services and a host of other value-added services.

Stating that some of these areas are covered exclusively by the private sector, he said that equally important is the contribution made by the manufacturing sector in these segments. The Minister was inaugurating a three-day US - Indo Telecommunications Conference.

Referring to the significant presence of the American companies in India he said, that the entrepreneurs from both the countries can get together and provide cost-effective solutions for sustainable development of the telecom network in the country.

The Conference has been organised by the Confederation of Indian Industries in association with US

Trade and Development Agency, US Department of Commerce and Federal Communications Commission.

It would give an opportunity for joint ventures, investment and also to understand the vast opportunities that exist in the rapidly growing communications sector in South Asia.

The Conference during its concurrent sessions will discuss issues relating to the Telecom Sector, Indian market for telecommunications technology and services and other issues that shape their investment and partnering decisions.

U.S. Judge's Praise For Indian Judiciary

Indian Courts are more impartial, objective and fair in dealing with trade-related issues than the American ones which defer too much to the government agencies, a leading U.S. trade judge and a prominent lawyer said.

Speaking at a panel discussion organised by the Indian Embassy, Mr. Thomas J. Aquillino, a judge at the U.S. court of international trade, said the whole process in the U.S. was "politicised" and judges deferred too much to the government agencies.

He, along with trade lawyer, Ms. Jean Anderson, said even in cases remitted back by the agencies the courts refused to change their initial decisions.

Among others who participated in the discussion were Mr. U. L. Bhat, a former High Court Chief Justice who is now president of India's customs, excise and gold appellate tribunal, Mr. Lakshmi Kumaran, adviser to the Government of India on trade and intellectual property matters and Mrs. Kanti Tripathi, Minister in charge of Commerce in the Indian Embassy.

Mrs. Tripathi said Indian exporters were facing difficulties in entering the U.S. market due to a number of barriers, including non-tariff ones, as many of the restrictions were applied in an inconsistent manner.

Pointing out such aberrations, Mrs. Tripathi said Indian exporters meet the strict quarantine laws of France and Germany when they export mangoes but had so far failed to enter the U.S. markets, though the laws are quite the same.

PRIMARY EDUCATION IN INDIA

- The elementary education system in India has become one of the largest in the world with 150.74 million children enrolled in 1995-96 in the age group of 6-14 years covering about 91% of the children in this age group. Of these, 109.73 million children were enrolled in 5,90,421 primary schools and other 41.01 million in 1,71,216 upper primary schools. This shows a substantial increase compared to 1950-51 when the enrolment for primary schools was 19.2 million and for upper primary schools was 3.1 million.
- Enrolment of girls has grown at the primary stage from 5.4 million in 1950-51 to 46.7 million in 1994-95 and at the upper primary stage from 0.5 million to 15.7 million. The rate of growth of girls' enrolment has been higher than that of boys but disparities still persist — girls still account for only 42.9% of the enrolment at the primary stage and 39.3% at the upper primary stage. The drop-out rates of girls at the primary as well as the upper primary stage are higher than those of boys.
- According to the 5th All India Educational Survey, 95% of the country's rural population is served by a primary school within a distance of 1 km and 85.4% by an upper primary school with a distance of 3 kms. The number of institutions have increased from 4.46 lakhs in 1950-51 to 15.22 lakhs in 1995-96.
- There are 2.90 million teachers — 1.74 million employed in primary schools and 1.16 million in upper primary schools. This is as compared to 0.53 million teachers in primary schools and 0.036 million teachers in upper primary schools in 1950-51.
- All State governments have abolished tuition fees in the government, local body and aided schools upto the upper primary level.
- In a landmark decision in this golden jubilee year of the independence, the Government has decided to make elementary education a Fundamental Right for the children in the age group of 6-14 years. To achieve this goal, the Constitution of India would be amended. Simultaneously, an explicit provision would be made in the Constitution to make it a Fundamental duty of every parent to provide opportunities for elementary education to all children in the age group of 6-14 years.

First Indian American on Space Shuttle Columbia

Indian born American Kalpana Chawla will be the first ever Indian American to be a part of the crew of the space shuttle Columbia to be launched on November 19, 1997. She will be the first woman in space of Indian origin also. Ms. Chawla has been trained for three years at NASA's Johnson Space Center in Houston, Texas will be one of three mission specialists among a six member crew on board the Columbia.

Mr. Gujral Underlines Need for Universal Extradition Treaty

The Prime Minister Inder Kumar Gujral has said that there is a need for a universal extradition treaty. This, he said, was necessary because of crime was no more confined to one country.

Inaugurating the 66th General Assembly of the Interpol, Mr. Gujral underlined the need for international cooperation in combating crime. Once extradition becomes universalised, Interpol's operations will become easier and simple. Mr. Gujral said that some sort of an international pressure was called for so as to deal with the situation where common criminals were seen taking shelter in other countries.

The Prime Minister while thanking the Interpol for all the support that India had been receiving from it from time to time, also lauded the Indian police forces for their services to the country.

Gujral's Visit to South Africa

Mr. Gujral's visit, which took place during the 50th anniversary of India's independence, served to recall the historical links that existed between the two countries and offered an opportunity to the leaders to have a summit level discussions on wider ranging bilateral and international issues.

The visit also gave a concrete shape to the concept of strategic partnership between the two countries by strengthening the political, economic and cultural links.

Arundhati Roy Wins Booker Prize

Indian novelist Arundhati Roy has become the first Indian to win the prestigious Booker prize for her "The God of Small Things", a work which has already sold close to a million copies in the west. Announcing the 20,000-pound award on October 14, a four-member jury described the 37-year old Roy's first work, which brought the writer a record one million pounds as advance from the publishers, as "extraordinary, linguistic and inventive".

The award, considered next in stature to the Nobel for literature, has earlier been won by two most well known writers of Indian origin — V. S. Naipaul and Salman Rushdie.

Russia Backs India for U.N. Council Seat

Russia extended support to India's claim for a permanent seat in the U.N. Security Council.

"We fully support the expansion of U.N. Security Council with a permanent Indian presence," the Russian Ambassador, Mr. Albert Chreychev, told newsmen at a press conference in New Delhi addressed by the visiting Russian Deputy Prime Minister, Mr. Anatoly Kulikov.

"There has been an increase in drug-related crimes," Mr. Kulikov, who signed a protocol on Indo-Russian cooperation on combating drug-trafficking, terrorism and other organised crimes, said.

The Russian Deputy Premier met the Prime Minister, Mr. I.K. Gujral, yesterday and had wide-ranging discussions on illegal drug trafficking, which had increased with the heavy inflow of narcotics from the golden triangle in the past year.

The protocol signed by the Home Minister, Mr. Indrajit Gupta, on exchange of specialised police training and exchange of information between the two countries to combat organised crimes is in preparation for the Russian President, Mr. Boris Yeltsin's visit to India next year, the Russian ambassador said.

National Security Top Priority

FUNDS FOR DEFENCE TO RECEIVE URGENT ATTENTION

The Prime Minister, Mr. I.K. Gujral has declared that national security is top priority and funds for meeting defence requirements of the country would receive urgent attention of his government.

Addressing the conference of the Combined Commanders of the Army, the Navy and the Air Force, he emphasised that the country's security was central to all policies of the government and there could be no compromise on it. Within our financial constraints we will have to find, the resources to sustain the required level of security and modernisation of our forces, he said. The welfare of the armed forces personnel and exservicemen will be the Government's highest concern.

The Defence Minister, Mr. Mulayam Singh Yadav, the Minister of State for Defence, Mr. N. V. N Somu, the three Service Chiefs and senior officials including the Cabinet Secretary, the Principal Secretary to P.M., the Home Secretary, the Defence Secretary and the Scientific Adviser to the Defence Minister attended the conference.

Observing that the country was facing a host of challenges to national security both externally and internally, the Prime Minister called for addressing them in optimum and effective way. The parliamentary system provided the right mechanisms for seeking the views of all political parties and shades of opinion. Besides, the newly-constituted

BROADCASTING BILL - 1997

The Government has introduced the Broadcasting Bill in the Budget Session of Parliament which has been referred to a Joint Select Committee. This is the first time that a comprehensive law is contemplated to enable licensing and regulation of broadcasting.

According to the Minister for Information & Broadcasting, Mr. S. Jaipal Reddy, the objects and reasons for introducing this Bill are:-

1. The broadcasting scenario, especially in the realm of satellite broadcasting, has undergone a revolution during the last few years. A large number of satellite television channels have been beaming their programmes through the Indian skies to our people. All these channels are foreign entities and their programmes are uplinked from outside the country without any regulation through the law of our land, while Indian entrepreneurs and Indian companies are not at present permitted to own either radio or television stations.
2. Concern has been voiced both inside Parliament and outside about the implications of these unregulated television programmes and the denial of level playing field to Indian entities. The only legal instrument available is the Indian Telegraph Act, 1885, which is considered totally inadequate to govern modern broadcasting media. All leading democratic countries have enacted laws specifically regulating broadcasting media. The introduction of the Broadcasting Bill is a step in this direction.
3. It is felt that the public service broadcaster alone will not be able to meet the needs and urges of the people in items of variety and plurality of programmes required in different regions by different sections of society in our vast country. Keeping in view our great democratic traditions, it is imperative that our citizens are well informed and given wider choice in matters of information, education and entertainment. This can be provided by facilitating private broadcasting in the country.
4. The Bill seeks to establish an autonomous Broadcasting Authority for the purposes of facilitating and regulating broadcasting services in India so that they become competitive in terms of quality of services, cost of service and use of new technologies, apart from becoming a catalyst for social change, promotion of values of Indian culture and shaping of a modern vision. It will also curb monopolistic trends in this sensitive field, so that people are provided with a wide range of news and views.

Cabinet Committee on Security benefits from the advice of relevant Ministries and organisations including view of the services and non-government think tanks, he said. Elaborating on developments having an impact on the country's se-

curity, Mr. Gujral said our immediate neighborhood should naturally be an area of highest priority to us. A peaceful and constructive environment is vital for achieving accelerated development not only for India but for the whole region.

RBI Credit Policy . . . (Continued from page 1)

Monetary and Credit Developments

4. M3 showed an increase of Rs.52,029 crore (7.4 per cent) during the current financial year upto October 10, 1997 as compared with an increase of Rs.41,473 crore (6.9 per cent) during the corresponding period of 1996-97 mainly on account of the large accretions to net foreign exchange assets of the Reserve Bank. Reserve money increased by Rs.5,369 crore (2.7 per cent) in the current financial year till October 10, 1997, in contrast with a pronounced decline of Rs.6,951 crore (3.6 per cent) in the comparable period of the previous year. A striking feature during the current financial year so far has been the perceptible decline of Rs.5,964 crore (4.9 per cent) in net Reserve Bank credit to Central Government in contrast with an increase of Rs.6,486 crore (5.5 per cent) during the comparable period of 1996-97 due mainly to the large increase in investments in Government securities by banks.

5. Aggregate deposits of scheduled commercial banks recorded a strong increase of Rs.38,028 crore (7.5 per cent) during the current financial year upto October 10, 1997 as compared with an increase of Rs.28,131 crore (6.5 percent) during the corresponding period of 1996-97. Food credit increased sharply by Rs.1,455 crore during the period under review of 1997-98 as against a decline of Rs.1,414 crore during the same period of the previous year, mainly due to relatively large procurement of wheat. Non-food bank credit of scheduled commercial banks showed an increase of Rs.3,500 crore (1.3 per cent) during the current financial year upto October 10, 1997 as compared with the rise of Rs.1,278 crore (0.5 per cent) during the corresponding period of the previous year. There has been a conspicuous shift in the asset portfolio mix of banks during the past year and half. Banks have begun to increasingly place greater emphasis on investments. Banks have increased their investments in bonds/ debentures/shares issued by Public Sector Undertakings (PSUs) and private corporate sector and commercial paper by Rs.8,315 crore during the current financial year so far upto September 26, 1997 as against a lower order of increase of Rs.1,259 crore during the corresponding period of the previous year. As a result, the total flow of funds from scheduled commercial banks to commercial sector comprising of loans and advances as well as investments showed a net increase of Rs.11,815 crore as compared with the increase of

Rs.2,537 crore during the corresponding period of 1996-97.

6. Investments by scheduled commercial banks in Government securities during the current financial year upto October 10, 1997 were substantially higher by Rs.28,135 crore compared to Rs.13,847 crore during the corresponding period of the previous year. The budgeted borrowing programme of all the States has been completed. As against the budget estimate of gross market borrowing of the Central Government of Rs.52,963 crore for 1997-98, an amount of Rs.50,005 crore has already been raised so far. The Central Government would be able to raise the balance of the budgeted gross market borrowings during the rest of the current financial year without any perceptible impact on markets.

7. In response to the various policy initiatives undertaken during the past year and a half, the declining trend in interest rates which started in 1996-97 persisted during the current financial year as well. The operationalisation of the Bank Rate in April 1997 as an instrument to transmit signals of monetary policy and as a reference rate for influencing interest rates in the economy provided an added impetus to this process. Following the one percentage point reduction in the Bank Rate in April and again in June 1997 there has been a corresponding reduction in deposit rates in 1997-98 so far. Many public sector banks have brought down their Prime Lending Rates (PLRs) to 13.5 - 14.5 per cent. Private sector banks and foreign banks have also brought down their PLRs.

8. There has been a perceptible fall in interest rates across all maturities and instruments. This reflects the comfortable liquidity position in the system brought about, inter alia, by factors like sharp reductions in cash reserve ratio during 1996-97, large deposit growth, low rate of inflation and the reduction in the Bank Rate during the first half of the current financial year.

Developments in the External Sector

9. According to provisional trade statistics, in the first five months (i.e., April-August 1997) of the current financial year there has been deceleration in the growth of both exports and imports. While merchandise exports in US dollar terms increased by 2.9 per cent,

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imports have gone up by 7.6 per cent. In SDR terms, however, the growth of exports has been 8.4 per cent and that of imports 13.4 per cent. In any case, the deceleration in the growth of trade is an area of concern. It is necessary to raise the growth of exports as well as imports in order to strengthen the impulses of economic growth.

10. There has been a distinct strengthening of the balance of payments situation in 1997-98 so far, as revealed by the sizeable build-up of foreign currency assets of the Reserve Bank. The stock of foreign currency assets has grown from US \$ 22.4 billion at end-March to US \$ 26.1 billion by October 10, 1997 mainly reflecting the strength of the capital account.

Stance of Monetary Policy

11. The stance of monetary policy would continue to seek to attain the twin objectives of promoting price stability and of ensuring availability of adequate bank credit to meet the requirements of productive sectors of the economy. While inflationary pressures have been subdued during the current financial year so far, there is no room for complacency.

12. In line with the expected real economic growth of about 6.0 per cent, and the recent trends in prices, the M3 growth target of 15.0 - 15.5 per cent set for 1997-98 has been retained. The concomitant estimate of the increase in aggregate deposits of Rs.80,000 crore (15.8 per cent) with the scheduled commercial banks for 1997-98 has also been retained. Food credit is estimated to increase by Rs.1,050 crore during the third quarter (i.e., October - December 1997) and decline by Rs.850 crore during the fourth quarter (January - March 1998) showing a net increase of Rs.200 crore in the second half of 1997-98 and an increase of Rs.1,500 crore for the full financial year. The increase in scheduled commercial banks' non-food credit and investments in bonds/debentures/shares of PSUs and private corporate sector and Commercial Paper can be around 20.0 per cent, given the resource availability.

13. The emerging linkages among money, foreign exchange and capital markets would require that the external value of the Rupee remains reasonably stable. Some volatility in the foreign exchange market was witnessed for a brief period in August/September 1997. The Reserve Bank has demonstrated that orderly conditions could be restored in the market by intervention

as well as by other complementary measures. Our experience shows that monetary and financial policies geared to maintain a reasonable degree of price stability can serve the purpose of maintaining a stable domestic environment and also avoid the need for disruptive exchange rate adjustments.

14. Credit facilitates production and distribution and, therefore, an expansion in credit consistent with the potential growth rate is vital. In this context, some sectors of the economy need particular attention because of the spillover effects. While credit for production is necessary, it is equally important to ensure that the distribution channels, that is trade, gets the required credit. Two other sectors which need special mention are housing and auto finance, particularly for trucks. Expansion in both these sectors are likely to have larger multiplier effects. Some measures are being announced in order to enhance the flow of credit to these sectors. Banks are, however, requested to evolve suitable schemes which will result in the increased availability of credit to these sectors. In view of the fact that infrastructure projects require large credit, we have recently removed the overall limit relating to a single project. Banks must also ensure that they attain export credit target of 12 per cent of total credit.

15. While interest rates have come down sharply during the year so far, inflation rate has also dropped significantly. Maintenance of low inflation rate can lead to dampening of inflationary expectations paving the way for reduction in interest rates. Banks on their part would also have to make concerted efforts to reduce spreads and pass on some part of the efficiency gains, in the form of lower interest rate to the borrowers.

16. A well developed and integrated financial market is a pre-requisite for enhancing the efficacy of monetary policy transmission process. Recognising this, a number of steps have been taken in April 1997 to widen and deepen the segments of the financial markets, viz., money, foreign exchange and government securities. The effort towards reform and integration of the markets would need to be persevered.

Policy Measures

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India and U.S. to Grant Ten Year Visas

The United States and India have agreed to grant each other's citizens' tourist and business visas of up to 10 years from November 1, 1997. This measure is in recognition of growing number of visitors and in preparation for the anticipated future growth in tourist and commercial travel between the two countries, said the External Affairs Ministry in a statement. Visas for Indian visitors and business travelers to the United States were earlier given for a maximum of five years. Indian business travelers, particularly computer software professionals, have been pressing the United States for a relaxation in visa rules, saying they need to visit the country frequently. Business relations between India and the United States, its largest trading partner have grown significantly since India launched an economic liberalization program in 1991. The agreement on visa was the first item cleared in a wide-ranging dialogue between U.S. Under Secretary of State for Political Affairs and Indian Official during his recent visit to India. Pickering, the third-ranking official in the U.S. State Department also met Indian Finance Minister P. Chidambaram and held official talks with a team led by Foreign Secretary K. Raghunath, the highest ranking civil servant in the Indian Foreign Ministry.

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