RESERVE BANK OF INDIA

Report of the Central Board of Directors

for the year ended June 30, 1957

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

AUGUST 1957

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REPORT

OF THE

CENTRAL BOARD OF DIRECTORS

FOR THE YEAR ENDED JUNE 30, 1957

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IN TERMS OF SECTION 53 (2) OF THE
RESERVE BANK OF INDIA ACT

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August 1957

CENTRAL. BOARD OF DIRECTORS

(As on June 30, 195[illegible]) 8

Governor	Shri H. V. R. Iengar
Deputy Governors	Shri K. G. Ambegaokar
	Shri Ram Nath
	Shri B. Vcnkatappiah
Directors, Nominated under Section 8(l)(b) *of the Reserve Bank of India Act.*	Shri Kasturbhai Lalbhai
	Shri B. M. Birla
	Shri Shri Ram
	Shri C. R. Srinivasan
Directors, Nominated under Section 8(l)(c)	~~Shri Manilal B. Nanavati~~
	Shri J. R. D. Tata
	Prof. D. R. Gadgil
	Shri K.C. Mahindra
	Shri D. N. Mitra
	Prof. Gorakhnath Sinha
	~~Shri Bikkani Venkataratnam~~
Director, Nominated under Section 8(1)(*d*)	Shri ~~H. M. Patel~~ B.K. Nehru I.C.S., Joint ~~Principal~~ Secretary to the Government of India, Ministry of Finance.

18

MEMBERS OF LOCAL BOARDS

(As on June 30, 1951) -18

WESTERN AREA

Shri Kasturbhai Lalbhai

Shri Mathuradas Mangaldas Parekh

Shri D. V. Potdar

Shri Mohan Lal Tannan

~~Shri K. G. Mahindra~~

EASTERN AREA

Shri B. M. Birla

Dr. Bimala Churn Law

Mr. 0. T. Jenkins

Shri D. N. Mitra

Shri B. P. Singh Roy

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 K. Ramunni Menon

Shri V. Emberumanar Chetty

Shri P. Suryanarayana

Shri S. Ananthamakrishnan

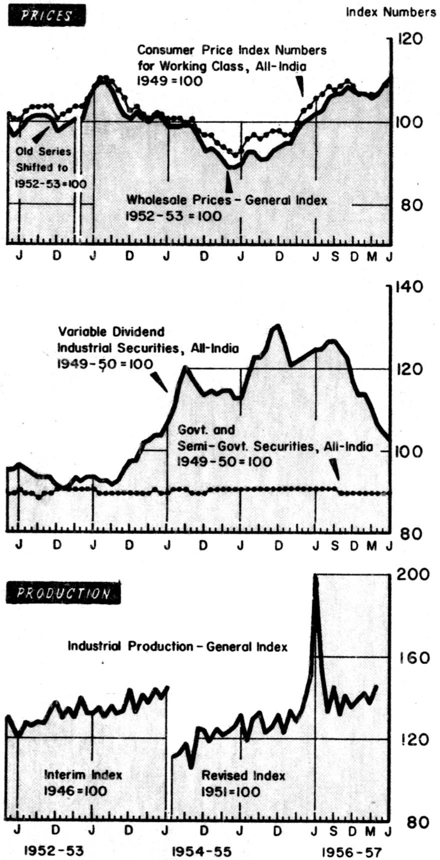
BRANCHES OF THE ISSUE DEPARTMENT

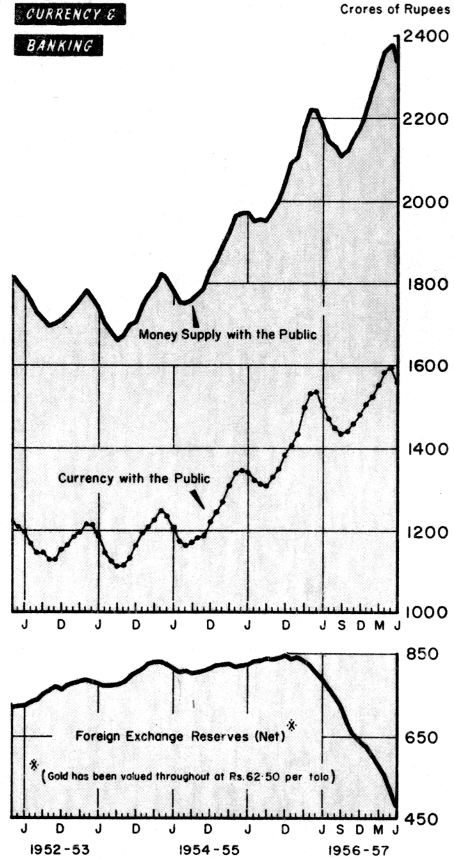
Bangalore	Bombay
Calcutta	Kanpur
Nagpur	New Delhi
Madras	

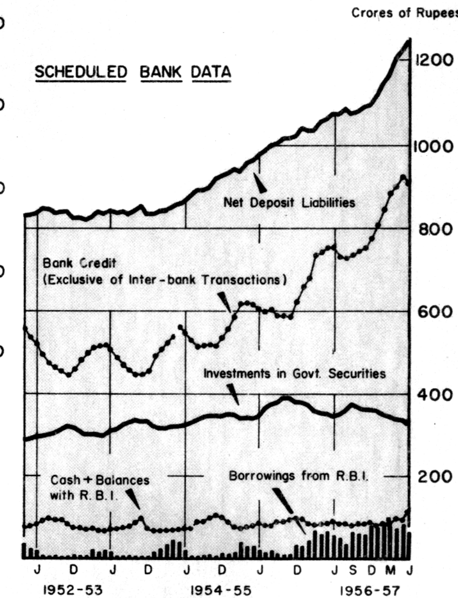
OFFICES AND BRANCHES OF THE BANKING DEPARTMENT

Bangalore	Bombay
Calcutta	Kanpur
Madras	Nagpur
New Delhi	London

SELECTED ECONOMIC INDICATORS







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

For the year July I, 1956-June 30, 1957

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 year ended June 30, 1957.

Developments On the Economy

General

2. During the year under review, the Indian economy exhibited signs of the growing strain imposed by a high rate of investment which was partly deficit financed. Evidence of this strain was reflected in the continued rise of commodity prices and costs of living, in monetary stringency and a rapid decline in foreign exchange reserves. The rise in prices and financial stringency had characterised the economy last year too, but the balance of payments deficit, which has latterly assumed serious proportions, made its appearance only in April 1956, Agricultural production rose during the year and industrial production also maintained its uptrend, but the increase in output fell short of the growth of demand initiated largely by the continued rise in Government expenditure, mainly on development. A wide range of corrective measures which included additional taxation, a restrictive import policy except as regards foodgrains and general as well as selective credit controls was adopted by Government and the Reserve Bank, to deal with the situation.

Trends in Production

3. Agricultural production in 1955-56 was slightly lower than that in the previous year, due mainly to a fall of 1.6 million tons in the output of foodgrains viz. from 66.6 million tons in 1954-55 to 65 .O million tons. In 1956-57 output of food *grains* is estimated to have been 3.6 millon tons higher than in 1955-56 ; total agricultural pro-

duction during the year is also placed about 6 per cent higher than in 1955-56.

4. The original targets of agricultural production in the Second Plan were raised during the year to provide for the larger estimated increase in demand in consequence of rising incomes, besides making possible a surplus for exports. The revised targets postulate an increase of about 28 per cent in agricultural production as a whole and of about 25 per cent in the case of foodgrains by the end of the Second Five Year Plan. In the light of the rise in food grain prices that has occurred in the last two years, the achievement of these targets appears to be a paramount necessity for the general success of the Plan.

5. The rising trend of industrial production was well maintained during 1956. The average index of industrial production (revised), with 1951 as base year, rose from 122.1 in 1955 to 133.0 in 1956, representing a rise of about 9 per cent. The average of the index for January-April 1957, at 141.9, was also about 9 per cent higher than the average for the same period of 1956. The general indications are that the overall level of industrial output would maintain the rising trend shown so far.

6. National income in 1955-56, the latest year for which preliminary estimates are available, recorded a very small rise, from Rs. 10,280 crores (in terms of 1948-49 prices) in 1954-55 to Rs. 10,420 crores in 1955-56 or 1.4 per cent only. National income in 1956-57 should record a much larger rise than in 1955-56 owing to the rise in agricultural output and the continued rise in industrial output.

Rising Prices

7. The price situation has continued to cause concern. The general index of wholesale prices (base: 1952-53=100) rose further by 8.3 per cent between June 1956 and June 1957, on top of a rise of 13.8 per cent in 1955-56. The *average* index for 1956-57 was higher than in 1955-56 by 12 per cent.

8. The rise in prices was shared by all the major groups but was particularly marked in 'food articles' (10.4 per cent) and 'industrial raw materials' (7.4 per cent); among other groups, prices of 'manufactures' rose by 5 per cent during the year under review. The rise in prices during the year has been only somewhat smaller than in the previous year. The continued

price uptrend is attributable to the rising impact on demand of the incomes generated by the heavy investment under the Plan and the relative shortfall in agricultural production, particularly of coarse grains, in 1955-56. The situation was partly aggravated by an increased tendency to hold food grains partly with the help of bank credit and also made possible by the improved position of producers as a result of the continuous uptrend in prices since mid-June 1955. The probable pressure of demand for food grains across the borders of India may also have contributed to the rise in prices.

9. The short-term measures which Government took to curb the rise in prices included arrangements for imports of wheat and rice, in particular through agreement with the U. S. Government under Public Law 480 and opening of a net-work of fair price shops for distribution of food grains. The Essential Commodities Act which was amended towards the close of the year, empowers Government to requisition food grain stocks at the average market price of the preceding three months. The Act has been made applicable to 12 States and 3 Union Territories in respect of purchase of rice and paddy. Three wheat zones in the north and a rice zone in the south have been formed and restrictions have been imposed on movements of these cereals into and from the zones. This measure should help to alleviate the problem of local shortages. Credit restriction measures were also employed by the Reserve Bank to deal with the situation. The only long-term solution to the problem, however, is increase in output accompanied by appropriate fiscal and monetary policies.

10. The rise in the All-India working class consumer price index number during the year was relatively small as compared to the rise in commodity prices of over 8 per cent during the year; the index (with 1949 as base year) rose from 106 in June 1956 to 110 in November but declined again to 107 in January 1957 and remained unchanged in the next three months ; it rose to 109 in May. The All-India *annual* average for the financial year 1956-57, however, was 11 per cent higher than in 1955-56. In recent months there have been rather widespread wage claims and there are signs of industrial unrest. It is of the utmost importance that the cost of living and with it the cost of production should be held and a spiralling movement in prices avoided. This calls for restraint and discipline in all sectors of the economy and on the part of all sections of the community.

11. The expansionary forces in the economy were operative in the monetary and banking spheres. As in the preceding year, there was a substantial increase in money supply with the public, though the magnitude of increase was smaller, being Rs. 153 crores, or 7 .O per cent, as compared to Rs. 212 crores, or 10.7 per cent in 1955-56. The large deficit in the balance of payments considerably neutralised the expansionist effect of a larger volume of deficit financing by Government and of bank credit. It is interesting that the share of currency in the money supply expansion during 1956-57 was much smaller relatively to the preceding year, having fallen from 75.8 to 38.9 per cent. As regards the seasonal pattern, money supply in the slack season (May-October 1956) recorded a contraction of Rs. 105 crores, largely due to the balance of payments deficit. In the busy season (November 1956-April 1957), money supply expanded by almost as much as in the 1955-56 busy season-Rs. 244 crores as compared to Rs. 250 crores.

Money Supply and Bank Credit

12. The broadening of demand for bank credit to cater to the needs of development generally was reflected in the expansion of scheduled bank credit, excluding inter-bank transactions, by Rs. 164 erores over the year (July 1956-June 1957) as compared to Rs. 142 crores in the preceding year. The substantial rise in imports was undoubtedly an important factor in the sharp rise in bank credit. Even during the slack season (May-October 1956) bank credit recorded a small net rise. The rise in the deposit resources of the scheduled banks at Rs. 178 crores was, however, much larger than in 1955-56 (Rs. 101 crores), the increase being largely connected with the import of U. S. surplus agricultural commodities under Public Law 480. Though, unlike in 1955-56, the expansion of deposits was as large as the rise in bank credit, in view of the already over-extended position of banks at the beginning of the year, the pressure on the liquidity of banks and monetary stringency in general were intensified. Money rates were generally higher than in 1955-56. The call money rate in Bombay, for' instance, fluctuated within a very narrow range of 3—3¾ per cent as compared to 1¼—3½ per cent in the preceding year. Till March, the gap in liquid resources of scheduled banks was filled, as in the past, mainly by borrowing from the Reserve Bank, the outstandings of which touched a peak of Rs. 103 crores at the end of that month. The average of the outstanding borrowings for the year at Rs. 68 crores was more than twice the figure for 1955-56; during the slack season too

borrowing remained high. In addition, the scheduled banks reduced their gilt-edged portfolio during the year (July 1956 to June 1957) by Rs. 15 crores ; cash resources on the other hand recorded a rise of Rs. 28 crores, the cash ratio going up by 1 point to 9.7 per cent.

Finances of Government

13. The rising tempo of outlay under the Second Plan, which in 1956-57 is estimated to have been Rs. 761 crores as compared to a little over Rs.600 crores in 1955-56, is reflected in the increasing overall budgetary deficits of the Central and State Governments. The 1956-57 deficit of the Centre and States together at about Rs. 250 crores would appear to have been about Rs. 100 crores higher than in 1955-56. The deficit for 1957-58 of the Central Government alone is estimated at Rs. 280 crores after taking into account the receipts from the new tax proposals. The States have also budgeted for deficits of Rs. 86 crores on revenue account. The overall budget deficit in 1957-58 would thus be significantly larger than in 1956-57, this being a consequence of the rise in Plan outlay from Rs. 761 crores to over Rs. 900 crores.

14. Government borrowings from the market during 1956-57 were noteworthy for the re-orientation of borrowing technique by the Centre and the entry of as many as 15 States in the market, three of the States issuing loans for the first time. As mentioned in the last Report, the Central Government issued, during the year under review, three loans of differing terms and maturities for an aggregate amount of Rs. 150 crores against which the 3 per cent Victory Loan 1957 was offered for conversion. Against the total of Rs. 150 crores fixed for the three loans together, the total amount subscribed amounted to Rs. 157.7 crores of which cash subscriptions accounted for Rs. 77.2 crores. Fifteen States issued 12-year (14 in the case of Bombay) loans at 4 per cent, for a total of Rs. 64 crores, the issue prices ranging from Rs. 99.25 to Rs. 100. The loans were over-subscribed by Rs. 10 crores.

15. The total net borrowing of the Centre and States, exclusive of conversions and cash payments of maturing loans, amounted to Rs. 141 crores during 1956-57, as compared to Rs. 82 crores in 1955-56. It should, however, be noted that the actual absorption of Government securities in 1956-57 by the public, excluding the Reserve Bank, was much smaller than what

the above figures indicate, particularly if account is taken of the purchases which the Reserve Bank and the State Governments had to make following the selling pressure which developed during the 'year. The budget estimates of the Central Government for 1957-58 place net receipts at Rs. 68 crores. The attainment of the target of Rs. 700 crores for public loans in the Second Plan period would, in this context, require a great effort on the part of all concerned.

16. Net receipts from small savings, which will have a significant role to play in maximising the contributions of non-institutional investors to the resources for the Plan, recorded a slight decline of about Rs. 5 crores as compared to the actual collections 'of Rs. 67 crores in 1955-56. The target for small savings under the Second Plan, at Rs. '500 crores, is substantially *higher than in the First Plan. New arrangements have been made, 'in the light of the discussions which the Union Finance Minister and the Governor of the Reserve Bank had. with the State Finance Ministers, to increase the share of the State Governments in the collection of small savings in lieu of market borrowing by the States. The enhancement of rates of interest, effective from June 1, 1957, on small savings, by $\frac{1}{2}$-$\frac{3}{4}$ per cent, is, part of the concerted programme to step up net receipts from this source. The 12-Year National Plan Savings Certificates, for instance, 'carry a tax-free yield of 4.25 per cent compound interest as compared to 3.44 per cent on previous 12-year certificates. Equally important, for the success of the small savings schemes, is the streamlining of the organisational as well as the publicity arrangements. The Central Government is giving urgent attention to this aspect of the matter as well, and the co-operation of the State Governments is being enlisted, especially since they have now an important stake in small savings. With the wider diffusion of incomes in 'the community, attainment of the higher savings target should be feasible, provided the States as well as the Central Government organise a vigorous savings drive.

Capital **Markets**

17. The Indian capital market felt the impact of the increase in'the rate of investment in the private sector and the various taxation and credit measures taken by Government and the Bank. Like the money market, the capital market too was characterised by stringency under the pressure of demand for funds, despite a significant increase in the supply. From the analysis of data regarding

over 700 joint-stock companies for 1955-56—which is the most recent data available-and the increase in imports and in bank credit, it is clear that the rate of investment has been rising. Thus, net fixed assets formation in respect of the above companies rose from 10.1 per cent in 1954-55 to 14.3 per cent in 1955-56. It is likely to have been higher still in 1956-57.

18. Strain was particularly noticeable in the share market. The more or less continuous uptrend in share prices noticed since September 1953 was reversed during the year under review with share prices recording a decline of 18 per cent as against a net rise of 10 per cent last year. The Reserve Bank's index of variable dividend securities (*base* year 1949-50), after moving up from 125.1 in June 1956 to 127.4 in August dropped subsequently to 101.3 on June 15, 1957, after which there was a smallrecovery to 103.8 by the end of the year. The fall in share prices reflectsin the main the adjustment of share prices to a higher yield basis in the context of prevailing financial stringency and the rise in money rates as well as the impact of disinflationary measures on the monetary and fiscal front. The downtrend which commenced since the end of August 1956, following the raising of the excise duty on cloth, was accelerated by the tax proposals successively presented in the budgets of November 1956 and May 1957. Recently, however, the post-budget declines were made good partly on account of the assurances of the Finance Minister that Government had no desire to restrict private enterprise. The support extended to selected equities by the Life Insurance Corporation also aided recovery towards the close of the year.

19. The gilt-edged market showed some weakness during the year under review, in contrast to its buoyancy in the preceding two years. The Reserve Bank of India index for Government of India securities recorded a decline for the year from 91.1 to 89.2. The larger volume of borrowings by the Centre and the States and the prevailing monetary stringency were mainly responsible for the weak tone of the gilt-edged market, particularly the State loans issued in September 1956. The latter came in for considerable selling pressure from weak holders. At the end of November 1956 all the new State loans were quoting below their issue prices and the 3 per cent Conversion Loan dropped to Rs. 73 on November 30. At this stage, the Reserve Bank started extending support to the market ; the State Governments were also requested to support their issues. The official support coupled with selective buying by non-bank

institutional investors imparted a measure of steadiness during January and February which was well maintained till about the middle of May. The effect of the rise in Bank rate to 4 per cent effective May 16 on the gilt-edged market was, by and large, small mainly as a result of the support accorded by the Reserve Bank. After the announcement of the rise in the Bank rate, the medium and long-dated issues came in for some selling pressure, but the losses were subsequently made good. During June, barring the short-dated loans which were steady, most of the other issues showed slight declines. In the result, there has been a firming up of gilt-edged yields, of the order of 0.25 per cent.

20. Activity in the new issue market, however, appeared to have gathered further momentum during the year under review. According to available data, the volume of the relatively big new issues recorded a significant increase from about Rs. 25 crores in the previous year to about Rs. 40 crores, with ordinary shares accounting for about four-fifths. The sanctions under the Capital Issues Control were also appreciably higher than in the preceding year. It is not improbable that the various tax measures and import cuts may slow down the activity in the new issue market, but this may not be unwelcome for the present in view of the strains on the economy.

Balance of Payments

21. The high and continuing deficit in the balance of payments has been the most conspicuous feature of the economy during the year under review. Sterling assets of the Bank declined over the year by Rs. 227 crores to Rs. 457 crores. In addition, the country obtained a credit of Rs. 95 crores from the I. M.F. and grants and loans amounting to Rs. 82 crores (during the nine-month period July 1956-March 1957) mainly under the Indo-American Technical Co-operation Programme and under P. L. 480. Detailed information on the country's balance of payments transactions is available so far only for the first nine months of the Bank's accounting year 1956-57, viz., July 1956 to March 1957. During this period, India's overall balance of payments showed a deficit on current account of Rs. 248 crores, being the result of the deficit of Rs. 363 crores on visible trade and a surplus of Rs. 115 crores on invisible account (including governmental grants). For the last quarter of the year (April-June 1957) the deficit appears to have increased partly as a result of the seasonal decline in exports. Region-wise, the deficit was

distributed over all the principal areas but its incidence was heaviest in transactions with the 0. E. E. C. countries.

22. The deficit was largely the result of an unprecedentedly high level of imports (amounting to Rs. 846 crores in the nine months July-March) by both the public and private sectors. Among the factors which contributed to this high rate of imports may be mentioned the accelerated rate of development activity in the public and private sectors and the high level of industrial production, together with the need to import large quantities of food grains. There had apparently been some under-estimation of the import requirements of the Second Plan. The value of exports remained practically unchanged, there being a decline of Rs. 4 crores to Rs. 483.5 crores during the nine months July-March 1957. The level of exports was largely sustained by the record exports of tea partly for stock-piling purposes consequent to the Suez hostilities, while exports of a number of commodities, particularly in the raw materials group, declined indicating higher domestic consumption.

23. Since the beginning of 1957 a number of measures have been taken to halt the drain on foreign exchange reserves. Among these may be mentioned the bzn on the incurring of new foreign exchange commitments in the private and public sectors on any uncommitted project, reduction of import quotas, withdrawal of the basic allowance of foreign exchange for purposes of travel abroad for pleasure and further restrictions in respect of foreign travel for business, education and health. However, in order to facilitate financing of imports of essential capital goods during the period of exchange restrictions, the policy for the import of capital goods under deferred payment arrangements was initiated in January 1957.

24. An Export Promotion Committee has been appointed to make recommendations for the stepping up of exports. Recently Government also set up a Foreign Trade Board to co-ordinate export promotion policies. While spectacular results cannot be achieved in the short run, greater freedom of exports is necessary in respect of commodities which might even be regarded as essential for internal consumption. With a large economic plan, austerity is called for on a wide front and the promotion of exports at some sacrifice of domestic consumption is one of the ways of implementing it.

Monetary and Credit Policy

25. The Report for last year had emphasised the need for a careful and continuous assessment of the current economic situation with a view to making appropriate adjustments in the pace and pattern of planned development and in fiscal and monetary policies from time to time. The year under review witnessed further adaptation of the Bank's policies to the changing economic context, which has been described above. The Bank's recent policy may be described broadly as one of controlled expansion. While the need for expansion of credit and money supply commensurate with the rapid development and diversification of the economy is fully recognised by the Bank, an excessive expansion of money supply would be inflationary and would ultimately jeopardise the financial stability of the economy. In the prevailing situation, with considerable inflationary potential, the direction of credit policy should be one of general restraint without jeopardy to the functioning and progress of essential productive sectors of the economy. Financial stringency is a common characteristic of a phase of economic boom when investment tends to outrun savings. In an economy like ours, which has embarked on development, the boom phase tends to be continuous and the attendant financial stringency may, therefore, tend to be more than temporary. The stringency reflects essentially a sharp rise in the demand for credit, arising from a high rate of investment and consumption rather than a decrease in the supply of money or credit. In fact, as mentioned earlier, money supply and bank credit have expanded at an unprecedented rate during the last three years or so.

26. The Bank sought to achieve the objective of controlled expansion on the one hand, through some raising of the cost of credit together with selective credit controls and, on the other, through temporary liberalisation of the bill market scheme and revision of the open market operations policy. The minimum amount that can be borrowed at a time under the bill market scheme was further reduced, effective February 22, 1957 from Rs. 10 lakhs to Rs. 5 lakhs. The average of the outstanding loans for the year under the bill market scheme recorded a substantial rise from Rs. 21 crores in 1955-56 to Rs. 49 crores. Further, towards the close of October 1956, the Bank modified its policy of open market operations. It may be recalled that in November 1951, simultaneously with the raising of Bank rate, the Bank had announced that, save in exceptional cases, the Bank would not buy Government securities to meet the seasonal

requirements of banks. However, the Bank began to extend discriminating support to the market from November 1956, the net purchase by the year-end amounting to about Rs. 30 crores.

27. In regard to measures of credit restraint, the Bank used, during the year under review, both general and selective controls, the latter for the first time on a systematic and significant scale. During the first half of the year; credit policy was mainly one of flexible selective control, which, while meeting the genuine credit requirements of trade and industry, was directed against the use of credit for assisting speculative activity in certain commodities. In the second half of the year, this policy was reinforced by the application of a measure of general control through a rise in the Bank's lending rates. Reference was made in the previous year's Report to the raising of the Bank's lending rate against usance bills (under Section 17 (4) (c)) from 3 to 3¼ per cent and the withdrawal of the concession in respect of stamp duty, effective March 1, 1956. This rate was further raised to 3½ per cent on November 21, 1956. Consequent upon the raising of the stamp duty on usance bills,-which is fixed by Government on the recommendation of the Bank-the effective cost of borrowing under the bill market scheme was raised from 3½ per cent to 4 per cent, with effect from February 1, 1957. Simultaneously, with a view to avoiding discrimination against borrowing under the bill market scheme, the Bank raised its lending rate against Government and other approved securities (under Section 17 (4) (a)), from 3½ to 4 per cent. Subsequently, effective May 16, 1957, the Bank also raised the Bank rate *i.e.,* the rate at which it is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under the Act, from 3½ to 4 per cent. With the simultaneous lowering by Government of stamp duty on usance bills to one-fifth of 1 per cent, the effective rate for borrowing under the bill market scheme has been 4-1/5 per cent. The raising of the various lending rates of the Bank was mainly by way of realignment with the trend of money market rates and also directed to making the structure of lending rates of the Bank internally more coherent. Failure to adjust the rates would have put an unhealthy premium on borrowing from the Bank and contributed to intensification of inflationary pressures.

28. The manner in which the increase in the Bank's lending rate pattern was brought about-partly through a rise in the

basic rate and partly through enhancement of the stamp duty— was designed primarily to minimise disturbance to the money and gilt-edged markets. For this reason, among others, the Bank rate was not raised till mid-May 1957.

29. The Reserve Bank's use of selective credit controls through directives to commercial banks with regard to advances against grains, cloth, etc. was throughout characterised by flexibility, in keeping with the changing market conditions. The imposition and withdrawal of these directives was dictated by the need to restrain speculative credit demands while meeting genuine credit requirements. The Bank had first issued a directive on May 17, 1956 making it obligatory for all scheduled and two State-associated non-scheduled banks to restrict generally their advances against paddy and rice and to raise their existing margins by 10 per cent, when the abnormal expansion of advances against these commodities together with a rise in their prices indicated that bank credit was being utilised for withholding stocks from the market. Subsequently, on September 13, 1956, the Bank extended these restrictions to other food grains and pulses when similar tendencies to speculative withholding of stocks were observable. A similar directive was issued on September 13, 1956 in respect of advances against cotton textiles which remained in force till February 1, 1957. Subsequently, in order to facilitate financing of the movement of the new crop, the Bank withdrew its restrictions on advances against paddy and rice on November 14, 1956. The restrictions on paddy and rice were, however, reimposed on February 9, 1957 to forestall excessive expansion of bank credit against these commodities. Further, in April 1957, the Bank exhorted the scheduled banks to desist from making advances against shares to parties seeking to acquire a controlling interest in industrial enterprises by cornering shares. Again, on June 7, 1957, in view of the persistent rise in bank advances against food grains, the Bank issued a directive, designed not only to curb bank finance for speculative holding of stocks but also to bring down substantially the level of advances against these commodities.

30. In a letter which the Governor of the Bank addressed to all scheduled and three State-associated non-scheduled banks on June 29, 1957 attention was drawn to certain aspects of the current monetary situation arising from the large-scale expansion of bank credit and their co-operation was sought in achieving a positive reduction in the level of bank credit without diminishing

assistance to the essential sectors of the economy. The banks were also asked to take steps to reduce their systematic and continued reliance on the Reserve Bank, as a situation might arise calling for a review of the present arrangements regarding assistance from the Reserve Bank. The letter has been interpreted in banking circles as marking a transition from a policy of cautious lending to one of positive and constructive restraint.

The Prospect

31. During the last year it was noticed that the Indian economy, which had enjoyed comparative stability with a fair rate of development under the First Five Year Plan, was already subject to some strain. During the year under report the strain grew more severe and the internal price equilibrium as well as the external payments balance were disturbed, the latter rather seriously. The basic trends referred to above have been reflected in the rapid expansion of bank credit and money supply: The pace of monetary expansion-large in itself-would have been larger without the heavy balance of payments deficit that has been experienced in the last year ; this latter is a measure of the extent to which resources from abroad have contributed to the increased investment at home. The extent to which foreign exchange reserves can continue to fill the gap is bound to diminish drastically hereafter. The contractionary effect on money-supply of a foreign exchange deficit or its contribution to resources for development will not, therefore, be available in the same degree as it has in the last year or so. This gives a clue to the evolution of appropriate monetary and credit policies. These have to be directed to ensuring that the expansion of ‘money and credit does not take place at a rate disproportionate to the capacity of the community to mobilise real resources for development.

32. The current phase of financial stringency does not reflect absolute shortage of money but expanded demand for it. A basic solution to the problem of stringency is to be sought in increase in savings so as to effect a better balance between the demand for funds (for investment) and their supply (through savings). The present rates of interest reflect the high demand for credit relatively to supply and also act to restrain this high demand to some extent and consequently the increase in money supply, the rise in prices and growth of inflation. Financial stringency thus acts as a defence against inflation. It has to be recognised however that tight money policy by itself

cannot cure a significant disparity between investment and savings.

33. The problem of resources is two-fold : that of domestic or internal resources and foreign or external resources required for the foreign exchange content of development and other expenditures, in the public and private sectors. To an important degree, the two aspects of the problem are interrelated. A rise in consumption at home involves a rise in consumption both of domestically produced goods, and also to some extent, of imported articles and thereby entails a draft on foreign resources both ways, actual (viz., expended on imports for consumption) as well as potential (not earned, owing to consumption at home of exportable commodities). But more important than this is the effect of domestic economic policy on the "climate" of foreign investment. Although in view of the various developments that have taken place since the second Plan was adopted, the precise deficit in external resources is not known, indications are that it has become significantly larger. The Second Five Year Plan, as it was originally formulated, involved heavy reliance on external assistance. Developments in the very initial period of the Plan point clearly to the need for even more of such assistance. As against this, the outlook on the availability of such finance is yet not clear. It is, therefore, clearly desirable to keep the investment in the economy in the immediate future within the limits of domestic and external resources in sight. It would also be necessary to exercise some restraint on the growth of consumption. Every effort must be made to get the maximum results from the actual investments undertaken. And, the plan targets for both the public and the private sectors need to be rigorously and urgently reviewed. It is these adjustments in programmes, public and private, and the detailed formulation of fiscal, monetary and credit policies directed to maximising the resources available for investment that constitute the immediate tasks ahead.

Banking Legislation

34. During the year under review important amendments to the Reserve Bank of India Act and the Banking Companies Act were enacted, among other things, with a view to abolishing the provision regarding a proportional currency reserve and providing for additional powers of credit regulation.

The Reserve Bank of India (Amendment) Act, 1956

35. The Reserve Bank of India (Amendment) Act, 1956, to which a reference was made in last year's Report, came into force from October 6, 1956. It amended the currency reserve provisions with a view to removing the requirement of maintaining a reserve in terms of a proportion of the note circulation so as to enable the expanding currency requirements of the economy to be met and, secondly, gave the Reserve Bank power to vary the cash reserves, which scheduled banks have to maintain with it. The Reserve Bank of India (Amendment) Act, 1957, enables the Bank to contribute to the capital of financial institutions which may be set up to provide medium term loan assistance to industries. This will facilitate, in particular, the Bank's participation in the setting up of a Refinance Corporation. In terms of another amendment, the Refinance Corporation would be eligible to avail itself of loans from the Bank against Government Securities for periods not exceeding 90 days. The Act also extinguished the liability of the Issue Department of the Reserve Bank in respect of the unencashed high denomination notes demonetised in terms of the High Denomination Bank Notes (Demonetisation) Ordinance, 1946. Further, Section 42 of the principal Act has been amended so as to empower the Bank to direct the inclusion in the Second Schedule to the Reserve Bank of India Act, of an institution notified by the Central Government for the purposes of that Section.

The Banking Companies (Amendment) Act, 1956

36. The Banking Companies (Amendment) Act, 1956 which came into force from January 14, 1957, provides, among other things, for the grant of powers to the Reserve Bank to give directions to banks in respect of matters of policy or administration affecting the public interest or in the interests of the institutions themselves. It requires the prior approval of the Reserve Bank for appointment, as well as the terms of appointment, of managing directors and chief executive officers of banks. It also empowers the Bank to depute its officers to watch the proceedings of any meeting of the Board of Directors of a bank or any other committee or body constituted by it and to appoint observers for purposes of observing and reporting on the affairs of a banking company. These new powers will enable the Bank to have wider and more comprehensive control on banks so as to ensure an improvement in their operational methods.

The State Bank of India (Amendment) Act, 1957

37. The State Bank of India (Amendment) Act, 1957 authorises the State Bank, in consultation with the Reserve Bank and subject to the direction of its Central Board, to subscribe to and hold shares or debentures of any financial institution notified by the Central Government. The immediate purpose of this amendment is to enable the State Bank to contribute to the share capital of the proposed Refinance Corporation, and since the loans eligible for discount with the Refinance Corporation would normally be for periods between three and seven years, the Act enables the State Bank to grant loans and advances in excess of six months but not exceeding seven years. It also enables the State Bank subject to such directions as may be issued by its Central Board, to make advances to firms and companies engaged in finance of hire purchase transactions on the security of book debts etc. Further, the State Bank is authorised to act as agent for the Central Government or any State Government or any Corporation in implementing any schemes for financing the construction of houses and advancing or lending money as agent from out of the funds placed at its disposal by Government or Corporation. These loans may be granted even on the security of immovable property.

Banking Development

38. The expansion and integration of banking and credit facilities is as vital an aspect of planned economic development as the regulation and control of credit, and the Reserve Rank has, as before, been active in promoting the development of commercial and co-operative banking as well as the extension of the institutional framework for the provision of industrial finance.

State Bank of India

39. Reference was made in the last year's Report to the significance of the State Bank of India for the country's banking and economic development. The various administrative and organisational problems that confronted the Bank in its transition from a privately owned to a predominantly State-owned Bank having more or less been brought well on the way to solution, the State Bank has been able to devote its attention increasingly to the role assigned to it in the context of an expanding economy. An important objective of the State Bank, it will be recalled, is a concerted programme of expansion of branches ; the Bank is required under its Statute to open not less than 400 branches within a period of five years (unless the period is extended by

Government) at such places as may be determined by Government in consultation with the Reserve Bank and the State Bank. The State Bank has also taken the responsibility of opening branches at 5 1 other centres under a programme previously agreed to 'by the Imperial Bank of India. In terms of the Act, the Government of India have so far specified 183 centres covering mostly district treasury and the more important sub-treasury centres for the opening of branches. During the year under review, the State Bank opened 70 branches bringing the total number of branches opened since the inception of the Bank on July 1, 1955 to 102, 65 from the list of 183 centres approved by Government under Section 16(5) of the State Bank of India Act and 37 from the list of 51 centres left over from the programme of the former Imperial Bank.

The State bank of Hyderabad and State-associated Banks

40. During the period under review, the State Bank of Hyderabad Act was passed, vesting, as from the 22nd October, 1956, the ownership of, and control over, the Hyderabad State Bank in the Reserve Bank of India. This measure was necessitated by the need to overcome certain practical difficulties of control and management which were likely to arise from the disintegration of the former Hyderabad State as from the November 1, 1956. The Hyderabad State Bank was functioning as the agent of the Reserve Bank for conducting government business in the former Hyderabad State and maintained currency chests of the Issue Department of the Reserve Bank. In order to provide for unified control and effective supervision over the affairs of the bank, the share capital and management of the bank were transferred to the Reserve Bank through promulgation of an ordinance on the September 26, 1956, which was replaced later by the State Bank of Hyderabad Act on the December 22, 1956. The Act empowers the Reserve Bank to exercise a wide measure of control and supervision over the bank.

41. Two State-owned banks, namely, the State Bank of Saurashtra and the Bank of Patiala have been brought within the purview of certain sections of the Banking Companies Act, 1949 through an amendment passed in 1956, whereby these banks are subject to specified provisions such as those relating to inspections by the Reserve Bank, submission of prescribed returns and obtaining of a licence from the Reserve Bank for opening new branches.

42. The Reserve Bank started functioning as banker to the Government of Rajasthan with effect from November 1, 1956.

Banking and Treasury Arrangements in the States—Rajasthan

With the conclusion of the agreement with the Rajasthan Government, the Reserve Bank has become banker to all the States in India. The agreement thus marks the culmination of the process of financial integration of the erstwhile Part 'B' States which commenced in 1952. Subject to certain transitional provisions, the Reserve Bank conducts on behalf of the Government of Rajasthan, all their monetary and banking transactions, manages their public debt, receives their cash balances and deposits, and grants them ways and means advances.

43. Reference was made in last year's Report to the appointment in January 1956 of the Travancore-Cochin Banking

The Travancore-Cochin Banking Inquiry Commission Report

Inquiry Commission by the Government of India to study the special problems of banks in the former Travancore-Cochin State. The Commission submitted their report in August 1956. The Government of India have decided to accept the recommendations of the Commission in regard to terms and conditions of service of workmen in the banks governed by the Bank Award in the former Travancore-Cochin State with one modification in respect of two banks. The recommendations made by the Commission with a view to strengthening the banking structure of the State are under examination by the Government of India.

44. The year under review witnessed some notable developments in the extension and reorganisation of the machinery of

Industrial Finance

industrial finance. The State Financial Corporations Act was amended in several respects by the State Financial Corporations (Amendment) Act, 1956 which came into force on October 1, 1956. The Amendment Act provides, among other things, for setting up of Joint Financial Corporations for two or more States or extension of jurisdiction of a Corporation to other State(s). In terms of the new provision for inspection, the Reserve Bank carried out inspections of 2 State Financial Corporations while one other Corporation was inspected on a voluntary basis. The lending operations of the Corporations gathered momentum during the year, the outstanding of loans rising over the year by Rs. 3.06 crores (72.2 per cent) to Rs. 7.30 crores.

45. In furtherance of its policy of assisting the development of the State Financial Corporations on sound lines, the Reserve Bank convened in November 1956 the Third Conference of the representatives of State Financial Corporations to discuss issues relating to the organisation and working of these Corporations. Among the subjects discussed at the Conference were those relating to raising of additional working funds, the effects of reorganisation of States on Corporations and progress of the pilot scheme of the State Bank of India for provision of credit to small-scale industries.

46. The emphasis on industrial development in the Second Five Year Plan has imparted urgency to the problem of the role of banks in the provision of credit to industry, particularly medium-term credit. The banking system is advantageously placed in meeting some part of this requirement by virtue of its net-work of branches, intimate knowledge of credit-worthiness of borrowers, flexible loan procedures, etc. However, as bank resources comprise mainly short-term funds, even a part of this cannot, at least in the initial stages, be locked up in term loans. To meet this situation, decision has been taken to set up a Refinance Corporation, which may well be regarded as the most significant development in the sphere of industrial finance during the year under review. The Corporation will provide relending facilities against loans given by selected scheduled banks to medium-sized industrial concerns for the purpose of increased production, primarily in industries included in the Second Five Year Plan.

47. The genesis of the proposed Refinance Corporation is one of the terms of the Agricultural Commodities Agreement under P. L. 480 signed in August 1956 by the Government of India and the Government of the United States, whereby a sum of $55 million *i.e.,* about Rs. 26 crores, is earmarked for re-lending to private enterprise through established banking facilities.

48. The Refinance Corporation is to be established as a private company under the Companies Act, 1956 with an initial share capital of Rs. 12.5 crores, which will be subscribed by the Reserve Bank of India (Rs. 5 crores), the State Bank of India (Rs. 2.30 crores), the Life Insurance Corporation of India (Rs. 2.50 crores), and 14 other specified scheduled banks (Rs. 2.70 crores). Besides, the American counterpart funds of Rs. 26 crores would be placed by the Government of India with the Corporation as an interest-bearing loan for a period of 40 years. Thus the total funds available to the

Corporation would be Rs. 38.5 crores. Each of the participating scheduled banks will be allotted a quota, subject to periodic review, from the total funds of Rs. 38.5 crores within which the bank may offer certain types of loans to the Corporation for obtaining refinance. The quotas will range from a minimum of Rs. 1 crore to a maximum of Rs. 3 crores, except in the case of the State Bank of India which will be allotted a quota of Rs. 5 crores.

49. The objective of the Corporation is to afford facilities for medium-term finance to medium sized borrowers in the private sector. The loans would be for periods between 3 and 7 years and the amount loaned to any one borrower will not exceed Rs. 50 lakhs. Further, no concern will be eligible if its total resources exceed Rs. 2½ crores. It is envisaged that the spread between the rate charged by the Corporation and the lending rate of the banks would be not less than 1½ per cent. Lending banks will assume the full credit risk on loans made over to the Corporation for the purpose of obtaining refinance.

Co-operative Credit

50. The Reserve Bank continued to pursue its programme of strengthening the organisation and increasing the volume of co-operative credit, not only through provision of financial assistance but also through its supervisory and regulatory functions. Reference was made in last year's Report to the targets for co-operative development formulated under the Second Five Year Plan. These targets were considered at the Second Conference of State Ministers on Co-operation held at Mussorie from 1st to 3rd July 1956. It was decided at this Conference that the programme of reorganisation of co-operative credit should be accelerated, and that the targets in respect of co-operative marketing and processing should be raised. The Conference also recommended that, along with the organisation of large-sized credit societies, efforts should also be made, consistently with the main programme, to form small-sized societies in places where they had fair prospects of success.

51. Schemes for co-operative development were drawn up by the various States in the light of these recommendations. Progress during 1956-57 was to some extent affected by difficulties and preoccupations connected with the reorganisation of States. One of the main features of the plans for 1957-58 drawn up by the State Governments in consultation with the Reserve Bank

and the Government of India is the loan target of Rs. 80 crores set for agricultural credit societies.

52. Reference was made in the previous Report to the creation of the National Agricultural Credit (Long-term Operations) Fund by the Reserve Bank. As at the end of June 1957, loans amounting to Rs. 289.70 lakhs were sanctioned by the Reserve Bank to eleven State Governments to enable them to contribute to the share capital of co-operative credit institutions. Eight States availed themselves of loans amounting to Rs. 160.45 lakhs.

53. The enactment of the Agricultural Produce (Development and Warehousing) Corporations Act 1956, which came into force with effect from 1st August is of particular significance for agricultural development in the country. It provides the legislative nucleus of a countrywide organisation designed to facilitate processing and marketing of produce and its finance. The National Co-operative Development and Warehousing Board which was set up by the Government of India on 1st September 1956, in terms of this Act is empowered to give loans and subsidies for co-operative development plans, such as contributions to the share capital of marketing and processing societies, construction of godowns, employment of additional staff by co-operative departments and institutions. The other important organisation set up in terms of the same Act is the Central Warehousing Corporation, established by the Central Government with effect from March 2, 1957.

54. The Government of India appointed on June 6, 1956, a Committee on Co-operative Law to evolve a simplified legal framework for the co-operative societies. The Chief Officer of the Agricultural Credit Department was a member of the Committee. The Report of the Committee has been submitted to the Government of India.

55. The Reserve Bank's Standing Advisory Committee on Agricultural Credit, which was reconstituted on the lines recommended by the Rural Credit Survey Committee, discussed at its sixth meeting held during the year, several items, such as co-ordination of policies of the State Bank of India and co-operative banks and societies, the progress of co-operative development plans and the general policy regarding subscription to debentures of and loans to Central land mortgage banks. The Committee

also recorded the view that on available data there was no justification for the view that the increase in co-operative advances had contributed to the rise in commodity prices and to speculative withholding of stocks.

Financial Accommodation to Co-operative Banks

56. During the year, there was a further increase in the amount of finance 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. The number of Sate co-operative banks was reduced as a result of the reorganisation of States and seventeen State co-operative banks were sanctioned credit limits aggregating Rs. 35.25 crores in 1956-57 as compared with Rs. 29.64 crores sanctioned to 19 banks during the previous year. The outstandings of loans from the Reserve Bank to State co-operative banks for seasonal agricultural operations and marketing of crops at the end of the year stood at Rs. 23.32 crores as against Rs. 12.98 crores at the end of last year and Rs. 8.11 crores at the end of 1954-55.

57. As regards medium-term credit, during the year, 6 State co-operative banks were sanctioned loans amounting to Rs. 1.67 crores as against Rs. 1.40 crores sanctioned to 10 State co-operative banks last year. The outstandings against the State co-operative banks at the end of the year on account of medium-term loans stood at Rs. 1.58 crores as against Rs. 98.82 lakhs at the end of last year. A beginning was made during the year under report in the direction of providing the working capital requirements of co-operative sugar factories.

58. The handloom weaving industry was approved by the Central Board of the Reserve Bank as eligible for accommodation under Section 17(2) (bb) of the Reserve Bank of India Act and accordingly it was decided to make loans and advances to State co-operative banks for financing the production and marketing activities of co-operative weavers' societies.

59. The Reserve Bank continues to subscribe to the debentures of Central land mortgage banks. The Bank constituted a Technical Committee on Land Mortgage Banks on June 7, 1957 to examine the various issues raised in the course of an enquiry addressed to Registrars of States having land mortgage banks as well as to the banks themselves.

Supervision and Regulation of Banks

60. The Reserve Bank continued its efforts in the direction of strengthening the banking system through measures of supervision and regulation of commercial banks and co-operative banks. In accordance with the policy of systematic periodical inspection of banks initiated in March 1950, 28 scheduled banks and 189 non-scheduled banks were inspected during the year under review, of which 14 banks were inspected for the first time. All the banks were inspected under Section 35 of the Banking Companies Act excepting three, two of which were inspected with their consent while one bank in liquidation was inspected under Section 454 of the Banking Companies Act. In accordance with the practice of obtaining periodical progress reports in respect of rectification of defects -brought to light in inspection reports, 213 banks were submitting, or were asked to submit, monthly reports and 134 banks quarterly reports, as on the 30th June, 1957. In cases where the findings of the inspection reports called for stricter control over the affairs of the banks concerned, suitable conditions were imposed ; there are at present 41 banks (12 scheduled and 29 non-scheduled) on whom such conditions have been imposed.

Inspection and Licensing of Commercial Banks

61. The system of periodic inspections and of calling for progress reports has, on the whole, enabled the banks to appreciate the desirability of working on sound lines. There are still certain operational defects such as inadequate reserves and sub-standard advances, etc. in the case of some of the banks, but complete rectification of such defects would necessarily involve time.

62. At the end of the year under review, the total number of banks which held licences stood at 50 as against 47 a year earlier. Licences were refused to 57 banks during the year as they did not satisfy the requirements of Section 22(3) of the Banking Companies Act, 1949.

63. With a view to mitigating the difficulties experienced by banks, certain exemptions from statutory obligations were granted either generally to all banks or to groups of banks or individual banks. These exemptions related ***inter alia*** to provisions governing minimum capital requirements (Section 11), the disclosure of market value of government securities (Note (f) of Notes in the Third Schedule

Exemptions

to the Banking Companies Act, 1949), and maintenance of a certain percentage of liquid assets (Section 24).

Inspection of Co-operative Banks

64. The inspection of co-operative banks, on a voluntary basis, was continued as in past years. There was a large increase in the number of inspections undertaken during the year under review ; as many as 104 co-operative banks were inspected during 1956-57 as against 44 in 1955-56 and 35 in 1954-55. The inspections covered 9 State co-operative banks, 94 central co-operative banks and one central co-operative land mortgage bank.

65. A notable development was the opening of four Regional Offices of the Agricultural Credit Department of the Bank, one each at Bombay, Calcutta, Delhi and Madras with effect from April 15, 1957. The Regional Offices have initially been entrusted with the inspection of co-operative banks functioning within their jurisdiction. The State co-operative banks in each region will be inspected once every year and each Central co-operative bank once in two years.

Remittance Facilities

66. In pursuance of the recommendation of the Committee on Finance for the Private Sector relating to the extension of free remittance facilities, it was proposed to our agent banks, viz. the State Bank of India, the Hyderabad State Bank and the Bank of Mysore Ltd., that the facilities for free transfer of funds under Regulation 8(1) (b) of the Reserve Bank of India Scheduled Banks' Regulations should be provided thrice a week instead of twice a week. The three banks have agreed to the proposal, and pending an amendment of Regulation 8(1) (b) all scheduled banks were advised that they may avail themselves of this facility with effect from October 1, 1956. No non-scheduled bank was included during the year in the approved list for purposes of remittance facilities, while five non-scheduled banks were excluded.

67. During the period under review, 9 banks-5 in Kerala, and one each in Mysore, West Bengal, Madras and Punjab (I) went into liquidation. Of these, three were ordered to be wound up by the Courts and the rest were wound up voluntarily.

68. Two banks applied for inclusion in the Second Schedule of the Reserve Bank of India Act ; during the year under review, these applications, as also six earlier ones, were under consideration. No bank was included in or excluded from the Second

Schedule during the year, nor was any bank inspected for the specific purpose of determining its eligibility to be retained in the Schedule. Thirty-five new offices were opened during the year at places not formerly served by commercial banks, raising the total number of offices of scheduled banks in the Indian Union to ***3045.***

Co-operative **Education** and Training

69. A reference was made in the last year's Report to the arrangements for co-operative training for different categories of personnel as also the special course in co-operative marketing and land mortgage banking. During the year, steps were taken to effect improvements in the programmes of training. A conference of Principals and Chairmen of the Local Committees of Training Centres was convened in December 1956 to consider various issues relating to the suitability of the training given in the light of actual requirements. This was followed by a Conference of Principals of the Regional Training Centres at Bangalore in January 1957 to work out details of the training programme of the short-term marketing course at the Poona and Meerut Centres, which is eventually expected to be started at all the five Regional Centres. The course was later extended to two more Training Centres ***viz.*** Ranchi and Madras. The training of ***senior co-***operative officers continued at the Co-operative Training College at Poona, where about 40 officials are trained every six months. The training for ***intermediate*** personnel was also in progress at the Centres at Poona, Madras, Ranchi, Indore and Meerut where about 220 candidates completed training during the year. The duration of the Block Level Co-operative Officers' Training Course was extended from 10 to 11 months. During the year, two sessions of the special course in Land Mortgage Banking were completed at Madras and 68 candidates took the course. Considerable progress was also made during the year in respect of the schemes for training of ***subordinate*** co-operative personnel and by the end of the year, 40 subordinate schools in all the 14 States came within the purview of the scheme of the Central Committee for Co-operative Training. The pilot scheme for training of non-officials, approved by the Government of India, was in progress in 4 States during the year. State Governments were also requested by the Central Committee to submit similar schemes for training of non-official personnel. The Government of India approved in January 1957 an enlarged scheme for training members, office-bearers and honorary secretaries of primary societies etc. in 55 districts in the first instance.

70. The Bankers Training College which was started in 1954 under the auspices of the Reserve Bank for imparting training in practical banking to the supervisory staff of commercial banks in the country, has so far completed fourteen courses of training, each of eight weeks' duration. The total number of officers who have received training in these courses is 327. It has been since decided to extend the duration of the course to nine weeks.

Accounts and other Matters

71. During the year under review, the Bank's income after making statutory and other appropriations, amounted to Rs. 36.20 crores and expenditure to Rs. 6.20 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. 30 crores as against Rs. 20 crores last year.

72. The Bank's income, during the year, increased to a considerable extent under the head "Interest." The increase was mainly accounted for by higher rates of interest available on Rupee and Sterling securities and partly by a rise in the holdings of Rupee Securities. The interest earned on advances made to scheduled banks also increased to some extent during the year. As against this, the earnings under "Discount" showed a substantial fall. Although the discount earned on ***ad-hoc*** Rupee Treasury Bills created during the year for replenishing the Central Government balances showed a rise, it was more than offset by the drop in the discount earned on Sterling Treasury Bills both due to a shrinkage in the total holdings of these bills and to a fall in the discount rates in London. Of this year's profit, a sum of Rs. 5 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, raising the balances in these accounts to Rs. 20 crores and Rs. 2 crores respectively. The total contributions made to these Funds last year amounted to Rs. 16 crores.

73. Expenditure during the year rose by Rs. 75.96 lakhs mainly due to increases under the heads "Establishment," "Remittance of Treasure," and "Security Printing." The increase under "Establishment" (Rs. 20.42 lakhs) was due, among other things, to the expansion of the Agricultural Credit Department and the Department of Banking Development and to the opening

of a new office at Nagpur. The increase of Rs. 6.79 lakhs under "Remittance of Treasure" was mainly due to the cost of boxes purchased for remittance of decimal coins introduced with effect from the 1st of April this year. The expenditure on "Security Printing" increased by Rs. 28.18 lakhs mainly as a result of larger indents for Bank note forms placed on the India Security Press, Nasik and partly due to a small rise in the manufacturing cost of note forms.

74. During the year, gold, which was held in the Issue Department at the rate of 8.47512 grains of fine gold per Rupee, was revalued, on the 6th October 1956, at the rate of 2.88 grains of fine gold per Rupee consequent on the passing of the Reserve Bank of India (Amendment) Act, 1956. Out of the profit of Rs. 77.74 crores realised on revaluation, a sum of Rs. 75 crores was transferred to the Reserve Fund, with the concurrence of the Central Government, and the balance of Rs. 2.74 crores included in the surplus profit payable to Government. The Reserve Fund now stands at Rs. 80 crores.

Auditors

75. The Accounts of the Bank have been audited by Messrs. S. B. Billimoria & Co. of Bombay, Messrs. P. K. Ghosh and Co. of Calcutta and Messrs. Sastry and Shah of Madras, who were appointed by the Government of India as auditors of the Bank by Notification No. F. 3 (28)-F. I/56 dated September 25, 1956 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

Compensation to Shareholders

76. The total compensation (in the form of the 3 per cent First Development Loan 1970-75 and in thc form of cash) paid to the shareholders of the Reserve Bank of India consequent on the nationalisation of the Bank on January 1, 1949, amounted to approximately Rs. 5.77 crores as at the end of June 1957.

Composition of the Central Board

77. Shri B. Rama Rau, Governor of the Bank, resigned his office on January 14, 1957 and the Union Government appointed Deputy Governor, Shri K. G. Ambegaokar, as Governor with effect from the same date until further orders. The Board would like to take this opportunity of placing on record their appreciation of the eminent services rendered by Shri B. Rama Rau during his Governorship of the Bank.

78. With effect from March 1, 1957, Shri H. V. R. Iengar was appointed as the Governor of the Bank for a period of five years. Shri K. G. Ambegaokar who relinquished the post of the Governor was reappointed as a Deputy Governor for a period of three years as from March 1, 1957.

79. Shri Purshotamdas Thakurdas, Shri B. M. Birla, Shri Shri Ram and Shri C. R. Srinivasan retired as Directors of the Bank on January 14, 1957, on the expiry of their term of office. The vacancies were filled by the Union Government in terms of section 8 (1) (b) of the Reserve Bank of India Act by the re-nomination of Shri B. M. Birla, Shri Shri Ram and Shri C. R. Srinivasan and the nomination of Shri Kasturbhai Lalbhai with effect from January 15, 1957. Shri Purshotamdas Thakurdas was a Director of the Bank ever since its inception and the Board wish to record their appreciation of the valuable services rendered by him.

Local Boards

80. The term of office of the Members of all the four Local Boards expired in January 1957 and in accordance with the provisions of Section 9 (3) of the Reserve Bank of India Act, the Union Government constituted the new Local Boards for the Western, Eastern, Northern and Southern Areas as from January 15, 1957. The vacancy caused by the election of Shri R. Ramanathan Chettiar, a Member of the Southern Area Local Board, to the *Lok Sabha* was filled by the Central Board in April 1957 by the nomination of Shri V. Emberumanar Chetty.

Meetings of the Central Board and its Committee

81. Eight meetings of the Central Board were held during the year, of which four were in Bombay, two in Calcutta and one each in New Delhi and Madras. The Committee of the Central Board held forty-nine meetings of which four were held in Calcutta and the rest in Bombay.

Opening and closing of offices or branches of the Reserve Bank of India & changes in organisation and management

82. A branch office of the Bank was opened at Nagpur on September 10, 1956 and the Note Cancellation Section there closed. As a consequence of the reorganisation of the States and the transfer of the public debt of the Hyderabad State to the Central Government under the States Reorganisation Act, 1956, the management of the Hyderabad Loans issued prior to 1st April 1953 and which were previously managed by the State Bank of Hyderabad was taken over by the Reserve Bank of India with effect from November 1, 1956 and for this purpose a Public Debt Office was established at Hyderabad from that date.

83. During the year under review, the construction of the Bank's new office buildings at New Delhi and Nagpur was completed. Construction of residential quarters at Madras and Nagpur is expected to be completed shortly. With a view to providing suitable premises at Bombay for the Bankers Training College, the Bank has acquired a plot of land and the construction of the College Building and a Hostel for accommodating the students is expected to commence in a few months' time.

Bank's Premises

By Order of the

Central Board of Directors,

H. V. R. IENGAR

Governor.

RESERVE BANK OF INDIA

Balance Sheet as at June 30, 1957

ISSUE DEPARTMENT

LIABILITIES	Rs. nP.	Rs. nP.	ASSETS	Rs. nP.	Rs. nP.
Notes held in the Banking Department	39,49,74,827 50		A. Gold Coin and Bullion :-		
			(a) Held in India . .	117,76,02,749 97	
			(b) Held outside India . .	*Nil*	
Notes in circulation . .	1542,17,09,777 50		Foreign Securities	412,51,91,260 66	
			Total of A .		530,27,94,010 63
Total Notes issued . .		1581,66,84,605 00	B. Rupee Coin . .		126,57,84,803 14
			Government of India Rupee Securities . .		924,81,05,791 23
			Internal Bills of Exchange and other Commercial paper . .		*Nil*
Total Liabilities		1581,66,84,605 00	Total Assets		1581,66,84,605 00

BANKING DEPARTMENT

LIABILITIES	Rs.	nP
Capital paid-up . .	5,00,00,000	00
Reserve Fund	80,00,00,000	00
National Agricultural Credit (Long-term Operations) Fund	20,00,00,000	0 0
National Agricultural Credit (Stabilisation) Fund	2,00,00,000	0 0
Deposits :-		
(u) Government		
(1) Central Government .	51,54,91,834	1 9
(2) Other Governments . . .	8,25,42,793	1 8
(*b*) Banks	81,67,62,550	1 3
(*c*) Others	149,78,46,482	4 4
Bills Payable	13,15,74,631	8 3
Other Liabilities	9,33,42,868	0 1
Total Liabilities	420,75,61,159	7 8

ASSETS	Rs.	nP.
Notes . . .	39,49,74,827	5 0
Rupee Coin	7,32,572	0 0
Subsidiary Coin	5,10,432	4 7
Bills Purchased and Discounted :—		
(*a*) Internal	*Nil*	
(*b*) External	*Nil*	
(c) Government Treasury Bills . ..	12,97,645	9 9
Balances held abroad* . . .. ,	43,03,70,939	3 1
Loans and Advances to Governments . .	23,88,45,251	0 0
Other Loans and Advances .	91,45,92,012	8 2
Investments	208,93,97,973	2 5
Other Assets	13,68,39,505	4 4
Total Assets	420,75,61,159	78

* Includes Cash & Short-term Securities.

H. V. R. IENGAR,
Governor

C. S. DIVEKAR,
Principal Executive Officer.
(Chief Accountant)

RAM NATH,
Deputy Governor

B. VENKATAPPIAH,
Deputy Governor

Dated July 22, 1957.

RESERVE BANK OF INDIA

PROFIT AND LOSS ACCOUNT

	For the year ended June 30.1957 Rs.	nP.	June 30, 1956 Rs.	nP.	June 30, 1955 Rs.	nP.
INCOME						
Interest, Discount, Exchange, Commission, etc.	36,20,53,245	96	25,44,50,866	41	25,01,05,550	34
EXPENDITURE						
Establishment	3,18,61,124	20	2,98,18,723	86	2,82,28,344	93
Directors' and Local Board Members' fees and expenses ..	80,363	57	22,500	00	79,912	19
Auditors' fees	22,500	00	14,06,127	14	22,500	00
Rent, Taxes, Insurance, Lighting, etc.	16,62,476	82	67,553		13,30,550	47
Law charges	30,372	36		56	77,059	13
Postage and Telegraph charges'	2,58,915	54	2,18,853	23	1,95,800	33
Remittance of Treasure	26,24,466	34	19,45,007	50	15,30,897	83
Stationery, etc.	5,96,263	60	5,98,961	57	6,15,481	36
Security Printing—(Cheque, Note Forms, etc.)	1,38,52,214	94	1,10,33,945	01	1,06,68,117	34
Depreciation and Repairs to Bank property .. .	25,30,176	28	15,64,874	84	15,30,400	01
Agency charges	66,08,858	13	62,41,250	13	46,81,695	85
Contributions to staff add superannuation funds	36,000	00	45,000	00	55,000	00
Miscellaneous expenses	18,75,644	08	14,10,688	90	10,78,816	86
Net available balance	30,00,13,870	10	20,00,07,919	29	20,00,10,974	04
Total ..	36,20,53,245	96	25,44,50,866	41	25,01,05,550	34

PROFIT AND LOSS ACCOUNT-Continued

	FOR THE YEAR-ENDED					
	June 30, 1957		June 30, 1956		June 30, 1955	
	Rs.	nP.	Rs.	nP.	Rs.	nP.
Surplus payable to the Central Government	30,00,13,870	1 0	240407,919	29	20,00,10,974	0 4
Balance carried forward	'Nil		Nil		Nil	
Total ..	30,00,13,870	1 0	20,00,07,919	2 9	20,00,10,974	0 4

RESERVE FUND ACCOUNT

	Rs.	nP.
By balance on June 30, 1957 .. ,, ., ...	5,00,00,000	0 0
By transfer from Profit and Loss Account .. .	75,00,00,000	0 0
Total.. . .	80,00,00,000	0 0

C. S. DIVEKAR,
Principal Executive Officer.
(Chief Accountant)

H. V. R. IENGAR,
Governor

RAM NATH,
Deputy Governor

B. VENKATAPPIAH,
Deputy Governor

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA,

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Bank as at 30th June, 1957.

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 22, 1957.

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Examiner Press, Fort, Bombay I.