

is due to the scare caused by the trash of the Palai Central Bank and the policy of credit restriction adopted by the Reserve Bank, it is difficult to say. But it would seem that the large decline in the quantum of deficit financing in the past two years is a major factor influencing the resource position of banks. Since deficit financing under the Third Plan is expected to be only half of what it was under the Second Plan, how are banks going to meet the enhanced demand for credit from Government and the private sector in the near future? They could, of course, make greater use of their credit limits at the Reserve Bank and the Kefinamv Corporation; but that is not a complete alternative to strengthening the deposit position of the banks.

The remedy suggested by Shri P C Bhattacharyya, Chairman of the State Bank, is that "the possibilities of securing more deposits from rural and semi-urban areas should now be explored with vigour". For this purpose, an increase in the rates of interest on deposits has been considered necessary, and the tacit agreement among Indian banks to hold the deposit rates down seems scarcely likely to continue. The State Bank has already moved in this direction by opening a large number of branches in semi-urban area* and by raising interest rates on savings bank accounts and savings bank deposit accounts to 2½ per cent and 2¾ per cent respectively.

To what extent each of those measures will benefit the State Bank's deposits is a matter for speculation, Shri Bhattacharyya hopes that the higher rates of interest will have the 'desired effect' of attracting more deposits. There is little doubt that the old rates could not have been maintained against the background of a general rise in the interest-rate structure in the country. But this is different from saying that the new deposit rates will constitute a positive incentive to larger holdings of savings deposits in the aggregate. Other banks, which cannot open new branches with the same ease as the State Bank can, will presumably seek to offer better terms than the State Bank. Even so, they may find it hard to offer a differential benefit large enough to counterbalance the feeling of security going with deposits in the State

Bank. For that reason, the interest elasticity of the State Bank's savings deposits should constitute a major index of the possibility of enlarging the resources of banks by adjustments in the rates offered to depositors. But nobody has as yet any clear idea of what makes people save more or why they prefer to hold their savings in one form rather than another. All that one can claim for higher deposit rates in this context is that they might leave the banks no worse off than before.

Foreign Exchange for Rayon

THE demand for rayon yarn which is even now far in excess of indigenous production is expected to increase further in the Third Plan period, and the Planning Commission has therefore fixed the target of installed capacity and actual production for filament viscose rayon yarn at 63,000 tons per annum in 1965-66 against 23,000 tons at present. Since this industry is highly capital-intensive and since it also requires large amounts of foreign exchange, both for capital equipment and raw materials, Government has decided that any fresh applications for new schemes or for expansion of existing units would not be encouraged. It is, perhaps, in anticipation of this change that all those applicants who had secured licenses for expansion of existing units or for setting up of new units have hastened to utilise their licenses fully in the shortest possible time. The original scheme of Indian Bayou, for example, envisaged the establishment of a plant of 10-ton per day capacity in two successive stages. Now it proposes to set up a 10-ton plant straightaway. For this purpose, the company has secured additional licenses of the value of Rs 284 lakhs for the further import of machinery required for the expanded scheme. These licenses have been granted on condition that the foreign exchange component would be procured by the company through foreign investments or loans. This is only one of many such cases.

One cannot help wondering in this context at the logic, or rather the lack of it, in the Government's textile policy which imposes a variety of ceilings on the output of cotton mills but plans for a net trebling of viscose rayon capacity.

The rayon industry as compared with cotton mills requires not merely larger quantities of foreign exchange as well as domestic capital but also provides much less employment. Bather late in the day, Government has decided to compel the viscose rayon industry to manufacture its principal raw material, namely pulp, for which more capital equipment will have to be imported. The foreign exchange for these imports has to be arranged by the licensees, but this makes no difference to the country's external debt. All of this might be worthwhile if the additional output of the rayon industry is diverted for export, but with so large a domestic market for rayon fabrics, this will be possible only if Government takes special steps to control domestic consumption. There are, unfortunately no indications that this will in fact be the policy of Government.

Central Warehouses

THE percentage of cultivators among depositors at Central Warehouses rose to 21 per cent in January, 1961 from 10 per cent in December, 1960. A study of the custom handled during the month shows that the percentage of producers at Davangere (Mysore) Central Warehouse was as high as 85 per cent. At other Central Warehouses such as Amravati, Sangli and Akola (Maharashtra) Warangal and Guntur (Andhra Pradesh) Gadag (Mysore) and Theob (Himachal Pradesh) percentage of producers among depositors exceeded 60.

The Central Warehousing Corporation last month opened warehouses at Trichur (Kerala) and Nadiad (Gujarat). Steps are being taken to open warehouses at Hyderabad and at Sheoraphulli and Sainthia in West Bengal. After these warehouses are opened, the Central Corporation would have a total of 17 warehouses. At the end of January last, Central warehouses had a total storage capacity of about 15,92,000 mds. Stocks stored in these warehouses totalled about 10,60,000 mds.

A feature of the activities of the Central Warehousing Corporation is the steady rise in the custom handled during the last few months. The average occupancy which was 57% in November rose to 63% in December and 66% in January.