RESERVE BANK OF INDIA

Report of the Central Board of Directors

for the year ended June 30, 1954

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

AUGUST 1954

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REPORT

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RESERVE BANK OF INDIA ACT**

August 1954

CENTRAL BOARD OF DIRECTORS

(As on June 30, 1954)

Governor	Shri Benegal Rama Rau
Deputy Governors	Shri N. Sundaresan Shri Ram Nath
Directors, Nominated under Section 8(1) (b) of the Reserve Bank of India Act.	Shri Purshotamdas Thakurdas Shri B. M. Birla Shri Shri Ram Shri C. R. Srinivasan
Directors, Nominated under Section 8(1) (c)	Shri Manilal B. Nanavati Shri J. R. D. Tata Shri B. D. V. Ramasawmy Naidu Shri Dhirendra Nath Sen Sahu Jagdish Prasad Prof. D. R. Gadgil
Director, Nominated under Section 8(1) (d)	Shri S. G. Barve, I.C.S., Joint Secretary to the Government of India, Ministry of Finance (Department of Economic Affairs).

MEMBERS OF LOCAL BOARDS

(As on June 30, 1954)

WESTERN AREA

Shri Purshotamdas Thakurdas

Shri Mathuradas' Mangaldas Parekh

Shri D. V. Potdar

Shri Mohan Lal Tannan

Shri K. C. Mahindra

EASTERN AREA

Shri B. M. Birla

Shri Jiban Krishna Mitter

Mr. 0. T. Jenkins

Dr. Bimala Churn Law

Shri Peary Mukherjee

NORTHERN AREA

Shri Shri Ram

Shri Satya Paul Virmani

Sahu Jagdish Prasad

Shri S. Gurdial Singh Uppal

Shri Rishi Narain Shastri

SOUTHERN AREA

Shri C. R. Srinivasan

Shri R. Ramanathan Chettiar

Shri P. Suryanarayana

Shri S. Ananthararamakrishnan

Shri Rikkini Venkataratnam Chowdhury

OFFICES AND BRANCHES OF THE BANKING DEPARTMENT

Bombay

Calcutta

Delhi

Kanpur

Madras

Bangalort

London

BRANCHES OF THE ISSUE DEPARTMENT

Bombay

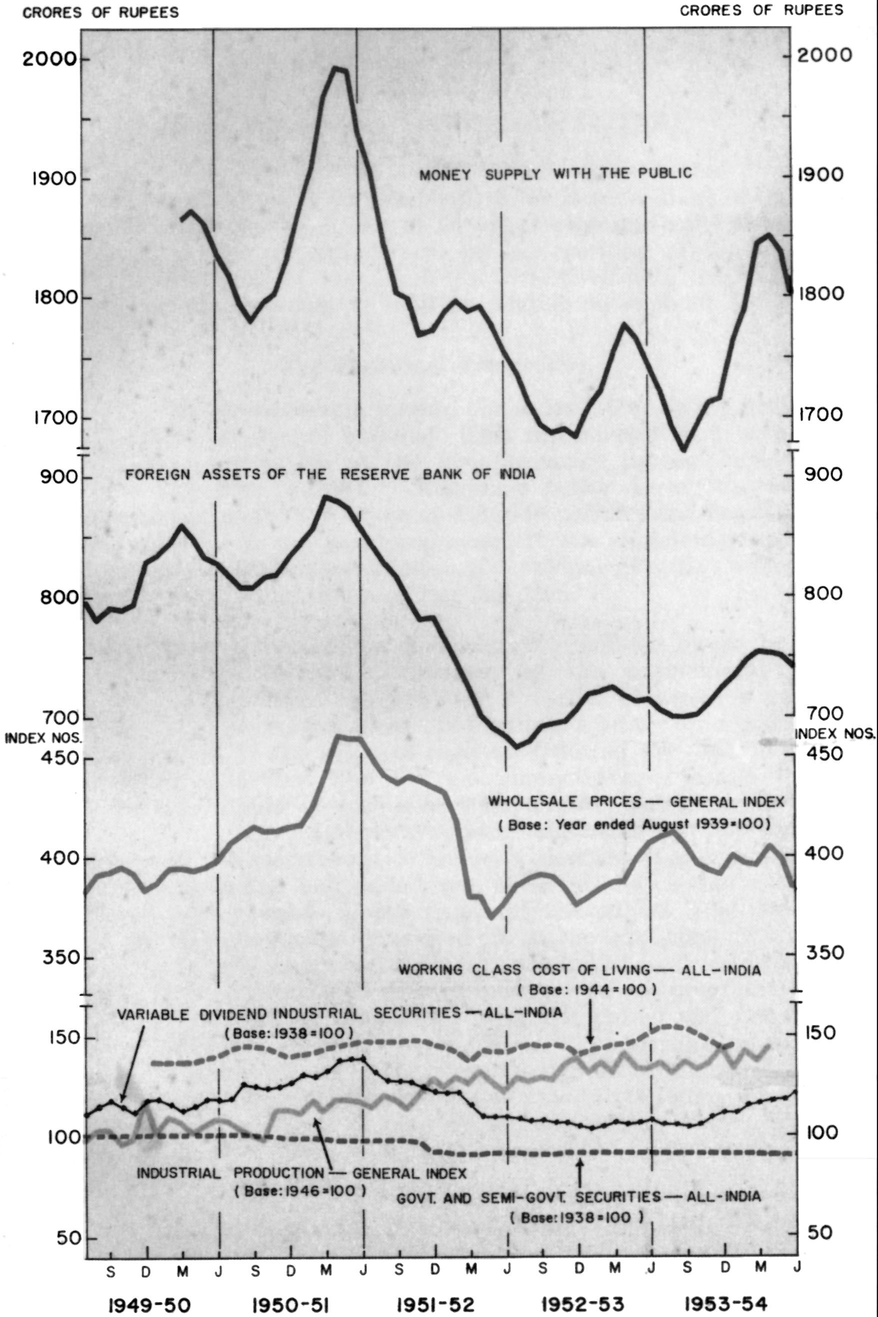
Calcutta

Delhi

Kanpur

Madras

MAIN ECONOMIC INDICATORS



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

For the year July 1, 1953—June 30, 1954

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 twentieth accounting period beginning on July 1, 1953 and ending on June 30, 1954.

The Historical Perspective

2. The distinguishing feature of the Indian economy during 1953-54 was its overall stability. This represented to a certain extent the culmination of the disinflationary process initiated towards the close of 1951. Economic policy during the year further strengthened the forces making for stability and flexibility of the system. As the year progressed, it was therefore possible to envisage substantial acceleration of development outlay without undue fears of generating a rolling inflation.

Indian Economy after World War II

3. Since the stability achieved in 1953-54 owed in a considerable measure to the adjustments in policies effected over a period of years, a brief survey of these will facilitate a better appreciation of the progress registered during the year under review. The Indian economy emerged from World War II with a high inflationary potential. Large Government expenditure and balance of payments surpluses on private account combined with controls on prices and on private spending had added very substantially to the money and near-money assets in the hands of the public. This latent inflation had to be gradually worked off. At the same time, provincial Governments which had built up substantial reserves during the war years were eager to embark on development programmes. While the pressure of demand in both the public and private sectors was great, domestic availabilities of goods and services were not adequate to meet the requirements of both the sectors simultaneously. Economic policy was adapted to reducing, on the one hand, the pressure of pent-up demand in the system and enabling, on the other, the public sector to carry out its development plans.

4. In the immediate post-war years, however, political uncertainties as well as difficulties inherent in a transition from a

war to a peace economy impeded the implementation of an effective policy to achieve these twin objectives. Despite a diminution in Government expenditure for war purposes, and despite some addition to domestic availabilities of goods through import surpluses, the excess of aggregate demand over aggregate supply continued to be large. The partition of the country in 1947 further accentuated the strains in the economy through a reduction in the supply of food and other agricultural commodities. With the lifting of physical controls in November 1947, the pent-up demand in the system was released all of a sudden. Part of this was met by an increase in imports; even so, the pressure of expenditure was of such intensity that prices shot up. The general index of wholesale prices (Economic Adviser's index : *base,* year ended August 1939 = 100) soared from 302 at the time of decontrol to a peak of 390 in July 1948. In view of the possible repercussions of this activation of latent inflation on the country's economy, especially when articles of mass consumption were in short supply, Government reversed the policy of decontrol in July 1948, and controls were reimposed in the succeeding months on cotton textiles, foodgrains and other essential articles.

Changes in Policy after the Decontrol Experiment

5. The decontrol experiment wrought several changes in economic policy. It was apparent that the latent inflationary potential was too large to be worked off quickly through a rise in general prices. The process had to be gradual, and related to the rate at which domestic availabilities could be increased through increased production and imports. And at the same time, intensification of the pressure through creation of additional purchasing power was to be avoided. To this end, Government expenditure on schemes which were not likely to add quickly to the output of essential goods was sought to be reduced ; and attempts were made to restrict disposable incomes with the public through fiscal measures. Further, imports were liberalised, especially imports from soft currency areas. Various concessions were given to industry to promote productive investment. In order to facilitate industrial investment, the Industrial Finance Corporation of India was set up. On the monetary side, the promulgation of the Banking Companies (Control) Ordinance in September 1948 paved the way for a more effective regulation of the banking system. This Ordinance authorised the Reserve Bank to issue directives to banking companies in regard to their lending policies and to call for periodic returns from banks. There was thus in the later half of 1948 a move towards integrating the several elements of economic policy into a concerted programme for fighting inflation,

6. The period of decontrol had, however, left a permanent impress on the system. Though the anti-inflationary measures mentioned above curbed the rise in prices, they continued well above the pre-decontrol level. There was a diminution in the liquid assets at the disposal of the public, and the rise in prices reduced further the real value of the portion of such assets still with the public. Liberahsation of imports facilitated building up of stocks of goods by the public. Bank advances also reached a high level in the busy season which coincided with the decontrol period.

Trade Policy and—

7. There was also another side to the picture. Trade policy in 1948 was directed to diverting imports from the dollar area to the soft currency areas, with the object of conserving dollar resources. This shift in imports was rendered easier by the substantial sterling release secured under the Indo-U.K. Financial Agreement of July 1948. On the exports side, various measures were taken to step up hard currency earnings without depriving the traditional export markets or the domestic consumer of necessary supplies. But this drive was impeded by the increase in domestic prices and the recessionary turn in the American economy. The latter factor affected India's trade not only directly but also through its repercussions on the sterling and other soft currency countries. Since selling in the American market tended to become more and more difficult, exports were diverted to other soft currency countries, and this was true of India also. Thus the position was such that exports had to face severe competition while imports were rendered easier. In the event, India had a large adverse balance of trade ; and the balance of payments deficit on current account (excluding Pakistan) reached the high level of Rs. 102 crores in the first quarter of 1949. Though the deficit came down in the subsequent quarters, it was still large enough to cause concern.

8. The net draft on foreign exchange resources in 1948-49 amounted to Rs. 227 crores, not taking into account the extra-ordinary transfers in respect of the allocation of assets to the State Bank of Pakistan and payments to the U.K. on account of military stores and funding of pension annuities. In view of this, it was no longer possible to work off whatever latent inflation there was in the system through continued import surpluses. Indeed, considerations of foreign exchange required tightening of imports and diversion of domestic output to foreign trade. To this end, it was proposed to restrict imports from hard currency areas to 75 per cent of the 1948 level. And in September 1949 the rupee was devalued by 30.5 per cent in terms of the dollar, along with the currencies of a large number of other countries.

-Devaluation

9. Following devaluation, there was a spurt in exports and in the last quarter of 1949, the balance of payments on current account (including Pakistan) disclosed a surplus of Rs. 52 crores. The international payments position of the country thus tended to have an inflationary impact. In expectation of this, and with a view to cushioning the impact of devaluation, export duties were imposed on a number of articles and that. on hessian was enhanced. Additional anti-inflationary measures were also taken subsequent to October 1949. Prices of controlled commodities like foodgrains, cloth, yarn, pig iron and steel were reduced and steps were taken to reduce Government expenditure and enhance Government receipts through taxes and loans. To curb speculation, futures trading in a number of commodities was prohibited. Following the advice of the Reserve Bank-that advances for speculative purposes, including speculative holding of stocks, should be discouraged-and the calling of daily returns relating to credit limits of Rs. 1 lakh and over sanctioned by banks, the banks were more cautious in their lending operations ; and the expansion of scheduled bank credit in the busy season of 1949-50 was lower et Rs. 91 crores as against Rs. 112 crores in the previous busy season.

10. Despite the various measures taken during 1949-50, the general price index in June 1950 was 4.6 per cent higher than in June 1949, and 1.7 per cent higher than in August 1949, prior to devaluetion. The rise in prices was due mainly to an increase in the prices of industrial raw materials, resulting in part from the cessation of imports of cotton and jute from Pakistan following devaluation. Notwithstanding the intensification of the Grow More Food Campaign, available food supplies during the year were limited. Between July 1949 and June 1950, money supply had increased by Rs. 12 crores. This was due mainly to the balance of payments surplus mentioned above.

The Post-Korean Inflationary Upsurge

11. By mid-1950, however, there were indications that the inflationary stimulus provided by devaluation had spent itself. If this trend had continued and if a position of near balance in the foreign exchange sector had been reached, the anti-inflationary measures that had been taken in the post-devaluation period might have led to a gradual working off of the excess demand in the system and enabled the country to devote greater attention to the problems of development. But with the outbreak of the Korean War in June 1950, there was an upsurge of inflation in India, as

elsewhere. There was a big increase in export earnings due to a rise in both quantity and prices.,· at the same time, restrictions on exports of essential commodities by several countries as well as shortage of shipping prevented the increased export earnings from being utilised for additional imports. Between July 1950 and March 1951, the surplus on balance of payments aggregated Rs. 70 crores and this inevitably added to domestic incomes. Simultaneously, the food situation in the country deteriorated following serious damage to crops due to natural calamities. Commodities like cotton and jute were also in short supply and their prices moved up rapidly. Due largely to the increase in the prices of industrial raw materials, the general index of wholesale prices rose from 396 in June 1950 to a peak of 458 in April 1951.

12. These developments in the internal and international spheres, together with an increase in speculative activity, led to a sharp increase in the demand for funds during the busy season of 1950-51. To meet this abnormal demand, commercial banks were compelled to liquidate their holdings of Government securities. The prices of gilt-edged securities sagged in the absence of official support and the rates of interest moved up rapidly. By December 1950, the gilt-edged market had touched a very low level, with the 3 per cent Conversion Loan, for instance, quoting at Rs. 93. To prevent a further deterioration in the securities market, and to put commercial banks in possession of funds which they needed to meet the seasonal demands, the Reserve Bank entered the market and resumed purchase of securities.

13. These two elements, viz., balance of payments surpluses and open market operations of the Reserve Bank, led to a sharp increase of Rs. 104 crores in money supply during the year 1950-51. Indeed, in the busy season of 1950-51, extending from October 1950 to mid-May 1961, the increase in money supply with the public was of the order of Rs. 236 crores.

Measures taken to Counteract Inflation

14. The Korean boom thus rendered the economy once again highly inflationary and economic policy had to be geared to fighting this relentlessly. With this object, quota and destinationalrestrictions on exports were imposed and export duties on a variety of articles such as hessian, sacking and raw cotton were greatly enhanced. Exports of medium and coarse cloth, cotton waste, raw wool, and groundnut were also subjected to duty. These levies enabled the Government to mop up a portion of the additional incomes created through the increase in the value of exports. Government expenditure was closely regulated, even at the risk of postponing outlays on development projects. Efforts to supplement supplies of foodstuffs etc. through imports were

intensified. In order to ensure that bank credit was extended to legitimate and *bona* fide purposes, the Reserve Bank kept a close scrutiny on the general advances of the banking system. The fact that despite these measures the inflationary pressure was great reflects the enormous weight of external factors on the Indian economy during that phase.

15. This is further underlined by the developments subsequent to April 1951, when purchases by the U.S.A. for stock-piling purposes fell rapidly. The rate of increase in Indian prices slackened, and with the easing of international tension towards mid-1951, the prices of industrial raw materials started falling, as also the general price index. Like the expansion during the busy season of 1950-51, the contraction of money supply with the public in the following slack season was also of an abnormal magnitude. Between mid-May and October 1951, money supply with the public fell by as much as Rs. 212 crores, almost wiping out the expansion in the busy season. Even so, the position was such that any marginal change in aggregate supply or aggregate demand could have touched off another round of inflation.

16. It was essential that this position should be remedied before embarking on the development programme which had been drawn up in the meantime by the Planning Commission. The policy adopted for this purpose had two principal aspects. On the one hand, supplies on the domestic market were augmented through a series of measures. And on the other hand, further expansion of purchasing power with the public was prevented through a re-orientation of monetary policy.

17. To augment domestic supplies, attention was focussed on projects yielding results with a minimum of time lag, and on increased imports of food and raw materials. Projects such as minor irrigation works, provision of improved seeds and manure to agriculturists, as well as increase in acreage under cultivation through reclamation of land were pushed forward. The American Wheat Loan and assistance from Colombo Plan countries enabled imports of substantial quantities of foodgrains in 1951-52. Arrangements were also made for increased imports of American and Egyptian cotton, and of jute from Pakistan.

New Monetary Policy

18. In the monetary sphere, a new policy was ushered in in November 1951 with the raising of the Bank Rate from 3 to 39 per cent and the announcement by the Reserve Bank that it would, except in special circumstances, refrain from buying Government securities to meet the seasonal requirements of scheduled banks. This change in Reserve Bank policy, coming as it did at the start of the busy season, put an effective check

credit expansion, and the busy season increase in money supply with the public amounted to only Rs. 8 crores. The shift in policy further enabled the Reserve Bank to influence the pattern of bank advances ; since banks had to resort to borrowing from the Reserve Bank to meet their seasonal demands, they had to exercise greater caution in their lending operations. Following the change in its open market policy, the Reserve Bank introduced in January 1952 the Bill Market Scheme, under which advances were granted to scheduled banks having deposits of not less than Rs. 10 crores under Section 17 (4) (c) of the Reserve Bank of India Act on the security of usance promissory notes of their constituents. This scheme added considerable flexibility to the operations of the Reserve Bank as lender of last resort and gross borrowings from the Reserve Bank under this scheme amounted to Rs. 74 crores in the period January-June 1952. The scheme also helped the Reserve Bank to ensure that such advances were for ***bona fide*** trade purposes and for short periods.

The Price Fall of February 1952

19. These changes in the monetary sphere supported the disinflationary factors that were already in operation internally as well as internationally. While the domestic supply position had improved, international demand, which had started falling after April 1951 continued to contract, following the adoption of dearer money policies in several countries, improvement in the supplies of several internationally-traded commodities and the easing of tension in international relations. In February 1952, the prices of certain commodities, which were the object of speculative interest, fell sharply. The price-fall generated in these markets affected other markets also, and by the middle of March 1952, the general index of wholesale prices had fallen precipitously to 365, or 8 per cent less than the pre-Korean level.

Anti-recessionary Measures

20. The break in prices in February 1952 engendered a strong bearish sentiment in the commodity markets, which spread quickly to the bullion and stock markets also. As the price-fall continued, the eagerness of traders to reduce their stocks and improve their liquid position increased. A lull in the export market and the arrival of large consignments of American and Egyptian cotton made such an adjustment extremely difficult. Also, with the onset of the slack season, money supply started contracting as usual. This combination of circumstances necessitated adoption of measures for preventing the disinflation from developing into a dangerous recession. Quota and destinational restrictions on a variety of exports were lifted. Export duties, which in the past had been raised steeply as an anti-inflationary

measure, were reduced drastically. The duty on hessian was brought down from Rs. 1,500 to Rs. 750 per ton in February and to Rs. 275 per ton in May 1952. The duties on raw cotton and jute sacking were halved and those on groundnut oil, certain oilseeds and raw wool were abolished. To facilitate off-take of imports of cotton, Government guaranteed to buy at listed prices cotton held by banks as security against advances and the Reserve Bank assured scheduled banks that reasonable facilities would be made available to them to finance the purchase of Indian and imported cotton. These measures, together with liberal advances by the Reserve Bank against Government securities and usance bills, contributed to a reduction in nervousness in the markets and the price-fall was arrested.

21. By the beginning of July 1952, there had thus been a remarkable change in the economic situation. Inflation had, by and large, disappeared and for the first time in the post-war years, it was possible to concentrate on speeding up development. While restricted monetary expansion in the busy season of 1951-52 and the return of funds in the subsequent slack season had contracted purchasing power with the public, supplies had been augmented by increased industrial and agricultural output and larger imports, thus narrowing the gap between aggregate supply and demand. The economic situation was therefore favourable for relaxing food and other controls and for stepping up development expenditure in the public sector which, for the reasons explained earlier, had fallen short of the level envisaged for 1951-52 in the Draft Five-Year Plan. To combat unemployment and scarcity in certain areas, relief works were undertaken. The favourable movement in India's terms of trade towards the end of 1952 and the revision of the Five-Year Plan envisaging substantial deficit-financing were factors contributing to a strengthening of sentiment in the markets ; and despite lack of support from abroad, domestic prices started moving up after December 1952. With an increase in the demand for funds in the busy season of 1952-53 (October 25 to May 8), money supply increased by Rs. 83 crores and no stringency was experienced in the money markets. A very substantial increase in development outlay in the financial year 1953-54 was projected in the budget of the Central Government. All these factors, together with a continued increase in industrial output, combined to allay to a considerable extent the fears of recession which had been entertained in 1952. Even so, the prospects at the beginning of July 1953 were uncertain, in view of the lack of any significant change in the employment position, continued excess capacity in some industries, uncertainty about the trend of agricultural prices, lower level of activity in the equity and bullion markets and fears of a recession in the American economy.

Developments in 1953-54

22. Viewed against this background, the progress achieved during 1953-54 was substantial. From a position of uncertainty at the beginning, the situation had, by the latter half of the year, changed into one of increasing confidence in the stability of the economy; and business expectations tended, by and large, to be optimistic. This change in the economic outlook was brought about mainly by improvements in domestic output and stimulation of demand through adjustments in economic policy and the revival in international markets.

Progress of Production

23. As the year progressed, it became apparent that the output of several agricultural and industrial products would be substantially larger than in the past. The general index of industrial production which stood at 183.2 in June 1953 rose to a record level of 144.7 in December 1953. In 1953, production in the cotton textile and salt industries surpassed the targets laid down in the Five-Year Plan and cement output attained a new high of 3.78 million tons. Output in several engineering industries increased, and some new industries were started. Production of steel and coal, which had declined in 1953, recovered in the first quarter of 1954. And though the general index of industrial production fell subsequent to December 1953, it maintained an average level of 137.6 in the period January-March 1954, compared with an average of 132.7 in the corresponding quarter of 1953.

24. Increases in food production were equally impressive. The production of cereals in 1952-53 had reached 47.6 million tons or an increase of 5 million tons over that in 1951-52. And in 1953-54, in view of the favourable weather conditions which obtained during the year, it is expected that the output would be substantially larger than in 1952-53. Raw cotton production is estimated at 39.4 lakh bales, or about 8 lakh bales more than in the previous year. Outputs of sugarcane and oilseeds are also expected to exceed those in 1952-53. Jute and tea, however, registered declines in 1953-54.

25. These increases in production facilitated au enlargement of government expenditure on development and adoption of measures to stimulate private trade and industry. Partly to allay the prevalent fears of unemployment and partly to make up the slack in planned development outlay in the first two years of the Five-Year Plan, the rate of development expenditure had been stepped up in the budgets for 1953-54. Further, in October 1953, the projected five-year outlay n-as raised by Rs.175

crores. As the year progressed, most of the controls on prices and distribution of commodities within the country were relaxed or removed and the scope for private trade was widened.

Budget Deficits

26. As a result of the increase in development expenditure over the preceding year's level, and the concessions given during the year in export and import duties, the Central and State Governments are together estimated to have incurred, according to the figures given in the budget statements for 1954-55, an overall deficit of Rs.154 crores in 1953-54, as compared with a similar aggregate deficit of Rs. 67 crores in 1952-53. The actual changes in the floating debt of the Government of India and in the cash balances of State Governments during the financial year 1953-54 were, however, at variance with those shown in the budgets. The net increase in the Central Government's outstanding floating debt was only Rs. 20 crores as against the revised estimate of Rs. 80 crores. Similarly, whereas the aggregate of cash balances of Part A States was estimated to show a decline of Rs. 23 crores in 1953-54, it actually rose by about Rs. 2 crores. It would thus seem that the deficit actually incurred was considerably smaller than what is indicated by the revised estimates. This is attributable in part to a shortfall in development outlay as compared to the target set in the Five-Year Plan. A substantial increase in development expenditure in 1954-55 is envisaged and according to budget estimates, the combined deficit of the Central and State Governments would be of the order of Rs. 293 crores, Rs. 250 crores of which would be financed through issue of Government of India Treasury bills and the remainder through withdrawals from cash and investment reserves.

Measures to Stimulate Private Sector

27. Along with deficit-financing, several measures were taken to stimulate domestic economic activity. Mention has already been made of the relaxation of controls and the consequent extension of the sphere of private trade. To facilitate larger sales of cotton textiles, the excise duty on superfine cloth was reduced. A committee was appointed in August 1953 to enquire into the condition of the jute industry, and an Engineering Capacity Committee was set up to survey the extent of idle capacity in the engineering industries. In October 1953, the Reserve Bank of India appointed, with the approval of the Government, the Committee on Finance for the Private Sector. Support was extended to the formation of a private corporation with the assistance of the World Bank for promoting industrial expansion. Steps were also taken to set up a Government-owned industrial development corporation.

Export Promotion and —

28. Concurrently with these measures, steps were taken to promote exports. Duties on hessian, linseed and linseed oil were reduced, while those on medium cotton cloth and jute specialities were abolished. Quota restrictions in regard to exports of several commodities were removed or liberalised and the free licensing periods for raw cotton, cotton textiles, linseed oil etc. were extended. With a view to fostering new lines of export, the Sea Customs Act was amended in November 1953 to permit the grant of a rebate of import duty on raw materials and components used in the manufacture of goods intended for re-export. A special organisation to promote cotton textile exports was established, and it was proposed to set up similar bodies for aiding the exports of other commodities.

— Balance of Payments

29. These measures, assisted by increased demand for exports, resulted in a substantial improvement in export earnings in the last quarter of 1953. In the meantime, increased domestic output of food-grains and other commodities had made possible a sizeable reduction in imports, mainly food imports, These factors led to the emergence of a balance of payments surplus on current account of Rs. 48 crores in the October-December quarter of 1953. For the half-year July-December 1953, the balance of payments surplus amounted to Rs. 55 crores as against Rs. 64 crores in the corresponding period of the previous year. During these months, the surplus with the dollar area also increased to Rs. 20 crores. In the second half of the year under review, the payments position is expected to be more or less in balance, so that for the year as a whole, the balance of payments on current account is expected to show a surplus, though it may be somewhat less than the surplus of Rs. 67 crores realised in 1952-53. This improvement in the payments position was reflected in an increase in the foreign assets of the Reserve Bank by Rs. 31 crores, from Rs. 715 crores at the end of June 1953 to Rs. 746 crores at the end of June 1954.

The Bill Market Scheme as an instrument of Seasonal Credit Expansion

30. The budget deficit and the balance of payments surplus together contributed to an easing of money supply, particularly during the busy season, and its adjustment to seasonal demands was further assisted by the lending operations of the Reserve Bank of India. The facilities under the Bill Market Scheme had been extended in June 1953 to licensed banks having deposits of Rs. 5 crores or more. Further in July 1953 it was decided to refund-for a period of one year from October 1, 1953 in the first instance-such cost of the stamp duty on usance bills and promissory notes executed in Part B

States as was in excess of Re. O-l-0 per Rs. 1,000, in view of the comparatively high stamp duty in Part B States. These adjustments in the Bill Market Scheme enabled the commercial banks to borrow more freely from the Reserve Bank against usance bills. Gross borrowings under the Scheme amounted to Rs. 122 crores in the period January-June 1954 as compared with Rs. 61 crores in the corresponding period of 1953. As against a peak of Rs. 20 crores reached on June 9, 1953 by loans *outstanding* against bills, the maximum reached in 1953-54 was Rs. 31 crores on May 11, 1954. Advances outstanding against. bills on June 30, 1954 amounted to Rs. 20 crores as compared with Rs. 10 crores on June 30, 1953. Besides the borrowing against usance bills, advances against Government of India securities under Section 17 (4) (a) of the Reserve Bank of India Act amounted to Rs. 162 crores between July 1953 and June 1954, as against Rs. 113 crores granted during the previous year, Though advances against Government securities were thus larger in 1953-54, it is noteworthy that in the busy half-year January-June 1954, such advances were less than those against usance bills under Section 17 (4) (c), as may be observed from the table below :

(Rupees in Crores)

	Advances under	
	Section 17 (4)(a) (Govt. securities)	Section 17(4)(c) (Usance bills)
January-June 1952	135	74
January-June 1953	84	61
January-June 1954	116	I22

The enormous increase in the volume of transactions under the Bill Market Scheme during the year under review is a further evidence of the effectiveness of the Scheme as an instrument of credit expansion for seasonal purposes. The Scheme has obviated the need for large purchases and sales of securities by the Reserve Bank in order to adjust money supply to seasonal conditions, and has thus prevented the unregulated secondary variations in the media of exchange which are a concomitant of such open market operations.

Trends in Money Supply

31. The factors mentioned above facilitated the expansion of money supply with the public during the busy season of 1953-54. Money supply which had contracted by about Rs. 110 crores during the slack season of 1953 expanded by Rs. 185 crores between September 26, 1953 and May 7, 1954, covering the busy season. This was more than twice the expansion which occurred in the busy season of 1952-53. A feature of the expansion in money supply was the increase in deposit

money by about Rs. 16 crores as against a fall of Rs. 21 crores in the previous busy season. In the same period, scheduled bank credit increased by about Rs. 99 crores. In the first two months of the current slack season, money supply fell by nearly Rs. 50 crores ; but at the end of June 1954 it was still Rs. 66 crores higher than at the end of June 1953.

32. With money supply increasing sufficiently to meet the seasonal requirements of the economy, there was no abnormal hardening of money rates as the demand for funds increased. The call money rate among the larger banks which had fallen to Q-1 per cent at the end of November 1953 increased gradually to $2\frac{3}{4}$-3 per cent on December 24 and continued at that level upto the beginning of June 1954. The rate among the smaller scheduled banks also firmed up to 3 per cent by the middle of January 1954. As regards deposit rates, there had not been any appreciable fall in the slack season of 1953 ; in the busy season, the three months' deposit rate rose from $2\frac{1}{4}$-$2\frac{1}{2}$ per cent to around 3 per cent. The Treasury bill rate also firmed up, the average rate of acceptance during March 1954 being 2.69 per cent-the highest rate attained since the resumption of Treasury bill sales in 1952.

33. Mention may be made here of the cash position of banks during the busy season. The ratio of cash and balances with the Reserve Bank to total deposit liabilities of scheduled banks fell from 11.52 per cent at the end of November 1953 to 8.39 per cent on May 7, 1954, as compared with 8.33 per cent reached by the end of the 1952-53 season (May 8, 1953). It is to be noted that while net deposit liabilities of scheduled banks had registered a fall in the 1952-53 season, they had increased somewhat in the 1953-54 season ; despite this increase, the cash ratio at the end of the latter season was fractionally higher.

The Capital Market

34. In view of the facility offered through the Bill Market Scheme and lending against Government securities by the Reserve Bank, there was little need for banks and other institutions to replenish their funds through sale of Government securities in the busy season. The gilt-edged market, which had attained a measure of stability in the previous year, continued to rule firm during the year under review, owing in part to recurrent speculation about lowering of the Bank Rate in India and in part to scarcity of floating stocks. The latter factor made it possible for the Reserve Bank to undertake net sales of securities, and between end of June 1953 and last Friday of March 1954, total rupee securities held by the Reserve Bank fell by about Rs. 32 crores. This exerted little pressure on prices and

fluctuations in the All-India index of Government of India security prices were confined to a narrow range between 90 .O and 90.4 (base : 1949-50 = 100).

35. The gilt-edged market was also able to absorb substantial loan issues without much strain. The cash-cum-conversion issue in June **1953** of the first series of the **3½** per cent National Plan Bonds, 1961 for Rs. 75 crores was fully subscribed. Between July and October 1953, six Part A States and five Part B States floated 4 per cent 1963 loans for an aggregate amount of Rs. 31 crores. These loans, which were put on the market directly by the State Governments, were all over-subscribed, the subscriptions amounting to Rs. 40 crores. The continued strength of the gilt-edged market in the busy season facilitated the issue on April 19, 1954 of the 33 per cent National Plan Loan, 1964 at Rs. 98-8 per cent giving a redemption yield of 3.68 per cent. This issue had certain new features. It was a combined loan for the Central and State Governments and was placed on tap without any limit in regard to the amount. The loan was issued earlier than in the previous years with a view to tapping the surplus funds that would be available in the rural areas immediately after the harvest. As part of the National Plan Loan, a new series of Ten-Year National Plan Certificates was introduced in May 1954 to facilitate the small investors. By the end of June 1954, total subscriptions to this loan had exceeded Rs. 105 crores.

36. In the equities market also, the underlying tone during the year was one of firmness. The market recovered from the bearish phase that was in evidence during the previous year and tended to become bullish subsequent to September **1953.** The various steps that had been taken to promote private investment activity during the year as well as the buoyancy of equity markets abroad supported this trend. There were some signs of a revival of activity in the new issues market and the sanction accorded by the Controller of Capital Issues during July-December 1953 was Rs. 48 crores as compared with Rs. 18 crores during the corresponding period of the previous year.

Price Trends during 1953-54

37. As a consequence of all these developments, there was in 1953-54 a greater measure of balance between aggregate supply and aggregate demand than in the previous years, both in the market for goods and in the market for money. This adjustment manifested itself in the general stability of the price level for the greater part of the year. Such fluctuations as occurred in the first nine months of the year were short-lived and were confined to a narrow range. The uptrend in prices which was in evidence at the commencement of the year

was arrested by mid-August and until about the middle of December 1953 prices were falling. Thereafter, due to the stimulus afforded by the revival in exports and the decontrol of coarse grains and gram from January 1, 1954 prices went up. Owing largely to increase in prices of food and of industrial raw materials, the general index of wholesale prices rose from 387 in mid-December 1953 to 401 in the third week of January 1954. In the subsequent months, prices fell steadily and save for a short-lived spurt to 404 in the middle of April, the downtrend continued until the end of the year. By end of June 1954 the general index fell to 378 or 2.2 per cent below the mid-December level and 6.7 per cent below the level at the end of June 1953.

38. The fall in prices since mid-April 1954 has, however, been particularly marked. Between April 10, 1954 and June 26, 1954, the general price index fell by 6.4 per cent, owing principally to a decline of 13.1 per cent in the group index of food articles and a fall of 8.7 per cent in the raw materials price index. The break in food prices was attributable to large increases in the availabilities of both cereals and pulses, consequent upon increased production. As against these downward movements, the index for the manufactured articles group remained virtually unchanged in the same period. The general lowering of the price level is a factor likely to be favourable for intensification of the development effort in the coming years.

Banking Legislation and Policy

39. In regard to banking, the action taken by the Reserve Bank was in two main directions : firstly, establishment of effective control over the banking system so as to ensure sound banking practices, and, secondly, provision of facilities for a wider and more flexible functioning of the credit system. These objectives in the banking sphere were in consonance with the basic aims of economic policy during the years under review-namely, reduction of inflationary pressures in the economy and acceleration of development.

Reserve Bank's Statutory Powers of Control

40. The first of these objectives was sought to be achieved through the exercise of statutory powers vested in the Reserve Bank and issue of general or specific directives to banking institutions whenever necessary. Prior to 1949 inspection of banks by the Reserve Bank was limited to determining their eligibility for inclusion or retention in the second schedule to the Reserve Bank of India Act and to safeguarding the interests of the depositors. With the enactment of the Banking Companies Act and the amendment of

Section 42 (6) of the Reserve Bank of India Act in 1949, the powers of the Reserve Bank relating to inspection of both the scheduled and non-scheduled banks were considerably enlarged ; the Bank was thereafter empowered to conduct inspections for a variety of purposes and on its own initiative. Further, the Banking Companies Act made it necessary for banks to obtain a licence from the Reserve Bank to commence or carry on banking business and to open new branches in the country. A minimum ratio in regard to the percentage of cash, gold or unencumbered approved securities to the total of time and demand liabilities in India was stipulated. The Act also required schemes of arrangement and amalgamation to be examined and sanctioned by the Reserve Bank and provided for expeditious conduct of liquidation proceedings of banks.

41. As new problems arose in succeeding years, the legislative and executive provisions governing the conduct of banking business were amended and whenever circumstances demanded, suitable exemptions from these provisions were given. Thus the Banking Companies (Amendment) Act of 1950 conferred powers on the Reserve Bank to control the opening of branches of Indian banks outside India and extended the Act to the whole of India except the State of Jammu and Kashmir. Provisions relating to liquidation proceedings were also incorporated by the amendment Act of 1950. With the enactment of the Part 'B' States (Laws) Act in 1951, banking companies incorporated in and restricting their activities to Part 'B' States came within the purview of the Banking Companies Act. In the following year, the Banking Companies Rules were made applicable to these areas through a special notification. The Banking Companies Act was again amended in December 1953 to give effect to the recommendations of the Banks' Liquidation Proceedings Committee appointed in 1952 by the Government of India on the recommendation of the Reserve Bank. The amending Act of 1953 has, amongst other things, extended the jurisdiction of the High Court, prescribed a summary procedure for the realisation of outstanding debts and for expediting execution of orders and decrees passed against the debtors of banking companies, and provided for expeditious enforcement, of the liability of directors and compulsory public examination of their conduct in relation to the affairs of the banking company.

Exemptions Granted to Banks

42. Exemptions from various legislative provisions were granted from time to time to enable the banking companies to function smoothly. In order to grant relief to the displaced scheduled banks from the provisions of Section 42 (1) of the Reserve Bank of India Act, 1934, in respect of liabilities relating to the "closed fund", Regulation 11 of the Scheduled

Banks' Regulations was amended with effect from May 31, 1950 so as to grant power to the Reserve Bank to waive penal interest. The Reserve Bank of India (Amendment) Act, 1951 further empowered the Bank to exempt any scheduled bank from the provisions of Section 42 of the Act with reference to all or any of its offices or with reference to the whole or any part of its assets and liabilities. Concurrently with this amendment, the Scheduled Banks' Regulations were revised. At the same time remittance facilities available to banks were liberalised. The form of the weekly return to be submitted by banks to the Reserve Bank was modified with a view to including in its scope balances with other banks in current account, money at call and short notice, investments in Government securities, etc. With the passing of the Reserve Bank of India (Amendment and Miscellaneous Provisions) Act in 1953, the temporary exemption given earlier to scheduled banks from including their borrowings from the Imperial Bank of India in computing their demand and time liabilities was placed on a permanent footing. A new Section 43A was inserted to provide that no suit or other legal proceedings shall lie against the Reserve Bank or its officers for anything which is in good faith done or intended to be done in pursuance of Section 42 or Section 43 of the Act. The scope of the form of weekly return to be submitted by banks was further extended so as to include foreign bills purchased and discounted.

43. Subsequent to the change in the monetary policy of the Reserve Bank in 1951 and the fall in prices of Government securities, banks were exempted from showing in their balance sheets 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 in respect of each Government security by the Reserve Bank.. As the market prices of Government securities did not change appreciably in the succeeding years, the exemption was extended with slight modifications for the year 1952 and thereafter upto January 1, 1956. Further, banks were exempted 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, before declaring dividends for the years 1951, 1952 and 1953.

44. Section 24 of the Banking Companies Act came into force from March 16, 1951 and it was observed that

certain provisions of that section were too onerous for banking companies in general. The Central Government, on the recommendation of the Reserve Bank, granted relief to all the banking companies by allowing them to exclude the amount of their borrowings from the Imperial Bank of India in computing the amount of their liabilities for the purposes of the said section and to treat as unencumbered the approved securities lodged with another banking company for an advance or other credit arrangement to the extent to which they have not been drawn against or availed of. This exemption has been extended from time to time and now stands extended upto June 8, 1955.

45. Banking companies incorporated in and confining their activities to the State of Travancore-Cochin were, in the first instance, permitted upto March 31, 1954 to maintain in cash, gold or unencumbered approved securities, valued at a price not exceeding the market price, an amount not less than 10 per cent of the total of their demand and time liabilities in India instead of 20 per cent as required under Section 24 of the Banking Companies Act. The exemption has been further extended upto March 31, 1955 with the change that these banks are now required to maintain 15 per cent of their total demand and time liabilities in eligible assets.

Inspection of Banks

46. In pursuance of the responsibilities devolving upon it under the Banking Companies Act, 1949, the Reserve Bank decided in July 1949 to institute systematic periodical inspection of all banking companies governed by the Act. Regular inspections were commenced in March 1950 and the first round of inspection of all scheduled banks was completed in 1953. In respect of non-scheduled banks also, the first round is nearing completion as only about 60 banks mostly incorporated in the Travancore-Cochin State remain to be examined. Simultaneously, re-inspections of banks were also undertaken whenever the progress reports submitted by them after the first inspection, indicated the need for such a re-examination. Between March 1950 and end of June 1954, in all 520 banks were inspected ; of these, 113 banks (27 scheduled and 86 non-scheduled) were inspected more than once. During 1953-54, 19 scheduled and 166 non-scheduled banks were inspected. Of these, 94 banks were inspected under Section 22 of the Banking Companies Act, 1949, for ascertaining their eligibility for the grant of a licence to carry on banking business. The inspection of the remaining banks was conducted under Section 35 of the Act in order to assess their overall financial position and methods of operation as also to ascertain their eligibility for grant of a licence. Two of these

Cochin, Mysore, Hyderabad and Saurashtra have executed agreements appointing the Reserve Bank as their sole banker. As regards Rajasthan and PEPSU, steps for the appointment of the Reserve Bank as their banker will be taken as soon as certain outstanding issues are resolved. To enable the Reserve Bank to discharge its functions as banker to the Government, the Bank has established 43 currency chests at selected centres in Part 'B' States and it is proposed to establish more such chests as and when the need for them arises. The Reserve Bank has also appointed the Hyderabad State Bank and the Bank of Mysore as its agents in the respective territories of Hyderabad and Mysore, subject to certain safeguards considered necessary for the safety of Government monies, balances in the currency chests, etc. Agreements executed in this connection follow broadly the pattern of the agreement between the Reserve Bank and the Imperial Bank appointing the latter as the agent of the Reserve Bank in Part 'A' and Part 'C' States. It is also proposed to consider the appointment of the Travancore Bank Limited, and the State Bank of Saurashtra as the Bank's agents in the respective areas in due course. In accordance with the recommendation of the Rural Banking Enquiry Committee that branches of the Reserve Bank should be established at the headquarters of each major State, an office of the Reserve Bank was opened in Bangalore on July 1, 1953. Amongst other functions, this o&e conducts the Central and State Governments' cash work and provides remittance and exchange facilities to the banks and the public.

Opening of Branches by the Imperial Bank

57. A major recommendation of the Rural Banking Enquiry Committee was that the number of branches of the Imperial Bank of India should be increased and that these branches should progressively take over the cash work of the treasuries and run currency chests. For implementing this recommendation an understanding was reached between the Reserve Bank and the Imperial Bank of India whereby the latter was to embark initially on a short-term expansion programme covering a period of two years from July 1, 1951. During this period the Imperial Bank agreed to open 30 branches and convert some of its treasury pay offices into branches. The Imperial Bank actually opened 26 branches and converted 8 treasury pay offices into branches. This has now been followed by a 3-year programme commencing from July 1, 1953 during which period the Imperial Bank has, in consultation with the Reserve Bank, agreed to open 80 branches, including conversion of 5 treasury pay offices into branches. In view of the fact that most of the places where its branches were to be established were relatively underdeveloped, the Reserve Bank has agreed to pay the Imperial Bank turn-over commission on Government

business conducted at these branches at an enhanced rate of 1/16th of one per cent.

Improvements in Remittance Facilities

58. Besides the special arrangement for the opening of the branches of the Imperial Bank of India, the Reserve Bank has adopted several measures to enable commercial banks to establish branches in outlying areas and co-operative banks to increase the size of their operation. Reference has been made in an earlier paragraph to the Reserve Bank's policy of licensing branches of banking companies. In addition to granting licences for branches readily wherever banking facilities were absent or inadequate, the Reserve Bank has sought to promote banking development through liberalisation of remittance facilities. The Rural Banking Enquiry Committee had recommended that a lowering of rates on remittances would reduce the cost of operation of branches and would encourage their establishment. The Committee also was of the opinion that such a measure would contribute to a quicker adjustment between the supply of and demand for funds in the metropolitan as well as mofussil centres. Accordingly, the rates of exchange on remittances issued on behalf of commercial banks, co-operative banks and societies and indigenous bankers from the offices of the Reserve Bank and its agencies (including treasury agencies) were reduced with effect from September 1, 1951. The rate on remittances upto Rs. 5,000 was brought down from 1/16 per cent to 1/32 per cent and that on remittances exceeding Rs. 5,000 was reduced from 1/32 per cent to 1/64 per cent. It may be added that the Committee on Finance for the Private Sector has recommended further liberalisation of remittance facilities. The matter is under consideration.

59. Besides the improvements in remittance facilities referred to above, efforts have been made to increase the efficiency of treasuries and sub-treasuries issuing remittances. The Bank had earlier recommended that treasury and sub-treasury officers should be freed from magisterial or other non-treasury work, that the treasury (or accounts) cadre should be separated from the general cadre for purposes of recruitment and promotion and that systematic arrangement should be made for the training of senior and selected treasury staff at the offices of the Reserve Bank and the Accountant-General. These suggestions were endorsed by the Rural Banking Enquiry Committee and the matter was taken up by the Reserve Bank with the State Governments through the Government of India. As a result of these negotiations, one State Government has taken action on the lines indicated above and a few others have implemented the recommendations in part. The financial and administrative

implications of the treasury reforms scheme are being examined by the other State Governments. To enable the State Governments to meet a portion of the cost of carrying out these reforms, the Reserve Bank has accepted the recommendation of the Rural Banking Enquiry Committee that the State Governments should be allowed to retain the commission earned on remittances issued at a premium in treasuries and sub-treasuries and has given effect to it from September 1, 1951. In order that the cheaper rates of remittance might be of real benefit to banking institutions and the public in the outlying areas, the Government of India have, at the instance of the Reserve Bank, requested State Governments to raise the limits of drawings at or on treasuries and sub-treasuries from the normal levels of Rs. 25,000 and Rs. 5,000 per day to at least Rs. 50,000 and Rs. 10,000 per day. Some of the State Governments have acceded to the request, while others are examining the proposal.

Reserve Bank and the Co-operative Banks

60. A series of measures have been taken to enable co-operative banks to provide finance to agricultural and allied operations in larger amounts and more effectively. Financial accommodation to the co-operative movement is granted by the Reserve Bank through apex co-operative banks at a concessional rate of $1\frac{1}{2}$ per cent for financing seasonal agricultural operations and the marketing of crops. Until recently this facility was, however, not used extensively by the co-operative banks for various reasons. Consequent upon the recommendations of the Informal Conference on. Rural Finance, various procedural reforms were effected with a view to increasing the utilisation of financial facilities provided by the Reserve Bank to the co-operative banks. Instead of the stipulation that all loans and advances should be repaid by the end of the period for which limits are fixed, it has been agreed that each drawal on the limit will be treated as a distinct transaction and will be allowed to run its full period. The credit limit, under the new procedure, thus means the limit of the maximum outstandings of the apex or the central bank at any time and not the aggregate borrowings made during the year as was the case previously. These modifications in procedure have not only increased the borrowings by co-operative banks but have also enabled them to frame their borrowing and lending programmes in conformity with local needs and conditions. These improvements together with the remittance and other facilities available to co-operative banks along with commercial banks have resulted in a considerable increase in the extent of loans granted by the Reserve Bank to the co-operative movement. The credit limits sanctioned to co-operative banks for financing seasonal agricultural operations

and the marketing of crops increased from a little less than Rs. 7 lakhs during 194647 to Rs. 214 lakhs in 1949-50, Rs. 7621akhs in 1950-51, Rs. 1,240 lakhs in 1951-52 and Rs. 1,242 lakhs in 1952-53. During 195354, total credit limits fixed stood at Rs. 1,632 lakhs. The large increase in the accommodation granted to co-operative banks in the last three years is also attributable in part to the inclusion of Part 'B' and Part 'C' States within the orbit of the scheme and the closer liaison established between the Bank and the movement through the study tours of all the States in the Indian Union undertaken by the officers of the Bank in the period 1951-53. With the amendments to the Reserve Bank of India Act in 1951 and 1953, the functions of the Reserve Bank in the sphere of rural credit have been further enlarged. The amending Acts extend the scope of the expressions " seasonal agricultural operations and the marketing of crops " to include mixed farming activities and the processing of crops by agriculturists or their organizations. The period of short-term accommodation has been extended to fifteen months and the Bank is empowered to grant medium-term loans upto a maximum period of five years. Further, commercial papers of co-operative banks have been made eligible for rediscount at the Reserve Bank and the financing of the production and marketing activities of approved cottage and small-scale industries has been permitted. Necessary steps to give effect to the amendments of 1951 have already been taken, while the question of implementing the amendments of 1953 is under consideration.

Inspection of Co-operative Banks

61. As a complement to the provision of more liberal financial assistance from the Reserve Bank, a system of inspections of co-operative banks by the Reserve Bank on a voluntary basis has been evolved. Two central co-operative banks *were* inspected in 1952-53 ; during 1953-54 fourteen more co-operative banks including four apex institutions were inspected.

62. A standing Advisory Committee has been associated with the Agricultural Credit Department of the Bank for tendering advice on matters pertaining to agricultural credits and allied subjects. The Committee which had its first meeting in August 1951 has so far met three times and has endeavoured to evolve proper standards for co-operative banking and administration. As will be described later, the Reserve Bank has also initiated and supported schemes for co-operative education and training. Following the recommendation of the Informal Conference that survey of rural credit should be conducted on an all-India basis, the Bank appointed a Committee of Direction in August 1951 "to plan, organize and supervise the survey, to interpret its results and to make suitable recommendations."

The report of this Committee is expected to be submitted to the Bank in a few weeks.

Provision of Long-term Agricultural Finance by the Reserve Bank

63. Apart from the operations in the field of short-term credit for agricultural purposes, the Reserve Bank undertook in 1948 to contribute upto 10 per cent of the debentures floated by Land Mortgage Banks provided they were guaranteed by the Government in respect of principal and interest. Reserve Bank's contribution to such debentures was raised to 20 per cent in 1950. Thescheme was taken a step further in 1953. The Central Government have now set apart Rs. 1 crore out of the allotment of Rs. 5 crores for long-term agricultural credit under the Five-Year Plan for the purchase of debenture8 issued by Land Mortgage Banks. In this connection, the Reserve Bank of India, in consultation with the Government of India, have agreed upon a scheme of joint contribution to the debentures of Land Mortgage Banks upto 40 per cent of the issue or the short-fall in public subscription whichever was less, one half of the subscription being on behalf of the Government and the other half on account of the Reserve Bank. The Central Land Mortgage Banks using this facility have, however, to agree to dispense loan8 for productive purposes upto an amount not less than half of the joint subscription by the Government and the Reserve Bank within one year. So far only the Andhra Land Mortgage Bank has been accommodated under this scheme to the extent of Rs. 17 lakhs. Details of subscriptions to debentures of Land Mortgage Banks by the Reserve Bank during the last five years are given below :—

Year		Amount of subscription (Rupees in Lakhs)
1949-50	..	4.15
1950-51	..	20.00
1951-52	..	13.00
1952-53	..	16.89
1953-54	..	15.56'

Reorganization of Postal Savings Banks

64. An important recommendation of the Rural Banking Enquiry Committee related to the improvement and expansion of the Postal Savings Banks system. A detailed investigation into the working of the system was conducted in August 1950 by a senior officer of the Reserve Bank and one of the directors of postal services. Some of the procedural improvements suggested in their report have already been implemented by the Government of India. In July 1953, the

***Excludes debentures of the face value of Rs. 8.5 lakhs taken by the Government of India on behalf of the Government of Andhra.**

Government of India set up an Advisory Committee to assist in the implementation of the recommendations of the report relating to the introduction of the cheque system and for organizing the Postal Savings Banks on proper banking lines. The first report of this Advisory Committee has since been submitted to the Government, of India.

Increasing Participation in Industrial Finance by the Reserve Bank

65. In the field of industrial finance, the participation by the Reserve Bank has been gradually increasing. Earlier, the Bank had played an active role in the establishment of the Industrial Finance Corporation of India and contributed to the share capital and bonds of that institution. With the amendment of the Industrial Finance Corporation Act in 1952, the Corporation was authorised to borrow funds from the Reserve Bank against specified types of securities. The amending Act also provides for the creation of a Special Reserve Fund to which dividends on the shares held by the Central Government and the Reserve Bank would be credited until the amount in the Fund exceeded Rs. 50 lakhs. In 1951, to enable State Governments to establish financial corporations for dispensing medium and long-term finance to medium-sized and small-scale industries in the States, the State Financial Corporations Act was passed by Parliament. So far, State Financial Corporations have been set up in Punjab, Saurashtra, Travancore-Cochin, Bombay, Hyderabad, West Bengal and Assam, while other States are contemplating the establishment of similar bodies. The Reserve Bank has contributed Rs. 95 lakhs* towards the share capital of the State Financial Corporations and has tendered advice both on matters of policy and of personnel.

Report of the Committee on Finance for the Private Sector

66. An event of significance in 1953-54 was the appointment by the Reserve Bank in October 1953, in consultation with the Government of India, of a Committee under the Chairmanship of Shri A. D. Shroff to examine how increased finance could be made available to the private sector through sources other than those which are under the consideration of the Taxation Enquiry Commission. The Committee was in particular asked to examine the possibility of providing bank finance for development purposes on a larger scale. This Committee on Finance for the Private Sector submitted its report to the Reserve Bank in May 1954, recommending a series of measures for implementation by Government, the Reserve Bank of India, financial institutions,

*Exclusive of the Bank's contribution to the issued share capital of the Assam Financial Corporation which is yet to be made.

industrialists, etc. The Committee recommended, amongst other things, that : (1) facilities under the Bill Market Ssheme should be liberalised, (2) the remittance facilities scheme formulated by the Reserve Bank should be further extended, (3) the Reserve Bank should, in consultation with the Government of India, work out a detailed scheme of financial assistance to licensed scheduled banks opening branches in accordance with an expansion programme submitted by the banks and approved by the Reserve Bank, (4) the question of linking indigenous bankers and shroffs directly with the Reserve Bank should be actively pursued, (5) pending such direct linking of indigenous bankers, steps should be taken to encourage the rediscounting by the Reserve Bank of the usance bills of indigenous bankers through scheduled banks, (6) the Reserve Bank should consider whether any of the directives or criteria laid down by it could be suitably relaxed in the case of smaller banks without prejudice to sound banking principles, (7) the Reserve Bank should treat shares and bonds of the Industrial Finance Corporation of India and State Financial Corporations as on a par with Government securities for advances under Section 17(4) (a) of the Reserve Bank of India Act, (8) the Bank should explore ways and means of increasing the resources of banks for the provision of medium-term finance on the analogy of the Bill Market Scheme and (9) the Reserve Bank should take the initiativein setting up a Special Development Corporation for financing small-scale industries. Besides these recommendations intended for implementation primarily by the Reserve Bank, the Committee has also suggested a number of steps to be taken by the Government, organised business institutions, commercial banks, etc. In view of the steep rise in the operating costs of banks, as a result of the various tribunal awards, the Committee has recommended that Government should immediately appoint an Expert Body to examine ways and means of rationalising the wage and salary structurein the banking sector and to explore possible avenues of reducing the burden of operating costs of banks. The Committee has finally put forward a series of suggestions for improving the climate for private investment in the country.

Action taken by the Reserve Bank on the Report

67. In pursuance of the recommendations of the Shroff Committee, the Reserve Bank has taken a number of steps to assist the private sector. As already mentioned, the Bill Market Scheme has been extended to all licensed scheduled banks and the minimum limits in regard to individual advances and individual bills have been reduced. The Bank has formed a Committee consisting of the Managing Directors of the Imperial Bank of India and the Central Bank of India Ltd., the General Manager of the Bank of India Ltd.,

the Manager of the Oriental Government Security Life Assurance Company Ltd., the General Manager of the New India Assurance Company Ltd., and the Chairman of the Indian Banks' Association to examine in detail and make specific recommendations on the Shroff Committee's proposal that the leading banks in India, in co-operation with insurance companies, should form a consortium or syndicate for underwriting or investing in new issues of shares and debentures of industrial companies. The feasibility of the other recommendations of the Shroff Committee to the Reserve Bank of India is under consideration ; decisions on a few have been deferred until after the report on the Rural Credit Survey becomes available. In respect of the Shroff Committee's recommendation intended for implementation by agencies other than the Reserve Bank, the Bank has drawn the attention of the agencies concerned to the specific recommendations.

Training of Personnel of Co-operative and Commercial Banks

68. Apart from the measures detailed above, which relate mainly to enabling the banking system to operate more effectively through provision of Reserve Bank accommodation and advice, the Bank has participated effectively in setting up institutions for the training of personnel required by the co-operative and commercial banks in the country. The Bank organized in 1952 an all-India training centre for co-operative personnel at Poona in conjunction with the Poona Co-operative Training College run by the Bombay Provincial Co-operative Institute. This centre is subsidised by the Reserve Bank and provides training for both officials and non-officials interested in the co-operative movement. The question of widening the scheme by organizing a few regional training centres was discussed with the Government of India and the Planning Commission in 1953 and it was agreed that the Reserve Bank should be responsible for making the necessary arrangements for the training of intermediate and higher personnel of co-operative institutions. A Committee for formulating and implementing a composite scheme for the training of co-operative workers was constituted jointly by the Central Government and the Reserve Bank of India, with Shri V. L. Mehta as the Chairman and the Chief Officer of the Agricultural Credit Department of the Bank as the Member-Secretary. This Committee held its first meeting in December 1953 and decided, amongst other matters, that the training of the higher staff should, for the time being, be continued at Poona and that arrangements at that centre should be made to impart training to about 40 candidates in each session as against 20 so far. As regards the training of intermediate personnel. the Committee has recommended that eventually there should be five regional centres to cover the Northern, Southern, Eastern, Western and Central Zones. A Standing Sub-Committee consisting

of four members has been appointed to implement these decisions. The facilities at Poona have been expanded so as to train 40 to 46 candidates from the next session of the Intermediate Co-operative Training Course. A regional training centre was started in Madras in July 1954 and steps have been taken to organize another such centre at Pusa.

69. Reference was made in the Annual Report submitted last year to the proposal to start a training college for the staff of commercial banks in the country. The Reserve Bank set up in July 1953 a Committee consisting of representatives of banks and other experts to frame a concrete scheme of training and to make suggestions in respect of the preliminary measures to be taken in such matters as the framing of the syllabus, securing the teaching staff, etc. The Report of this Committee was submitted in January 1954 and most of the arrangements for setting up a college as recommended by the Committee have been completed. The training college will be located in Bombay. The training would be primarily practical in character and the syllabus will be such that it will not overlap the one prescribed for the Institute of Bankers' Examinations. In addition to the practical training, other experts are to be invited to deliver lectures to the trainees on subject of interest to bankers. In order to ensure that the proposed training college is established and conducted on right lines, the services of two experts from the United Kingdom have been secured for a period of two years, under the Colombo Plan. These experts are at present engaged in the finalisation of the syllabus, collection of material for the lecture courses suitable to Indian conditions, etc. The entire administrative expenses of the College, which is expected to start training the first batch shortly, will be borne by the Reserve Bank.

Accounts and Other Matters

Annual Accounts

70. During the year under review, the Bank's income amounted to Rs. 21.94 crores, and expenditure, which includes the expenses of administration and provision for sundry liabilities and contingencies, to Rs. 4.43 crores. The net profit available for payment to the Central Government in terms of Section 47 of the Reserve Bank of India Act was higher at Rs. 17.50 crores, as against Rs. 12.50 crores last year and Rs. 7.50 crores in 1951-52.

71. The Bank's income, which had risen by Rs. 5.36 crores during 1952-53, rose further by Rs. 5.47 crores during the year under review. The rise in income resulted mainly from an increase under the head ' Discount ', due to larger earnings on the Bank'c holdings of Central Government Treasury bills arising from the

higher rate of discount. There were also increases in receipts under 'Interest' and 'Commission'. As against these increases, there was a further decline in receipts under 'Exchange' due to smaller sales of sterling to scheduled banks and fewer transfers to the High Commissioner for India in London, in view of the generally lower level of imports during the year.

72. As compared with the previous year, expenditure rose by Rs. 46.26 lakhs mainly under the heads 'Establishment' and 'Security Printing'. The expenditure under 'Establishment.' increased by Rs. 34.56 lakhs due, among other factors, to the opening of the Bank's offices at Bangalore and Trivandrum, grant of local allowance to the staff at Madras and liberalisation of the payment basis for overtime work. The increase of Rs. 11.73 lakhs under Security Printing' is due to larger supplies of note forms received from the Nasik Press during the year.

Auditors

73. The Accounts of the Bank have been audited by Messrs. S. B. Billimoria and Co. of Bombay, Messrs. P. K. Ghosh and Co. 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. F. 3(28)-F-I/53 dated September 4, 1953 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

Compensation to Shareholders

74. At the end of June 1954, the total number of shares of the Bank tendered for payment of compensation, consequent on the nationalisation of the Bank effective from January 1, 1949, was 4,84,805, of which 2,194 were tendered during the year under review. The total compensation paid upto the end of 195354 in the form of the 3 per cent First Development Loan, 1970-75 amounted to Rs. 5.38 crores and the amount paid in the form of cash to Rs. 35 lakhs.

Composition of the Central Board

75. Shri B. Rama Rau whose term of appointment as Governor of the Bank was due to expire on June 30, 1954, was reappointed by the Union Government on June 14, 1954, as Governor for a period of one year with effect from July 1, 1954.

76. Shri Manila1 B. Nanavati and Prof. D. R. Gadgil, whose term of office as Directors of the Central Board expired on January 14, 1954, were renominated by the Union Government in terms of Section 8 (1) (c) of the Act, with effect from January 15, 1954.

77. Shri K. G. Ambegeokar, I.C.S., was nominated by the Union Government as a Director of the Central Board under Section 8 (1) (d) of the Act in place of Shri S. G. Barve, I.C.S., with effect from July 7, 1953. Shri Ambegaokar continued as Director upto May 21, 1954, on which date Shri Barve was again nominated as Director in his place.

Local Boards

78. Shri V. P. Varde resigned his membership of the Western Area Local Board in September 1963 and in his place Shri D. V. Potdar was nominated by the Central Board on February 24, 1964 in terms of Section 12 (3) of the Act.

Meetings of the Central Board and its Committee

79. Six meetings of the Central Board were held during the year, two in Bombay and one each in Calcutta, New Delhi, Madras and Bangalore. The Committee of the Central Board held 51 meetings of which 50 were in Bombay and one in Calcutta.

Bank's Offices

80. A Public Debt Office was opened at Lucknow on March 17, 1954, with a view to facilitating the issue and management of the Compensation and Rehabilitation Grant Bonds, issuable in accordance with the provisions of the Uttar Pradesh Zamindari Abolition and Reforms Act, 1950 (Act I of 1951). Transactions relating to any other Government securities will not be done at this Office.

81. A Note Cancellation Section was also opened at Jaipur on February 1, 1964.

Bank's Premises

82. During the year under review, the Bank completed the construction of housing colonies accommodating 841 families of the Bank's clerical and subordinate staff in Bombay, and have under construction another building to provide residential accommodation for officers. The work of construction of a new building for the Bank's Office in Calcutta, is expected to commence shortly.

By Order of the
Central Board of Directors,

B. RAMA RAU,
Governor.

RESERVE BANK OF INDIA

Balance Sheet as at June 30, 1954

ISSUE DEPARTMENT

LIABILITIES

	Rs.	a. p.	Rs.	a. p.
Notes held in the Banking Department ...	41,08,46,018	0 0		
Notes in circulation	1172,03,49,336	0 0		
Total Notes Issued			1213,11,95,354	0 0
Total Liabilities Rs...			1213,11,95,354	0 0

ASSETS

	Rs.	a. p.	Rs.	a. p.
A. Gold Coin and Bullion :-				
(*a*) Held in India ...	40,01,70,843	9 5		
(b) Held outside India	Nil			
Foreign Securities	653,15,11,573	2 7		
Total of A ...			693,16,82,416	12 0
B. Rupee Coin...			98,72,85,227	2 4
Government of India Rupee Securities ...			421,22,27,710	1 8
Internal Bills of Exchange and other Commercial Paper ...			Nil	
Total Assets Rs.			1213,11,95,354	0 0

Ratio of Total of A to Liabilities ; 57.139 per cent,

BANKING DEPARTMENT

LIABILITIES	Rs.	a.	p.	ASSETS	Rs.	a.	p.
Capital paid-up	5,00,00,000	0	0	Notes	41,08,46,018	0	0
Reserve Fund	5,00,00,000	0	0	Rupee Coin	20,21,066	0	0
Deposits :-				Subsidiary Coin	4,65,337	14	2
(a) Government-				Bills Purchased and Discounted :—			
(1) Central Government ...	124,18,49,142	3	8	(*a*) Internal	41,25,000	*0*	*0*
(2) Other Governments	25,53,21,593	0	5	(*b*) External	Nil		
(b) Banks	49,96,12,765	8	7	(c) Government Treasury Bills ...	5,41,27,417	9	8
(c) Others	41,77,36,387	9	8	Balances held abroad*	92,64,51,815	3	5
Bills Payable	2,17,92,675	8	4	Loans and Advances to Governments ...	47,00,000	0	0
Other Liabilities	20,97,09,874	14	11	Other Loans and Advances	37,46,90,846	2	11
				Investments	91,30,59,851	6	0
				Other Assets	5,55,35,086	9	5
Total Liabilities Rs.	274,60,22,438	13	7	Total Assets Rs.	274,60,22,438	13	7

*Includes Cash and Short-term Securities.

B. RAMA RAU,
Governor.

C. S. DIVEKAR,
Chief Accountant (*Offg.*).

N. SUNDARESAN,
Deputy Governor.

RAM NATH,
Deputy Governor.

Dated July 19, 1954.

RESERVE BANK OF INDIA

PROFIT AND LOSS ACCOUNT

	FOR THE YEAR ENDED								
	June 30, 1954			June 30, 1953			June 30, 1952		
INCOME	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Interest, Discount, Exchange, Commission, etc.	21,93,92,640	4	7	16,47,35,710	13	6	11,11,20,066	14	0
EXPENDITURE									
Establishment	2,48,76,647	5	5	2,14,21,567	11	3	2,02,03,857	8	9
Directors and Local Board Members' fees and expenses . . .	60,271	14	0	66,158	2	0	69,038	14	0
Auditors' fees	22,500	0	0	22,500	0	0	22,500	0	0
Rent, Taxes, Insurance, Lighting, etc. .., ...	11,26,954	9	0	6,12,607	8	6	5,41,397	5	4
Law charges ... ... ,.. ...	77,987	2	9	53,851	0	5	72,274	14	9
Postage and Telegraph charges	1,88,450	3	2	1,69,698	4	9	1,62,841	15	3
Remittance of Treasure	13,99,728	12	5	16,96,158	1	6	14,71,356	4	11
Stationery, etc.	5,78,775	14	3	4,93,022	10	8	5,51,643	10	10
Security Printing—(Cheque, Note Forms, etc.)	90,58,879	14	2	78,86,260	4	3	64,70,021	2	4
Depreciation and Repairs to Bank's property	13,67,557	7	10	10,73,731	10	0	9,89,692	9	7
Agency charges	45,37,574	7	3	37,23,693	6	8	33,69,124	14	9
Contributions to Staff and superannuation funds	52,000	0	0	59,200	0	0	60,300	0	0
Miscellaneous expenses...	9,99,507	5	9	24,42,880	3	3	21,35,899	4	9
Net available balance	17,50,45,805	4	7	12,50,14,381	14	3	7,50,00,118	4	9
Total Rs. ...	21,93,92,640	4	7	16,47,35,710	13	6	11,11,20,066	14	0

PROFIT AND LOSS ACCOUNT--continued.

	FOR THE YEAR ENDED								
	June 30, 1954			June 30, 1963			June 30, 1962		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Surplus payable to the Central Government	17,50,45,805	4	7	12,50,14,381	14	3	7,50,00,118	4	9
Balance carried forward	Nil			Nil			Nil		
Total Rs. . ..	17,50,45,805	4	7	12,50,14,381	14	3	7,50,00,118	4	9

RESERVE FUND ACCOUNT

	Rs.	a.	p.
By balance on June 30, 1954	5,00,00,000	0	0
By transfer from Profit and Loss Account	*Nil*		
Total Rs. ...	5,00,00,000	0	0

C. S. DIVEKAR,
Chief Accountant (Offg.).

B. RAMA RAU,
Governor.

N. SUNDARESAN,
Deputy Governor.

RAM NATH,
Deputy Governor.

Dated July 19, 1954.

REPOIW 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 Shoet and Accounts of the Bank as at June 30, 1954.

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.

S. B. BILLIMORIA & CO.,

I'. IL GHOSH & CO., *Auditors.*

SASTRI & SHAH.

Dated July 19. 1954.

THE COMMERCIAL PRINTING PRESS, FORT.