RESERVE BANK OF INDIA

Report of the Central Board of Directors

for the year ended June 30, 1952

SUBMITTED TO THE CENTRAL GOVERNMENT IN TERMS OF SECTION 53 (2) OF THE RESERVE BANK OF INDIA ACT

AUGUST 1952

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Delhi	Delhi
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* Also a Branch of the Banking Department.

Report of the Central Board of Directors of the Reserve Bank of India

For the year *July* 1, **1951—*June*** 30, 1952.

In accordance with Section **53(2)** of the Reserve Bank of India Act, 1934, the Central Board of Directors submits to the Central Government this Annual Report on the working of the Bank and the Accounts of the Bank for the eighteenth accounting period beginning on July 1, 1951, and ending on June 30, 1952.

The International Setting

Retreat from the post-Korean Boom

2. Economic events in India, during the year under review, were inevitably influenced by the continuous retreat from the boom conditions generated by the Korean War in international trade. Purchases abroad by the U.S. for stockpiling purposes which had risen sharply in 1950, fell rapidly in the early part of 1951. **Defence** outlay continued to increase, but the rate of increase slackened. The requirements of the rearmament programme were met partly by an increase in gross domestic output and partly by utilising the stocks which had been built up earlier. The measures adopted towards the end of 1950 to restrict credit expansion and the easing of international tension towards the middle of 1951 contributed to a reduction in the rate of accumulation of inventories for business and consumption purposes. **Prices** in the U.S. by June 1951 receded from the peak levels of **February-**April 1951.

The result was a re-appearance of the problem of dollar shortage for most countries. While imports into the U.S. declined sharply from 1950-51 levels, exports recorded a continuous increase ; there was no increase in the total of the U.S. Government grants, loans and private capital outflow. In consequence, the surplus of imports from America by the rest of the world could not be fully financed and from the third quarter of 1951 onwards many of the countries, especially countries in the sterling area, had to meet their dollar obligations by running down their gold and dollar reserves. Thus, in the place of an outflow of gold from the U.S. amounting to $2,459 million during the period July **1950-June** 1951, there was a net inflow of gold into the U.S. of about $1,000 million during the second half of 1951.

Sterling Area's Dollar Position

3. The impact of these changes was particularly severe on the sterling area, since this area depended mainly on raw materials for its dollar earnings and the prices of most of these fell very sharply. Tin, wool and rubber, for instance, the prices of which had risen during the Korean boom period by 143 per cent, 192 per cent and 175 per cent respectively declined by 33.4 per cent, 63.8 per cent and 46.7 per cent respectively by the end of February 1952. While the sterling area's surplus on goods and services account with the US. had reached $171 million in the first quarter of 1951, there were deficits amounting to $70 million in the period July-September 1951 and to $500 million during the last quarter of the year.

In the latter part of 1951 the sterling area countries especially the U.K., had also large deficits with countries in the E.P.U. and substantial portions of these deficits had to be settled in gold or dollars. Consequently, the gold and dollar reserves of the sterling area, which had risen earlier from $1,340 million at the time of the sterling devaluation in September 1949 to $3,867 million by the end of June 1951, fell sharply to $2,335 million by the end of December 1951. Sterling area reserves continued to decline in the first quarter of 1952, by the end of which they had been reduced to $1,700 million. Since March 1952 the drain has been somewhat reduced, but nevertheless the reserves at the end of June 1952 ($1,685 million) were less than those at the beginning of 1950 and very much less than the amount held at the time of the Korean outbreak.

4. The rapid depletion in the sterling area resources was due partly to the fall in the dollar earnings of the dependent territories and partly to the high level of imports by some members of the area to meet the demands of rearmament, While efforts to promote exports continued, it was clear that the position could not be remedied without a drastic reduction in sterling area imports from the dollar area, the E.P.U. countries and other regions with which accounts had to be settled fully or partly in terms of gold and dollars.

In an effort to rectify their balance of payments position, it became necessary for these countries to resort to various measures to curb imports as well as domestic expenditures, increasing stress being placed on monetary and credit restriction to achieve these objectives. In the U.K. the Bank rate was raised from 2 to 2½ per cent on November 8, 1951 and simultaneously the automatic supply of cash to the money market at half per cent through the purchase of treasury bills by the Bank of England was suspended. Treasury bills worth $1,000 million were converted into Serial Funding Stocks. Following these measures, the structure of interest rates was adjusted upwards and with the suspension of the automatic supply of cash through the ' special buyer,' the credit mechanism became more flexible and it became possible for the Bank of England to exercise a considerable measure of control over the expansion of credit.

Besides the reimposition of monetary discipline, the U.K. also reduced its stockpiling programme, restricting particularly imports from areas which had to be paid for in gold or dollars. It also reduced the food subsidies and other civil expenditure. Similar steps to curtail domestic expenditure through credit and other restrictions were taken by several countries in the sterling area.

The Commonwealth Finance Ministers' Conference

5. In view of the serious deterioration in the sterling area's balance of payments position, the Finance Ministers of the Commonwealth countries met in January 1952 and discussed measures to be adopted by them jointly and severally. They agreed that the sterling area as a whole should be in balance with the rest of the world by the second half of 1962 at the latest, but it was recognised that the precise measures to be taken by each of the countries to achieve this result should be decided by the member concerned. There was also general agreement that the immediate steps to be taken should be directed towards ensuring a sound internal economy, increasing non-sterling export earnings, and wherever there was scope, reducing imports of goods and services. Emphasis was also laid at the Conference on each country exploring the possibility of securing non-sterling loans or improving the flow of private investment from the U.S. for its developmental requirements so as to relieve the draft on current earnings of dollars or on reserves. Following these decisions several members of the Commonwealth who are in the sterling area took steps to reduce imports. The U.K. imposed a further cut in her imports and the Bank rate was stepped up again to 4 per cent. Import cuts of varying magnitudes were also announced by Australia and South Africa.

The retreat from cheap money conditions and the tightening of import restrictions to meet the situation were not confined to the sterling area countries alone. Several European countries faced with similar problems also took measures to check indiscriminate expansion of credit and excessive spending within their territories.

Domestic Economic Developments

6. Upto a point, developments in India were similar to those in most other non-dollar countries, There was, during the first phase, a favourable turn in the terms of trade giving rise to a

surplus in the balance of payments. But this was followed, as from the second half of 1951, by a deterioration in the trade position and the emergence of a deficit in the international accounts.

In respect of the internal economy, however, the problem in India was somewhat different from that in the countries of Western Europe and the U.S. The problem here was not rearmament but provision of funds for development against a background of general shortages of resources and an incipient inflation without upsetting the balance in the economy.

Inflation and Finance for Development

7. In pursuance of this objective, budgetary policy in India had aimed at creating a revenue surplus and utilising it to finance development expenditure. Efforts were made by the Union Government to mobilise additional resources through taxation and borrowing without undue infringement on essential consumption and private investment. As a result, it has been possible to finance in 1951-52 a larger development outlay than in the previous year with the budget almost in balance.

Domestic inflationary pressures were also counter-balanced to a certain extent by the import surplus and increased output in industry and agriculture.

In spite of this there remained the problem of an expanded money supply, a legacy of the war and post-war years which sustained speculative activity and rendered difficult the task of balancing the demand for resources against the available supplies. Control, therefore, had to be established also on money supply to assist disinflation by discouraging speculative investment in inventories, and to facilitate the diversion of real and financial resources for economic development. Steps were, therefore, taken to restrict credit expansion during the busy season in order to enforce the necessary degree of discipline in the money market.

Shifts in Balance of Payments

8. As a result of the international developments described earlier, there was a reversal in the trend of prices in India during early 1951. In the months prior to April 1951, prices in India, like those the world over, had risen rapidly and the index number of wholesale prices (Economic Adviser's index, base : year ended August 1939=100) touched the peak of 462 in mid-April 1951. The increase was due largely to the rise in the prices of industrial raw materials, the index for which rose from 491 in June 1950

to 683 in April 1951. This improvement in raw material prices and in the prices of textile manufactures turned at one time the terms of trade very much in India's favour and quantities exported had also increased very rapidly. At the same time imports decreased both in quantity and price owing to import restrictions and the cessation of trade with Pakistan until March 1951. India, therefore, had during this period a surplus in its balance of payments and steps had to be taken to prevent the surplus from impinging adversely on an already inflationary domestic economy. In pursuance of this objective, Government relaxed certain procedural restrictions on private imports with a view to enabling importers to secure as much supplies as possible of essential goods tending to become scarce and also increased imports on their own account ; imports, however, continued to be restricted to essential commodities only. To prevent the rise in import prices from affecting the cost of living, and thereby production costs, food subsidies were continued though at a reduced level mainly in industrial and chronically deficit areas ; after March 1952 they were reduced substantially in view of the decline in the general price level. In regard to exports, quotas were reduced and destinational restrictions were tightened in respect of some commodities with a view to maintaining industrial output in the country or providing for essential consumption. Heavy export duties on hessian, sacking, cotton, etc., which had been levied towards the end of 1950, were continued in order to insulate the domestic cost price structure from inflation from external sources. These duties tended to bring about a diversion of resources from the private to the public sector and this had been a factor of considerable assistance in financing basic development. The main impact of these duties was, however, on the trading sector, in which private investment of a speculative character had contributed to the inflationary pressure without in any way adding to the productive oapital stock of the country. It was this type of investment that was primarily affected, although it is possible that the imposition of the duties tended to restrict to some extent capital formation in the private sector.

By July 1951, however, the position had altered again. While the trend in export prices was reversed, imports continued to grow in value and in volume especially in the case of food, raw materials and other commodities essential foi development and a position of deficit in balance of payments emerged. As a result of the import surplus the supply of goods and services available to the economy was augmented, and a larger supply even of goods normally exported, was available for domestic use. Both this and the larger flow of imports contributed to a reduction in the level of prices though at the cost of a more rapid utilisation of the foreign exchange resources.

9. There were also other factors which strengthened the declining trend of prices. Industrial and agricultural production increased appreciably, narrowing the gap between demand and supply. Between July 1951 and March 1952 provisional estimates of industrial production recorded an increase of 12.7 per cent over production in the corresponding nine-monthly period of July 1950 to March 1951—consumer goods industries like cotton textiles and sugar participating in the rise. The output of cotton cloth and yarn rose by 13.1 per cent and 15.7 per cent respectively. Output of sugar, in respect of which the policy of promoting free market sales of a prescribed quota was continued with certain modifications, recorded a rise of about 13 per cent in 1950-51 season as compared to the previous season ; the output in the 1951-52 season was even larger. Output of steel between July 1951 and February 1952 was higher by 4 per cent, that of coal by about 8 per cent and of cement by over 20 per cent. Salt, electrical goods, power alcohol, caustic soda, paper and paper boards, sewing machines, oil engines, etc., are others which showed appreciable increases.

Industrial and Agricultural Production

These increases were achieved in some cases by the expansion of installed capacity and in-others by augmenting supplies of raw materials. Raw cotton and jute supplies from domestic sources had increased, and these were supplemented by imports of cotton mainly from the U.S.A. and Egypt and raw jute from Pakistan. Statistics of food production, such as are available, also indicate that domestic food supply in 1951-52 was not less than in the previous year. The chief factor operating on the food front, however, was the import from abroad of 4.7 million tons of grain in 1951, facilitated to an appreciable extent by the American loan of $190 million for the purchase of 2 million tons of wheat.

10. Although the increased domestic production over the year as a whole and an increased import surplus, especially since the last quarter of 1951, created on the side of supply a favourable setting for disinflation, the decline in prices was not significant. The price level was sustained even in the face of an increased supply of goods by the expansion of money incomes which had been going on apace during the war and post-war periods and also by the speculative influences which continued to withhold stocks from the market in anticipation of export liberalisation or import restrictions. That such speculation was financed by bank credit and liquid money was also evident from the fact that even during the slack season of 1951 bank advances remained at a high level and over the year the monetization of public debt through the sale of securities to the Reserve Bank had been substantial.

Development and the Budgetary Prospect

11. These trends called for particular vigilance on the monetary front, viewed especially against the prospect of an increase in investment expenditure for accelerating economic development. By the middle of 1951 the draft Five-Year Plan was published, envisaging under certain assumptions, an outlay of Rs. 1,793 crores in the public sector together with an investment outlay in the private large-scale industries amounting to between Rs. 250-300 crores over the five-year period. This called for a cautious monetary policy and the harmonising of fiscal and monetary policies so as to ensure that no undue creation of incomes was initiated through public spending and that there were appropriate curbs on private spending.

12. As regards the budgetary aspect, the year 1951-52 was satisfactory particularly so far as the Union Government was concerned. Conscious of the need to accelerate the mobilisation of domestic resources to facilitate execution of the plans of development, various steps were taken by the Union Government. Export duties which had been stepped up towards the end of 1950 with a view to insulating the domestic economy from world inflationary pressures were continued at the levels justified by the internal and external price disparities right upto February 1952. Imports having been large, receipts from import duties also were high. Income- and super-taxes were raised as also excise duties on tobacco, motor spirits and kerosene. There was an increase in passenger fares on the railways to finance part of their rehabilitation and development programmes. As a result of the measures taken, the Union Government's revenue in 1951-52 attained the unexpectedly high figure of Rs. 497 crores, which, after meeting the expenditure charged to revenue left a surplus of Rs. 92.6 crores in the revenue account. This improvement in revenues together with the counterpart funds raised by the sale of American Loan Wheat made it possible for the Union Government to meet its obligations on revenue and capital accounts, the overall deficit being less than Rs. 4 crores instead of Rs. 52 crores envisaged at the beginning of the year.

13. The outcome of these various steps was that the Union Government was able to finance its developmental expenditure without adding significantly to aggregate demand. The position was somewhat different in the case of the State Governments. Their revenue receipts remained almost stationary, as no new taxes were imposed, and the receipts from sales taxes merely offset the loss of excise revenues in States which introduced total prohibition. Some of the State Governments depleted their cash balances and accumulated reserves to carry out their developmental plans. The Governments of Part 'A' and 'B' States

together drew upon their reserves and cash balances upto the extent of Rs. 65 crores in 1951-52 (revised estimates) as against only Rs. 2 crores in 1950-U. This tended to maintain the pressure of demand on domestic supplies from the public sector.

It must be stated, on the other hand, that the deficit in the public sector considered as a whole supported in 1951-52 a larger outlay on development than during the previous year. The development expenditure of the Central and State Governments (including the railways) rose from Rs. 252 crores in 1950-51 to Rs. 317 crores in 1951-52. This increase was in accordance with the programme incorporated in the draft Five-Year Plan.

Speculation and Monetary Control

14. In the prevailing state of national income statistics in India, variations in the consumption and investment expenditures of the private sector can be assessed only very roughly, on the basis of certain broad indicators. On such meagre evidence, as is available, it would appear that by and large consumption did not increase *pari passu* with increased supplies. Some of the steps taken by the Government, such as increased taxation and modification of food subsidies confining them only to specific areas probably assisted the process. In an underdeveloped economy it is, however, investment outlay, especially in the trading sector, that is sensitive to changing circumstances, giving rise to a good deal of speculative demand. It is these activities that are also more amenable to control through monetary and credit policies than consumption expenditure. Though the tendency of prices to fall, which had been apparent in the quarter preceding July 1951, continued in the subsequent months, there were indications that private investment in the trading sector continued to be high. The slack season of 1951 was marked by an unusually high level of bank advances, contraction in bank credit being only about Rs. 86 crores as against the expansion of Rs. 180 crores in the preceding busy season. Part of this increased liquidity in the system was a reflection of higher investment in stocks. In view of this, it became increasingly clear that unless an effective check was put on credit expansion during the busy season of 1951-52, the decline in the general price level that had occurred since April 1951 might be reversed and that the balance of payments deficit which was widening since the second quarter of 1951 might reach abnormal proportions.

A Growing Deficit in the Balance of Payments

15. During the second quarter, India's current transactions with the rest of the world resulted in a net deficit of Rs. 11 crores as against a net surplus of Rs. 19 crores in the previous three months. The deficit on current account increased sharply after July 1951. It rose to Rs. 38 crores in the period July-September, and to Rs. 64 crores in the last quarter of 1951. The

balance of payments deficit in the first three months of 1952 at Rs. 82 crores was even larger. Taking the period July 1951 to March 1952, the deficit on current account reached the high figure of Rs. 184 crores as compared to a surplus of Rs. 68 crores in the corresponding nine-month period July 1950 to March 1951. This large increase in the balance of payments deficit was due to several factors. India was enabled through the American Wheat Loan and assistance received under the Colombo Plan to increase her imports of food and other essential goods. There was also a sudden shift in the international supply position (as, for instance, in the case of cotton) which while facilitating larger imports of urgently needed raw materials turned, at the same time, the terms of trade against India and reduced the receipts from exports.

This large deficit in the balance of payments was to some extent a planned one, in the sense that it was envisaged as necessary for carrying out the development plans. The deficit, in other words, was necessary to enable the country to absorb the foreign exchange provided by various countries (including the amount of the U.S. Wheat Loan) for furthering development in India and the amount that could be drawn out of India's sterling balances. The Indo-U.K. Sterling Balances Agreement provided for an annual withdrawal of £35 million ; and in addition India was able to utilise balances accumulated in the post-devaluation and post-Korean periods but unutilised during the previous years. At the same time it was necessary not to draw too heavily on the declining level of the country's foreign exchange resources through indiscriminate imports. It became, therefore, necessary to plan the size of the deficit to be large enough to absorb the external finance available during the year but not so large as to be an undue strain on the country's external balances.

Monetary Policy

Change in the Bank Rate

16. The imposition of monetary restraints was timed to synchronise with the commencement of the busy season.

(1) On November 15, 1951, the Bank rate was raised to $3\frac{1}{2}$ per cent from 3 per cent at which level it had remained since 1935.

(2) With a view to making the Bank rate effective, a fundamental change was made in the policy regarding the provision of funds by the Bank to meet the requirements of the scheduled banks during the busy season. In pursuance of the policy of maintaining interest rates on Government loans at the level established during and

after the war, it was the normal practice of the Bank to buy Government securities offered to it for sale at the market rates. Scheduled hanks were, therefore, able to provide themselves with funds during the busy season by selling to the Bank Government securities in their portfolio. As a result of this practice, the market was in a position to augment money supply freely even in the midst of inflationary pressures, a phenomenon which had been witnessed in most other countries, including the U.S.A., where interest rates were pegged at the comparatively low levels established during the war in pursuance of the policy of cheap money.

Simultaneously with the raising of the Bank rate, the Reserve Bank announced that during the ensuing busy season, it would, except in special circumstances, refrain from buying Government securities to meet the seasonal requirements of scheduled banks, but would as a normal practice advance money at the prevailing Bank rate on Government and other securities specified in Section 17(4)(a) of the Reserve Bank of India Act. Though the banks were availing themselves of the facility of pledging government securities for busy season advances, the amounts so obtained generally tended to be small, there being an obvious preference for accommodation through the sale of securities. Advances to banks under Section 17(4)(a) amounted to Rs. 23.7 crores in 1946-47, and in the subsequent four years they were Rs. 2.1 crores, Rs. 46.1 crores, Rs. 20.3 crores and Rs. 47.9 crores, respectively. But after the change in the Bank's policy, the magnitude of such advances increased considerably. Since the margin in the case of such advances was only about 5 per cent, the banks obtained through pledging securities nearly as much as they would have got by the sale of securities to the Bank, advances granted to scheduled banks under Section 17(4)(a) during 1951-52 being as large as Rs. 166.6 crores. But the changed procedure helped to make the Bank rate effective, while it ensured that at the end of the busy season the securities would be returned and money supply contracted automatically. The outstanding advances at the end of June 1952 were only Rs. 1.68 crores.

(3) The Reserve Bank had been supporting the 3 per cent Conversion Loan 1986 at Rs. 93 since December 1950, and giving reasonable facilities to scheduled banks to convert their holdings of long-dated securities into short or medium-dated ones. With the raising of the Bank

rate and the inevitable steep fall in the prices of Government securities, the support at this figure had, of course, to be withdrawn, but it was resumed a few weeks later at a lower figure.

17. The public announcement of the change of policy in regard to purchase of securities to meet seasonal demands for funds has provoked some comment based on the assumption that it was a departure from the normal practice of secrecy followed by Central Banks in their open market operations. Such operations must, of course, be conducted (and are conducted by the Reserve Bank) in the utmost secrecy especially in regard to the details of the execution of an accepted policy. A radical change in a policy that had been pursued for many years is, however, on a different footing. It is not unusual for Central Banks or for Governments to make authoritative announcements of such changes. For instance, in the United States of America, the statement of "full accord" announced by the U.S. Treasury and the Federal Reserve System jointly on March 4, 1951, was preceded by widespread public controversy and Congressional enquiries, before which Federal Reserve Officials themselves participated by tendering evidence on the wisdom or otherwise of the Federal Reserve pegging the interest rates at a level where monetisation of public debt was rendered easy, when there were possibilities of a general inflation. In the United Kingdom,. in the course of his speech in the House of Commons on November 8, 1951, the Chancellor of the Exchequer announced that he had, in consultation with the Governor of the Bank of England, come to the conclusion that it was necessary to depart from the arrangement then in force under which in practice the Bank rate was ineffective and the Bank of England supplied the needs of the money market at fixed and very low rates.

18. As a result of these monetary measures, there was, as expected, a general rise in interest rates. The Imperial Bank stepped up the general rate on advances from 3½ per cent to 4 per cent, the *hundi* rate from 4 per cent to 4½ per cent, the call rate for advances to banks against Government securities amounting to Rs. 5 lakhs and above from 2¾ per cent to 3 per cent and for amounts less than Rs. 5 lakhs from 3 per cent to 3¼ per cent. As the season progressed, call money rates of the larger scheduled banks hardened ; and the Imperial Bank further increased the rate of advances of Rs. 5 lakhs and above to banks against Government securities to 3½ per cent and that on amounts below Rs. 5 lakhs to 3¾ per cent. With this increase the Imperial Bank rate on advances against Government securities equalled the Bank rate, so that it was no longer cheaper for the scheduled banks to borrow from the Imperial Bank rather than the Reserve Bank.

Change in Open Market Operations

19. The rise in the Bank rate would not by itself have had the effect of increasing the degree of control exercised by the Reserve Bank on the supply of money and credit in the system, had the Reserve Bank continued to buy Government securities in the open market as readily as it had done in the previous busy season. It was therefore inevitable that the Bank rate policy should be supplemented by an adjustment in the Reserve Bank's open market policy, so as to prevent the monetisation of public debt by the banks. For instance, the net purchases of securities by the Reserve Bank of India in 1950-51 had been of the order of Rs. 75 crores.

The withdrawal of the Reserve Bank's support to the securities market resulted in a sharp fall in the prices of the gilt-edged. The Reserve Bank of India index number of Government of India securities (base : 1938=100) declined from 98 .O for the week ended November 10, 1951 to 92.7 during the week ended December 1. The 3 per cent Conversion loan which was being quoted at the official support level of Rs. 92-11 since September 17 declined to Rs. 87-8 by November 15, and to Rs. 80 by December 3. The prices of industrial securities, which had shown a tendency to sag for a considerable period in the past, showed further declines, but in general the fall in their prices was much less than that of the gilt-edged. As a result of the sharper fall in Government securities, there was, subsequent to the change in Reserve Bank's policy, a narrowing of the spread between yields on gilt-edged and other securities. The yield on 3 per cent Conversion loan which had stood at 3.09 per cent at the end of March 1950 and 3.24 per cent at the end of September 1951 had risen to 3.73 per cent by the end of December 1951. The increase in the yields on other long-dated government securities was of about the same magnitude. Subsequent to December 3, when the Reserve Bank renewed its support to the 3 per cent Conversion loan at a lower figure, a certain measure of stability was imparted to the prices of gilt-edged securities.

The Banking System and Monetary Control

20. The immediate effects of the new monetary policy were thus a hardening of the structure of interest rates and a stoppage of the automatic expansion of liquidity in the system through the Reserve Bank's purchases in the open market. As a consequence, the banks were compelled to meet the demands for credit during the busy season by resorting increasingly to the loan facilities afforded by the Reserve Bank, particularly after the Imperial Bank had raised its call rate on advances against Government securities. The Reserve Bank thus acquired a greater measure of control than it ever had over the banking system.

Creation of a Bill Market in India

21. An event of outstanding significance during the year was the introduction of a bill market scheme in January 1962. The Indian Central Banking Enquiry Committee, 1931, had investigated the problem of creation of a bill market in India and had indicated the difficulties arising from Indian banking practices. The Reserve Bank had not been established at that time, and the Imperial Bank for most purposes functioned as the bankers' bank. Since the Imperial Bank itself was a competing commercial bank, other banks were reluctant to disclose their bill portfolio to a rival bank. Government securities were, therefore, a more popular form of asset than trade bills. Apart from this, as the Committee pointed out, the system of cash credit in vogue in India which has definite advantages to both the lender and the borrower was an impediment in the way of a more extensive use of bills. In the case of cash credits, interest is generally paid only to the extent that credits are used and the bank can withdraw credits in the event of deterioration in the position of the borrowing party.

22. The position had to some extent altered after the establishment of the Reserve Bank in 1934. Apart from this, the importance of basing seasonal expansions of currency on self-liquidating bills as far as possible had been emphasised by developments during recent years. Owing to lower deposits, higher prices, larger imports and reduced Government securities holdings resulting from net sales to the Reserve Bank for financing seasonal requirements, the capacity of scheduled banks to meet trade demands had been unduly strained. It was, therefore, imperative that a determined attempt should be made to overcome the difficulties by the development of usance bills. A tentative scheme was prepared and discussed with representatives of the bigger scheduled banks. The salient features of the scheme that was finally introduced are briefly as follows :-

(1) Advances would be granted to scheduled banks under Section 17(4)(c) of the Reserve Bank of India Act by way of demand loans on the security of usance promissory notes of their constituents. For this purpose the banks would split up the loan, cash credit or overdraft accounts of their constituents into two parts, one part being covered by a demand promissory note to permit the borrower to make repayments or withdrawals as desired, while the other part representing the minimum requirements of the borrower for a period of about three months, would be converted into uaance promissory notes for ninety days.

(2) It was decided that advances under the scheme should be at half per cent below the Bank rate. The Indian Central Banking Enquiry Committee had recommended that the rate for loans against authorised securities should be higher than the rate for bills and that it would be useful to have a larger margin between these rates at the outset.

(3) The Indian Central Banking Enquiry Committee had also recommended the abolition of the stamp duty on bills. The State Governments were not, however, likely to accept the suggestion. As a concession to the borrowers, therefore, it was decided that the Reserve Bank should bear half the cost of the stamp duty incurred in converting the advances into bills although the rate of the duty is now fairly low, having been reduced to 2 annas per Rs. 1,000 in 1940.

23. For reasons of administrative convenience the scheme has been confined to banks having deposits of not less than Rs. 10 crores and a minimum limit of Rs. 25 lakhs has been fixed for each advance. Similarly, a minimum limit of Rs. 1 lakh has been fixed for each bill. As the scheme had to be worked out in consultation with the banks it could not be introduced at the beginning of the busy season and banks took some time to familiarise themselves with the procedure to obtain the borrowers' consent, documents, etc. Notwithstanding the initial difficulties, in the few months of its working, the scheme has proved a notable success. Loans outstanding against bills touched a peak of Rs. 29.6 crores on May 10, 1952, and upto June 30, 1952, a gross amount of Rs. 74 crores had been borrowed. Advances outstanding on June 30, 1952, amounted to Rs. 17.7 crores, against limits sanctioned to the extent of Rs. 61.1 crores. It has been decided to make the scheme a permanent feature of the economic structure and as the impediments have been mostly overcome, it is hoped that the foundations of a bill market in India have been firmly laid.

Change in Money Supply

24. The measures taken at the beginning of the busy season of 1951-52 had the desired effect of preventing a large expansion of money supply with the public ; and in addition they altered considerably the magnitude of bank advances. In the period October 26, 1951 to April 11, 1952, covering the busy season, money supply with the public increased by only Rs. 8.7 crores, as against an increase of Rs. 216.3 crores in the busy season of 1950-51 extending from September 29, 1950 to April 27, 1951. In both, the increase in money supply consisted of an increase in notes in circulation,

which rose by only Rs. 41.3 crores in the 1951-52 season as against a rise of Rs. 185.3 crores in the 1950-51 season. Demand liabilities of scheduled banks contracted by Rs. 23.0 crores in the 1951-52 season compared to a rise of Rs. 1 .O crore in the previous busy season.

Change in Bank Credit

25. The change in regard to bank credit was also remarkable. Bank credit which had contracted by Rs. 85.86 crores in the slack season (May 11, 1951 to October 26, 1951) rose by only Rs. 99.96 crores between October 26, 1951 and March 7, 1952. This increase was very much smaller than the expansion between November 24, 1950 and May 11, 1951 which amounted to Rs. 180.29 crores. It is, of course, true that the relatively smaller contraction in the slack season of 1951 may have had some effect on the comparatively moderate expansion of bank credit during the following busy season. But the change in monetary policy did have the effect of narrowing the amplitude of variation in bank advances between the slack and busy seasons.

Apart from the slowing down of the rate of expansion of bank credit, there was also a marked change in the distribution of bank advances. The scheduled banks had to turn to the Reserve Bank for financial accommodation and this led the banks to exercise greater caution in their lending operations. Figures available from surveys of bank advances conducted by the Reserve Bank indicate that between December 1951 and March 1952 the advances made by scheduled banks for commercial purposes increased by only Rs. 5.8 crores as against a rise of Rs. 64.1 crores in the corresponding quarter of the previous year. Industrial advances, on the other hand, showed a much smaller variation, advances rising by Rs. 38.0 crores in the first quarter of 1952 as against Rs. 43.8 crores a year earlier.

26. By and large, therefore, the new monetary policy secured the objectives of preventing a large expansion of money supply during the busy season, and of enabling the Reserve Bank to have more effective control on the magnitude and purpose of bank advances. The developments described earlier in the governmental and foreign exchange sectors also facilitated the attainment of these objectives and helped significantly in the effort to gain control on the monetary factors in the economy and to render the credit mechanism less inflexible than it had been for a long time. These changes in the Reserve Bank's operations were designed to creating conditions which would facilitate the expansion of credit for bona *jide* transactions without facilitating

the continuance of any significant scale of speculative transactions based on bank credit.

Money Supply and Prices

27. The reduction in the volume of credit which followed these measures restricted the scope of speculative trading and the effect of this was reflected widely in early 1952. Prices which owing to the operation of international factors had maintained a downward trend since June last year registered a steep fall between February and March 1952. The general index of prices which averaged 416 in February came down to 365 by the middle of March. This was due largely to a break in the prices of industrial raw materials, which were the main object of speculative interest. Prices of foodgrains and semi-manufactured articles also fell, though the reduction in their prices was much less than in the case of industrial raw materials. The fall in raw material prices in-Greased the eagerness of traders to reduce the stooks and improve their liquid position. The bearish sentiment in commodity markets spread to the bullion and security markets also and the prices of bullion and equities came down sharply. The position was rendered difficult by a lull in the export market so that there appeared little scope for relieving the pressure of stocks through sales abroad. With a view to improving the export prospects, the Government reduced export duties drastically, especially in the case of hessian and sacking, and lifted quota and destinational restrictions on the export of a variety of goods. The arrival of a large quantity of American and East African cotton about the same time as traders were trying to reduce their holdings of stocks necessitated further action on the part of the Government. The Government of India guaranteed to buy at listed prices cotton held by banks as security against advances, if the banks were obliged to sell these stocks. Following this guarantee by the Government, the Reserve Bank assured the scheduled banks that reasonable facilities would be made available to them to finance the purchase of Indian and imported cotton.

23. The nervousness which existed in February and early March following the rapid decline in the price level gradually disappeared as commodity prices recovered and tended to move upwards slowly, save for a temporary setback in May. The movement was assisted by the substantial increase in exports of jute manufactures, vegetable oils and raw cotton during the second quarter of 1952. The loans made by the Bank against government securities and usance bills helped to relieve stringency in the money market and assisted in the process of readjustment. By the end of June 1962 the general index of prices had risen to 381, a rise of over 4 per cent compared with the lowest level touched during March 1952.

Banking Inspection and Supervision

Inspection, Supervision and Control of Banks

29. The fundamental objective of bank supervision is the maintenance of a sound banking system, and bank inspections form a very important aspect of bank supervision. Although specific powers to inspect banks have been granted to the Reserve Bank under the Banking Companies Act, 1949, there is no statutory obligation to carry out inspections at regular intervals. Nevertheless, the Reserve Bank has decided, as already announced in July 1949 and later reiterated in February 1950, to make bank inspections a regular feature of its activities by instituting systematic periodical inspections of all banks irrespective of their size and standing. The object is to detect and remove the defects in the working of banks before they assume serious proportions necessitating drastic action. Regular inspections in pursuance of this policy were commenced in March 1950 and by the end of June 1952, 251 banks had been inspected. Of these, 168 banks were inspected under Section 22 of the Act for ascertaining whether a licence should be granted to carry on banking business and the remaining 83 banks were inspected under Section 35 of the Act to assess their financial position and methods of operation. Apart from these regular inspections, the inspection of 11 banks was carried out under Section 37(2) of the Act in connection with the applications of the banks for moratoria and 5 banks were inspected under Section 44A and 25 banks under Section 45 for scrutiny of their schemes of amalgamation and schemes of arrangement respectively.

30. A critical analysis of the defects (noticed during the inspections shows that although the banking system as a whole continues to be sound, the methods of operation and working of a number of banks in the country, judged by the accepted canons of banking, leave considerable scope for improvement. The defects observed during the inspections are pointed out to the banks concerned for early eradication. Wherever necessary, the banks are asked to submit periodical reports to enable the Reserve Bank to watch the steps taken by the banks and to assess the progress made in the rectification of the defects. On June 30, 1952, 6 banks were submitting monthly reports and 138 banks were furnishing quarterly reports. The progress reports are carefully scrutinised and, wherever necessary, suitable instructions are issued to the banks. In the case of 6 banks, the defects noticed were of a serious nature. Certain conditions have, therefore, been imposed on two of the banks, who have been asked to submit monthly reports indicating the progress made in complying with the conditions. The cases of the remaining 4 banks were under consideration. One bank, whose financial position and

general working were found unsatisfactory, has been advised to amalgamate with another bank operating in the same area, the State Government concerned being interested in both the banks.

31. Constant vigilance by the Reserve Bank and sustained efforts on the part of the banks concerned to remove defects have tended to strengthen individual banks, and to inspire confidence in the banking system as a whole. The partial merger of the Bharat Bank Ltd., with the Punjab National Bank Ltd., and the amalgamation of 4 banks in West Bengal leading to the formation of the United Bank of India Ltd., may be cited as outstanding examples of attempts to safeguard the position of the depositors. Reform in regard to methods of working and banking practices is, however, a slow process, especially as the defects are largely due to lack of suitable trained personnel with the requisite experience for managements of banks. It is difficult to assess qualitatively the results of systematic bank inspections, though they have undoubtedly contributed greatly to the stability of the banking structure during the last two years. A quantitative assessment is, however, feasible in certain respects. For example, a comparison of the data relating to 'Investments in Government securities,' 'Advances,' 'Reserves,' etc. at the end of 1949 and 1951 indicates a general improvement. In regard to investments in Government securities the number of banks having investments not exceeding 10 per cent of their deposits declined from 243 at the end of 1949 to 127 at the end of 1951. There was a corresponding rise in the number of banks having investments between 11 per cent and 30 per cent of their deposits, the number of such banks rising from 96 at the end of 1949 to 164 at the end of 1951. The number of banks whose advances exceeded their deposits declined from 134 to 162 between 1949 and 1951 indicating that some of the banks had taken steps to improve their over-extended position. At the end of 1951 bank reserves also indicated a distinct improvement as compared to the figures at the end of 1949 as shown below :—

	Number of banking companies having		
	No reserves	Reserves less than 50% of the paid-up capital	Reserves equal to or more than 50% of the paid-up capital
1949	40	243	118
1951	26	218	133

The total number of offices of banks in the country also recorded a decline from 4,441 to 4,178 indicating a gradual weeding out of unremunerative units.

32. It can thus be stated that on the whole the banks have generally taken steps to remedy the defects and have been willing to implement the advice tendered by the Reserve Bank. There is no doubt that the prospect of periodical inspections by the Reserve Bank and the penalties which can be imposed under the Banking Companies Act on the basis of such inspections are definitely operating as a powerful deterrent to banks which resort to or continue unsound policies and practices.

33. Besides the measures described above, in exercise of the powers vested in it under the Banking Companies Act, 1949, and the Reserve Bank of India (Amendment) Act, 1951, the Bank took other steps to promote sound banking practices in the country and continued to supervise and control banking institutions.

Under Section 24 of the Banking Companies Act, banks are required to maintain a certain proportion between their demand and time liabilities and their liquid assets. The returns submitted in this connection were scrutinised and it was found that, except in the case of two non-scheduled banks, defaults were in the main of a casual nature. There was no occasion to invoke the penalties prescribed under the Act for such irregularities.

34. In view of the difficulties experienced by a number of banks in the matter of complying in time with certain provisions of Section 24 of the Banking Companies Act, the Reserve Bank recommended to the Government the extension of the existing exemptions for a further period of one year from June 9, 1952. These exemptions will enable a banking company (1) to exclude borrowings made from the Imperial Bank in computing the amount of its liabilities for purposes of Section 24, and (2) to treat as unencumbered the approved securities lodged with another banking company for an advance or credit arrangement, to the extent to which they have not been drawn against or availed of. Besides these general exemptions, the Central Government, on the recommendation of the Reserve Bank, granted specific exemptions to individual banking companies whose circumstances warranted the granting of such relief.

35. Consequent on the passing of the Reserve Bank of India (Amendment) Act which came into force on November 1, 1951, the Scheduled Banks Regulations framed in terms of section 58(2)(o) of the Reserve Bank of India Act, 1934 were revised, incorporating the liberalised rules in regard to remittances in favour of the scheduled banks and the enlarged scope of the facilities hitherto available to the banks for transferring funds through the offices and agencies of the Reserve Bank. The liberalised rules themselves had come into force on September 1, 1961.

36. An important relief afforded to banks, subsequent to the change in the monetary poliay of the Reserve Bank, was in respect of valuation of government securities in the balance sheets for the year ended 1951. With the fall in the prices of these securities, following the withdrawal of support by the Reserve Bank in November 1951, the banks represented that the valuation of their securities in terms of market prices might have certain adverse repercussions. In view of the genuine difficulties that would arise in the case of banks holding substantial blocks of government securities, the banks were exempted from showing the market value of securities as on the last day of the accounting period, provided they showed separately the average market value of their investments in government securities during the six months immediately preceding the last working day of the year 1951 ; these average values were to be computed in accordance with the average market value over the six-month period as determined by the Reserve Bank. Further, banks were also exempted for the year 1951 from the provisions of Section 17 of the Banking Companies Act to enable them to write off the losses on their investments in government securities by drawing upon their reserve funds maintained in accordance with that section.

It is interesting to note that the British banks have recently been obliged for similar reasons to alter their accounting procedure, owing to the very heavy fall in the market value of their investment holdings (practically all of them gilt-edged securities) as a result of the raising of the Bank rate and other monetary measures taken by the Government of the United Kingdom. Four of the big five banks have after a joint discussion decided to show Government securities in their balance sheets on June 30, 1952, ' at or under cost and below redemption value ' and *not* at ' under market value ' according to traditional practice. The actual market value will be shown in a footnote.

Rural Finance and Extension of Banking Facilities

The Rural Banking Enquiry Committee and the Informal Conference on Rural Finance

37. In no other sphere perhaps as in that of rural finance is it of so little use, in Indian conditions, to turn for guidance to the central banking practices evolved in the highly industrialised countries of Western Europe. In this matter, as in the extension of banking facilities generally, fresh approaches had to be thought out ; and it was in order that the lines laid down might be sound and well-considered that, at the suggestion of the Reserve Bank, the Government of India appointed the Rural Banking Enquiry Committee (1949-50), while the Bank itself subsequently convened

an Informal Conference for the discussion of its role in rural finance (February, 1961). Reference has been made in the last Report to the various recommendations of the Committee and of the Conference. Many of these have since been implemented by the Departments of Banking Development and Agricultural Credit. The progress made is best reviewed in relation to what might be termed the three-fold approach to banking extension laid down by the Rural Banking Enquiry Committee, and the three-fold approach to rural finance agreed upon at the Informal Conference.

38. Tbe Rural Banking Enquiry Committee said in effect that conditions should be created :

(1) for co-operative banks to extend beyond the town to the village, and commercial banks, beyond the bigger to the smaller town,

(2) for the Imperial Bank to extend beyond banking treasuries to non-banking treasuries, and

(3) for the Reserve Bank to extend beyond Part A States to Part B States.

Three-fold Approach to Banking Extension

Accordingly, the Committee was concerned in the first set of recommendations to make detailed suggestions for the provision of better facilities, including cheaper remittance, for banks generally, including co-operative banks. In the second, it was specifically concerned with the provision of such facilities at places where they did not exist before, but where they could be readily introduced, for the benefit of banks and the public, if the Imperial Bank took over the cash work of the treasury and ran the currency chest. A wider network of such branches for Part A States was therefore recommended. The problem had to be tackled on different lines in Part B States, since many of these had built up their own banking institutions which, in some cases, were in charge of their treasury operations. In order to be able to initiate programmes of banking extension and rural finance in these States, it was clearly necessary that the Reserve Bank should have powers and status comparable to those it possessed in Part A States as the sole banker of the Governments of those States. The third set of recommendations envisaged, therefore, that the Bank would conduct and complete the requisite negotiations with the State Governments concerned, and, in fulfilment of the process of federal financial integration, commence to function in Part B States on the same basis as in the rest of India.

39. In the more specialised context of agricultural credit, a number of proposals were discussed and accepted at the Informal

Conference which, for convenience of classification, could be regarded as steps :

(1) for enabling the Reserve Bank to function more effectively within the existing frame-work,

(2) for enlarging the frame-work, so far as that could be readily decided upon and carried out, and

(3) for eventually designing a new and co-ordinated frame-work in the light of facts to be ascertained.

Three-fold Approach to Rural Finance

Under its statute, the relevant operations of the Reserve Bank are restricted, broadly speaking, to short-term agricultural credit ; and, in practice these operations are further confined to States in which the pyramidal structure of co-operative credit, with a State co-operative bank at the apex and primary credit societies at the base, is relatively well-developed. Within these limitations of law and organisation, however, the Conference felt that there were procedural details which could be improved and other reforms which could be introduced with a view to ensuring a freer and more effective flow of agricultural credit from the Reserve Bank. The first set of recommendations comprised suggestions for reform and improvement of this type, that is to say, those which could be given effect to within the existing frame-work. The next category dealt with the legal and structural limitations mentioned above, and included recommendations, firstly for the amendment of law, so as to extend the scope of the Bank's operations to certain items such as medium-term agricultural credit and short-term credit for cottage industries, and secondly for the re-organisation of the co-operative credit structure of those States in which it was relatively undeveloped or was in need of rehabilitation. It was felt that, if the frame-work was thus enlarged, the Bank would have added scope for dealing with several pressing problems of rural finance. Up to this stage the recommendations were concerned with what it would be practicable to take up without much delay ; they were based on considerations not dependent on the collection of any large new data or the investigation of new material, such as would be indispensable for the formulation of any well-considered long-term policy. Dealing with this latter aspect, and as a preliminary to the eventual designing of a new frame-work, the third main recommendation of the Informal Conference was that an All-India Rural Credit Survey should be planned and conducted under the auspices of the Bank.

40. Some of the more important steps taken by the Bank in pursuance of the recommendations briefly summarised above may now be indicated.

Cheaper Facilities for Remittance

The Bank accepted the various suggestions made for the liberalisation of the remittance facilities available to commercial banks, co-operative banks and societies and indigenous bankers. Accordingly, with effect from September 1, 1951, the rates of exchange on remittances issued on behalf of these institutions from the offices of the Reserve Bank, branches of the Imperial Bank, and such treasuries and sub-treasuries as maintain chests of the Issue Department of the Reserve Bank, have been reduced as indicated below. The former rates were :

Up to Rs. 5,000 . .	@ 1/16%	(Minimum Re. 1)
Over Rs. 5,000 . .	@ 1/32%	(Minimum Rs. 3-2-O)

These have now been reduced to :

Up to Rs. 5,000 . .	@ 1/32%	(Minimum Re. 1)
Over Rs. 5,000 . .	@ 1/64%	(Minimum Rs. 1-9-O)

In addition, the Scheduled Banks' Regulations have been amended with effect from the same date so as to enlarge the scope of the facilities available to scheduled banks for the transfer of funds through the offices and agencies of the Reserve Bank. Scheduled banks are now entitled to transfer funds from branches of the Imperial Bank to any account with the Reserve Bank, whether or not they maintain accounts with the Imperial Bank, or have offices at the places from which the remittances are desired. Similar facilities have also been made available to such state co-operative banks as maintain accounts with the Reserve Bank.

Better Facilities for Conversion and Exchange of Notes and Coin

41. Steps were also taken for increasing the facilities available for the conversion and exchange of notes and coin. So far as the Imperial Bank is concerned, as a result of discussions between the two Banks, arrangements have been agreed upon for strengthening the cash department staff and suitably increasing the vault room space at a number of branches. It has also been arranged that, wherever feasible, large tenders of notes and coin from scheduled banks and co-operative banks will be accepted at the branches of the Imperial Bank under the 'guarantee bond' system on the lines of the procedure in force at the offices of the Reserve Bank. To relieve congestion and thus enable the branches of the Imperial Bank to receive notes and coin freely from banks and members of the public, proposals are under examination for the establishment of Note Cancellation Sections at certain additional branches of the Imperial Bank.

Treasury Reform and Provision of Mere Banking Facilities

42. Further, the Reserve Bank has urged on the various State Governments, by correspondence as well as during personal discussions, the need for the reform of treasuries and sub-treasuries on the lines recommended by the Rural Banking Enquiry Committee. One of the main lines of reform suggested was the formation of a separate cadre for treasury officers, and the withdrawal of extraneous duties, such as those connected with revenue administration, from both treasury officers and treasury staff. One State Government has already taken suitable action and others are examining the financial and other implications of the proposals of the Committee. The recommendation that the State Governments should be allowed to retain the exchange realised on all remittances issued at a premium by the treasury agencies in their respective areas, to enable them to meet a part of the cost of the suggested reforms, has been accepted by the Reserve Bank and the State Governments have been authorised to retain the exchange from the date on which the reduced rates of remittances came into force viz., September 1, 1951. One of the recommendations of the Rural Banking Enquiry Committee was that banks should be permitted to keep their iron safes and chests for safe custody in the strong rooms of treasuries and sub-treasuries. The Government of India appreciated the need for such facilities and, at the request of the Bank, addressed a letter to State Governments suggesting that the facilities in question should be afforded to banks. Some of the State Governments have accepted the recommendation and the matter is being pursued with the others.

More Branches of the imperial Bank

43. As already stated, one of the recommendations of the Rural Banking Enquiry Committee was that banking facilities should be enlarged through an increase in the number of offices of the Imperial Bank of India and consequently of the currency chests held by that bank on behalf of the Reserve Bank of India. Discussions were held, in pursuance of this recommendation, between the representatives of the Reserve Bank and the Imperial Bank and, as an initial step, a short-term programme covering a period of two years from July 1, 1951 was agreed upon. About thirty new branches will be opened by the Imperial Bank during this period. In addition, some of the existing Treasury Pay Offices of the Imperial Bank will be converted into branches. The Imperial Bank has since applied for and been granted licences to open thirteen new branches. For the conduct of Government business at branches opened on or after July 1, 1951, the Imperial Bank will be paid a turnover commission at the rate of 1/16th of one per cent. This arrangement is to be distinct from the main agreement between the Reserve Bank and the Imperial Bank in

regard to the remuneration payable for the conduct of the cash business of Government treasuries. The main agreement also came up for review, in respect of the quinquennium 1950-55, and it was agreed that the following formula should be adopted for calculating the commission in terms of the turnover on Government account:

"On the first Rs. 150 crores . .	@1/16th of one per cent.
On the next Rs. 300 crores over Rs. 150 crores	@1/32nd of one per cent.
On the remainder of the total of receipts and disbursements dealt with annually on account of Government by the Imperial Bank on behalf of the Reserve Bank of India	@1/64th of one per cent.

PROVIDED that if the total turnover exceeds Rs. 1,200 crores during any year, the rate applicable to the turnover in excess of Rs. 1,200 crores would be 1/128th of one per cent."

Reserve Bank and Part B States

44. Negotiations have been in progress with the Governments of Part B States with a view to the Reserve Bank being appointed their banker as recommended by the Rural Banking Enquiry Committee. With two of these Governments, viz., Madhya Bharat and Travancore-Cochin, agreements have already been signed bringing the new arrangement into force from July 1, 1952. Subject to certain transitional provisions included in the agreements with a view to avoiding any undue dislocation of existing arrangements, it has now devolved on the Reserve Bank to conduct on behalf of these Governments all their money and banking transactions, be in charge of their remittance and exchange facilities, manage their public debt, issue their new loans if any, receive their cash balances and deposits and when need arises grant them ways and means advances in accordance with the prescribed procedure. To enable the Reserve Bank to discharge some of these functions, currency chests will be gradually established in the two States. In Madhya Bharat, the cash work of the treasuries will continue to be conducted by the State Government in all places except Gwalior, Indore, Ratlam and Ujjain where the Imperial Bank has branches. At these places the Imperial Bank functions as the agent of the Reserve Bank under the general agreement between the two banks. In Travancore-Cochin, it has been agreed that the treasury work will be conducted by the State Government departmentally for a period of three years, after which the position will be reviewed and the Travancore Bank considered for appointment as the agent of the Reserve Bank. Discussions are being conducted with the Governments

of other Part B States with a view to reaching a settlement on the **different** issues involved, as a preliminary to the execution of agreements similar to those concluded with Madhya Bharat and **Travancore-Cochin.** A large measure of agreement has been reached with many of the remaining States and, meanwhile, selected treasury officials of the States concerned have been trained in the procedure relating to ways and means advances, currency chests, etc. The training was conducted partly in convenient district treasuries of Part A States and partly in the appropriate Departments of the Reserve Bank.

Rural Finance: Recent Amendments of the Reserve Bank of India Act

46. To turn now to rural finance and to the role of the Reserve Bank in relation to co-operative credit generally and co-operative agricultural credit in particular, mention may first be made of two amendments to the Reserve Bank of India Act which were already before Parliament when the Informal Conference met in February 1951 and which have since been passed and (in November 1951) brought into effect. The first of these amendments related to Section 17(2)(a) of the Act and, in regard to the purchase, sale or rediscount of bills of exchange and promissory notes arising out of ***bona fide*** commercial or trade transactions, placed the state co-operative banks on the same footing as scheduled commercial banks. This amendment had been supported by the Informal Conference in view of the increased participation of co-operative banks in the financing of certain non-agricultural activities suoh as consumers' co-operation and distribution of controlled goods. A detailed procedure has since been laid down to enable co-operative banks to take advantage of the amended provision. The second amendment was of great importance from the point of view of the agricultural credit operations of co-operative banks. It related to Section 17(2)(b) of the Act and increased to **15** months the previous maximum of 9 months for which accommodation could be made available by the Bank for the purpose of financing seasonal agricultural operations and the marketing of crops. Following the advice given by the Informal Conference, the Reserve Bank now adopts, for accommodation given by it under the amended Section, a period of 12 months in normal cases and of 16 months in exceptional instances.

Procedural Reform

46. Along with these amendments of law made by **Parliament,** certain important reforms in procedure were effected by the Bank, in pursuance of the recommendations of the Informal Conference, with a view to enabling co-operative banks to make larger, freer and more effective use of the financial facilities available from the Bank. In the past, all loans and advances taken from the Reserve Bank by a state co-operative bank had to be repaid by a fixed

date, viz., September 30, irrespective of the date of borrowing. Further, a limit was fixed, not for the total outstandings on any given date, but for the total borrowings during the relevant period. No account was taken, for the purposes of the limit, of any repayments made during the period. This procedure has since been radically modified in the light of the recommendations made by the Informal Conference. The stipulation that all loans and advances should be repaid by September 30 each year has been given up. It has been agreed that, for computing the period at the end of which repayment is due-whether this be 12 months as in the normal case or 15 months as in exceptional instances—each loan or advance for agricultural purposes will be treated as a distinct transaction, and the full period allowed for each transaction. A " credit limit " is still fixed for each central co-operative bank or marketing society which approaches the Bank for accommodation, but this limit is now related, not to borrowings irrespective of repayments, but to the total amount outstanding on any day during the relevant period. The limit is reviewed from year to year, and if necessary revised on the basis of the latest data available in respect of the institution. The year adopted for the purpose of fixing the credit limit is the co-operative year, viz., 1st July to 30th June; as being convenient to co-operative institutions. The revised procedure has in practice been found generally acceptable to co-operative banks ; it has enabled them not only to make much greater use of the financial facilities offered by the Reserve Bank but also, by reason of its elasticity, to frame their own borrowing and lending programmes more in conformity with the local needs and conditions of agricultural finance. Increasing stress is at the same time being laid on the need for individual banks to mobilise their local resources and increase their deposits, since on the efforts made to do so would in part depend the credit limits fixed by the Agricultural Credit Department. Meanwhile, as the following figures show, the extent of the short-term co-operative credit drawn from the Reserve Bank has more than doubled itself in 195152 as compared with 1950-51.

(Rupees in lakhs)

	1950-51	1951-52
Sanctioned . . . . . . ,	762.00	1,280.00
Drawn	537.80	1,251.33

The concession rate of interest at which this accommodation was made available continued to be $1\frac{1}{2}$ per cent even after the Bank rate had been raised to $3\frac{1}{2}$ per cent.

Standing Advisory Committee

47. Along with these steps of procedural reform calculated to make the accommodation from the Reserve Bank more liberal and more effective, the Informal Conference recommended that there should also be initiated two measures for bringing

about closer co-ordination between the activities of co-operative institutions on the one hand and the policies and operations of the Bank on the other. First of all, there was to be periodical contact with, and inspection of, individual oo-operative banks, particularly such of them as borrowed from the Reserve Bank, the inspections being on a voluntary basis and carried out by suitable trained personnel of the Agricultural Credit Department of the Bank, Necessary arrangements are being made for this purpose, and the recruitment and training of personnel are in progress. Secondly, by way of contact and co-ordination at the policy-making level, the Informal Conference recommended the constitution of an expert ' Standing Advisory Committee ' for advising the Reserve Bank ' on matters pertaining to it.8 Agricultural Credit Department and on subjects allied to those matters.'. A Committee of fourteen was accordingly formed and has hitherto met twice, once in August 1951 and a second time in April 1962. Besides reviewing the work of the Agricultural Credit Department and giving advice on various points raised, the Standing Advisory Committee has made determined efforts to evolve standards for different aspects of co-operative banking and administration such as maintenance of fluid resources by the banks, inspection and audit classification by the supervisory authorities and fixation of credit limits by the Reserve Bank. It has also dealt with the question of co-operative education and training of which more details are given in a subsequent paragraph.

Suggested Enlargement of Bank's Functions

48. All the measures so far described in relation to co-operative finance have this in common, namely, that they fall within the existing frame-work of law and organisation. The next set of proposals made by the Informal Conference involved either the legislative enlargement of the Bank's functions or the reorganisation and development of the co-operative credit structure of different States. Reference has been made in the previous Report to certain projected amendments of the Act, which would enable the Reserve Bank :-

(u) to include " mixed farming," and the processing of crops by agricultural producers, among the purposes for which it can provide short-term finance,

(b) to assist cottage industries by providing short-term finance for the production and marketing activities of industrial co-operatives, and

(c) to dispense to co-operative banks, to a limited extent, medium-term agricultural credit for periods between 18 months and 5 years.

These recommendations are under the consideration of the Government of India.

As regards long-term credit, the Bank continues to purchase 20 per cent cf the debentures issued by land mortgage banks, provided the debentures are guaranteed as to principal and interest by the State Government concerned. The Bank also tenders advice to land mortgage banks with regard to the terms of issue of their debentures.

Reorganisation of the Co-operative Credit Structure of Different States

49. Meanwhile, in the matter of reorganisation, much work has been done in conjunction with various State Governments. The problem, of course, is complex enough, even if confined to the effecting of such minimum reforms in organisation as will enable the Reserve Bank to extend financial accommodation to the co-operative societies of the States concerned. Thus, in some States, the lacuna may consist in there being no state co-operative bank at all ; in other States, the apex bank may require considerable reorganisation, both financial and administrative, before it qualifies for assistance from the Reserve Bank ; or again, the central or district banks may constitute the weak link in the chain ; and finally, the primary credit structure may itself be in need of rehabilitation as indeed happens to be very generally the case. With a view, therefore, to studying the problems of individual States and initiating appropriate steps after such study, a basic programme has been adopted which may be said broadly to consist of three stages : first, a visit by an experienced officer of the Agricultural Credit Department, who tours the State, studies its co-operative organisation, and presents a factual report together with draft recommendations which he has previously discussed with officers of the Co-operative Department of the State ; second, after the Bank and the State Government concerned have studied the report, a visit to the State by the heads of the appropriate departments of the Bank and the holding of high-level discussions with a view to agreeing upon the main lines of a plan to reorganise the co-operative structure of the State ; and third, the follow-up of the agreed proposals by the Reserve Bank and the gradual implementation of the plan by the State Government. A series of visits on these lines has accordingly been made by the officers of the Bank. After the completion of the preliminary expert study as well as the subsequent high-level discussions, a large measure of agreement has been reached between the Governments concerned and the

Reserve Bank in respect of the lines of reorganisation in the following States :-

(1) Ajmer
(2) West Bengal
(3) Bhopal
(4) Himachal Pradesh
(5) Hyderabad
(6) Madhya Bharat
(7) Mysore
(8) PEPSU
(9) Rajasthan
(10) Saurashtra and
(11) Travancore-Cochin

The first stage, that is to say, the preparation of a preliminary report based on an investigation on the spot by an officer of the Bank has been completed for each of the following States :-

(1) Assam
(2) Bihar
(3) Coorg
(4) Madhya Pradesh
(5) Manipur
(6) Orissa
(7) Punjab
(8) Tripura
(9) Uttar Pradesh and
(10) Vindhya Pradesh.

50. It is gratifying to note that, where agreed lines have been formulated, active steps are being taken by some of the State Governments to implement the proposals. To cite some instances, a state co-operative bank has already been established in Saurashtra, while the reorganisation of the existing apex bank in the manner recommended by the Reserve Bank has in large part been carried out in West Bengal ; in Bhopal and Himachal Pradesh steps are being considered for the conversion of certain existing banking institutions into apex co-operative banks for the States ; decisions on various items in connection with the early establishment of new state co-operative banks in Madhya Bharat and Rajasthan have been taken by the Governments concerned ; while, in Hyderabad and Mysore, the reorganisation of their present apex institutions, broadly on the lines recommended by the Reserve Bank, is receiving the attention of the State Governments.

Co-operative Training

51. Meanwhile, a problem which is common to most States is the absence of adequate trained personnel to man the co-operative banks or other agricultural credit institutions which will need to be expanded or newly established. This problem was investigated at the instance of the Standing Advisory Committee and, as a result, steps have been taken to organise an All-India training centre for co-operative personnel at Poona in conjunction with the Poona Co-operative College which is run by the Bombay

Provincial Co-operative Institute. The scheme is subsidised by the Reserve Bank and consists of two courses intended for two different types of personnel. There is a short-term course of six months for training the higher officers of the co-operative departments of State Governments and the executives of the apex banks and other important co-operative institutions. This course commenced in April 1952 for the first batch of trainees. The other is a long-term course of one year and is meant for training officials and non-officials a rung or two lower in the ladder. This course commenced in July 1952. Both courses include a period of intensive practical training; while, on the theoretical side, they cover subjects such as co-operative law, co-operative banking and co-operative administration. A number of States, some of which are as far away from Poona as Himachal Pradesh and Manipur, are taking advantage of the facilities thus offered. It is hoped, in time, provided the demand is not only sustained but expands, to enlarge the training centre at Poona and if necessary establish one or more centres of a similar type in other parts of India.

All-India Rural Credit Survey

52. While, as indicated above, the functions exercised by the Reserve Bank in regard to the provision of agricultural credit may, within the existing frame-work of the Bank, be made more effective in certain respects or the frame-work itself may be expanded in certain others, there remains the question of formulating a long-term plan in relation to both policy and organisation, and, in this context, the Informal Conference felt that a detailed investigation of facts on a country-wide basis was a necessary preliminary. The Conference accordingly recommended that an All-India Rural Credit Survey should be undertaken by the Bank. The recommendation was accepted and a small Committee of Direction was appointed by the Bank in August 1951 "to plan, organise and supervise the Survey, to interpret its results and to make recommendations." Mr. A. D. Gorwala is the Chairman of this Committee, which includes Professor D. R. Gadgil, besides the Bank's Executive Director, its Economic Adviser and its Director of Statistics (who is also Secretary to the Committee). The enquiry was envisaged to be of a size which would adequately cover the different strata of the agricultural population in representative parts of the country with reference to their credit requirements and to the agencies, existing or needed, for fulfilling those requirements. Among the aspects to be dealt with were the pattern of savings and deficits in agricultural economy, the trends, if any, towards shifts in income, and the problem of capital formation in rural areas. The Survey, which is nearing completion, covers 75 districts, selected on a representative basis. For intensive enquiries on what may be termed the "demand" side of the Survey, 8 representative villages are

selected in each district, and 15 agricultural families in each village. The " supply " side of the Survey covers the different credit agencies such as co-operative societies, moneylenders and indigenous bankers, commercial banks, etc. The field staff, to which special training has been given, is largely drawn from the co-operative and agricultural departments of States or from staff previously employed in other economic Surveys in rural areas. The Committee of Direction is assisted by a Technical Committee at several stages.

The work conducted in the different regions is co-ordinated. by the Committee of Direction, which exercises its control either through Regional Controllers (mostly officers of the Reserve Bank) or through suitable agencies (Economics Bureaux of certain State Governments and, in one or two cases, non-official academic institutions) which have been entrusted with the work in particular areas. Thus, in Assam, Orissa and the Punjab and in part of the Bombay State (Gujerat), the work has been undertaken by the State Governments. The University of Travancore is conducting the Survey in Travancore-Cochin, and the Gokhale Institute of Politics and Economics in the Bombay Harnatak as well as in the Marathi-speaking districts of both Bombay and Hyderabad. Elsewhere, the supervision is done by Regional Controllers.

It is expected that the field work will have been completed in most of the regions by the end of July 1952. The Committee's Report is likely to be available within a few months.

Department of Banking Development: Other Activities

53. The State Financial Corporations Bill, 1951, referred to in the last Report, was passed by Parliament on September 28, 1951. The Act, which is in the nature of enabling legislation, provides for the establishment of financial corporations by State Governments, for the purpose of supplying the medium and long-term requirements of the medium-sized and small-scale industries, which are outside the scope of the Industrial Finance Corporation of India. With the enactment of the measure, the question of setting up corporations under the provisions of the Act has been engaging the attention of some of the State Governments. The Department of Banking Development is in close touch with these Governments and answers the several preliminary enquiries addressed to it in this connection.

An officer of the department was deputed, at the instance of the Government of India, to investigate the credit needs of the Indian-owned tea gardens, and his report was submitted to Government in August, 1951. Government have accepted the following conclusions reached by the Reserve Bank on the basis of this report :-

(*a*) that the European section of the industry comprising about 80 per cent of the total tea industry is not experiencing any special financial difficulties ;

(*b*) that 85 to 90 per cent of the Indian-owned gardens also do not experience much difficulty in obtaining short-term finance from banks ;

(*c*) that not more than 10 per cent of the total number of Indian gardens are reported to have experienced difficulties in raising finance but the reason is not so much lack of bank finance as that these gardens are too small to function as economic units and, therefore, banks do not consider it a good banking risk to make large advances to them.

The Reserve Bank's willingness to extend the rediscounting facilities available under Section 17 of the Reserve Bank of India Act to Scheduled and Co-operative Banks in respect of their loans to tea-gardens has been brought specifically to the notice of the Central Tea Board. The willingness of the Industrial Finance Corporation to afford long-term credit facilities to tea gardens which are public limited companies against securities of machinery and buildings has also been brought to the notice of the Tea Board. In order to facilitate a periodical review of the problem, arrangements have been made to secure half-yearly returns from Indian-owned tea gardens regarding their financial requirements. Banks engaged in tea finance have also been requested to furnish quarterly statements of their advances to the gardens in a prescribed form.

54. An event of special importance to bankers during the period was the holding of an International Credit Conference in Rome in October, 1951. The Conference, which was sponsored by the Italian Bankers' Association, was convened primarily to " provide an opportunity for comprehensive and free discussion among representatives of banking and financial activities and experts in technical, economic and juridical problems." The Reserve Bank was represented at the Conference by one of its Deputy Governors. The subjects chosen for discussion at the Conference were " Bank Liquidity-Control of Inflation " and " Finance of Foreign Trade." A paper on " Bank Liquidity and Control of Credit in India " was submitted to the Conference on behalf of the Reserve Bank.

Annual Accounts and other Matters

Annual Accounts

55. During the year under review, the Bank's income amounted to Rs. 11.11 crores, and expenditure, which includes the expenses of administration and provision for sundry liabilities and contingencies to Rs. 3.61 crores. The net profit available for payment to the Central Government in terms of Section 47 of the Reserve Bank of India Act was Rs. 7.50 crores as against Rs. 8.34 crores last year. For reasons which are explained in the earlier portions of the Report there was during the year a very heavy depreciation of both sterling and rupee securities held in the Bank's investment account. This decline was, however, partially offset by increased receipts under " Discount " and " Exchange," as a result of a sharp rise in the discount rates on Sterling Treasury bills consequent on the raising of the Bank rate in the United Kingdom in November 1951 and again in March 1952, and larger sales of sterling to scheduled banks.

Expenditure showed a rise of Rs. 55.02 lakhs, of which Rs. 30.38 lakhs were accounted for by increase in expenditure under " Establishment." The main reasons for this increase were the institution by the Bank of an All-India Rural Credit Survey (estimated to cost about Rs. 10 lakhs), a further expansion in the activities of the Department of Banking Operations following the extension of the Banking Companies Act to Part B States and increased allowances to staff. As compared with the previous year, the cost of security printing also showed a rise of Rs. 13.27 lakhs owing to the increased supplies of Bank note forms by the Nasik Press during the year.

Auditors

56. The Accounts of the Bank have been audited by Messrs. S. B. Billimoria & Co. of Bombay, Mr. P. K. Ghosh of Calcutta and Messrs. Sastri and Shah of Madras, who were appointed by the Government of India as auditors of the Bank by Notification No. 3(69)-F1/51 dated September 4, 1951, issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act (II of 1934).

Compensation to Shareholders

57. Following the nationalisation of the Reserve Bank of India on January 1, 1949, the shares of the Bank were acquired* by the Central Government. Out of a total of 5,00,000 shares (including 2,200 shares held by the Central Government) of the face value of Rs. 100 each, the total number of shares tendered

* For details regarding compensation payable to shareholders, see Report for 1948-49.

for payment of compensation upto June 30, 1952 was 4,78,067, the number of shares tendered during the year being 6,671. The total compensation paid in 3 per cent First Development Loan, 1970-75 amounted to Rs. 5.31 crores and in cash Rs. 34 lakhs.

Composition of the Central Board

58. By a Notification No. F.3(15)-FI/51 dated July 9, 1951, the Central Government, in terms of Section 8(l)(a) and Section 8(4) of the Reserve Bank of India Act, appointed Mr. Ram Nath as Deputy Governor of the Bank for a period of five years, with effect from July 9, 1951.

As provided in Section 8(6) of the Reserve Bank of India Act, Sir Rustom P. Masani and Dewan Bahadur C. S. Ratnasabapathi Mudaliar, C.B.E., retired as Directors of the Central Board on January 14, 1952. The vacancies were 6lled by the nomination, by the Central Government, of Messrs. J. R. D. Tata and B. D. V. Ramasawmy Naidu, in pursuance of sub-section (l)(c) of Section 8. In terms of Section 12(4), the Central Government nominated, with effect from April 24, 1952, Professor D. R. Gadgil as a Director of the Central Board in the vacancy caused by the resignation of Mr. Ramrao Madhaorao Deshmukh, consequent on his election to the Council of States.

Local Boards

59. Mr. S. B. P. Pattabhirama Rao ceased to be a member of the Southern Area Local Board, with effect from January 7, 1952, consequent on his election to the Madras State Assembly. Mr. P. Suryanarayana was nominated by the Central Board to fill the vacancy. Professor D. R. Gadgil resigned his membership of the Western Area Local Board, with effect from June 25, 1952 and arrangements are being made to fill the vacancy.

Meetings of the Central Board and Its Committee

60. Five meetings of the Central Board were held during the year, two in Bombay and one each in Calcutta, New Delhi and Madras. The Committee of the Central Board held fifty-one meetings, of which forty-eight were in Bombay and three in Calcutta.

Bank's Offices

61. A Note Cancellation Section was opened at Tiruchirapally on October 3, 1951.

Bank's Premises

62. Work on the construction of the new buildings for the Bank's offices in Delhi and Nagpur is expected to start shortly.

Construction of residential quarters for the clerical and subordinate staff at Bombay has already commenced, and the work is scheduled to be completed within two years. A plot of land has also been secured at Back Bay Reclamation, Bombay, on lease from the State Government, on which it is proposed to erect a new building for providing additional accommodation for officers. During the year, the Bank took possession of the remaining 120 quarters (8 for officers and 112 for subordinate staff), out of 440 residential quarters constructed for the staff of the Bank at Delhi under the Central Government's Housing Scheme, and allotted them to the staff.

By Order of the
Central Board of Directors,
B. RAMA RAU,
Governor.

APPENDIX

Scheduled Banks

1. Ajodhia Bank.
2. Allahabad Bank.
3. American Express co., Inc.
4. Andhra Bank.
5. Australasia Bank.
6. Banco Nacional Ultramarino.
7 Bank of Assam.
8 Bank of Baroda.
9: Bank of Behar.
10. Bank of Bikaner.
11. Bank of China.
12. Bank of Communications.
13. Bank of India.
14. Bank of Indore.
16. Bank of Jaipur.
16. Bank of Maharashtra.
17. Bank of Mysore.
18. Bank of Nagpur.
19. Bank of Poona.
20. Bank of Rajasthan.
21. Bareilly Corporation (Bank).
22. Belgaum Bank.
23. Benares State Bank.
24. Bharatha Lakshmi Bank.
25. Calcutta National Bank.
26. Canara Bank.
27. Canara Banking Corporation.
28. Canara Industrial and Banking Syndicate.
29. Central Bank of India.
30. Chartered Bank of India, Australia and China.
31. Comptoir National D'Escompte de Paris.
32. Devkaran Nanjee Banking Co.
33. Dinajpore Bank.
34. Eastern Bank.
35. Gadodia Bank.
36. Grindlays Bank.
37. Habib Bank.
38. Hind Bank.
39. Hindustan Commercial Bank.
40. Hindusthan Mercantile Bank.
41. Hongkong and Shanghai Banking Corporation.
42. Hyderabad State Bank.
43. Imperial Bank of India.
44. Indian Bank.
45. Indian Oversees Bank.
46. Indo-Commercial Bank.
47. Indo-Mercantile Bank.
48. Jodhpur Commercial Bank.
49. Karnani Industrial Bank.
50. *Karur Vysya Bank.
61. Kumbakonam Bank.
52. Lakshmi Commercial Bank.
63. Laxmi Bank.
54. Lloyds Bank.
55. Mahaluxmi Bank.
66. Metropolitan Bank.
57. Mercantile Bank of Hyderabad.
58. Mercantile Bank of India.
59. Miraj State Bank.
60. Nadar Bank.
61. Narang Bank of India.
62. National Bank of India.
63. National Bank of Lahore.
64. National City Bank of New York.
65. Nationale Handelsbank N.V.
66. Nation81 Savings Bank.
67. Nedungadi Bank.
68. Netherlands Trading Society.
69. New Bank of India.
70. New Citizen Bank of India,
71. Oriental Bank of Commerce.
72. Oudh Commercial Bank.
73. Palai Central Bank.
74. Pandyan Bank.
76. Prabhat Bank.
76. Pratap Bank.
77. Presidency Industrial Bank.
78. Punjab and Sind Bank.
79. Punjab Co-operative Bank.
80. Punjab National Bank.
81. Sangli Bank.
82. Southern Bank.
83. South India Bank.
84. South Indian Bank.
85. Tanjore Permanent Bank.
86. Traders' Bank.
87. Travancore Bank.
88. Travancore Forward Bank.
89. Tripura Modern Bank.
90. Union Bank of India.
91. United Bank of India.
92. United Commercial Bank.
93. United Industrial Bank.
94. *United Western Bank
95. Universal Bank of India.
96. Vysya Bank.

* Included in the Second Sohedule during the year ended June 1952.

RESERVE BANK OF INDIA

Balance Sheet as at June 30, 1952

ISSUE DEPARTMENT

LIABILITIES	Rs.	a. p.	Rs.	a. p.	ASSETS	Rs.	a. p.	Rs.	a. p.
Notes held in the Banking Department . .	34,39,96,802	8 0			A. Gold Coin and Bullion:- (a) Held in India . .	40,01,70,843	9 5		
Notes in circulation	11,29,48,46,109	8 0			(b) Held outside India.	Nil			
					Foreign Securities . .	5,83,15,11,573	2 7		
Total Notes Issued			1,63,88,42,912	0 0	Total of A . .			6,23,16,82,416	12 0
					B. Rupee Coin..			76,08,10,605	9 4
					Government of India Rupee Securities . .			4,64,63,49,889	10 8
					Internal Bills of Exchange and other Commercial Paper.			*Nil*	
Total Liabilities Rs.			11,63,88,42,912	0 0	Total Assets Rs.			11,63,88,42,912	0 0

Ratio of Total of A to Liabilities : 63.642 per cent.

BANKING DEPARTMENT

LIABILITIES	Rs.	a.	p.	ASSETS	Rs.	a.	p.
Capital paid-up	5,00,00,000	0	0	Notes	34,39,96,802	8	0
Reserve Fund	5,00,00,000	0	0	Rupee Coin	14,40,456	0	0
Deposits :-				Subsidiary Coin	2,06,227	7	9
(a) Government—				Bills Purchased and Discounted :-			
(1) Central Government	1,17,24,53,875	13	6	(a) Internal	1,52,34,000	0	0
(2) Other Governments	3,19,04,479	10	11	(b) External	*Nil*		
(b) Banks	56,66,58,911	3	4	(c) Government Treasury Bills . .	8,66,62,646	3	5
(c) others	64,43,94,272	4	4	Balances held abroad*	98,23,66,624	3	10
Bills Payable	3,31,22,641	11	8	Loans and Advances to Governments	1,58,00,000	0	0
Other Liabilities	8,01,44,437	13	8	Other Loans and Advances	28,28,15,401	16	4
				Investments	86,93,54,621	0	0
				Other Assets	3,08,01,839	3	1
Total Liabilities Re.	2,62,86,78,618	9	6	Total Assets Rs. ..	2,62,86,78,618	9	5

*Includes Cash and Short-term Securities.

J. N. AHUJA,
Chief Accountant.

B. RAMA RAU,
Governor.

N. SUNDARESAN,
Deputy Governor.

Dated July 21, 1962.

RESERVE BANK OF INDIA

Profit and Loss Account

	FOR THE YEAR ENDED								
	June 30, 1962			June 30, 1961			June 30, 1960		
INCOME	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Interest, Discount, Exchange, Commission, etc.	11,11,20,066	14	0	11,39,83,085	1	3	12,89,99,861	16	6
EXPENDITURE									
Establishment	2,02,03,857	8	9	1,71,65,599	13	1	1,60,97,663	13	1
Directors' and Local Board Members' fees and expenses ..	69,038	14	0	92,309	6	0	92,927	6	0
Auditors' fees	22,600	0	0	22,600	0	0	22,600	0	0
Rent, Taxes, Insurance, Lighting, etc.	5,41,397	5	4	5,81,801	10	6	5,08,409	6	2
Law charges	72,274	14	9	1,07,042	6	9	13,490	3	2
Postage and Telegraph charges	1,62,841	16	3	1,36,483	6	7	1,43,044	3	3
Remittance of Treasure . . . . ,	14,71,356	4	11	14,00,527	3	2	12,99,063	14	2
Stationery, etc.	5,51,643	10	10	4,27,402	1	1	3,82,630	7	7
Security Printing—(Cheque, Note Forms, etc.)	64,70,021	2	4	51,43,522	9	7	60,93,624	0	0
Depreciation and Repairs to Bank's property	9,89,692	9	7	7,31,627	3	7	8,76,583	1	7
Agency charges	33,69,124	14	9	31,36,069	8	7	28,59,412	2	11
Contributions to staff and superannuation funds	60,300	0	0	64,700	0	0	68,600	0	0
Miscellaneous expenses. . ., ...	21,35,899	4	9	16,09,041	4	8	14,59,435	6	7
Net available balance . . . . . ,	7,50,00,118	4	9	8,33,65,458	8	8	9,90,82,478	0	11
Total Rs. ..	11,11,20,066	14	0	11,39,83,085	1	3	12,89,99,861	16	6

PROFIT AND LOSS ACCOUNT-continued

	FOR THE YEAR ENDED		
	June 30, 1962	June 30, 1961	June 30, 1960
	Rs. 8. p.	Rs. a. p.	Rs. 8. p.
Surplus payable to the Central Government	7,50,00,118 4 9	8,33,65,458 8 8	9,90,82,478 0 11
Balance carried forward	*Nil*	*Nil*	Nil
Total Rs. ..	7,50,00,118 4 9	8,33,65,458 8 8	9,90,82,478 0 11

RESERVE FUND ACCOUNT

	Rs.	a.	p.
By balance on June 30, 1962	5,00,00,000	0	0
By transfer from Profit and Lose Account	*Nil*		
Total Rs. ..	5,00,00,000	0	0

J. N. AHUJA,
Chief Accountant.

B. RAMA RAU,
Governor.

N. SUNDARESAN,
Deputy Governor.

Dated July 21, 1962.

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA,

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Bank as at 30th June, 1952.

We have examined the above Balance Sheet with the Accounts, Certificates and Vouchers relating thereto of the Central Office and of the Offices at Calcutta, Bombay and Madras and with the Returns submitted and certified by the Managers of the other Offices and Branches, which Returns are incorporated in the above Balance Sheet, and report that where we have called for explanations and information from the Central Board such information and explanations have been given and have been satisfactory. In our opinion, the Balance Sheet is a full and fair Balance Sheet containing the particulars prescribed by, and in which the assets have been valued in accordance with, the Reserve Bank of India Act, 1934, and the Regulations framed thereunder and is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of our information and the explanations given to us, and as shown by the Books of the Bank.

$\left.\begin{array}{l}\text{S. B. BILLIMORIA \& CO.,}\\ \text{P. K. GHOSH,}\\ \text{SASTRI \& SHAH.}\end{array}\right\}$ *Auditors*

Dated July 21, 1952.

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