RESERVE BANK OF INDIA

Report of the Central Board of Directors

for the year ended June 30, 1956

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

AUGUST 1956

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REPORT

OF THE

CENTRAL BOARD OF DIRECTORS

FOR THE YEAR ENDED JUNE 30, 1956

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

August 1956

CENTRAL BOARD OF DIRECTORS

(As on June 30, 1956)

Governor	Shri Benegal Rama Rau
Deputy Governors	Shri K. G. Ambegaokar Shri Ram Nath Shri B. Venkatappiah
Directors, Nominated under Section 8(l)(b) of the Reserve Bunk *of* India Act.	Shri Purshotamdas Thakurdas Shri B. M. Birla Shri Shri Ram Shri C. R. Srinivasan
Directors, Nominated under Section 8(l)(c)	Shri Manila1 B. Nanavati Shri J. R. D. Tata Prof. D. R. Gadgil Shri D. N. Mitra Prof. Gorakhnath Sinha Shri Bikkani Venkataratnam
Director, Nominated under Section B(l)(d)	Shri H. M. Patel, I.C.S., Secretary to the Government of India, Ministry of Finance (Department of Economic Affairs).

MEMBERS OF LOCAL BOARDS

(As on June 30, 1956)

WESTERN AREA

Shri Purshotamdas Thakurdas
Shri Mathuradas Mangaldas Parekh
Shri Mohan Lal Tannan
Shri K. C. Mahindra
Shri D. V. Potdar

EASTERN AREA

Shri B. M. Birla
Dr. Bimala Churn Law
Mr. 0. T. Jenkins
Shri D. N. Mitra

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. Suryanarapana
Shri S. Anantharamakrishnan
Shri Bikkani Venkataratnam

BRANCHES OF THE ISSUE DEPARTMENT

Bombay **Calcutta**

Delhi **Kanpur**

Madras

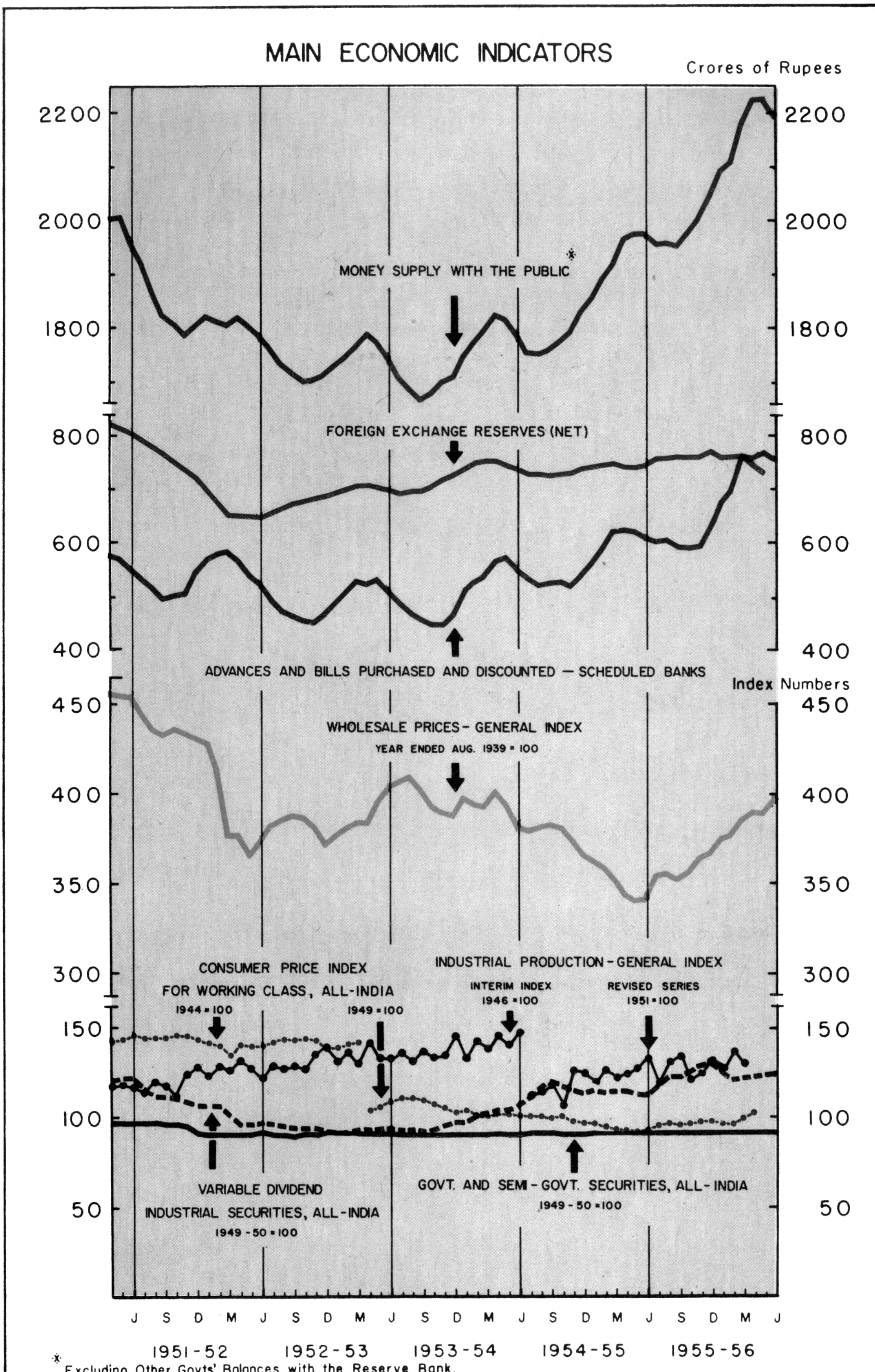
OFFICES AND BRANCHES OF THE BANKING DEPARTMENT

Bombay **Calcutta**

Delhi **Kanpur**

Madras **Bangalore**

London


MAIN ECONOMIC INDICATORS
Crores of Rupees
2200
2000
1800
800
600
400
MONEY SUPPLY WITH THE PUBLIC *
FOREIGN EXCHANGE RESERVES (NET)
ADVANCES AND BILLS PURCHASED AND DISCOUNTED — SCHEDULED BANKS
Index Numbers
450
400
350
300
150
100
50
WHOLESALE PRICES - GENERAL INDEX
YEAR ENDED AUG. 1939 = 100
CONSUMER PRICE INDEX
FOR WORKING CLASS, ALL-INDIA
1944 = 100
1949 = 100
INDUSTRIAL PRODUCTION - GENERAL INDEX
INTERIM INDEX
1946 = 100
REVISED SERIES
1951 = 100
VARIABLE DIVIDEND
INDUSTRIAL SECURITIES, ALL-INDIA
1949-50 = 100
GOVT. AND SEMI-GOVT. SECURITIES, ALL-INDIA
1949-50 = 100
J S D M J S D M J S D M J S D M J S D M J
1951-52
1952-53
1953-54
1954-55
1955-56
* Excluding Other Govts.' Balances with the Reserve Bank.

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

For the year July 1, 1955—June 30, 1956

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 the annual report on the working and accounts of the Bank for the 22nd year ended June 30, 1956.

Developments in the Economy

A general retrospect

2. The year under review, which marked the close of the First Five Year Plan, recorded a further increase in the level of development expenditure. Once again, there was a substantial rise in industrial production. Agricultural production, however, would seem, on the provisional data available, to have declined to a slight extent as compared with the high levels of 1954-55 and 1953-54. In both those years, it will be recalled, the production was about 12 per cent higher than in 1952-53. Agriculture accounts for over 45 per cent of the national income; it follows that the relatively stationary level of agricultural production since 1953-54 has affected the rate of growth in spite of the big advance registered in the organised industrial sector.

3. National income is estimated to have risen by 18 per cent over the period 1951-56, thus showing a larger rate of increase than was originally anticipated. Much the greater part of the increase, however, occurred in the first three years of the Plan. It has been estimated that national income in real terms increased by only 1.3 per cent in 1954-55 as against a rise of 6 per cent in 1953-54.

4. Since 1953-54, while the real national product has shown only a modest increase, the stepping up of developmental expenditure has been accompanied by larger deficits in government accounts. There has at the same time occurred a rapid expansion of bank credit and money supply, which was particularly marked in 1955-56. Reflecting these trends in production and money supply, there was an almost continuous rise in prices during 1955-56, when the earlier decline of 1954-55 was reversed, particularly in respect of agricultural commodities.

5. However, the developments during the year under review may be appropriately viewed in a somewhat longer perspective. The principal economic indicators over the past five years broadly show that India has been able to combine in a substantial measure economic development with financial stability. Among the main features of this phase of economic growth may be mentioned the increasing outlays of the Plan, the gains in industrial and agricultural production, the balance in the external payments position as a whole, and a better flow of savings which imparted strength to the capital market. Apart from all these and contributing to the total result were the judicious fiscal and monetary policies pursued during this period.

6. The trend of prices in the country during 1955-56 may also be viewed in the wider context of economic trends abroad. In most countries, by early 1955, there was a re-emergence of inflationary forces, especially in Western Europe and America. Boom conditions during 1955 were on the whole more widespread and were probably more intense than any earlier experience of a similar kind. The central problem was one of maintaining stability under conditions of full employment and, for most European economies, also of safeguarding external reserves. While flexible monetary and credit policies had been gradually re-established since about 1951 as an important means of maintaining financial and economic stability, during 1955 there was even greater reliance on them to check the inflationary trends. Besides discount rate changes and open market operations, selective credit restraints, directives to banks and variable cash reserve requirements have also played an important part. Further, fiscal and other more direct measures have been adopted for restraining investment and consumption expenditures. The limitations to the effectiveness of monetary and credit policies arose from the nature of the boom itself : it was not a boom mainly of inventory accumulation and speculative transactions but one arising principally from higher levels of consumption and investment in relation to output. The boom was also sustained in some countries by the high levels at which public investment, which did not respond to monetary policy, was maintained.

7. The above account of economic developments in India over a five-year period and of economic trends abroad by no means diminishes the need for a careful and continuous assessment of the current economic situation with a view to appropriate adjustments in the pace and pattern of planned development and in fiscal and monetary policies from time to time.

8. The record level of agricultural output in 1953-54 was followed by relatively stationary aggregate levels of production. The index of agricultural production, with 1949-50 as base year, was 114.1 in 1953-54, and 113.9 in 1954-55*; this, however, compared with 95.6 in 1950-51. The output of foodgrains in particular touched a relatively high level, at 68.7 million tons, in 1953-54 ; it declined to 65.8 million tons in 1954-55. The First Plan target for 195556 was 61.6 million tons. The outlook for 1955-56, on the basis of available estimates, indicates that production of coarse grains will be somewhat lower but that of rice and wheat will be satisfactory. Among commercial crops, the production of cotton and oilseeds in 1955-56 is expected to be lower than in the previous year, while the output of jute and sugarcane may be somewhat larger.

Trends in production-in agriculture

9. The revised foodgrains target of 81.5 million tons by 1960-61, accepted at the recent Conference of State Agriculture Ministers, represents a 25 per cent increase over the current level of 65 million tons, as against a 15 per cent rise postulated in the Second Plan. If such an appreciable increase should be attained, it would make a significant contribution to stability in the economy against the inflationary repercussions of deficit financing.

10. Industrial production has been steadily on the upgrade during the last few years. During 1955-56, on the basis of data for the first ten months, the average index of industrial production (revised), with 1951 as base year, recorded a rise of 8 per cent over the corresponding period of the previous year. The rise has been shared by almost all major groups of industries, in the public as well as private sectors. The continuous rise in industrial production has been one of the heartening features of the Indian economy in recent years, and it may be expected that this process will be assisted forward with the broadening of the industrial base under the Second Five Year Plan.

-and, in industry

11. The price situation during the year was characterised by an almost continuous uptrend, in contrast to the sharp decline in the previous year. The general index of wholesale prices, with year ended August 1939 as base, rose by 16.7 per cent from 345 at the end of June 1955 to 402 at the end of June 1956. In 1954-55 there had been a net decline of 10 per cent. The average for the year 1955-56 was only 2.2 per cent higher than that for 1954-55. The rise in prices has been reflected in living costs,

The problem of rising prices

*The index for 1954-55 has since been revised to 116.4 ; the provisional index for 1955-56 is placed at 113.7.

the all-India working class consumer price index, with 1949 as base year, having recorded an increase from 93 in June 1955 to 103 in April 1956.

12. The price rise was not, however, general or uniform; it was mostly confined to agricultural commodities and semi-manufactures, the prices of industrial products remaining relatively steady. The rise in ' food articles ' was the largest (30 per cent), the prices of almost all commodities in the group showing an increase. It may be recalled that it was precisely the groups ' food articles ', ' industrial raw materials ' and ' semi-manufactures ' that experienced sharp declines in the previous year, so that the rise in prices during the year could be considered partly as a corrective to the previous fall. In fact, the various governmental measures that were taken in the latter half of 1954-55 to stabilise prices at reasonable levels themselves may have contributed to some extent to the subsequent rise. However, the continued price rise is attributable mainly to the decline in agricultural output, especially of foodgrains in 1955-56, larger exports of certain industrial raw materials, and an increase in demand resulting from the large increase in investment expenditure and rise in incomes. It is also probably partly stimulated by speculative influences. Governmental measures to curb the rise have included the banning of exports of foodgrains, and arranging for imports and releases to the market of substantial quantities of rice and wheat.

13. As regards the longer-term prospect, two sets of considerations have to be taken into account. On the one hand, the increase in developmental outlay met in part by deficit financing may be expected to exert an upward pressure on prices. On the other hand, there will be the important countervailing factor of increased agricultural and industrial production. A policy of maintaining buffer stocks, assisted by an extensive warehousing programme, should also help to moderate fluctuations in agricultural prices. Against the background of the recent rise in prices and with the prospect of deficit financing in the next few years, therefore, the attainment of a substantial increase in agricultural output, besides procurement of larger supplies of agricultural commodities from abroad, will acquire added significance. As already stated, continued vigilance and appropriate flexibility in fiscal and monetary policies will also be called for.

14. The year witnessed a substantial monetary and credit expansion.

Expanding money supply

Money supply with the public (excluding State Governments' deposits with the Reserve bank) increased by Rs. 214 crores during the year under review, or by 10.8 per cent, to a total of Rs. 2,191 crores. The net rise over the entire

First Five Year Plan period (April 1951—March 1956) was also of about the same order, at Rs. 206 crores. This resulted from an initial phase of contraction to the extent of Rs. 214 crores in the first two years, followed by a progressive increase in the next three years by an aggregate of Rs. 420 crores. Of the increase in money supply during 1955-56, expansionin currency accounted for about four-fifths. The main expansionary factors were deficit financing by Government and the rise in bank credit, the balance of payments impact being slightly contractionist. As has been noted earlier, reflecting the growing economic activity in the country, particularly the increasing developmental outlays on a wide front through the public sector, there is a modification in the seasonal pattern of changes in money supply; the contraction during the slack season is tending to be smaller, both relatively and absolutely, in comparison with the expansion in the busy season, the magnitude of which has been rising. The contraction during the 1955 slack season, for instance, was a nominal Rs. 3 crores, as against Rs. 77 crores in 1954 and Rs. 128 crores in 1953; on the other hand, the expansion during the 1955-56 busy season, though it set in somewhat later than is usual, was Rs. 264 crores, and may be compared with the busy season expansion of Rs. 222 crores in 1954-55 and Rs. 172 crores in 1953-54. In the 1956 slack season, however, the contraction has been much larger than in 1955, namely, Rs. 81 crores (upto August 10), though it is still substantially smaller than the expansion in the preceding busy season.

15. The rise in money supply has to be viewed in relation to the expansionary trends in production, industrial and agricultural, and the general level of economic activity. Besides, in an economy like India's where, under the impact of a major developmental effort, a steady extension of the boundaries of the money economy is under way, the level of money supply may be expected to show some rise relatively to national income, if price levels are to remain fairly steady. However, recently the rise in money supply has tended to outpace the rise in production levels and economic activity.

-and, bank credit

16. Bank credit during the year recorded a sharp rise and contributed to a large expansion of money supply. Scheduled bank credit increased by Rs. 149 crores over the year to Rs. 759 crores as compared to a rise of Rs. 60 crores in 1954-55. On the other hand, net deposit liabilities of scheduled banks increased much less than bank credit during the year, by Rs. 98 crores. The higher level of banking activity during the year reflects largely the impact of growing economic activity under the Plan, The inadequacy of the rise in banks' resources was

acutely felt in the busy season when scheduled bank credit expanded by Rs. 180 crores, whereas the net deposit liabilities increased by only Rs. 38 crores. Consequently, banks had to resort to larger borrowings from the Reserve Bank. During the busy season (mid-October 1955 to mid-May 1956), such borrowings increased by Rs. 67 crores, of which Rs. 46 crores were under the Bill Market Scheme. Borrowings outstanding at the end of the year were Rs. 53 crores or Rs. 36 crores higher than a year before.

Bill Market Scheme

17. It was stated in last year's Report that the Bill Market Scheme had begun to impart greater elasticity and autonomy to the Indian money market; a further development in this direction during the year under review was the greater interest evinced by the exchange banks in the facilities available under the Scheme; a factor making for this is, of course, the higher cost of borrowing abroad. In the light of the marked progress made by the Scheme since its introduction in January 1952 and the rise in deposits and investments of scheduled banks, the Bank raised, with effect from March 1, 1956, its lending rate under Section 17 (4) (c) of the Reserve Bank of India Act from 3 to $3\frac{1}{4}$ per cent. From the same date the concession in respect of the stamp duty was withdrawn.

Credit policy

18. While general credit policy remained substantially unaltered except for the small advance in the bill market rate, the more recent trends in bank credit and prices have also prompted greater vigilance against possible growth of speculative activity. Accordingly, with a view to bringing bank accommodation for financing trade in important commodities, as also in shares and debentures, under close observation, the Reserve Bank issued on April 4, 1956 a circular to all scheduled banks and two State-associated non-scheduled banks calling for fortnightly returns of advances. The monthly statements of advances, which were being received prior to this circular, revealed that banks' advances against paddy and rice had shown an unhealthy increase over the year to March 1956; therefore, on May 17, 1956, the Bank issued a circular letter to all scheduled banks and two State-associated non-scheduled banks impressing upon them the need to refrain from excessive lending against commodities and also from assisting speculative hoarding of stocks. They were directed not to increase any credit limits in respect of advances against the security of paddy and rice or sanction any fresh credit limit in excess of Rs. 50,000 in respect of such advances, and to increase the existing margin in respect of the limits and advances by an amount not less than 10 per cent of the value of these commodi-

ties. Scheduled banks were further requested to endeavour to reduce their aggregate advances against paddy and rice to a level not exceeding 25 per cent above that prevailing at the corresponding time in the previous year.

19. The returns of advances as of June 29, 1956 indicatethat the advances of scheduled banks against paddy and rice, which stood at Rs. 26 crores on April 27 and Rs. 25 crores on May 11, 1956 had declined to Rs. $15\frac{1}{2}$ crores. The decline was 41 per cent over two months as compared to 9 per cent in 1955 as well as in 1954. The level of advances was still higher than in the previous year by 52 per cent (as against 120 per cent before the issue of the directive-on May 11, 1956), but exceeded the 1954 level by 21 per cent only. The banking system co-operated fully in carrying out the specific terms of the directive, though the need for caution in lending remains.

Government finances

20. Therising scale of investment outlays under the Plan and increasing deficit-financing of Government expenditure, has been the other main expansionary factor at work in the economy. Plan outlays had moderately risen from Rs. 259 crores in 1951-52 to Rs. 273 crores in 1952-53 and Rs. 340 crores in 1953-54, or a total of Rs. 872 crores in three years. There was a substantial stepping up subsequently to about Rs. 475 crores in 1954-55 and Rs. 600 crores in 1955-56. During the five years 1951-56, the combined deficit of the Central and State Governments, as measured by the actual net addition to the Treasury bill holdings of the Reserve Bank and the draft on Government cash balances, would have been somewhat less than Rs. 400 crores; of this, deficits of about Rs. 100 crores and Rs. 160 crores are estimated to have been incurred in the last two years of the Plan. Even in the last two years, the deficits have, in fact, been smaller than the budget estimates, mainly on account of a shortfall in Plan outlays as compared to the original provision. Developmental outlay in 1956-57 under the Second Plan may be placed at about Rs. 750 crores-an increase of Rs. 150 crores over 1955-56—which is reflected in a larger estimated deficit at Rs. 356 crores for the Centre.

21. The aggregate tax revenue of Central and State Governments was Rs. 635 crores in 1950-51 (pre-Plan base year) and formed 6.5 per cent of national income; in 1955-56 aggregate tax revenue was of the order of Rs. 735 crores (adjusted for the increase in land revenue since 1950-51 attributable to zamindari abolition for which there is offsetting expenditure), which may constitute a slightly higher proportion of national income; this proportion is to rise significantly under the Plan.

22. The estimate of financial resources for an aggregate Plan outlay of Rs. 4,800 crores in the public sector during the Second Plan period leaves a gap of Rs. 400 crores, after taking into account budgetary resources of Rs. 2,400 crores that can be raised by Central and State Governments through taxation, borrowings and other receipts, external resources amounting to Rs. 800 crores and projected deficit financing of Rs. 1,200 crores. It has been stated that this gap would also be largely filled by taxation. The projected level of Plan outlays in the public sector under the Second Plan, averaging Rs. 960 crores a year, would involve a considerable increase in tax effort of the Central and State Governments and the fullest mobilisation of private savings through various borrowing schemes.

Resources for the Second Plan

23. Aggregate net market borrowings during the First Plan period have exceeded the Plan target of Rs. 115 crores by Rs. 62 crores. In fact, taking into account the sales of securities effected in recent years from the cash balance investment accounts of Central and State Governments and by the Reserve Bank from its portfolio, the net absorption of securities by the market during the five years of the First Plan has been even larger, being of the order of Rs. 250 crores. During the first few months of this period, there had in fact been net purchases by the Bank. The dis-inflationary implications of the Bank's new monetary policy since mid-November 1951 are brought out by the fact that during the period December 1951 to March 1956 there were net sales of Rs. 46 crores of government securities to the public on the Bank's account, as against net purchases of securities of Rs. 210 crores during the period January 1948 to November 195 1.

Loans and Small Savings

24. Total small savings collections of Rs. 235 crores have also shown an improvement of Rs. 10 crores over the original Plan estimate. These results partly reflect the cautious approach of the First Plan estimates which were based on the experience of the difficult years preceding it. On the experience, in particular, of the sustained improvement in market loans as well as small savings since 1953-54, and taking into account the much larger requirements of the Second Plan, net borrowings from the public during the five years 1956-61 have been placed at Rs. 1,200 crores, comprising broadly Rs. 700 crores from market loans and Rs. 500 crores in small savings. A borrowing target of this order would require a vigorous drive. The borrowing operations would doubtless be facilitated by the substantial measure of deficit financing that is contemplated. However, since all the Plan estimates are based on the assumption of constant (1955-56) prices, the borrowing programme, like the taxation programme,

should be more appropriately considered apart from the influence of budgetary deficits.

25. The technique of market borrowings for the Central and State Governments is being continuously reoriented to fit in, on the one hand, with the greatly increased requirements for developmental expenditure and, on the other, with the changing conditions of the market. Accordingly, in 1954-55 the expedient was tried of raising a combined loan for Central and State Governments which was kept on tap for nearly five months and for which every effort was made to harness popular enthusiasm. Though the results seemed satisfactory in that the total amount subscribed to the 3½ per cent National Plan Loan, 1964 amounted to Rs. 158 crores, the injection into the market of such a large amount in the form of one security had its inevitable repercussion on its price; the loan immediately went to a discount and remained depressed for a long time, the quotation having receded at one time to Rs. 97-11 against the issue price of Rs. 98-8. During the year under review, therefore, it was decided to revert to the normal practice of first issuing a Central loan and then the loans of the various State Governments. Accordingly, the 39 per cent National Plan Bonds-Second Series-1965, for the Central Government was floated on July 1, 1955 at an issue price of Rs. 98-8 giving a redemption yield of 3.68 per cent. Conversion facilities were offered to the holders of 2½ per cent loans 1955 and 4½ per cent loan, 1955-60. The loan was closed on July 4, 1955 on being fully subscribed, the total subscriptions amounting to Rs. 104 crores, out of which conversions accounted for Rs. 58 crores. The compensation which was payable to the shareholders of the Imperial Bank of India in the form of government securities was also paid in this loan from the contributions made in cash to this loan by the Reserve Bank and such sales of these securities as were made were easily absorbed by the market.

26. Subsequently, in mid-August, loans for ten States were issued. While maintaining the interest rate at 4 per cent as in the case of the previous State issues made in 1953-54, the period of the loans was increased from 10 to 12 years and the issue prices ranged from Rs. 100 to Rs. 99 depending on the quotations for the existing loans. The aggregate amount for which the loans were issued was Rs. 35.75 crores and it was proposed to keep the loans open for a fortnight. They were, however, so heavily over-subscribed that the lists had to be closed, in most cases, within two days, the aggregate subscriptions amounting to Rs. 51.34 crores. In accordance with the provisions of the loan notifications, an amount of Rs. 42.27 crores only could be allotted. Since there was a considerable unsatisfied demand

from the public for these loans and the States themselves needed more money, a second issue for 7 States was made for a further Rs. 11.75 crores for which also the subscriptions received were much in excess, having amounted to Rs. 16.43 crores out of which Rs. 12.79 crores were allotted. Thus, the total amount raised through State loans was Rs. 55 crores and the aggregate for Central and State loans came to Rs. 159 crores. Except for the loans of two or three States, which for sometime were quoted at a slight discount, all the new State loans maintained a stable price level. In fact, in subsequent months most of the loans appreciated in value owing to the keen demand from institutional investors. It would thus appear that the State loans have now acquired *an* established market and are no longer in the position they were two or three years ago, when it was difficult for purchasers of these loans to obtain them and for sellers to find buyers readily.

27. The technique of issuing a number of separate loans, which proved so successful during the year under review, has been further developed in the loans issued after the close of the year. For the Central Government itself instead of one loan of medium maturity three loans, viz.,

(i) a short-dated 6-year loan maturing in 1962 at $3\frac{1}{4}$ per cent,

(ii) a medium-term 11-year loan maturing in 1967 at $3\frac{1}{2}$ per cent, and

(iii) a long-term 18-year loan maturing in 1974 at $3\frac{3}{4}$ per cent,

were floated at the issue prices of Rs. 98, Rs. 98-8 and Rs. 98-8, respectively. A total amount of Rs. 150 crores was fixed for all the three issues but no separate limits for individual loans were prescribed in order to give the fullest freedom to investors to exercise their choice and also to ascertain the preferences of the investing public and institutions in regard to the *loans.* Conversions of the 3 per cent Victory Loan 1957 accounted for Rs. 80.5 crores; cash subscriptions amounted to Rs. 77.2 crores, the total subscriptions being Rs. 157.7 crores.

28. The success of the Central and State Government loans issued during the year under review was, no doubt, partly due to the fact that at the time when these loans were floated the capital market was buoyant and there was a keen enquiry for investtnent from scheduled banks, which had experienced consider-

able accretion of deposits. It was this factor which contributed to the strength which the gilt-edged market continued to display upto about November 1955. After this a distinct change came over the share market, and the money market during the busy season became extremely stringent and continued to be so even upto the end of the year of Report. The gilt-edged market, however, continued to show remarkable stability and strength in spite of the extreme tightness of the money market and in contrast with the sharp fluctuations in the share prices. The index number of Government of India loans (1949-50=100) rose almost continuously from 90.7 in June 1955 to 91.1 in June 1956. The rise in price over the year in respect of individual loans ranged upto Rs. 3-4 in the case of the 3 per cent loan 1970-75. The non-terminable loans, however, recorded net declines owing to the operation of special factors.

The capital market and new issues

29. The capital market maintained during the year the distinct improvement which had been noticed last year. There was brisk activity in new issues, and the equities market remained buoyant during the greater part of the year. Share values registered an almost continuous advance between July and November 1955, the Reserve Bank's index of variable dividend industrial securities rising from 114.3 for the last week of June 1955 to 131.9 by the closing week of November. Subsequently, a reaction occurred, the indexdroppingto 120.1 by the end of February 1956. The relapse was due to an element of unhealthy speculation in stock trading which had been taking place earlier, apprehensions regarding the 1956-57 tax proposals and fears of further measures of nationalisation following nationalisation of life insurance. The taxation proposals apparently proved to be less severe than had been apprehended. There was consequently some recovery, to 124.8 by the end of June 1956. The recovery was also assisted by the restatement in April this year of the Government's industrial policy objectives and methods and by expectation of substantial and increasing deficits for financing Plan outlays, which virtually ensure rising corporate profits; the published corporate accounts also continue to record improvement in earnings and dividends.

30. While precise and complete data regarding capital issues for the private sector are not available, the total of new issues amounting to Rs. 1 crore and over each was about Rs. 20 crores during 1955-56, as compared to about Rs. 16 crores in the previous year. The experience in regard to new issues and self-financing of new investment and replacements in recent years justifies a measure of confidence regarding the sources of financing of fixed capital investment in industry during the Second Plan

period. To some extent, the resources available to the private sector from new issues and self-financing would be augmented by assistance from the various financial institutions set up by the State in recent years. It would remain necessary, however, to continue to pay the utmost attention to stimulating the flow of capital, foreign as well as domestic, into industry and to distribution of profits with due regard to the needs of the private sector for replacement, modemisation and expansion.

Foreign trade and balance of payments

31. The overall balance of payments for the year as a whole (July 1955—June 1956) may show a deficit on current account, of the order of Rs. 20 crores, after taking into account receipt of official grants, as against a surplus of Rs. 23 crores in the preceding year. The deficit during the year was the result of a surplus of Rs. 20 crores in the first nine months (July 1955—March 1956) for which data are available and an estimated deficit of about Rs. 40 crores in the last quarter (April—June 1956). The last quarter's deficit is partly due to seasonal factors. Foreign trade during the year was at a higher level than in the previous year, by about 6 per cent. During the first nine months of the Bank's accounting year for which data are available, the increase in imports, of nearly Rs. 50 crores, was larger than the rise in exports, of about Rs. 15 crores-so that the trade deficit widened. The rise in imports, directly attributable to the expansion of developmental outlays, is significant in view of the sizeable fall of over Rs. 50 crores in the value of food imports during the period; Government's policy in regard to imports has been one of progressive but controlled liberalisation. Similarly, the small rise in exports, mainly under oils and raw cotton, has to be appraised against the rather sharp decline in the value of tea exports and lower earnings from jute and cotton textile exports. India's foreign exchange assets declined during the year by Rs. 36 crores to Rs. 781 crores.

32. During the First Plan period, the payments position on current account showed a net deficit of Rs. 27 crores, taking into account receipt of official grants aggregating Rs. 96 crores. The deficit was wholly associated with transactions in 1951-52, when there was a heavy deficit mainly accounted for by the unusually large food imports. Since 1952-53, there have been surpluses each year. When the First Plan was formulated in December 1952, it was thought that there might be an annual deficit in balance of payments of the order of Rs. 180-200 crores during the remainder of the Plan period. Actually, the position has been much better, chiefly on account of a I.arge saving in food imports and a lower level of machinery imports than antici-pated attributable to the shortfall in total Plan outlay particularly

in the industrial sector. In the event, therefore, the withdrawal from sterling balances during the First Plan period has been about Rs. 140 crores, as against Rs. 290 crores originally envisaged. In view of the large requirements for imports of machinery and equipment during the Second Plan period, besides a draft of Rs. 200 crores on sterling balances, external assistance has been assumed at as high a level as Rs. 800 crores. Under the circumstances, the urgency of export promotion cannot be over-emphasized, though it would be idle to expect any spectacular results.

The prospect

33. The main objectives of the Plan, within the wider progress to a socialist pattern of society, are stated to be a sizeable increase in national income which is expected to be of the order of 25 per cent, rapid industrialisation, with accent on development of basic and heavy industries, a large expansion of employment opportunities and reduction of inequalities in incomes and wealth. Considering the prevailing volume of unemployment and its social costs, increase in employment opportunities and their diversification are taken to be important objectives by themselves. While, appropriately enough, there is accent on labour intensive schemes in certain sectors, it is axiomatic that, in the longer run, the volume of employment can rise, and that of unemployment or under-employment diminish, only as a result of, and in broad relationship to, economic development.

34. If the Second Five Year Plan, so much bolder than the first, has on account of that very reason more and bigger problems to face, it also starts with the advantage that much experience has been accumulated and many gains have been consolidated. Not least among the results achieved by the First Plan is the overall economic and financial stability of the country since 1952. The stage is thus well set for the very considerable effort represented by the Second Plan. An important aspect of the total problem will be the devising of measures which, without unduly affecting price stability, will help to step up effectively both investment and savings on the one hand, and output and employment on the other.

35. The total investment in the economy, estimated to have been around Rs. 3,100 crores during the First Plan period, more or less equally divided between the public and private sectors, is planned to rise to Rs. 6,200 crores, the ratio of public to private investment shifting to approximately 60 : **40.** As mentioned earlier, according to present estimates, deficit-financing during the **five years 1956-61 would amount to Rs. 1,200 crores. The**

expansionary effect of this measure of deficit-financing on money supply will be partly neutralised by the withdrawal from sterling balances. The remaining net deficit and increase in bank credit, partly to be assisted by the Reserve Bank's own lending operations, would together lead to a considerable expansion in money supply.

36. If the targets of additional taxation and borrowing are achieved and the volume of deficit-financing mentioned above remains as the outside limit, there may not be a serious threat to financial stability, provided production, agricultural and industrial, expands at a satisfactory rate. The importance of an adequate increase in production, particularly of food and other essential articles like cloth, cannot be too strongly emphasised in this connection. A big rise in development expenditure would be reflected in additions to large numbers of small incomes and hence in a considerable increase in the demand for, and pressure on prices of, articles of mass-consumption like food and cloth. Such increase in demand might be directed in advanced industrialised communities to luxuries and semi-luxury articles, but in an under-fed and ill-clothed country such as ours there is likely to be a particularly heavy impact on the prices of essential commodities. These results are likely to occur even if there is a corresponding increase in taxation, as new or additional incomes will accrue to parts of the population whose demand for elementary necessities is high, while taxation will, in the main, reduce consumption of less essential commodities. The additional demand for consumer goods arising out of development expenditure will be the larger the bigger the gap between expenditure and tax and loan receipts viz., deficit-financing.

37. It may be recalled that during the period of the First Plan, the targets of production of food and cloth have been far exceeded; nevertheless the production has been fully absorbed and there has been no glut of either commodity on the market. It is in this context that the recent attempts to shift the emphasis of the Plan to larger agricultural production assume special significance. For, if food is in fact produced on a somewhat larger scale than is contemplated under the Plan, that will, indeed, be a most desirable development ; and it will improve further the balance of the structure of the Second Plan. But in finding the additional resources for agriculture it is necessary to ensure that the overall size of the Plan is not further increased for any such increase would impose an undue strain on the economy.

Reserve Bank of India (Amendment) Bill, 1956

38. Keeping in view the requirements of monetary and credit policies in this context, important amendments have been proposed to the Reserve Bank of India Act, vesting the Reserve Bank with power to vary reserve requirements of scheduled banks. The Reserve Bank of India (Amendment) Bill, 1956, which was recently passed by Parliament, proposes to establish a system of flexible reserve ratios, giving the Bank the power to vary the cash reserves which scheduled banks have to maintain with the Reserve Bank between 5 and 20 per cent in the case of demand liabilities and between 2 and 8 per cent in the case of time liabilities as against the present ratios which remain fixed at 5 per cent and 2 per cent, respectively, under Section 42 of the Reserve Bank of India Act. The Bill also amends the currency reserve provision (Sections 33 and 37). It provides for a minimum holding of Rs. 400 crores in foreign securities and of Rs. 11.5 crores in gold in the Issue Department of the Bank: the existing requirement is that not less than 40 per cent of the assets of the Issue Department must consist of gold coin, gold bullion or foreign securities provided that the amount of gold coin and gold bullion is not at any time less than Rs. 40 crores in value, gold being valued for this purpose at the rate of Rs. 21-3-10 per tola. The amending Bill also provides for revaluing the gold holdings of the Bank at the rate agreed to by the International Monetary Fund, namely, Rs. 62-8 per tola (i.e., equivalent of $35 an ounce). Provision is made in the Bill to suspend temporarily the assets requirements in respect of foreign securities, provided that the amount of foreign securities, held in the Issue Department shall not at any time be less than Rs. 300 crores in value.

Banking Development

State Bank of India

39. An important aspect of planned economic growth is the building up and strengthening of financial and credit institutions for mobilisation and channelling of resources. The active part which the Reserve Bank has been playing in this process has been described in some detail in previous Reports. A significant development, which might well be regarded as opening a new chapter in the evolution of Indian banking, was the establishment of the State Bank of India on July 1, 1955. Reference was made in last year's Report to the main provisions of the Statute under which the Imperial Bank (with certain minor exceptions dictated by legal reasons and pertaining to branches in foreign countries) was transformed into the State Bank. The payment of compensation to the shareholders of the Imperial Bank was

substantially completed within four months of the acquisition, and the bulk of the share capital of the new institution stands vested in the Reserve Bank.

40. Among the immediate objectives of the State Bank is a vigorous expansion of branches, the pace indicated in the Statute being 400 additional branches over a period of five years. As part of this programme, an initial list of 100 centres was approved by the Central Government, in addition to 51 centres remaining over from the older programme of the Imperial Bank. The preparation of further lists is in hand. The State Bank of India has opened 32 new branches during the first year of its existence. It may be recalled that, over a period of four years from July 1, 1951, the Imperial Bank had opened only 63 branches out of an approved list of 114 centres which it was to cover in five years. In regard to the opening of new branches which may be initially unremunerative, but which are in the larger public interest as stimulating banking development, the State Bank is of course differently situated to its predecessor and indeed to any bank whose policies are circumscribed by a shareholding which is predominantly private. For, it was precisely in order to make specific provision for initial losses on unremunerative branches opened in the public interest, as also for other items of loss or expenditure broadly falling in the same category, that an Integration and Development Fund had been devised as a feature of the Statute governing the State Bank of India. Into this Fund are credited the dividends payable to the Reserve Bank on that part of its shareholding which is equal to fifty-five per cent of the total issued capital of the State Bank; and further contributions can also, as and when necessary, be made by the Reserve Bank or the Central Government. There has already been credited to the Fund a sum of Rs. 24.75 lakhs, representing the dividend earned for the first six months on the appropriate portion of the shares held by the Reserve Bank.

41. Only the future can unfold the full significance of the State Bank of India for the country's economic development: a development which is intimately bound up, in both the public and private sectors, with the Second Five Year Plan. The establishment of the State Bank coincides with a crucial stage in that development. Its potentialities for growth and expansion are far beyond those at any time open to its predecessor. So too are the opportunities it has for mobilising resources and, without deviating from its orbit, of influencing their utilisation in a manner consonant with the objectives of the Plan. That the role of the bank *vis-a-vis* the private sector of commerce and industry will be one of undiminished usefulness and importance

is clear from the assurances given on behalf of Government. Indeed, it may be expected that the importance of its role *vis-a-vis* both the sectors will, as time goes by, be greatly enhanced. With the programme of expansion enjoined on it and the framework of functions designed for it in the statute, there cannot be the least doubt that the State Bank will not merely continue to be the foremost commercial banking institution of the country, but will grow in size, stature and significance. Another aspect may be emphasized. The State Bank's charter is based on the axiom that there does not exist in essence, and need not obtain in fact, a contradiction between sound business principles on the one hand and the public interest on the other. The device already mentioned whereby the uneconomic part of the cost of branch expansion undertaken in the public interest is debited to a special fund provided by the State is only one of many examples of how a reconciliation can in practice be effected between the two sets of considerations involved. With mutual understanding, commonness of purpose and co-ordination of action-in other words with the fullest co-operation-between the Government of India, the Reserve Bank and the State Bank, there is little doubt that such a synthesis can be achieved and that the State Bank, complementing the functions of the Reserve Bank in an essential sphere, can emerge as a powerful instrument of public policy, including that of planned development, while at the same time maintaining the highest standards of commercial banking.

Machinery for industrial finance

42. The institutional machinery for the provision of industrial finance and for facilitating industrial growth, both in the public and private sectors, briefly described in last year's Report, is becoming increasingly effective.

43. The Industrial Finance Corporation of India sanctioned loans aggregating Rs. 13.4 crores to 41 industrial concerns during the year ended March 31, 1956, as against Rs. 7.1 crores sanctioned to 23 concerns in the preceding year. State Financial Corporations were established under the State Financial Corporations Act, 1951, in two more States (Andhra and Orissa), raising their number to 13. Loans outstanding as at the end of March 1956 of the State Financial Corporations amounted to Rs. 2.76 crores. At the second conference of the representatives of the State Financial Corporations, which was convened by the Reserve Bank in November 1955, various practical problems were discussed with a view to increasing the usefulness of the Corporations and co-ordinating their activities with those of other lenders to small-scale industry such as the State Bank and other banks,

commercial and co-operative, besides the Government themselves, Central and State, through their Bureaux and Departments of Industries. Effective co-ordination, it was felt, would not only help to 'pool. resources and enlarge the volume of lending but also, from the point of the borrowing unit, eliminate the need to resort to a succession of credit institutions, short-term and long-term, for obtaining different kinds of loans. There was agreement at the conference that a few pilot schemes should be tried out in selected centres with a view to evolving a workable plan of co-ordination. It may be added that, on the initiative of the State Bank of India, which had been separately examining the question, such pilot projects have in fact been started since then. The centres selected are: Bombay, Surat and Kolhapur; Madras, Coimbatore and Vijayawada; Delhi, Agra and Ludhiana.

44. The Industrial Credit and Investment Corporation of India Ltd., a privately sponsored institution which was established in January 1955 for assisting industries in the private sector, gave considerable attention during the year to underwriting capital issues. As at the end of 1955, out of its total assets amounting to Rs. 12.77 crores, Rs. 66 lakhs was in preference and ordinary shares of industrial concerns and another Rs. 10 lakhs in secured loans to industrial concerns against mortgages. This Corporation also may be expected to render increasing assistance to the private sector of industry hereafter.

45. The National Industrial Development Corporation Private Ltd., was engaged during the year in conducting detailed investigations into various projects. Under the Second Plan, a provision of Rs. 55 crores is made for the activities of the Corporation; a part of this (tentatively placed at Rs. 20-25 crores) is to be utilised for assisting the modernisation of the cotton and jute textile industries, and the rest would be available for pioneering new basic and heavy industries.

46. The National Small Industries Corporation Private Ltd., which was set up for the purpose of financing and promoting small industries, commenced working in September 1955 and has introduced a scheme of hire purchase for machinery and equipment needed by small industries.

47. It may be mentioned here that, in pursuance of one of the recommendations of the informal conference on rural finance convened by the Reserve Bank in February 1951, the Reserve Bank of India Act was amended in May 1953, to provide finance for such cottage and small-scale industries as are approved by the Bank's Central Board of Directors. The handloom weaving industry has been approved by the Board as one eligible for

financial accommodation from the Bank under this provision, and finance is proposed to be made available rhrough State co-operative banks, at a concessional rate of 1½ per cent below the Bank Rate.

Travancore-Cochin Banking Inquiry Commission

48. To study the special problems of banks in Travancore-Cochin State, in pursuance of the recommendations of the Bank Award Commission, the Government of India appointed the Travancore-Cochin Banking Inquiry Commission ; the Commission has recently submitted its Report to Government.

Reserve Bank and co-operative credit

49. In the sphere of agricultural finance, the Reserve Bank's efforts continue to be directed to the rehabilitation and revitalisation of the machinery of co-operative credit. Reference was made in the last Report to the publication of the General Report of the Committee of Direction of the All-India Rural Credit Survey, which constituted an important landmark in this connection. The integrated scheme of rural credit recommended by the Committee, together with its special feature of State partnership, has not only found ready acceptance but is in process of speedy implementation. The formation of the State Bank, already referred to, was only one of the many steps taken. Mention was made in last year's Report of the provisions embodied in the Reserve Bank of India (Amendment) Act, 1955 for the setting up of the National Agricultural Credit (Long-term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund. The Reserve Bank constituted the former Fund on February 3, 1956, with an initial sum of Rs. 10 crores, and the latter Fund on June 30, 1956, with a contribution of Rs. 1 crore. The Bank's first annual contribution of Rs. 5 crores has also been made to the former Fund.

50. In so far as co-operative agricultural credit is concerned, the targets of the Plan are as follows as at the end of the second period of five years in terms of outstanding loans: Rs. 150 crores, short-term (as against Rs. 30 crores existing); Rs. 50 crores, medium-term (as against Rs. 10 crores existing); and Rs. 25 crores, long-term (as against less than Rs. 3 crores existing). The number of large-sized primary societies to be established during the Plan period is 10,400. It is further intended that 350 warehouses should be set up by the Central and State Warehousing Corporations. The number of primary marketing societies to be established is 1,800, and the godowns to be constructed by them 1,500. The projected outlay under the Second Plan on co-operative development is about Rs. 47 crores: in addition, a sum of about Rs 25 crores required for State partner-

ship in co-operative credit organizations at all levels is to be advanced by the Reserve Bank to State Governments from the National Agricultural Credit (Long-term Operations) Fund. The terms and conditions on which such advances are to be made from this Fund to State Governments were settled by the Bank in the light of the recommendations made at the fifth meeting of the Standing Advisory Committee on Agricultural Credit. That was in February 1956 ; and, during the few remaining months of the year under review, three States (Madras, Orissa and Andhra) were sanctioned loans amounting to Rs. 31.02 lakhs for the purpose.

51. As indicated above, the outstanding total of all types of co-operative credit is planned to be raised from a total of about Rs. 43 crores to one of Rs. 225 crores by 1960. Much of this expansion, it is hoped, will be effected by the co-operative system through an enlargement of its own deposits and other resources. But there is little doubt that the principal contribution will have to continue to come from the Reserve Bank itself. This contribution will be partly in the shape of loans to State Governments to enlarge the share capital of co-operative banks and societies. Moreover, on the strength of the increased share capital as well as of other relevant factors, such as greater efficiency through the employment of trained personnel, the State Co-operative banks and Central Co-operative banks will, it is expected, render themselves eligible for much larger loans from the Reserve Bank.

Legislation for warehousing and co-operative development

52. Important among the ancillary recommendations calculated to strengthen the structure of rural credit, while at the same time subserving other objectives, are those which have since been embodied in the Agricultural Produce (Development and Warehousing) Corporations Act, 1956, a measure which has only recently been placed on the Statute Book. The Reserve Bank of India collaborated with the Ministry of Food and Agriculture at various stages in the preparation of this piece of legislation. Provision has been made for the grant of loans and advances by the Reserve Bank to the Warehousing Corporations established under the Act, through the inclusion of a new Clause (4 C) in Section 17 of the Reserve Bank of India Act. The loans and advances are of two types:

"(a) repayable on demand or on the expiry of fixed periods not exceeding ninety days, from the date of such loan or advance, against securities of the Central Government or of any State Government, or

(b) repayable on the expiry of fixed periods not exceeding eighteen months from the date of such loan or advance, against securities of the Central Government or of any State Government, of any maturity, or against bonds and debentures issued by the Corporation to which the loan or advance is made, and guaranteed by the Central or a State Government, and maturing within a period not exceeding eighteen months from the date of such loan or advance:

Provided that the amount of loans and advances granted under clause (b) shall not at any time exceed, in the aggregate, three crores of rupees in the case of the Central Warehousing Corporation and fifty lakhs of rupees in the case of a State Warehousing Corporation".

Conference on problems concerning apex co-operative institutions re-organisation

53. An important recommendation of the Standing Advisory Committee on Agricultural Credit was to the effect that, in the context of the re-organisation of States, the Agricultural Credit Department of the Reserve Bank should study in advance the problems that would be set to the co-operative institutions, such as apex banks, of the States concerned, and help to solve the technical, financial, administrative and other problems of which in due course would confront these institutions. The relevant aspects were accordingly studied in detail by the Agricultural Credit Department and an informal conference of the representatives of the appropriate Governments and institutions was convened in May 1956. The Conference formulated a series of principles of re-organisation on an agreed basis and set up four ud-hoc committees for different regions in order to work out detailed schemes of re-organisation, including division and amalgamation, for the State co-operative banks, central land mortgage banks etc. of the areas affected. The Committees are actively pursuing this work on the lines chalked out at the Conference.

Financial accommodation to co-operative banks

54. During the year there was an increase in the scale of assistance provided by the Reserve Bank to State co-operative banks for financing seasonal agricultural operations and marketing of crops, at the concessional rate of two per cent below the Bank Rate. Thus, 19 State co-operative banks were sanctioned limits aggregating Rs. 29.64 crores in 1955-56, as compared with Rs. 21.21 crores sanctioned to 1.5 banks in 1954-55. Some of the State co-operative banks such as those in Bihar, Coorg, and Madhya Bharat were granted credit limits for the first time,

while certain others were sanctioned higher limits than in the past. Liberalisation of the criteria for fixing credit limits recommended by the Standing Advisory Committee also resulted in sanctioning higher credit limits to some banks, although its full impact on the volume of advances from the Bank will become evident only hereafter. The outstandings of Reserve Bank credit to State co-operative banks at the end of the year stood at Rs. 12.98 crores as against Rs. 8.11 crores at the end of last year.

55. It will be recalled that the Reserve Bank of India was enabled to provide medium-term accommodation to State co-operative banks for agricultural purposes under a new Sub-section (4A) added to Section 17 of the Reserve Bank of India Act in 1953. According to this Sub-section medium-term loans could be provided upto an aggregate maximum limit of Rs. 5 crores. This restriction has since been removed by a further amendment in 1955 which provides for the grant of medium-term loans out of the National Agricultural Credit (Long-term Operations) Fund. In all, 10 State co-operative banks were sanctioned medium-term loans amounting to Rs. 1.40 crores during the period under review; nine of these banks were sanctioned medium-term credit limits for the first time. The fifth meeting of the Standing Advisory Committee held in January 1956 recommended that, of the total of the medium-term loans sanctioned by the Reserve Bank of India, not more than one quarter might be for a period of five years, while the balance could be for three years. The Reserve Bank has accepted this recommendation and has given effect to it in the case of medium-term credit limits fixed for the Andhra, Madras and Madhya Pradesh State Co-operative Banks.

Inspection of co-operative banks

56. The system of inspection of co-operative banks by the Agricultural Credit Department of the Bank on a voluntary basis was continued during the year under review; 44 co-operative banks were inspected during 1955-56, of which 34 were central banks and 10 were apex banks. With the exception of the Madhya Bharat State Co-operative Bank, the first round of inspection of all apex banks which have been sanctioned credit limits by the Reserve Bank was completed during the current year.

Co-operative training and education

57. Considerable progress was achieved in implementing the programme for co-operative training drawn up by the Central Committee for Co-operative Training constituted jointly by the Reserve Bank of India and the Government of India. The training of higher co-operative officials of State Governments and of Co-operative institutions was continued at

the Co-operative Training College, Poona. About 40 senior officers are trained there every six months. For the intermediate personnel, the full complement of 5 centres has been reached with the commencement of two more centres during the year, one at Indore for the Central Zone and the other at Meerut for the Northern Zone, the other three centres being Poona, Madras and Ranchi. These five centres train about 225 co-operative officers of the intermediate level every year. The schemes relating to the training of senior officers and intermediate personnel are financed by the Reserve Bank. Eight training centres were organised for training the co-operative officers required for the National Extension Service Blocks. This was done in pursuance of a decision reached at the second meeting of the Central Committee. All the eight centres are now in session. The cost is met by the Government of India. The scheme for training the subordinate personnel of the Co-operative Departments and co-operative institutions in the various States, to which a reference was made in the previous Report, was put into effect in 18 States; the cost of this scheme is shared by the Government of India and the State Governments on the recommendation of the Central Committee.

58. In order to meet the needs of the various States for certain specialised types of trained personnel in the context of programmes included in the Second Five Year Plan, the Committee felt that short-term courses in subjects like land mortgage banking, co-operative marketing, industrial co-operation, and warehousing should be organised. Accordingly, *ad-hoc* courses on co-operative marketing were organised at two of the Regional Training Centres, viz., Poona and Meerut, as an experimental measure. A special course in land mortgage banking commenced at the Madras Regional Training Centre on June 1, 1956.

Supervision of Commercial Banks

59. Besides the various steps taken to extend banking facilities, the Reserve Bank continued its efforts in the direction of strengthening the banking system through the enforcement of the provisions of the Banking Companies Act, 1949 and in other ways calculated to impart stability to the system.

Licensing of banks

60. During the year under review, eleven banks were granted licences to carry on banking business in India under Section 22 of the Banking Companies Act, thus bringing the total number of banks which hold licences to 47. Several of these banks have been able to qualify for a licence on account of the improve-

ment in their working as a result of the supervision exercised by the Reserve Bank through inspections, etc. There are, in addition, the State Bank of India and three other State-associated banks to which the provisions of Section 22 are not applicable. The deposits of the 47 banks which have been licensed so far and of the four banks referred to above which do not require a licence, account for over 90 per cent of the total deposits of all scheduled and non-scheduled banks in Jndia. As at rhe end of the year, the total number of functioning banks whose applications for a licence were pending with the Reserve Bank stood at 429, the deposits of which, as already indicated, represented only about 10 per cent of the total deposits of all banks. Of these, as many as 402 are submitting periodical progress reports to the Reserve Bank and the delay in granting or refusing licences to these banks has been principally due to the Reserve Bank's desire to safeguard the interests of the depositors and to give as many banks as possible a fair chance to qualify for a licence.

Inspection

61. In July 1949 the Bank decided upon a policy of systematic periodical inspection of banking companies, and regular inspections were commenced in March 1950. The purpose of inspections is to assist in raising the standard of working of individual hanks, to remove the defects in the management and generally to tone up the banking system. The first round of inspections of practically all the reporting banks has been completed and the periodical re-inspection of banks has also been taken up. All banking companies whose books and records were available for inspection, numbering 455, have been inspected at least once; of these, 298 banks (68 scheduled and 230 non-scheduled) have been inspected more than once. During the year, 30 scheduled banks and 165 non-scheduled banks were inspected. Of these, 16 hanks were inspected for the first time for ascertaining their eligibility for a licence to carry on banking business and 175 banks were re-inspected. Besides, the inspection of three State-owned/controlled banks (not coming within the purview of the Banking Companies Act) was carried our with a view to deciding their future set-up.

62. The inspectionof banks has enabled the Reserve Bank to draw the attention of banks, particularly those which have not yet been granted a licence, to the irregularities and defects observed in their working. Periodical progress reports are obtained from banks whose inspections reveal undesirable features. Where the inspections indicate the need for stricter control over the affairs of the banks concerned, suitable conditions are imposed, such as appointment of Banking Advisers, restriction on un-

secured advances, gradual reduction in the level of advances, etc. Although in some cases progress has been relatively slow, the banks have generally taken effective and expeditious steps to rectify the defects in their operations. They have come to realise that the inspections help to promote their own stability and the interests of their depositors and have, therefore, offered an increasing measure of co-operation.

Exemptions

63. With a view to mitigating the difficulties experienced by banks, several exemptions from statutory obligations continued to be granted either generally to all banks or to groups of banks or to individual banks. These exemptions related inter *alia* to provisions governing minimum capital requirements (Section 11) and maintenance of a certain percentage of liquid assets (Section 24).

Remittance facilities

64. As a first step towards implementing the recommendation of the Shroff Committee, it was proposed to our agent banks, viz., the State Bank of India, the Hyderabad State Bank and the Bank of Mysore Ltd., that facilities for free transfer of funds under Regulation 8(l)(b) of the Reserve Bank of India Scheduled Banks' Regulations should be provided twice a week instead of once a week and that similar facilities should also be made available to State co-operative banks. The three banks agreed to the proposal, and pending an amendment of Regulation 8(l)(b), all scheduled banks were advised that it was open to them to avail themselves of the facilities under that regulation twice a week instead of once a week with effect from the 1st November 1955. In the meantime the Central Government were requested to give their sanction to amend the regulation in terms of Section 58 of the Reserve Bank of India Act. After the receipt of Government's sanction, the Central Board of the Bank, at their meeting held on the 19th December 1955, amended the regulation accordingly. Pour non-scheduled banks were included during the year in the approved list for the purposes of remittance facilities, while' one non-scheduled bank was excluded.

65. During the period under review, 23 banks-9 in Travancore-Cochin, 6 in Bombay, 2 in U.P. and one each in Punjab(I), Saurashtra, Hyderabad, Madras, Mysore and West Bengal-went into liquidation. Of these, 10 were ordered to be wound up by the Courts and the rest were wound up voluntarily.

66. During the year under review, two banks applied for inclusion in the Second Schedule to the Reserve Bank of India Act; **these** applications, as also four earlier ones, are under considera-

tion. No bank was excluded from the Second Schedule during the year, nor was any bank inspected during the year specifically for determining its eligibility to be retained in the Schedule 34 new offices were opened during the year at places which were not formerly served by commercial banks, raising the total number of offices of scheduled banks in the Indian Union to 2,909 as at the end of the year.

67. Reference was made in last year's Report to the inauguration of the Bankers Training College in September 1954 to impart training in practical banking to the supervisory staff of commercial banks in the country. The College since its inception has completed nine courses of training, each of eight weeks duration, and has so far trained 210 bank officials drawn from different parts of the country. Encouraged by the response which the College has evoked from banks, the Advisory Council of the College has recommended that the College should be placed on a permanent basis; the matter is under the consideration of the Bank.

Accounts and Other Matters

Annual accounts

68. During the year under review, the Bank's income, after making statutory and other appropriations, amounted to Rs. 25.45 crores and expenditure, which includes the expenses of administration and provision for sundry liabilities and contingencies, to Rs. 5.45 crores. The net profit available for payment to the Central Government in terms of Section 47 of the Reserve Bank of India Act was Rs. 20.00 crores-the same as in the preceding year.

69. Out of the Bank's income this year, asumof Rs. 15 crores was transferred to the National Agricultural Credit (Long-term Operations) Fund and Rs. 1 crore to the National Agricultural Credit (Stabilisation) Fund in terms of Sections 46A and 46B of the Reserve Bank of India Act, 1934 (II of 1934). It was possible to make these contributions and also maintain the surplus profit payable to Government at the same figure as last year due to a substantial increase in earnings under the head "Discount". The increase is accounted for partly by the higher rate of discount earned on Sterling Treasury bills and partly by the discount earned on ad hoc Treasury bills created during the year for replenishing Central Government's cash balances with the Reserve Bank.

70. Expenditure also rose during the year by Rs. 43.48 lakhs, mainly under 'Establishment' and 'Agency Charges'. The

increase under 'Establishment' (Rs. 15.91 lakhs) was due, among other things, to the expansion of the Agricultural Credit Department and the Department of Banking Development in connection with the implementation of the recommendations of the Committee of Direction of the All-India Rural Credit Survey. The increase in expenditure under 'Agency Charges' (Rs. 15.59 lakhs) was mainly due to payment of higher commission to the State Bank of India on account of increased Government turnover at its branches especially at the new branches opened after June 30, 1951, in respect of which commission is payable at the enhanced rate of 1/16 of 1 per cent. It is also partly due to enlarged transactions under the Remittance Facilities Scheme.

Auditors

71. 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 I/55 dated October 8, 1955 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

Compensation to shareholders

72. As at the end of June 1956, the total number of shares of the Reserve Bank of India tendered for payment of compensation, consequent on the nationalisation of the Bank on January 1, 1949, was 4,87,458, of which 935 shares were tendered during the year under review. The total compensation paid upto the end of June 1956 in the form of the 3 per cent First Development Loan, 1970-75 amounted to Rs. 5.41 crores and in the form of cash to Rs. 35.35 lakhs.

Composition of Central Board

73. Shri B. Venkatappiah, whose appointment as Deputy Governor was notified by the Union Government on June 10, 1955 assumed charge as the third Deputy Governor of the Bank on July 1, 1955.

74. Shri Ram Nath, whose term of office as Deputy Governor was due to expire on July 8, 1956, has been reappointed by the Union Government as Deputy Governor for a further period of three years, with effect from July 9, 1956.

75. Sarvashri J. R. D. Tata and B. D. V. Ramasawmy Naidu retired as Directors of the Central Roard of the Bank on January 14, 1956 consequent on the expiry of their term of office. The vacancies were filled by the Union Government by the renomina-

tion of Shri J. R. D. Tata and the nomination of Shri Bikkani Venkataratnam as Directors in terms of Section 8(l)(c) of the Reserve Bank of India Act.

76. The Union Government nominated Shri H. M. Patel, I.C.S., to be a Director of the Central Board under Section 8(l)(d) of the Act in place of Shri D. L. Mazumdar, I.C.S., with effect from July 1, 1955.

Local Board

77. The Central Board regret to record the death of Shri J. K. Mitter and Shri Peary Mukherjee, Members of the Eastern Area Local Board, on September 16, 1955 and April 13, 1956, respectively. In December 1955, the Central Board nominated Shri D. N. Mitra to be a Member of the Eastern Area Local Board in place of the late Shri J. K. Mitter.

Meetings of the Central Board and its Committee

78. Seven meetings of the Central Board were held during the year, of which four were in Bombay and one each in Madras, Calcutta and New Delhi. The Committee of the Central Board held fifty-one meetings, of which two were in Calcutta, one in Madras and the rest in Bombay.

Opening and closing of offices or **branches of the Reserve Bank** of India

79. During the year, a sub-office of the Issue Department, Bombay, was opened at Hyderabad (Deccan) on March 5, 1956. The Note Cancellation Section at Allahabad was closed from November 1, 1955.

Bank's premises

80. The construction of residential quarters at Nagpur to accommodate 120 families of the supervising and clerical staff of the Bank was commenced during the year and is expected to be completed towards the close of 1957. The Bank's new office buildings at Delhi and Nagpur, it is expected, will be completed shortly.

By Order of the
Central Board of Directors,

B. RAMA RAU,

Governor.

RESERVE BANK OF INDIA

Balance Sheet as at June 30, 1956

ISSUE DEPARTMENT

LIABILITIES

	Rs.	a.	p.	Rs.	a.	p.
Notes held in the Banking Department	28,26,57,173	8	0			
Notes in circulation	1474,67,17,347	8	0			
Total Notes Issued				1502,93,74,521	0	0
Total Liabilities Rs.				1502,93,74,521	0	

ASSETS

	Rs.	a.	p.	Rs.	a.	p.
Gold Coin and Bullion:-						
(a) Held in India ...	40,01,70,843	9	5			
(b) Held outside India	Nil.					
Foreign Securities	646,55,03,760	10	7			
Total of A ...				686,56,74,604	4	0
B. Rupee Coin ...				107,68,61,604	6	4
Government of India Rupee Securities ..				708,68,38,312	5	8
Internal Bills of Exchange and other Commercial paper ...				Nil.		
Total Assets Rs.				1502,93,74,521	0	0

Ratio of Total of A to Liabilities: 45.682 per cent.

BANKING DEPARTMENT

LIABILITIES

	Rs.	a.	p.
Capital paid-up	5,00,00,000	0	0
Reserve Fund	5,00,00,000	0	0
National Agricultural Credit (Long-term Operations) Fund	15,00,00,000	0	0
National Agricultural Credit (Stabilisation) Fund	1,00,00,000	0	0
Deposits :-			
(a) Government—			
(1) Central Government	56,82,18,433	11	11
(2) Other Governments	13,17,17,768	10	2
(b) Banks	54,49,18,899	15	9
(c) Others	13,07,80,926	15	5
Bills Payable	5,31,81,083	1	9
Other Liabilities	23,80,75,671	0	5
Total Liabilities Rs. ..	192,68,92,783	7	5

ASSETS

	Rs.	a.	p.
Notes	28,26,57,173	8	0
Rupee Coin	6,15,518	0	0
Subsidiary Coin	4,46,209	0	5
Bills Purchased and Discounted:-			
(a) Internal	2,00,000	0	0
(b) External	*Nil*		
(c) Government Treasury Bills ...	8,33,52,586	10	5
Balances held abroad*	38,52,13,234	11	3
Loans and Advances to Governments	2,36,75,000	0	0
Other Loans and Advances	69,68,41,629	2	11
Investments	37,32,62,725	14	0
Other Assets	8,06,28,706	8	5
Total Assets Rs. ...	192,68,92,783	7	5

* Includes Cash and Short-term Securities.

B. RAMA RAU,
Governor.

C. S. DIVEKAR,
Chief Accountant.

K. G. AMBEGAOKAR,
Deputy *Governor.*

Dated July 16, 1956.

RAM NATH,
Deputy Cjwemor.

B. VENKATAPPIAH,
Deputy Governor.

RESERVE BANK OF INDIA

PROFIT AND LOSS ACCOUNT

	FOR THE YEAR ENDED								
	June 30, 1956			June 30, 1955			June 30, 1954		
	Rs.	a.	p.	Rs.	a.	p.	KS.	a.	p.
INCOME									
Interest, Discount, Exchange, Commission, etc. ..	25,44,50,866	6	6	25,01,05,550	5	6	21,93,92,640	4	7
EXPENDITURE									
Establishment	2,98,18,723	13	9	2,82,28,344	14	10	2,48,76,647	5	5
Directors' and Local Board Members' fees and expenses	69,461	6	0	79,912	3	0	60,271	14	0
Auditors' fees	22,500	0	0	22,500	0	0	22,500	0	0
Rent, Taxes, Insurance, Lighting, etc.	14,06,127	2	3	13,30,550	7	7	11,26,954	9	0
Law charges	67,553	9	0	77,059	2	0	77,987	2	9
Postage and Telegraph charges	2,18,853	3	8	1,95,800	5	3	1,88,450	3	2
Remittance of Treasure	19,45,007	8	0	15,30,897	13	4	13,99,728	12	5
Stationery, etc.	5,98,961	9	2	6,15,481	5	10	5,78,775	14	3
Security Printing—(Cheque, Note Forms, etc.) ..	1,10,33,945	0	2	1,06,68,117	5	6	90,58,879	14	2
Depreciation and Repairs to Bank property ..	15,64,874	13	6	15,30,400	0	1	13,67,557	7	10
Agency charges	62,41,250	2	0	46,81,695	13	8	45,37,574	7	3
Contributions to staff and superannuation funds ..	45,000	0	0	55,000	0	0	52,000	0	0
Miscellaneous expenses	14,10,688	14	5	10,78,816	13	9	9,99,507	5	9
Net available balance ..	20,00,07,919	4	7	20,00,10,974	0	8	17,50,45,805	4	7
Total Rs. ..	25,44,50,866	6	6	25,01,05,550	5	6	21,93,92,640	4	7

PROFIT AND LOSS ACCOUNT-continued.

	FOR THE YEAR ENDED								
	June 30, 1956			June 30, 1955			June 30, 1954		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Surplus payable to the Central Government ...	20,00,07,919	4	7	20,00,10,974	0	8	17,50,45,805	4	7
Balance carried forward . .	Nil			Nil			Nil		
Total Rs. ...	20,00,07,919	4	7	20,00,10,974	0	8	17,50,45,805	4	7

RESERVE FUND ACCOUNT

	Rs.	a.	p.
By balance on June 30, 1956	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 Cjowemor

RAM NATH,
Deputy *Governor*

B. VENKATAPPIAH,
Deputy Governor

Dated July 16, 1956.

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, 1956.

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., } **Auditors.**
SASTRI & SHAH.

Dated July 16, 1956.