CHAPTER 6

MONETARY AND CREDIT SITUATION

6.1 A significant feature of the monetary situation in the fiscal year 1977-78 was the slow down in monetary expansion. The rate of growth of money supply, which had touched a record level of 20.3 per cent in 1976-77, registered an increase of 14.7 per cent. In absolute terms, money supply increased by Rs. 2,357 crores in 1977-78 compared with a larger increase of Rs. 2,700 crores in 1976-77. While the increase in 1977-78 was, no doubt, modest compared with 1976-77, it was still larger than the increase of Rs. 1,350 crores or 11.3 per cent in 1975-76. It is also worth noting that during the three years 1975-76 to 1977-78, money supply increased at the rate of 15.4 per cent per annum while the average rate of growth of national income was 5.9 per cent.

6.2 All the three main factors, namely, (a) net bank credit to Government, (b) bank credit to commercial sector and (c) net foreign exchange assets of banking sector contributed towards money supply expansion in 1977-78. Net bank credit to Government increased by Rs. 2,213 crores. Of this increase, net Reserve Bank credit to Government was only Rs. 169 crores but other banks' credit amounted to Rs. 2,043 crores. In 1976-77, however, lending to Government sector by the banking system was a relatively less important factor contributing to increase in money supply. The increase was only Rs. 642 crores and had been shared more or less equally between the Reserve Bank and other banks.

TABLE 6.1

Analysis of Variations in Money Stock

(Rs. crores)

	Variations during			
	1976-77	1977-78	1977-78 (upto 13-1-78)	1978-79 (upto 12-1-79)
I. M1 (Money Supply)	2700 (20.3)	2357 (14.7)	1299 (8.1)	2200 (12.0)
(a) Currency with the public	1168 (17.4)	755 (9.6)	663 (8.4)	1080 (12.5)
(b) Deposit money	1532 (23.1)	1602 (19.7)	636 (7.8)	1120 (11.5)
II. Sources of change in money supply				
1. Net bank credit to Government (a+b)	642 (6.0)	2213 (19.7)	1203 (10.7)	703 (5.2)
(a) RBI's net credit to Govt. (i+ii)	303	169	208	408
(i) To Central Government	546	—175	—76	625
(ii) To State Governments	—242	345	285	—217
(b) Other banks' credit to Government	339	2043	994	295
2. Bank credit to commercial sector (a+b)	3244 (20.8)	2377 (12.6)	1750 (9.3)	3347 (15.8)
(a) RBI's credit to commercial sector	164	56	76	226
(b) Other banks' credit to commercial sector	3081	2320	1673	3121
3. Net foreign exchange assets of banking sector	1668 (177.6)	1934 (74.2)	1492 (57.2)	607 (13.4)
4. Government's currency liabilties to the public	13 (2.3)	22 (3.9)	21 (3.7)	9 (1.5)
5. Non-monetary liabilties of banking sector (a+b+c)	2866 (19.9)	4190 (24.3)	3167 (18.3)	2465 (11.5)
(a) Time deposits with banks	2600 (28.4)	2771 (23.6)	2437 (20.7)	2839 (19.5)
(b) Net non-monetary liabilties of RBI	252	564	455	—736
(c) Other net non-monetary liabilties of banks	14	865	275	362
III. M3 (i.e. money supply with the public plus time deposits)	5300 (23.6)	5128 (18.5)	3736 (13.4)	5039 (15.3)

NOTE : Figures in brackets are percentage variations.

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6.3 Bank credit to the commercial sector continued to be the most important factor stimulating money supply expansion in 1977-78 as well. But the increase was Rs. 2,377 crores compared to the increase of Rs. 3,244 crores in the previous year.

6.4 Since 1975-76, an increase in net foreign exchange assets of banks has become a factor of major significance affecting money supply expansion in our economy. It was Rs. 525 crores in 1975-76 and Rs. 1,668 crores in 1976-77. There was a further increase of Rs. 1,934 crores in 1977-78 and, in fact, this was an equally dominant factor contributing to monetary expansion in that year.

6.5 Despite the increases recorded under all the three factors affecting money supply in 1977-78, the overall monetary expansion was restricted to a much lower level than in 1976-77 because of the contractionary impact of a sharp increase in non-monetary liabilities. The increase under this head in 1977-78 was mostly recorded under net non-monetary liabilities of banks.

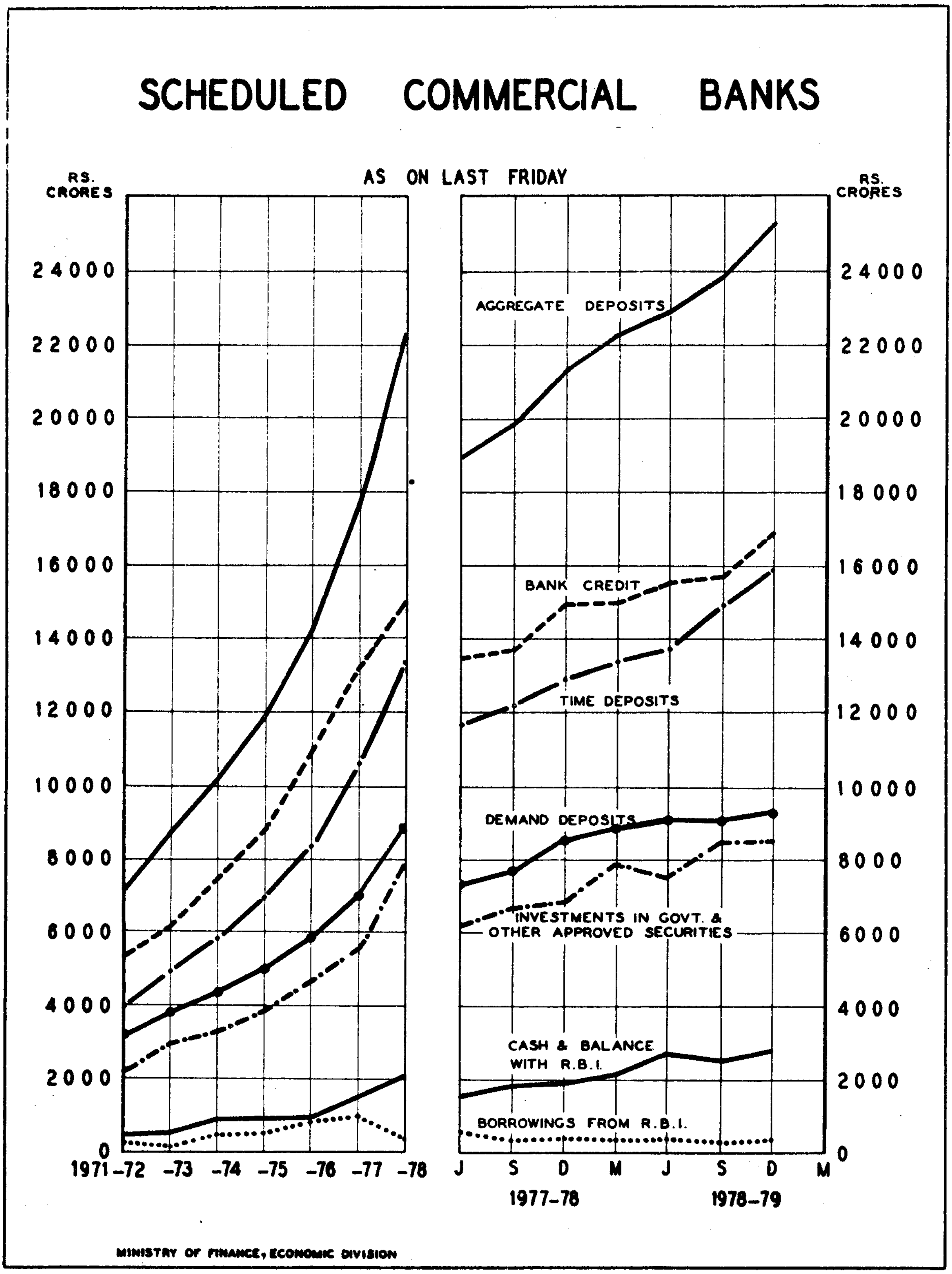
6.6 Money supply rose sharply from the very beginning of the 1978-79 fiscal year. In the month of April 1978 alone, the increase in money supply was as much as Rs. 440 crores or 2.4 per cent as against a negligible increase of Rs. 16 crores in the corresponding month of 1977-78. The trend continued throughout the first quarter of 1978-79 when the increase in money supply recorded was Rs. 1,120 crores (6.1 per cent). In the same quarter in 1977-78, the expansion in money supply was only Rs. 463 crores (2.9 per cent). The trend, however, got reversed in the subsequent quarter to such an extent that money supply declined by Rs. 435 crores or 2.2 percentage points. During the slack season i.e., May to October 1978, the money supply expansion of Rs. 724 crores was somewhat higher than the increase of Rs. 617 crores witnessed in the slack season of 1977, though percentage-wise, it was the same.

6.7 Despite the deceleration in the rate of growth of money supply noticed in the second quarter of 1978-79, the expansion in money supply till January 12, 1979 in the current fiscal year has been quite substantial at Rs. 2,200 crores or 12.0 per cent compared with Rs. 1,299 crores or 8.1 per cent in the corresponding period of last year. The principal factor responsible for the larger increase in money supply in 1978-79 so far has been bank credit to commercial sector. It has increased in the current fiscal year by Rs. 3,347 crores as against Rs. 1,750 crores last year. In this period, the contribution to money supply expansion by net foreign exchange assets of the banking system has been, however, comparatively less at Rs. 607 crores in contrast to Rs. 1,492 crores in this period last year. The offsetting item against money supply, namely, non-monetary liabilities of the banking sector in 1978-79 till January 12, 1979 has shown a sluggish growth of Rs. 2,465 crores as against Rs. 3,167 crores this period last year. However, the increase in time deposits at Rs. 2,839 crores is higher by Rs. 402 crores than in the corresponding period last year. This implies that non-monetary liabilities, other than time deposits, have declined by Rs. 374 crores during March 31, 1978 to January 12, 1979 as against an increase of Rs. 730 crores during the corresponding period last year.

Trends in Scheduled Commercial Banks' Activities

6.8 During the year 1977-78 (last Friday basis), increase in bank credit was smaller at Rs. 1,766 crores as compared with the increase of Rs. 2,296 crores recorded in 1976-77 mainly because of a sharp decline of Rs. 206 crores in food credit. Food credit had shown a steep rise at Rs. 669 crores in the previous year. On the other hand, non-food credit was higher at Rs. 1,972 crores in 1977-78 than Rs. 1,627 crores recorded in the earlier year. As regards deposits, their growth rate was 26.4 per cent compared to 24.1 per cent registered in the previous year. In absolute terms, they increased by Rs. 4,645 crores and this was higher by Rs. 1,234 crores compared to 1976-77. In consequence, banks' liquidity position had improved substantially. This enabled banks to reduce their indebtedness to the Reserve Bank by Rs. 636 crores and also to build up their investments in Government and other approved securities by Rs. 2,361 crores. Reflecting these trends in credit and deposits, the gross credit-deposit ratio on March 31, 1978 stood at 67.8 per cent as against 76.0 per cent a year earlier. Likewise, investment-deposit ratio at 35.6 per cent at the end of March 1978 as against 31.5 per cent at end-March 1977 also exhibited the comfortable liquidity position of banks.

6.9 A substantial increase in bank credit, an initial sluggish growth but a later pick-up in deposits and the comparatively easy liquidity conditions turning tight with the onset of the busy season sum up the major trends in scheduled commercial banks' activities in the fiscal year 1978-79 so far. Upto January 12, 1979, bank credit expansion at Rs. 2,579 crores has been



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substantial compared to a much smaller increase of Rs. 1,051 crores in this period last year. Percentagewise, the increase was 17.3 per cent in 1978-79 (upto January 12, 1979) compared with only 7.8 per cent increase in the previous year in the same period. Of this increase, food credit rose by Rs. 511 crores as against only Rs. 119 crores in 1977-78. Increase in non-food credit at Rs. 2,068 crores has been steep reflecting the recovery in industrial production, substantial credit advanced against higher inventories in the system, slow return flow of funds advanced earlier because of floods in certain major States, disbursements on account of bonus and interest payments, larger flow of imports etc.

TABLE 6.2

Scheduled Commercial Banks : Variations in Selected Indicators

(Rs. Crores)

	Variations during			
	1976-77	1977-78	1977-78 (March 31, 1977 to Jan. 13, 1978)	1978-79 (March 31, 1978 to Jan. 12, 1979)
1. Aggregate deposits.	3411	4645	2957	3569
(a) Demand deposits	1126	1925	630	884
(b) Time deposits .	2285	2720	2327	2685
2. Borrowings from RBI	169	—636	—336	137
3. Cash and balances with RBI .	588	643	520	922
(a) Cash in hand .	49	115	89	115
(b) Balances with RBI .	539	528	431	807
4. Net balances with RBI (3(b)—2)	370	1164	766	670
5. Money at call and short notice	—60	88	50	—132
6. Bank credit .	2296	1766	1051	2579
7. Bills rediscounted with RBI .	9	—67	—51	—17
8. Gross bank credit (6+7)	2305	1699	1000	2562
9. Public food procurement credit	669	—206	119	511
10. Non-food gross bank credit (8—9)	1636	1905	881	2051
11. Investments in Government and other approved securities .	929	2361	1288	592
(a) Government securities	646	1977	983	268
(b) Other approved secutities .	282	384	305	324
12. Balances with other banks in current account .	38	60	13	54
13. Gross credit-deposit ratio } % at the end of the period	76.0	67.8	70.0	68.3
14. Gross credit (exluding food credit)—deposit ratio } % at the end of the period	63.6	58.9	58.9	58.7
15. Investment—deposit ratio } % at the end of the period	31.5	35.6	32.3	32.9

6.10 In the early months of the current fiscal year, the rate of growth of aggregate deposits was sluggish and time deposits, in particular, rose very slowly. However, in the later months, there was a fast pick-up in deposit accretion and as on January 12, 1979 deposits increased by Rs. 3,569 crores or by 16.1 per cent. Even so, the rate of growth of deposits in the current year so far has been lower than last year. However, banks' credit-deposit ratio stood lower at 68.3 per cent as on January 12, 1979 compared to 70.0 per cent a year ago.

Developments in Credit Policy

6.11 Against the background of the sizeable build up of potential demand as reflected in the money supply expansion of an unprecedented nature in 1976-77, the accent of credit policy followed in 1977-78 was one of overall restraint consistent with the legitimate needs of production and investment. In pursuance of this objective, the overall credit control measures consisting of statutory liquidity ratio at 33 per cent of banks' total demand and time liabilities in the form of investments in unencumbered Government and other approved securities, cash on hand, gold and balances held in the current account with other banks and a cash reserve ratio of 6 per cent on an average during the week of demand and time liabilities as balances with the Reserve Bank were continued throughout the year 1977-78. In addition, since January 14, 1977, banks had been asked to keep 10 per cent of the additional demand and time liabilities by way of cash with the Reserve Bank and this measure too was continued. As regards refinance facilities, a notable development in 1977-78 was the institution of an additional facility against advances to small farmers i.e., Small Farmers' Window under which 50 per cent refinance would be extended at the Bank rate against all loans of Rs. 2,500 or less extended to farmers after January 1, 1978 whether as short, medium or long-term at a rate of not more than 11 per cent.

6.12 Another development of considerable importance to the banks was the abolition of the tax on interest income with effect from March 1, 1978 in the Central Government budget with the object that the benefit would be passed on to the borrowers. Accordingly, with effect from March 1, 1978, a downward adjustment in interest rates both on deposits and on advances was brought about. In the first place, the maximum lending rate, which was in force since March 1976 at 16.5 per cent and 17.5 per cent for banks with demand and time liabilities over Rs. 50 crores and banks with similar liabilities between Rs. 25 crores and Rs. 50 crores respectively was reduced to 15 per cent. Except the smallest bank group i.e., with deposit liabilities below Rs. 25 crores, which were allowed to charge a higher maximum rate at 16 per cent, all others were asked to fall in line by charging the reduced rate. The revised maximum rate of 15 per cent was also made applicable to advances against sensitive commodities subject to selective credit controls, formerly exempt from the ceiling. Thus, the maximum lending rate was not only lowered but made more widely applicable. Banks were asked to pass on the benefit of the abolition of the tax on interest income to borrowers by reducing their lending rates on an average by one per cent. The minimum lending rate of 12.5 per cent, which has been in operation since July 1974 in respect of all categories of borrowers except the exempted categories, was also continued unaltered. From March 1, 1978, the maximum rate of interest for term loans between 3 and 7 years for purposes other than capital investment in priority areas was reduced from 15 per cent to 14 per cent.

6.13 The rate charged on credit for public food procurement and distribution was reduced from 12 per cent to 11 per cent. Simultaneously, the rate at which refinance for food credit would be available was brought down from 10 per cent to 9 per cent. As regards export credit, the rates on pre-shipment credit were adjusted downwards by ½ per cent i.e., from 11½ and 13½ per cent to 11 and 13 per cent respectively and the rate on post-shipment credit from 11½ per cent to 11 per cent. However, the rate on deferred payment export credit was maintained at 8 per cent. On the other hand, the refinance rate of export credit was fixed ½ per cent lower at 10 per cent.

6.14 In consonance with the reduction in lending rates, some revisions were also made in the deposit rates. In fact, this was necessary to maintain a proper balance in the overall structure of banks' interest rates and the resultant impact that the lowered ceiling on lending rates would have on the financial viability of banks. This decision, therefore, has to be viewed in the light of improving the surpluses available to banks for strengthening their reserves which were considerably low. Moreover, with considerable improvement on the price front, there has also been, in fact, a significant increase in interest rates in real terms. Having regard to these facts, it was felt that a small reduction on deposit rates would not have any adverse impact on mobilisation of savings in this form since even after such reduction the return on time deposits was quite competitive when compared with other competing safe investments. Accordingly, the rate on deposits above 5 years, which earn the highest rate of interest and which formed about one-fourth of total deposits of banks, was reduced from 10 per cent to 9 per cent. It might be recalled that when deposit rates were scaled down on fixed deposits of various duration in June 1977, the deposit rate on fixed deposits above 5 years had been left unchanged whereas interest rates on all fixed deposits with duration of 91 days and above upto 5 years had been reduced by 1 percentage point. These rates were continued except for fixed deposits of over 3 years upto 5 years on which there was ½ per cent reduction at 7½ per cent. For payment of interest on savings bank deposits, in June 1977, a distinction had been made between deposits with and without cheque facilities. This distinction was done away with and a uniform rate of interest at 4½ per cent was made applicable to both. However, a limit of 50 cheques per half year was put on chequable savings deposits. Scheduled commercial banks with deposit liabilities of less than Rs. 25 crores, Regional Rural Banks and Central Co-operative Banks were permitted to pay ¼ per cent and ½ per cent more respectively on savings and on fixed deposits upto 5 years.

6.15 Consequent upon the changes introduced by the Reserve Bank in the structure of interest rates since March 1, 1978, the Indian Banks' Association also decided to reduce the ceiling rate on inter-bank call money which came to be fixed at 8.5 per cent with effect from March 9,1978 as against the earlier level of 10.0 per cent. The general reduction of deposit interest rates necessitated a readjustment in interest rates in the case of Foreign Currency (non-resident) Accounts Scheme. With effect from March 1, 1978, only two categories of deposits for 1 year and above upto 3 years with interest at 6 per cent and deposits above 3 years and upto 5 years with interest at 7½ per cent are allowed to be accepted/renewed.

Measures to Contain Liquidity

6.16 As stated earlier, the current fiscal year started with a cumulative impact of the preceding two years' expansion in money supply amounting to as much as 35 per cent. Because of a substantial increase in real national income of 7.4 per cent in 1977-78, the inflationary potential built up by the large increase in money supply did not make any adverse impact on prices. Nevertheless, the comfortable liquidity position of the banks was a cause for concern and, therefore, a restrictive credit policy was pursued for the 1978 slack season. Since the banks had a substaitial unused refinance facilities in addition to their own liquidity, the Reserve Bank curtailed them considerably. Thus, with effect from June 1, 1978, the level at which refinance in respect of food credit became available was raised from Rs. 1,500 crores to Rs. 2,000 crores. Further, the banks' entitlement to refinance to the extent of 1 per cent of demand and time liabilities as on the last Friday of March 1977 was done away with. However, banks would be provided with temporary accommodation at the discretion of the Reserve Bank for meeting 'clearing imbalances' at the Bank rate. A special Refinance Scheme to enable banks to provide term loans to the extent of the rupee equivalent of the import cost of capital goods which would be fully refinanced has been put into operation from April 1978.

6.17 The other measures taken by the Reserve Bank was intended to neutralise the expansionary impact of the increase in foreign exchange reserves. The buoyancy noticed in deposit growth in recent years is attributable partly to the inflow of funds from abroad through Non-resident (External) Rupee Accounts and Foreign Currency (Non-resident) Accounts Schemes. While these inflows were, no doubt, additions to country's reserves and, therefore, welcome in the context of the monetary situation that was developing in the economy, it was necessary to neutralise at least the secondary impact of such inflows on money supply. It was, therefore, proposed that banks should deposit with the Reserve Bank, in terms of rupees, the equivalent of one-half of the net aggregate amount accruing after June 1, 1978 to each bank under the deposit accounts mentioned above. Concurrently, it was also decided to pay an interest of 6.5 per cent per annum on these special deposits. The enhanced rate of interest was also made applicable to cash reserves above statutory minimum and pertaining to the 10 per cent incremental reserve ratio.

6.18 The persistent increase in money supply, prospects of a smaller growth in real national income in 1978-79 compared with the previous year and the continued excess liquidity with the banks portended a potential build-up of an inflationary situation which had to be avoided to maintain price stability. Having regard to these developments, the credit policy announced by the Reserve Bank for the 1978-79 busy season contained two important measures to curb further expansion in bank credit during the rest of the financial year. The first measure required the banks to restrict the expansion of gross non-food credit for the period December 1, 1978 to end-March 1979 to 40 per cent of the growth in deposits. Secondly, the statutory liquidity ratio (SLR) was raised form 33 per cent to 34 per cent with effect form December 1, 1978. The banks were asked to apply this percentage to the additional deposits strictly, regardless of any excess in SLR as on December 1, 1978. All other existing measures including interest rates were continued without change.

6.19 Keeping in view the need to extend credit to priority sectors and within the priority sectors to those who are economically weak more effectively, five working groups were constituted following the Prime Minister's meeting with the Chief Executives of banks to study in depth and make recommendations on the following subjects—differential rate of interest, small-scale industries, agricultural credit, promotion of employment and problems of sick industrial units. Following the recommendations of the group on agricultural credit, banks have been asked to make special efforts in providing agricultural credit in the 2,000 blocks selected for intensive area development in 1978-79. Priority is to be given to these blocks in the establishment of new Regional Rural Banks. A number of procedural improvements are also proposed to ensure effective co-ordination at the block level between block administrative agencies and the banks in formulating and financing schemes of development which assist, in particular, the small and marginal farmers. In respect of the Differential Rate of Interest (DRI) Scheme, a decision has been taken by which banks have been asked to increase the level of advances under the Scheme from ½ per cent to 1 per cent of their total advances. It was further decided that a minimum of 40 per cent of loans under the Scheme should be given to Scheduled Castes and Scheduled Tribes as against the existing prescribed percentage of 33⅓ per cent. As regards employment oriented schemes, banks have been advised to provide credit at an aggregative annual basis to at least two additional borrowers per branch per month. In this regard, they are asked to concentrate their attention on self-employment schemes in blocks for which development plans are ready and should simultaneously aim at extending gradually their schemes to other blocks. Special schemes of self-employment for Scheduled Castes and Scheduled Tribes would also be drawn up and the margin money scheme of the Ministry of Industry which now covers only self-employment ventures in small-scale industries' sector would be suitably modified to include self-employment ventures in other sectors as well. In respect of small-scale industries, it is proposed to establish a scheme of composite loans covering credit requirements both for capital expenditure and working capital at a concessional rate of 11 per cent for artisans and village and cottage industries whose individual requirements do not exceed Rs. 25,000. While these composite loans in backward areas carry a rate of interest of 9½ per cent, working capital loans to the tiny sector will be charged an interest not exceeding 12½ per cent. As far as sick units are concerned, although the primary responsibility to provide credit to sick units will rest with the banks, the Industrial Development Bank of India has been charged with the responsibility for co-ordinating action in this regard. In view of the unsatisfactory progress made by the banks to reach the target of priority sector lending of 33⅓ per cent of total credit by end-March 1979, the Reserve Bank has directed the banks to make special efforts to reach the target by the end of March 1979.

Sectoral Deployment of Credit

6.20 During 1977-78, the data on sectoral deployment of bank credit reveal that the total increase of Rs. 1,925 crores in gross bank credit was the outcome of an expansion of Rs. 2,131 crores of gross non-food credit and a decline of Rs. 206 crores in food procurement advances. This compares with the gross bank credit expansion of Rs. 2,304 crores in 1976-77 comprising gross non-food bank credit of Rs. 1,635 crores and food procurement advances of Rs. 669 crores.

6.21 Of the increase in non-food gross bank credit in 1977-78, more than 40 per cent or Rs. 868 crores flowed to priority sectors and this was 27.5 per cent more than in the previous year. Within the priority sectors, the incremental credit extended to agriculture was the highest at Rs. 397 crores closely followed by small-scale industries at Rs. 300 crores while other priority sectors claimed Rs. 171 crores. At the end of March 1978, priority sector advances constituted 28.4 per cent of total gross bank credit as against Rs. 25.7 per cent a year ago. Credit extended to medium and large industries was Rs. 683 crores and the recipient industries were mainly engineering, chemicals, dyes, drugs, and pharmaceuticals, metals, textiles and iron and steel, both in private and public sectors.

TABLE 6.3

Sectoral Deployment of Gross Bank Credit

(Rs. crores)

	Variations during			
	1976-77	1977-78	April to November	
			1977-78	1978-79
I. Gross Bank Credit	2304	1925	788	1385
Of which :				
(a) Public food procurement credit	669	—206	66	331
(b) Priority Sectors	681	868	444	563
(i) Agriculture	324	397	113	180
(ii) Small scale industry	216	300	207	227
(iii) Other priority sectors	141	171	124	156
(c) Industry (medium & large)	647	683	9	378
(d) Wholesale trade (other than food procurement)	213	319	171	47
Of which :				
(i) Cotton Corporation of India	120	29	—2	—50
(ii) Food Corporation of India (Fertiliser)	23	122	136	74
(iii) Jute Corporation of India	10	—27	—27	11
(iv) Other trade	60	195	64	12
(e) Other sectors	94	261	98	66
II. Non-food gross bank credit	1635	2131	722	1054
III. Export credit (included under Item II)	199	110	—49	2

NOTE : Data relate to major banks which account for 95 per cent of gross bank credit. These data besides taking into account the bills rediscounted with the RBI, also include bills rediscounted with the IDBI and other approved institutions and participation certificates.

6.22 Available data on sectoral deployment of commercial bank credit during the current fiscal year indicate that gross bank credit expanded by Rs. 1,385 crores in the first eight months as against Rs. 788 crores in the corresponding period last year. Of this increase, the credit extended for food procurement claimed Rs. 331 crores or 24 per cent. Last year in the same period, food credit accounted for only Rs. 66 crores or 8.4 per cent. In the current year till the end of November 1978, advances to priority sectors have increased by Rs. 563 crores which form 40.6 per cent of the total increase in bank credit during the period. Advances to agriculture accounted for an increase of Rs. 180 crores which is Rs. 67 crores more than the increase in this period last year. Small scale industry and other priority sectors received bank credit of Rs. 227 crores and Rs. 156 crores respectively as against Rs. 207 crores and Rs. 124 crores respectively, in the similar period last year. Advances to medium and large scale industries increased by Rs. 378 crores or formed 27.3 per cent of the total increase in gross bank credit during the period. A substantial portion of these advances was claimed by engineering industries followed by shipping companies, textiles, chemicals and iron and steel. There was a sharp decline in advances to wholesale trade (other than food procurement) which increased only by Rs. 47 crores till end-November 1978 in the current year compared with Rs. 171 crores a year ago. Advances to other sectors were also small at Rs. 66 crores during the current year whereas last year the increase was as much as Rs. 98 crores.

6.23 From the foregoing account of the monetary and credit developments in the economy during the current year, it is reasonable to conclude that the situation that is emerging contains certain risks for sustaining growth with price stability. It is true that notwithstanding successive increases in money supply there has been a fair degree of price stability during the last two years brought about partly by relatively high rates of growth and partly by good supply and demand management. Any slow down in the growth process—there is a natural uncertainty about factors such as weather—is likely to release expectations which have been held under check till now. The existing level of food stocks and foreign exchange reserves, no doubt, provide adequate capacity to deal with such a situation. It is nevertheless essential that manoeuvrability is further enhanced by maintaining strict fiscal and monetary discipline.