RESERVE BANK OF INDIA

Report of the Central Board of Directors

for the year ended June 30, 1955

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

AUGUST 1955

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August 1955

CENTRAL BOARD OF DIRECTORS

(As on June 30, 1955)

Governor	Shri Benegal Rama Rau
Deputy Governors	Shri K. G. Ambegaokar
	Shri Ram Nath
Deputy Governor-Designate	Shri B. Venkatappiah
Directors, Nominated under Section 8 (I) (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 (I) (c)	Shri Manilal B. Nanavati
	Shri J. R. D. Tata
	Shri B. D. V. Ramasawmy Naidu
	Prof. D. R. Gadgil
	Shri D. N. Mitra
	Prof. Gorakhnath Sinha
Director, Nominated under Section 8 (I) (d)	Shri D. L. Mazumdar, I.C.S., Secretary to the Government of India, Ministry of Finance (Department of Economic Affairs).

MEMBERS OF LOCAL BOARDS

(As on June 30, 1955)

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. Anantharamakrishnan

Shri Bikkini Venkataratnam Chowdhury

BRANCHES OF THE ISSUE DEPARTMENT

Bombay **Calcutta**

Delhi **Kanpur**

Madras

OFFICES AND BRANCHES OF THE BANKING DEPARTMENT

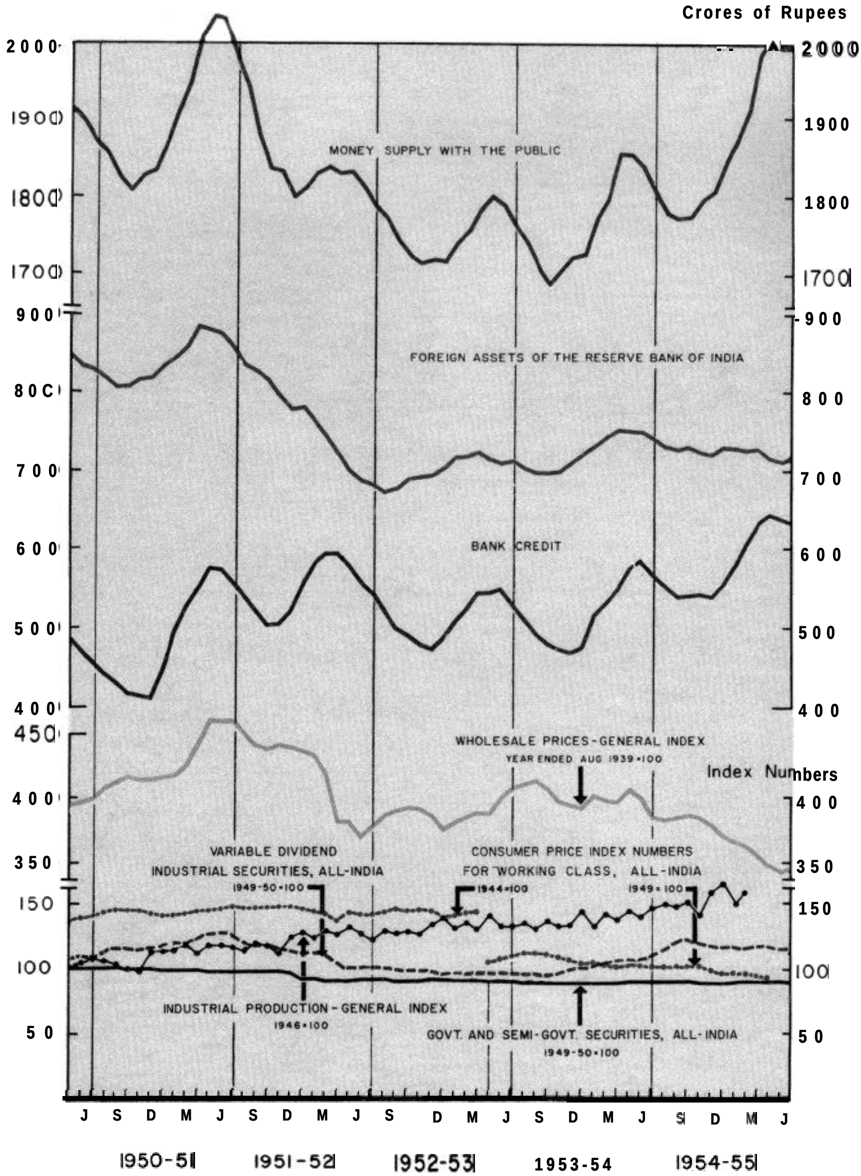
Bombay **Calcutta**

Delhi **Kanpur**

Madras **Bangalore**

London

MAIN ECONOMIC INDICATORS



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

For the year July 1, 1954—June 30, 1955

In accordance with Section 53 (2) of the Reserve Bank of India Act, 1934, the Central Board of Directors submits to the Government of India this Annual Report on the working of the Bank and the accounts of the Bank for the twenty-first accounting period beginning on July 1, 1954 and ending on June 30, 1956.

Economic Developments

The maintenance of agricultural production near the all-time record achieved in the previous year and the further substantial growth in industrial output were perhaps the most encouraging features of the Indian economy during 1954-55. They facilitated the sharp increase in the tempo of developmental expenditure in the public sector as well as the progressive relaxation of controls over a wide field. The supply position was, on the whole, comfortable.

Trends in Production— in Agriculture

But for the extensive damage by floods in certain parts of Assam, Bihar and West Bengal and droughts in some States, agricultural output might have bettered the performance in 1953-54 when the production of foodgrains at 66 million tons exceeded the target for the final year of the Plan by nearly $4\frac{1}{2}$ million tons. Rice production has indeed fallen by 3.4 million tons or 12 per cent from the previous year's figure, but the production of some of the other cereals and pulses is likely to go up, so that the total for foodgrains may not be much lower than in 1953-54. Among the cash crops, although the increase in jute is a nominal one, the output of sugarcane, oilseeds, and cotton is expected to be appreciably above last year's. Hence, total agricultural output may turn out to be at more or less the same level as in 1953-54. It is probable that the greater part of the improvement in agriculture in the past two years was due to good monsoons but a part at least was the result of various schemes to increase the yield as well as the acreage under cultivation, particularly major and minor irrigation works and improved methods of cultivation. To some extent, therefore, the increase in agricultural production may be regarded as permanent. Statistics of employment are extremely inadequate, but it is reasonable to infer that an associated increase in employment in agriculture took place.

-and in Industry

The progress of production in recent years was even more satisfactory in the industrial sphere. There has been an uninterrupted increase in annual industrial production since 1950 and the aggregate rise over the first four years of the Plan was about 40 per cent ; for the first nine months of the year under review, the output was 13 per cent higher than in the corresponding period of the previous year. Several factors contributed to the further rise in industrial production during the year. Supplies of raw materials were available in larger measure and existing plant capacity was more fully utilised or expanded. In certain important lines, like cotton and jute textiles, the stimulus to output was provided by a better export offtake. In some industries, new production units were set up, and over the whole range of industry, labour-management relations showed a distinct improvement. Among basic industries, steel, cement and non-ferrous metals, and, among other industries, sugar, jute manufactures and cotton textiles showed noticeable gains in production. Steel output went up by 20 per cent to 1.2 million tons between 1953 and 1954 and that of cement by 16 per cent to 4.4 million tons. Mill production of cotton cloth at nearly 5,000 million yards exceeded the Plan target by about 300 million yards. Among the newer industries also, the progress was encouraging, although considerable leeway has yet to be made. Despite the improvement in production, the situation regarding employment continued to give room for concern. In large-scale industry, the increase in employment was less than in proportion to the increase in production.

Food Policy

With the sharp improvement in the supplies of foodgrains in 1953-54, food controls were progressively relaxed in pursuance of the policy initiated in mid-1952, so that by the beginning of the year under review there were only a few restrictions left ; with the continuing high level of food supplies, even these were virtually eliminated. In July 1954, controls in respect of rice were lifted, and in March 1955 restrictions on the inter-zonal movement of wheat were abolished. Along with the relaxation of controls, the policy of food imports was revised. Imports of wheat under the International Wheat Agreement were not fully availed of and further imports of rice, except under previous commitments, were stopped. At the same time, an emergency food reserve was built up as a cushion against future contingencies, and at the end of the year it amounted to about 17 lakh tons of foodgrains.

Controls

Decontrol of commodities other than foodgrains was also carried a stage further. The free movement of cotton *was* restored in July 1954 and distribution control over it was suspended in February 1955, so that now, in respect of cotton, only price controls continue to be retained. However, as a standby for emergencies, minimum powers of control over production, distribution and prices of essential commodities were retained in the hands of the Central Government by an Ordinance promulgated in January 1955 for the continuance of the Essential Supplies (Temporary Powers) Act, 1946, which was due to lapse ; the Ordinance was later replaced by an Act of Parliament.

industrial Policy

During the course of a special debate on economic policy in December 1954, the *Lok Sabha* reviewed the industrial policy which the Government of India had been following for the past six years and considered it to be broadly in conformity-allowing for shifts in emphasis from time to time-with the principles and objectives laid down in the Statement on Industrial Policy of April 1948, which accepted a 'mixed economy' as a suitable basis for industrial development and the State regulation of the private sector as a corollary to planned development. That Statement continues to outline the industrial policy to be pursued, but in addition the *Lok Sabha* expressed the view that Government's economic policy should aim at a "socialist pattern of society" and that economic activity in general and industrial development in particular should be stepped up to the maximum possible extent to achieve it. During the year, particularly with a view to augmenting employment opportunities, special attention was given to the development of small-scale industries, and an important step in this direction was the establishment of the Small Industries Corporation and the Small-Scale Industries Board and the strengthening of the All-India Khadi and Village Industries Board and the All-India Handicrafts Board.

Fall in Pricer and Measures to Stabilise Prices

The pressure of increased supplies, stemming from high output levels, a large volume of imports and the relaxation of controls initiated a downward price movement, which was accentuated by dishoarding and resulted in a sharp fall in wholesale commodity prices during the year. Except for a short-lived rise between July and September 1964, when the index number (*base* : year ended August 1939=100) went up from 381·6 to 384·4, prices showed an uninterrupted decline to 342 in May 1955 when they registered the lowest level since April 1948. In June, they again tended to rise. Nevertheless, the fall in prices during the year as a whole (10 per cent) was larger than the decline (6 per cent) of the preceding year and it was sharpest in the group consisting of 'food articles' (18 per cent). The index of 'raw materials' went down by 11 per cent and that of 'semi-manufactures' by 7 per cent. In contrast, the group consisting of 'manufactures' remained more or less steady, the decline being only 2.0 per cent.

The fall in prices is largely a corrective to the earlier high levels and provides a base for more rapid economic development. In a few commodities, however, the fall was steep and remedial action was indicated, both with a view to affording some relief to agriculturists, and, insofar as the price fall was likely to be temporary, preventing distortion in production.

With a view to stabilising prices at reasonable levels, Government initiated several measures to expand exports and to curtail imports, and introduced limited price support schemes for wheat, certain coarse grains and gram. Export duties were reduced on some commodities like cotton, oils, oilseeds and black pepper, and additional export quotas were granted for several commodities such as cotton, oils and oilseeds. Further, as mentioned earlier, imports of rice and wheat, except under previous commitments, were discontinued. In July 1954, the Union Government announced their decision to purchase wheat in the market, if the price should fall below Rs. 10 per maund; purchasing agents were to be appointed by State Governments in about 200 selected *mandis*, and the Union Government also undertook to effect direct purchases in six selected markets. Later, in December 1954, price support was extended to certain coarse grains also and this was in operation in seven States by the end of the year under review.

A prominent feature of economic development during 1954-55 was the acceleration of expenditure in the public sector to make up for the slow progress of the earlier years and this was reflected in a widening of budgetary deficits. Central and State Governments are expected, on the basis of revised estimates, to have incurred an overall deficit of about Rs. 235 crores in 195456, as against a much smaller deficit of about Rs. 65 crores in the preceding year. Allowing for the actual increase in the floating debt of the Central Government and for certain other adjustments, however, the combined overall deficit of the Central and State Governments is likely to be lower at about Rs. 100 crores. The combined estimated deficit for 1955-56 is placed at a much higher level (Rs. 395 crores) since development outlays in the final year of the Plan have been further stepped up in an effort to reduce the margin between targets and actual performance.

Budget Deficits

A point of interest emerges from a comparison of the trends in disbursements and current revenues during the past five years. While the combined disbursements of Central and State Governments on both revenue and capital accounts have risen steeply by nearly Rs. 600 crores between 1951-52 and 1955-56 (budget estimates) to a total of well over Rs. 1,600 crores, the combined current revenues during the same period have crept up only by Rs. 25 crores to about Rs. 900 crores. The estimated current revenues for 1954-55 formed about 8 per cent of the estimated level of national income, a proportion which has not varied significantly since the prewar period.

Both facts indicate the urgent necessity to enlarge budgetary resources. Increases in taxation have been considered in great detail by the Taxation Enquiry Commission, the publication of whose Report was one of the outstanding events of the year under review. The Commission has recommended a widening and a deepening of the tax structure both at the Centre and in the States, specifically for the purpose of financing development outlay and reducing large inequalities of income, modified where necessary to provide incentive tax reliefs so as to stimulate capital formation. For the year 1955-56, as a first step in the direction of implementing the Commission's recommendations, changes in income and commodity taxation, estimated to yield about Rs. 13 crores, were introduced by the Union Government. When the Commission's recommendations are implemented, a substantial increase in the tax resources of the Central and State Governments may be expected.

Money Supply

The enlarged budgetary deficit of the Central Government was the principal factor tending to expand money supply during 1954-55 by Rs. 183 crores (Rs. 137 crores in currency with the public and Rs. 46 crores in deposit money) which was over four times the increase (Rs. 44 crores) in the previous year. The extension of bank credit (Rs. 64 crores) though it played a subordinate role, was substantial. The influence of the balance of payments position on the expansion in money supply, as reflected in the capital account, was also not insignificant (Rs. 40 crores). The net result of the open market operations (Rs. 46 crores) of the Reserve Bank, however, tended to curtail monetary circulation to some extent. The increase in money supply, though large in absolute terms, has not led to a m-emergence of inflation as it was matched by a higher level of production. The higher level of business activity during the year also affected the seasonal pattern : the contraction in money supply in the slack season of 1954 was considerably smaller (Rs. 84 crores) than in the slack season of the previous year (Rs. 123 crores), while the busy season expansion was much larger (Rs. 232 crores) than in the previous busy season (Rs. 171 crores).

Bank Credit

The banking system was able to meet the strain placed on it during the year from its own resources to a considerable extent, for the Central Government's budgetary deficit was accompanied by a rise in net deposit liabilities of scheduled banks to the tune of Rs. 113 crores—of which demand liabilities accounted for Rs. 53 crores-which would seem to mark a new phase of deposit expansion after the declining trend in deposits of the post-Partition period. For relieving seasonal pressure, the banks expanded credit by Rs. 107 crores between mid-October 1954 and early May 1955, not only by utilising the additions to their resources but also by lowering their cash ratio (from 11·7 per cent in mid-November 1954 to 8·3 per cent at the end of April 1955) and resorting to accommodation from the Reserve Bank to the extent of Rs. 207 crores (gross) of which Rs. 98 crores were under the Bill Market Scheme (as against Rs. 80 crores in the previous year). The substantial volume of these advances is evidence not only of the increasing readiness of the commercial banks to approach the Reserve Bank for assistance but also of the continuing utility of the Bill Market Scheme in catering to the seasonal requirements of banks. The larger accommodation sought from the Reserve Bank during the year is to some extent attributable to the cessation of short-term capital inflow from abroad, and even some capital outflow, particularly from the time (November 1954) a higher Bank rate in the U. K. was expected by the London market. It appears that the facilities offered by the Bill Market Scheme have provided an alternative source of funds for seasonal requirements, which has tended to impart greater elasticity as well as to lend wider autonomy to the Indian money market.

Money rates during the year generally conformed to the usual seasonal pattern. The decline in the slack season was gradual, reflecting its mildness. In the busy season the rates hardened more quickly and stayed longer at the higher levels even after the season (as reflected in the trends in note circulation and bank credit) had ended. The auction sale of Central Government Treasury bills, which was discontinued in April 1954 on the announcement of the Central Government loan was resumed in November that year; the rate on these bills rose from 2.48 per cent in November to 2.57 per cent in May.

The Capital Market

There were indications during the year of a better flow of savings, and the response to public as well as private issues reflected a distinct improvement in the tone and strength of the capital market. Governmental market borrowings were on a notably larger scale. Total subscriptions to the 3) per cent National Plan Loan 1964 which was floated on April 19, 1954, to meet the combined requirements of the Gentre and State Governments amounted to Rs. 158 crores. The only State issue during the year was by Saurashtra amounting to Rs. 2 ● 5 crores. Net market borrowings of the Gentre and States, that is, after allowing for conversions and repayments, amounted to Rs. 113 crores in 1954-55 as against a net outgo of Rs. 2 crores in 1953-54. Small savings also showed a substantial rise to Rs. 52 crores, which compared very favourably with Rs. 38 crores in the preceding year. Soon after the year ended, the National Plan Bonds (Second Series)1965 bearing interest at 3½ per cent were issued on July 1, 1955 at Rs. 98-8 per cent for a sum of Rs. 100 crores. The response from the market was again good and the loan closed a day earlier on July 4, 1955, the subscriptions having reached a total of nearly Rs. 104 crores. Private issues on the market also showed improvement. During the year, the total of seven issues of not less than Rs. 1 crore each, for which data are available, was Rs. 16 crores.

The gilt-edged market revealed a generally firm sentiment; the Reserve Bank of India index number of Government of India securities (*base:* 1949-50=100) rose from 90.2 in June 1954 to 90.7 in June 1955. Over the year, average prices of most of the dated loans showed rises ranging upto Rs. 1-10-0 but those of both the non-terminable loans fell. Since March 1955 there has been a sustained demand for most of the dated loans from institutional investors while floating stocks have been scarce.

The equities market ruled firm during the first quarter of the year, turned somewhat easy in the second quarter but was more or less steady thereafter. The uptrend in equities which had commenced in October 1953 continued until September 1954, when prices almost touched the post-Korean peak levels of May 1951; the Reserve Bank of India index number for variable dividend industrial securities went up from 106.9 in June 1954 to 120·9 in September. There was a gradual decline from this peak to 113.7 in the next three months and for the rest of the year the index moved within a narrow range closing at 113.1 in June 1955. The general strength of the market during the year was in a large measure due to good company reports besides the likelihood of larger deficit financing and of greater emphasis on industrialisation, as evidenced by the enlarged budget deficit for 1955-56 and the announcement by Government of a Rs. 10 crore loan to the Tata Iron and Steel Co. Ltd. for financing its expansion programme.

Balance of Payments

The impact on the balance of payments position of the rising momentum of development expenditure and the expansion in industrial output was reflected in the virtual disappearance of the substantial surplus shown on current account during the previous year. On the basis of preliminary figures for the first three quarters, and estimates for the last quarter of the year under review, the current account is expected to be in balance, whereas in the previous year it had shown a surplus of nearly Rs. 59 crores.

For the first three quarters of the year, there was a surplus on current account amounting to Rs. 26 crores, which was the net result of invisible receipts of Rs. 60 crores offset by a trade deficit of Rs. 34 crores. In this period the balance of payments position was considerably assisted by the favourable movement in the terms of trade and a larger volume of exports. It is probable that, in the last quarter, exports have declined, because of the fall in tea prices and the growing competition encountered in foreign markets, for instance, in regard to cotton textiles. Imports, however, have continued at a high level.

Although the surplus on external account declined, there was an improvement in trade. Both exports and imports were higher than in the previous year, especially in terms of volume, but the rise in imports, particularly on Government account, was greater. The main causes of the rise in imports were the further liberalisation of import policy, the improvement in the foreign supply position, the rising tempo of Plan outlays and the buoyancy of industrial production in the country. The increase in exports resulted from the sustained foreign demand for jute goods and tea for the major part of the year as well as from Government's export promotion policy in pursuance of which export duties were either reduced or abolished on a number of items and Export Promotion Councils were set up for cotton textiles, silk and rayon,

In spite of the current account surplus in the first three quarters of the year, the country's foreign exchange reserves, comprising the foreign balances of the Reserve Bank of India, of the authorised dealers and of the Government, declined by Rs. 14 crores from Rs. 841 crores to Rs. 827 crores during this period. This was mainly due to a considerable reduction in foreign liabilities ; repurchases of rupees from the International Monetary Fund amounted to Rs. 1'7 crores while the fall in the deposits of foreign banks and official institutions, private capital remittances and net imports of Indian currency brought about a further reduction of liabilities to the extent of Rs. 26 crores. As against this, there was a reduction of Rs. 9 crores in net assets on amortisation account chiefly because of the part repayment of its debt by Burma. As a result of these and other transactions, there was a net investment on capital account of Rs. 30 crores, as compared to Rs. 65 crores in the corresponding period of 1953-54. Taking into account preliminary estimates for the last quarter of the year under review, net investment on capital account for the year as a whole is expected to be higher, around Rs. 40 crores.

Survey of Foreign Investments

Data relating to India's international investment position were available for the first time in 1950 when the Bank had conducted a census of India's foreign liabilities and assets as on June 30, 1948. A similar survey, but with a restricted coverage, of the country's long-term foreign assets and liabilities as at the end of December 1953, has just been completed. According to it, India's foreign long-term liabilities and assets amounted to Rs. 1,038 crores and Rs. 1,175 crores, respectivdy. Total foreign business investment in India, in terms of book value, was Rs. 421 crores, of which more than 80 per cent was direct investment. The bulk of the investment (nearly Rs. 350 crores] was largely from the U.K. Private capital from the U.S.A., predominantly in the direct investment category, totalled Rs. 31 crores. The net inflow of foreign private capital between 1948 and 1953 was of the order of Rs. 130 crores, of which about 40 per cent probably represented reinvested profits of branches and undistributed profits of subsidiaries of foreign companies. A detailed report of the survey will be published shortly.

Retrospect and Prospect

On the whole, during 1954-55 the Indian economy acquired greater strength, with an impressive rise in production and considerable progress in expenditure on public projects, facilitated by appropriate fiscal and credit policies. The improvement in the flow of savings and the change in the balance of payments are developments of special significance in the context of the framing of the second Five-Year Plan. Two features of the economic situation which led to some concern during the year were the relatively steep fall in foodgrains prices which has been stemmed, and the continued acuteness of unemployment among urban workers. The institutional set-up for providing finance to agriculture and to industry was widened and strengthened in a number of ways as subsequent sections of this report will indicate.

The augury for stepping up the tempo of development in the second Plan period thus appears to be definitely good. There is, nevertheless, a limit to the pace and extent of economic development possible that is set by the real resources available. With unutilised real resources capable of being harnessed to national development, a measure of deficit financing is not only desirable but may be essential for economic stability. Deficit financing, however, provides no easy substitute for sustained and substantial efforts to mobilise resources for development. It is a double-edged weapon which may be employed, within limits, to help development, but may hinder it, if used to excess. It is desirable, therefore, to set our targets of development on a realistic assessment of available resources while making the fullest efforts to maximise such resources. In such a context, the essential function of the banking system would be to provide the necessary expansion in bank credit to facilitate the growth in productive activity, while preventing, at any stage, a lapse into undue credit expansion and inflation.

It is important, too, that the pattern of investment in successive plans, directed as it must be to achieving the greatest increase in production and employment, is based on a recognition of the long-term character of our economic problem, including its unemployment aspect, associated with the under-development of the economy. Improvement of the quality and enhancement of the effectiveness of labour, our most abundant resource, are the key to the long-term course of the country's economic development.

The large increases in public expenditure on projects which broaden the sub-structure of economic development, with consequent additions to real income widely diffused over the economy, provide the appropriate environment for extension of the operations of the private sector at the same time as they result in a rapid extension of the scope of the public sector.

Extension of Banking Facilities

The subject of extension of banking facilities to smaller towns and the rural areas has received continuous attention by the Reserve Bank for some years. The Rural Banking Enquiry Committee, which examined the question in 1950, recommended, *inter alia*, the provision of better remittance and other facilities to commercial as well as co-operative banks operating in towns and villages and branch expansion by commercial banks generally and the Imperial Rank of India in particular to places devoid of banking facilities. Since promotion of banking development was vitally related to the larger issue of rehabilitating the rural economy, it soon became clear that action on several fronts would be simultaneously required, if rapid progress was to be achieved. The Reserve Bank, therefore, appointed in 1951 a Committee of Direction to *conduct* an All-India Rural Credit Survey which would provide the basis for comprehensive proposals relating to rural credit and banking development. The publication of the General Report of the Committee of Direction on December 20, 1954 was a significant event for the rural economy in general and in the field of rural credit in particular. The Committee's recommendations envisage a revitalisation of the co-operative agencies for rural credit side by side with provision of storage and warehousing facilities and development of banking facilities in rural areas through a State-

Rural Credit

associated sector of commercial and co-operative banking. The recommendations cover an "integrated scheme of rural credit" based on three fundamental principles, namely, (i) State partnership at different levels, *(ii)* co-ordination of credit and other economic activities such as marketing and processing and (iii) administration through properly trained personnel responsive to the needs of the rural population.

Branch Expansion

Despite the efforts made since the Report of the Rural Banking Enquiry Committee and the Informal Conference on Rural Credit (1951), the progress of expansion of branches of commercial banks to semi-urban and rural areas has been very slow and the position in this behalf continues to be unsatisfactory. For several reasons, commercial banks have not found it profitable to open branches in smaller towns ; individual loans are small and while the collateral offered is not easily marketable, the risk element in agriculture is generally greater. The volume of credit for agricultural production granted by commercial banks has continued to form a negligible proportion (3 to 4 per cent) of the total credit extended by them. This general situation underlined the need for an institution which, while conducting its business on sound lines of commercial banking, would be able to have in mind the larger interests of the country along with its obligations to its shareholders. The Committee of Direction of the Rural Credit Survey, which examined the question in great detail, recommended the setting up of a State Bank of India as one strong integrated State-partnered commercial banking institution with an effective machinery of branches spread over the whole country for stimulating banking development by providing vastly extended remittance facilities for co-operative and other banks and by following a policy which would be in effective consonance with the national policies.

State Bank of India

As a first step in implementing this recommendation, the Finance Minister announced, simultaneously with the publication of the Report, Government's intention to set up the State Bank of India by transferring to it the undertaking of the Imperial Bank of India. This was followed up by the introduction of the necessary legislation in Parliament and on May 8, 1955 the State Bank of India Bill received the President's assent. On July 1, the State Bank of India came into being and took over only the offices in India of the Imperial Bank of India, since the State Bank of India (Amendment) Ordinance was passed to allow the Imperial Bank of India to continue as a legal entity until arrangements could be effected for its foreign branches to be taken over by the State Bank of India according to the law in the respective countries.

The State Bank of India will continue to undertake commercial banking functions on the usual business principles, as the Imperial Bank of India did, providing credit to industry, trade and commerce. In addition, it is expected to assist banking development on more vigorous lines. One of the immediate objectives of the Bank is to establish not less than 400 additional branches within five years or such extended period as the Central Government may specify, particularly at district headquarters and sub-divisional centres.. It will also provide considerably larger remittance and other facilities to co-operative and other banks and attempt to mobilise rural savings. Later, when its organisation has been expanded and warehousing and marketing facilities have been developed, the State Bank of India will be a powerful agency to expand the supply of rural credit. The Reserve Bank will continue, at the same time, to assist directly in enlarging the supply of credit for agriculture through the apex co-operative banks, as at present. The State Bank will function as the agent of the Reserve Bank, as the Imperial Bank did, in all places in India where there is no branch of the Banking Department of the Reserve Bank and where there is a branch of the State Bank, and is empowered to transact any business and perform any function entrusted to it as the agent of the Reserve Bank.

The State Bank of India has an authorised share capital of Rs. 20 crores and an issued share capital of Rs. 5·625 crores, which has been allotted to the Reserve Bank in lieu of the shares of the Imperial Bank transferred to it. The erstwhile shareholders of the Imperial Bank of India will receive compensation at the rate of Rs. 1,765-10-0 for every fully paid-up share and Rs. 431-12-4 for every partly paid-up share. The compensation will be paid in Central Government securities and, at the option of the shareholders, in the form of State Bank of India shares up to a maximum of 200 shares. This limit is intended, as much as possible, to make for a diffusion of the ownership of shares allotted to the public in the State Bank of India. The new shares of the State Bank are being issued at Rs. 350 for every fully paid share of Rs. 100. For shareholders whose names stood registered in the books of the Imperial Bank of India throughout the period from December 19, 1954 to June 30, 1955, compensation up to Rs. 10,000 will be paid in cash, if they apply for it before October 1, 1955. The State

Bank may, with the Government's sanction, acquire the business of other banks including certain State-associated banks and pay compensation in cash or shares of the State Bank. However, even if the issued capital of the State Bank is increased for this purpose, the Reserve Bank will always hold a minimum 55 per cent of the issued capital of the State Bank.

The management of the Bank vests in a Central Board, of which six directors will be elected by the shareholders, other than the Reserve Bank, whose names are entered in the various branch registers. The Central Government, in consultation with the Reserve Bank, will appoint the Chairman and the Vice-Chairman and nominate eight other directors to represent regional and economic interests, not less than two of whom shall have special knowledge of the working of co-operative institutions and of the rural economy and the others have experience in commerce, industry, banking or finance. The Central Government and the Reserve Bank will nominate a Director each and the Central Board of the State Bank with the approval of the Central Government will appoint not more than two Managing Directors.

The State Bank is required to maintain a special Integration and Development Fund to be created out of *(i)* dividends payable to the Reserve Bank on such shares of the State Bank held by it as do not exceed 55 per cent of the total issued capital ; and *(ii)* such contributions as the Reserve Bank or the Central Government may make from time to time. The amount in the Fund will be applied exclusively for meeting (a) losses in excess of such yearly sum as may be agreed upon between the Reserve Bank and the State Bank and attributable to the additional branches established by the Bank in pursuance of the provisions of the Act ; and *(b)* such other losses or expenditure as may be approved by the Central Government in consultation with the Reserve Bank.

National Agricultural Credit Funds

One of the important recommendations of the Report of the All-India Rural Credit Survey for the orderly financing of the reorganisation proposed by it was the creation of five national funds, three in connection with agricultural credit and two for the development of co-operation and warehousing. Two of these funds, namely, the National Agricultural Credit (Long-term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund, are to be set up by the Reserve Bank in terms of the provisions embodied in the Reserve Bank of India (Amendment) Act, 1955. The Long-term Operations Fund will be used (i) for long-term loans and advances to State Governments for a maximum period of 20 years to enable them to subscribe directly or indirectly to the share capital of co-operative credit institutions, *(ii)* for medium-term loans (between 15 months and 5 years) to State co-operative banks for agricultural purposes, *(iii)* for long-term loans and advances to central land mortgage banks upto a maximum period of 20 years and *(iv)* for the purchase of debentures of central land mortgage banks. The Reserve Bank will credit to the Fund an initial sum of Rs. 10 crores and such further -sums as it may contribute every year. The 'annual contribution during the five years commencing with the year ending June 30, 1956 shall not be less than Rs. 5 crores. The Stabilisation Fund will be applied exclusively to medium-term loans and advances to State co-operative banks to enable them to convert their short-term credit into medium-term credit whenever it is necessary as a result of drought, famine or other natural calamities. This Fund will be credited with such sums as the Bank may contribute every year provided that the contribution during each of the five years commencing with the year ending June 30, 1956 shall not be less than Rs. 1 crore. In the case of both the Funds the Central Government may, if necessary, authorise the Bank to increase or reduce its contribution in any year.

The Bill Market Scheme

Since its introduction in January 1952 the Bill Market Scheme has undergone several modifications with a view to extending and liberalising the facilities available under it. In July 1954 it was further extended, to an even greater degree than was recommended by the Committee on Finance for the Private Sector, to all licensed scheduled banks, irrespective of the size of their deposits. The minimum limit of advances under the scheme was at the same time reduced from Rs. 25 lakhs to Rs. 10 lakhs and the minimum amount of each individual bill was lowered from Rs. 1 lakh to Rs. 50,000. Banks have availed themselves of the facilities under the Bill Market Scheme in increasing measure ; during the year, gross advances against usance bills under Section 17(4)(c) amounted to Rs. 160 crores as against Rs. 127 crores in the previous year. The maximum figure of advances availed of in any single month was reached in May 1955 (Rs. 39 crores). Advances under Section 17(4)(a) against Government securities totalled Rs. 163 crores during the year, showing only a nominal increase over the total for the previous year. Thus, the combined accommodation granted by the Reserve Bank during 1954-55 was Rs. 323 crores, as against Rs. 289 crores in 1953-54. Advances outstanding at the end of the year under Section 17(4)(c) amounted to Rs. 19 crores and those under Section 17(4)(a) to Rs. 0·32 crore. Reference has been made in an earlier section to the greater elasticity and autonomy that has been lent to the Indian money market as a result of the working of the Bill Market Scheme.

Other Facilities to Banks

Besides the concessions under the Bill Market Scheme a few others were also introduced during the year. In August 1954, as recommended by the Shroff Committee, the Reserve Bank announced its decision to treat the shares and bonds of the Industrial Finance Corporation of India and of State Financial Corporations on a par with Government securities for the purpose of advances to scheduled banks under Section 17(4) (a) of the Reserve Bank of India Act. Similarly, in February 1955, as recommended in the Report of the All-India Rural Credit Survey, debentures of land mortgage banks guaranteed by State Governments were also declared to be on a par with Government securities for the purpose. Towards the end of the year, in June 1955, it was decided to accord similar treatment to bonds issued under Section 27 of the Air Corporations Act, 1953.

Banker to State Governments

At the commencement of the year under review, the Reserve Bank was functioning as sole banker to the Governments of all Part A States and of five Part B States. No further progress was made during the year towards the appointment of the Bank as banker to the Governments of the remaining Part B States, namely, Rajasthan and PEPSU.

Industrial Finance

The institutional set-up for providing industrial finance and for facilitating industrial growth both in the public and private sectors was widened and strengthened in a number of ways during the year. For the development of the private sector of industry, the Industrial Credit and Investment Corporation of India, Ltd., was established with an authorised capital of Rs. 25 crores. The issued capital is Rs. 5 crores, of which Rs. 1½ crores were taken by certain, mainly institutional, investors in the U.K.and the U.S.A. In addition to the substantial loan assistance of Rs. 7.5 crores from the Government of India, the Corporation will have at its disposal funds to the tune of $ 10 million from the International Bank for Reconstruction and Development.

For medium and small-scale industries four. more State Financial Corporations were established in Uttar Pradesh, Bihar, Rajasthan and Madhya Bharat, raising the number of such Corporations to eleven. The Corporations of the Punjab, Saurashtra, Bombay, Travancore-Cochin, Hyderabad and West Bengal have already started functioning ; the other Corporations have not yet granted any loans.

The Central Government also set up the National Small Industries Corporation Ltd. for financing and promoting small: scale industries in India and the National Industrial Development Corporation for establishing and financing medium and large-scale industries insofar as they are incidental to planned development, that is, to fill in the gaps in the industrial structure so as to secure harmonious development in the public and the private sectors.

In pursuance of the recommendations of the Shroff Committee regarding a consortium or syndicate for underwriting. or investing in new issues of shares and debentures of industrial concerns, the Reserve Bank appointed a Committee to consider the formation of such a consortium. The Committee's Report was submitted to the Bank in October 1954 and is receiving attention. However, as recommended by the Shroff Committee in relation to the Imperial Bank of India, the State Bank of India has been authorised, subject to such instructions as may be issued by its Central Board, to invest its funds in debentures of companies with limited liability, registered in India or in such other country as the Central Government may approve.

Reserve Bank and Co-operative Banks

The recommendations contained in the- Report of the All-India Rural Credit Survey were accorded general approval at a joint meeting of the Standing Advisory Committee on Agricultural Credit and the Central Committee for Co-operative Training in January 1955, and by the Second Indian Co-operative Congress in March 1955. After preliminary talks between the Reserve Bank and State Governments, a conference was called in April 1955, both at the secretarial and ministerial levels, where the Government of India, the Reserve Bank, the Planning Commission and State Governments were represented, at which agreed conclusions were reached in regard to proposals for implementing the recommendations. 'An' important decision related to the formulation of individual State plans for co-operative development as part of the second Five-Year Plan, in consultation with the Government of India and the Reserve Bank.

Further progress was made by the Reserve Bank in its efforts towards re-organising the co-operative credit structure in various States ; by the end of 1954-55, there were apex co-operative banks in all the Part A and Part B States and, with the exception of Manipur, Tripura and Kutch, in all Part C States as well.

Inspection of co-operative banks on a voluntary basis has been in operation since 1952-53. In 1954-55, 35 co-operative banks were inspected, as against two in 1952-53 and 14 in 1953-54. The defects observed in the working of the banks, as also suggestions for improvement, were communicated in each case to the Registrar of Co-operative Societies.

Financial Accommodation to Co-operative Banks

During the year under review, there was a perceptible rise in credit limits sanctioned to State co-operative banks for financing seasonal agricultural operations and marketing of crops, at the concessional rate of 1½ per cent ; limits totalling Rs. 21·21 crores were sanctioned to 15 State co-operative banks in 1954-55 as compared to Rs. 16·32 crores sanctioned to 13 State co-operative banks in 1953-54. The increased accommodation availed of by State co-operative banks resulted mainly from the further progress made in the reorganization of the co-operative mwement in various States and also from the readiness of State Governments to stand guarantee for the loans granted to State co-operative banks where these banks were not eligible for accommodation on their own strength.

In regard to medium-term loans, the amendment to the Reserve Bank of India Act effected in 1953 permitted loans with a maturity of between 15 months and 5 years. To give effect to this amendment, the Bank has started granting fixed loans for periods of three years under Section 17 (4A) of the Act, though applications for longer periods, that is, upto 5 years, could be considered in cases of necessity ; the rate of interest was fixed at 2 per cent below the Bank rate ; the guarantee of the respective State Governments and promissory notes executed by the borrowing central co-operative banks or societies were to be the security for the advances. Included among the purposes for which medium-term loans can be granted are the reclamation of land, bunding and other land improvements, purchase of livestock, implements and machinery required for agriculture and the construction of farm houses and cattle sheds. Medium-term loans of Rs. 1-28 crores were sanctioned to four State co-operative banks during the year, *viz.*, those in Andhra, Madras, Hyderabad and the Punjab.

Reference was made in last year's Report to a scheme of joint purchase of debentures of land mortgage banks by the Reserve Bank and the Government of India (or the State Government by arrangement with the Government of India) on certain terms and conditions, which were mainly intended to ensure that an increasing proportion of loans were made by the land mortgage banks for productive purposes. During the year under review, the offer to purchase debentures under the scheme was made to four central land mortgage banks, *viz.*, those in Andhra, Madras, Mysore and Travancore-Cochin which had floated debentures. The Madras and Andhra State Governments accepted the terms and conditions laid down under the scheme, but the Reserve Bank was not called upon to make any contribution as the series of debentures were over-subscribed. The Mysore and Travancore-Cochin State Governments did not pursue their request for the Reserve Rank's subscriptions to their debentures.

Co-operative Marketing

An important recommendation of the All-India Rural Credit Survey Report was to link credit with marketing. This implied the establishment of strong marketing societies at all levels-primary, regional and State. In order to strengthen the position of the existing State Marketing Federations, of which there are seven in all, it was considered very desirable that an inspection of some of them should be conducted to find out the lines on which marketing societies at lower levels should be developed. A beginning in this direction was made towards the end of the year under review with the inspection of the Uttar Pradesh Co-operative Marketing Federation jointly by the Reserve Bank and the Government of India, Ministry of Food and Agriculture.

Training Facilities

The Bankers' Training College, to which reference was made in last year's Report, was inaugurated in September 1954, to impart training in practical banking to the supervisory staff of commercial banks in the country. To assist it in running the College, the Reserve Bank has constituted an Advisory Council. Four courses of training, each of eight weeks' duration, have been completed and each course was attended by 24 trainees deputed by commercial banks. The curriculum is so designed as to be of maximum advantage to the branch manager of the average-sized branch of a commercial bank. The endeavour has been to promote a realistic interest in banking as a worthwhile career and to encourage a sound sense of confidence backed by knowledge and understanding. The facilities afforded by the College and their beneficial effects on individual trainees have been increasingly appreciated by banks.

Further progress was made during the year in regard to arrangements for the training of co-operative personnel. Facilities at the Poona College for the training of senior personnel were expanded to provide for 40 candidates in each session. As for the training of intermediate personnel, of the five centres proposed in the country, three have already been started in Poona, Madras and Pusa to serve their respective zones, and arrangements for starting the other two are under way. Steps were also taken during the year to facilitate the training of subordinateco-operative personnel, in accordance with a scheme that was finalised by the Central Committee for Co-operative Training in July 1954 which has since been approved by the Government of India. The respective schemes of the State Governments on the lines laid down by the Central Committee are now under consideration. A scheme was also formulated for the training of Block-Level Co-operative Officers of the National Extension Service Blocks under the auspices of the Central Committee for Co-operative Training and has been approved by the Government of India.

Supervision and Control of Banking

Besides the various steps taken to extend banking facilities, the Reserve Bank continued its policy of strengthening the banking system through enforcement of the various provisions of the Banking Companies Act, 1949.

Inspection

The policy of systematic inspection of banking companies was decided on in July 1949 and has been an important instrument for raising the standard of working of individual banks. Regular inspections were commenced in March 1950, and upto June 1955, 599 banks in all were inspected and of these 199 (51 scheduled and 148 non-scheduled) were inspected more than once. The first round of inspeetions of practically all the reporting banks has been- completed and greater attention is being given to re-inspection. Of the 177 banks (29 scheduled and 148 non-scheduled) inspected during the year, 59 were inspected for the first time under Section 22 of the Banking Companies Act to ascertain their eligibility for grant of a licence to carry on banking business, while the inspection of 107 banks was undertaken to assess their overall financial position and methods of operation as well as to ascertain their eligibility for grant of a licence to carry on banking business, under Section 35 of the Banking Companies Act.

Whenever objectionable features have been observed in the course of an inspection, periodical progress reports from that bank have been called for. As on June 30, 1955, 107 banks were required to submit monthly reports and 313 banks quarterly reports. If re-inspection shows that the defects observed in the course of previous inspections still persist, the attention of the banks is specially invited to such features for their specific comments. The practice of pointing out defects and calling for progress reports in regard to their rectification has proved to be useful. As stated in the last year's report, if inspection reports revealed that stricter control over the affairs of the banks concerned was called for, the necessary conditions were imposed ; there are at present 13 banks (7 scheduled and 6 non-scheduled) on whom such conditions have been imposed. In certain cases, the appointment of banking advisers has been insisted upon to guide the banks.

Scrutiny of periodical returns showed that defaults under Section 24 (regarding the maintenance every day of the 20 per cent ratio of cash, gold and unencumbered approved securities to total liabilities) and Section 25 (regarding the maintenance in India at the close of every quarter of 75 per cent of total assets) were of a casual nature, except in a few instances. Habitual defaults under Section 24 are viewed seriously and powers under Section 46(5) invoked, where necessary.

Lending Policy

There was no occasion for issuing directives to banks in general or to any particular group of banks in respect of their lending policy. However, certain undesirable features which were noticed in the advances portfolio of certain banks in the course of the Bank's inspections were brought to the notice of the banks concerned for being rectified.

The total number of banks that have applied for a licence to carry on banking business in India under the Banking Companies Act, 1949, was 793 as at the end of the year under review; of these, 507 (88 scheduled and 419 non-scheduled) were, in fact, functioning and the rest have either gone into liquidation or ceased to be banking companies or were reported to be taking steps to convert themselves into non-banking companies. Licences were refused during the year to 7 non-scheduled banks as they did not satisfy the requisite conditions. Two foreign banks applied during the year for a licence to commence banking business in India ; in one case, however, the application was dropped when the bank subsequently transferred its assets and liabilities in India to a scheduled bank. The number of banks to which licences have been given so far is 36.

Licensing of Banks

The slow progress made in the licensing of banks is due principally to the Reserve Bank's anxiety to safeguard the interests of the depositors and at the same time to give as many banks as possible a fair chance to qualify for a licence. The system of inspections and periodical reports has proved useful and reveals progress by banks, although in varying degrees. It should be possible for many of the banks to show further improvement and conform in due course to the standard of eligibility for a licence laid down by the Bank.

With a view to mitigating the difficulties experienced by banks, several exemptions from statutory obligations have been granted either generally to all banks or groups of banks or to individual banks. Some of these are referred to below.

Exemptions

Banks incorporated in Part B States and confining their activities to those States had been granted a general exemption from the provisions of Section 11 (which governs the minimum paid-up capital and reserves of banking companies) of the Banking Companies Act upto the end of March 1955. As the possibility of a majority of them complying with the provisions appeared to be remote, it was not considered necessary to extend the period of general exemption. However, in certain cases, both in Part A and Part B States, further extension of six months or one year was recommended on a consideration of the merits of each case.

As prices of Government securities had not recovered to any substantial extent during the year, the exemption granted to all banking companies in 1951 from the provisions of Section 17 of the Banking Companies Act, 1949, insofar as that Section had the effect of preventing appropriation from the reserve fund for the purpose of writing off the amount of losses in investments in Government securities before declaring a dividend out of the net profits, was continued for the calendar years 1954 and 1955.

The exemption granted to all banking companies from certain provisions of Section 24 of the Banking Companies Act in the years 1951 to 1954 was extended for a further period of one year from June 9, 1955. Under this exemption, banks are allowed to exclude from their liabilities their borrowings from the Imperial Bank of India and to treat, as unencumbered, the approved securities lodged with other banking companies to the extent they are not utilised for advances or other credit arrangements.

Banking companies incorporated in Travancore-Cochin and confining their activities to that State were permitted upto the end of March 1955 to maintain a smaller proportion (15 per cent) of their demand and time liabilities in eligible assets instead of 20 per cent, as required by Section 24 of the Banking Companies Act, 1949. This exemption was extended for a further period of one year.

Scheduled and Non-Scheduled Banks

During the year only one bank applied for inclusion and was included in the Second Schedule to the Reserve Bank of India Act ; the applications of five others are under consideration. No bank was excluded from the Second Schedule, nor was any bank inspected during the year specifically for determining its eligibility to be retained in the Second Schedule. During the year, 19 new offices were opened at places not formerly served by a commercial bank and the total number of offices of scheduled banks in the Indian Union as at the end of the year was 2,817. While eight non-scheduled banks, which were in liquidation or were refused a licence under Section 22 of the Banking Companies Act or which converted themselves into non-banking companies, were excluded from the approved list for purposes of remittance facilities, one was included. One non-scheduled bank was allowed to open an account during the year with the Reserve Bank of India.

A scheme of amalgamation, which, in the opinion of the Reserve Bank, did not appear to be in the interests of the depositors and failed to comply fully with the requirements of Section 44A of the Banking Companies Act, was dropped by the banks concerned. In three instances, transfers of certain agreed liabilities and assets, which did not require the Reserve Bank's specific sanction in terms of Section 45(1) of the Banking Companies Act, were effected.

Legislative Amendments Relating to Banks

Consequent upon the coming into force of the Banking Companies (Amendment) Act, 1953, the Banking Companies Rules, 1949 were amended in November 1954 by a notification prescribing a form in which the official liquidator of a banking company that has been ordered to be wound up, should file with the High Court the list of debtors as provided for in Section 45D(2) of the Banking Companies Act.

The Fourth Schedule to the State Bank of India Act amended the Banking Companies Act so as to provide for the State Bank of India to be appointed as the official liquidator of a banking company in case it makes an application to the Court for the purpose. It also made certain provisions of the Banking Companies Act, which were previously applicable to the Imperial Bank of India, now applicable to the State Bank; and has empowered the Central Government to exempt the State Bank from any or all of the provisions of the Banking Companies Act.

In November 1954, together with certain other Acts, the Reserve Bank of India Act and the Banking Companies Act were extended to the erstwhile French Establishments that were merged with India.

Accounts and Other Matters

Annual Accounts

During the year under review, the Bank's income amounted to Rs. 25·01 crores, and expenditure, which includes the expenses of administration and provision for sundry liabilities and contingencies, to Rs. 5·01 crores. The net profit available for payment to the Central Government in terms of Section 41 of the Reserve Bank of India Act was higher at Rs. 20.00 crores, as against Rs. 17·50 crores last year and Rs. 12.50 crores in 1952-53.

The Bank's income, which had risen by over Rs. 5 crores in each of the years 1952-53 and 1953-54, showed a further increase of Rs. 3·07 crores during the year under review. The rise resulted mainly from increases under the heads 'Interest' and 'Discount'. The rise under 'Interest' (Rs. 1·91 crores) was due partly to larger earnings on Central Government securities held by the Bank and partly to the conversion of the Bank's holdings of the 1¾ per cent U.K. Serial Funding Stock, 1954, into other securities giving higher yields. The income from 'Discount' showed a rise of Rs. 1·06 crores during the year, mainly as a result of the creation of ad *hoc* Treasury bills for the purpose of replenishing Government's cash balances with the Reserve Bank. There was also a small increase in receipts under 'Exchange' due to larger transfers, during the year, of sterling to the High Commissioner for India in London.

Relatively to the previous year, expenditure rose further by Rs. 57·48 lakhs, mainly under the heads 'Establishment' and 'Security Printing'. The increase under 'Establishment' (Rs. 33·51 lakhs) was due, among other factors, to the revision of staff salaries, payment of salaries to the staff of the Bankers' Training College and appointment of temporary staff at almost all the offices of the Bank to cope with the increase in work. The expenditure under 'Security Printing' increased by Rs. 16·09 lakhs, mainly as a result of larger supplies of Bank Note forms from the India Security Press, Nasik and a small rise in the manufacturing cost of Note forms.

Auditors

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(40) F-1154 dated September 6, 1954 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

Compensation to Shareholders

At the end of June 1965, the total number of shares of the Bank tendered for payment of compensation, consequent on the nationalisation of the Bank on January 1, 1949, was 4,86,523 of which 1,718 shares *were* tendered during the year under review. The total compensation paid upto the end of June 1955 in the form of the 3 per cent First Development Loan, 1970-75 amounted to Rs. 5·40 crores and in the form of cash to Rs. 35·22 lakhs.

Shri B. Rama Rau, whose term of office as Governor of the Bank was extended for one year upto June 30, 1955, was re-appointed by the Union Government as Governor for a further period of two years, with effect from July 1, 1955.

Composition of the Central Board

Shri N. Sundaresan relinquished office as Deputy Governor on the expiry of his term of appointment on December 31, 1954, and in his place, the Union Government appointed Shri K. G. Ambegaokar as Deputy Governor for a term of five years, effective from March 1, 1955.

The Union Government notified, on June 10, 1955, the appointment of Shri B. Venkatappiah as Deputy Governor of the Bank for a period of five years as from July 1, 1955, following the amendment to Section 8(1) (a) of the Reserve Bank of India Act, which provided for the appointment of three Deputy Governors instead of two earlier.

The term of office of Shri D. N. Sen and Sahu Jagdish Prasad as Directors of the Central Board expired on January 14, 1955 and their vacancies were filled by the nomination by the Union Government, as from January 15, 1955, of Shri D. N. Mitra and Prof. Gorakhnath Sinha as Directors of the Central Board in terms of Section 8(1) (c) of the Act.

The Union Government nominated Shri K. G. Ambegaokar, I.C.S. to be 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 23, 1954. Shri Barve was renominated from August 18, 1954 and continued as a Director till January 4, 1955, when Shri H. M. Patel, I.C.S. was nominated in his place. On May 21, 1955, the Union Government nominated Shri D. L. Mazumdar, I.C.S. as a Director vice Shri Patel.

Eight meetings of the Central Board were held during the year, of which five were in Bombay and one each in Calcutta, New Delhi and Madras. The Committee of the Central Board held fifty-two meetings, all in Bombay, except for one in Madras.

Meetings of the Central Board and its Committee

During the year under review, the Bank constructed a building comprising 30 flats at the Back Bay Reclamation to provide residential accommodation for officers at Bombay. The work of construction of residential quarters to accommodate 222 families of the Bank's officers and other categories of staff at Madras, and of new buildings for the Bank's offices in Calcutta and Madras, was also commenced during the year.

Bank's Premises

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

RESERVE BANK OF INDIA

Balance Sheet as at June 30, 1955

ISSUE DEPARTMENT

LIABILITIES	Rs.	a.	p.	Rs.	a.	p.	ASSETS	Rs.	a.	p.	Rs.	a.	p.
Notes held in the Banking Department ..	31,78,22,563	0	0				A. Gold Coin and Bullion:- .. (a) Held in India ..	40,01,70,843	9	6			
Notes in circulation ..	1309,76,35,407	8	0				(b) Held outside India	*Nil*					
							Foreign Securities	652,04,02,198	2	7			
							Total of A ..				692,05,73,041	12	0
Total Notes Issued				1341,54,57,970	8	0	B. Rupee Coin ..				105,84,23,908	12	4
							Government of India Rupee securities ..				543,64,61,019	16	8
							Internal Bills of Exchange and other Commercial Paper ..				Nil		
Total Liabilities Rs.				1341,54,57,970		8	Total Assets Rs.				1341,54,57,970	8	0

Ratio of Total of A to Liabilities : **51·587** per cent.

RANKING DEPARTMENT

LIABILITIES	Rs.	a.	p.	ASSETS	Rs.	a.	p.
Capital paid-up	5,00,00,000	0	0	Notes	31,78,22,563	0	0
Reserve Fund	5,00,00,000	0	0	Rupee Corn”	7,29,094	0	0
				Subsidiary Coin	5,39,649	14	3
Deposits :-				Bills Purchased and Discounted :—			
(o) Government :-				(a) Internal	62,30,000	0	0
				(b) External	*Nil*		
(1) Central Government	56,01,69,607	3	2	(c) Government Treasury Bills	11,10,16,246	2	0
(2) Other Governments	9,67,71,858	0	3	Balances held abroad*	60,91,37,932	4	8
(b) Banks	57,79,27,157	14	6	Loans and Advances to Governments	76,00,000	0	0
(c) Others	22,68,53,079	1	8	Other Loans and Advances	28,24,20,861	2	11
Bills Payable	6,95,43,056	12	3	Investments	46,38,98,624	0	0
Other Liabilities	23,39,92,717	3	9	Other Assets	6,58,62,505	11	9
Total Liabilities Rs.	186,52,57,476	3	7	Total Assets Rs.	186,52,57,476	3	7

*Includes Cash and Short-term Securities.

B. RAMA RAU,
Governor

C. S. DIVEKAR,
Chief Accountant

K. G. AMBEGAOKAR,
Deputy Governor

Da&d July 19, 1955

RAM NATI-I,
Deputy Governor

B. VENKATAPPIAH
Deputy Governor

RESERVE BANK OF INDIA

PROFIT AND LOSS ACCOUNT

	FOR THE YEAR ENDED								
	June 30, 1966			June 30, 1964			June 30, 1963		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
INCOME									
Interest, Discount, Exchange, Commission, etc.	25,01,05,550	6	6	21,93,92,640	4	7	16,47,35,710	13	6
EXPENDITURE									
Establishment	2,82,28,344	14	10	2,48,76,647	6	5	2,14,21,567	11	3
Directors' and Local Board Members' fees and expenses' .	79,912	3	0	60,271	14	0	66,158	2	0
Auditors' fees	22,600	0	0	22,500	0	0	22,509	0	0
Rent, Taxes, Insurance, Lighting, etc.	13,30,550	7	7	11,26,954	9	0	6,12,607	8	6
Law charges	77,069	2	0	77,987	2	9	53,851	0	5
Postage and Telegraph char&	1,95,800	6	3	1,88,450	3	2	1,69,698	4	9
Remittance of Treasure	15,30,897	13	4	13,99,728	12	5	16,96,158	1	6
Stationery, ,, etc.	6,15,481	6	10	5,78,775	14	3	4,93,022	10	8
security Printing—(Cheque, Note Forms, etc.) :: :: .	1,06,68,117	6	6	90,58,879	14	2	78,86,260	4	3
Depreciation and Repairs to Bank's property	15,30,400	0	1	13,67,557	7	10	10,73,731	10	0
Agency charges	46,81,695	13	8	45,37,574	7	3	37,23,693	6	8
Contributions to Staff and superannuation funds .: :: .	56,000	0	0	62,000	0	0	69,200	0	0
Miscellaneous expenses	10,78,816	13	9	9,99,507	5	9	24,42,880	3	3
Net available balance .	20,00,10,974	0	8	17,50,45,805	4	7	12,50,14,381	14	3
Total Rs. .	25,01,05,550	5	6	21,93,92,640	4	7	16,47,35,710	13	6

PROFIT AND LOSS ACCOUNT-continued.

	FOR THE YEAR ENDED								
	June 30, 1955			June 30, 1954			June 30, 1953		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Surplus payable to the Central Government	20,00,10,974	0	8	17,50,45,805	4	7	12,50,14,381	14	3
Balance carried forward	*Nil*			*Nil*			*Nil*		
Total Rs. ..	20,00,10,974	0	8	17,50,45,805	4	7	12,50,14,381	14	3

RESERVE FUND ACCOUNT

	Rs.	a.	p.
By balance on June 30, 1955 .. .., ...	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

B. RAMA RAU,
Governor

K. G. AMBEGAOKAR,
Deputy Governor

RAM NATH,
Deputy Governor

B. VENKATAPPIAH,
Deputy Governor

Dated July 19, 1955

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 June 30, 1955.

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.,
P. K. GHOSH & CO.,
SASTRI & SHAH.

Auditors

Dated July 19, 1955