# RESERVE BANK OF INDIA

## Report of the Central Board of Directors

*for the year ended June 30, 1958*

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

AUGUST 1958

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**RESERVE BANK OF INDIA ACT**

August 1958

# CENTRAL BOARD OF DIRECTORS

(As on June 30, 1958)

| | |
|---|---|
| *Governor* | Shri H. V. R. Iengar |
| *Deputy Governors* | Shri K. G. Ambegaokar<br>Shri Ram Nath<br>Shri B. Venkatappiah |
| ***Directors,*** *Nominated under Section* 8(l)(b) ***of the Reserve Bank of India Act.*** | Shri Kasturbhai Lalbhai<br>Shri B. M. Birla<br>Shri Shri Ram<br>Shri C. R. Srinivasan |
| ***Directors,*** *Nominated under* ***Section 8(l)(c)*** | Shri J. R. D. Tata<br>Prof. D. R. Gadgil<br>Shri K. C. Mahindra<br>Shri D. N. Mitra<br>Prof. Gorakhnath Sinha |
| ***Director, Nominated under Section*** 8(l)(d) | Shri B. K. Nehru, I.C.S.,<br>Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs. |

# MEMBERS OF LOCAL BOARDS

(As on June 30, 1958)

## WESTERN AREA

Shri Kasturbhai Lalbhai
Shri Mathuradas Mangaldas Parekh
Shri D. V. Potdar
Shri Mohan Lal Tannan
Shri G. V. Puranik*

## EASTERN AREA

Shri B. M. Birla
Mr. 0. T. Jenkins
Dr. Bimala Churn Law
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 S. Anantharamakrishnan
Shri K. Ramunni Menon
Shri V. Emberumanar Chetty
Shri P. Suryanarayana

*** Appointment effective from July 25, 1958.**

## 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 |

## LETTER OF TRANSMITTAL

Reserve Bank of India,
Central Office,
Bombay.
*27th August* 1958.

The Secretary to the Government of India,
Ministry of Finance,
Department of Economic Affairs,
NEW DELHI.

Dear Sir,

In accordance with the provisions of Section **53(2)** of the Reserve Bank of India Act, I forward herewith the following documents :-

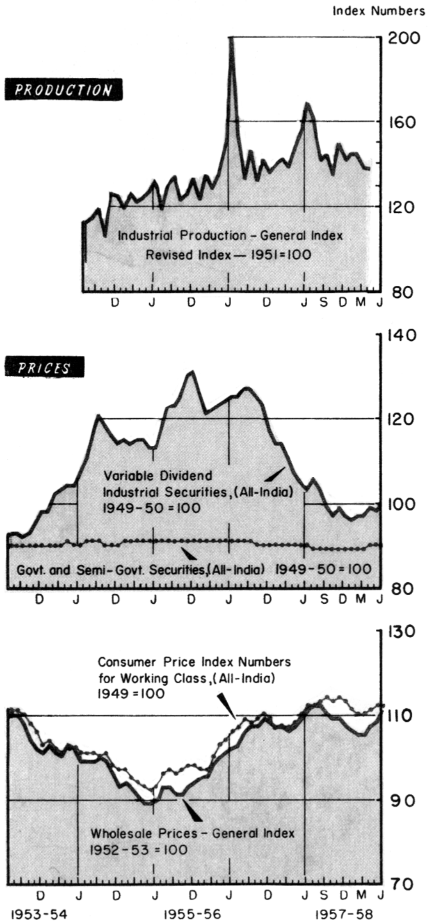
1) A copy of the Annual Accounts of the Bank for the year ended the 30th June 1958 signed by me, the Deputy Governors and the Chief Accountant and certified by the Bank's auditors ;

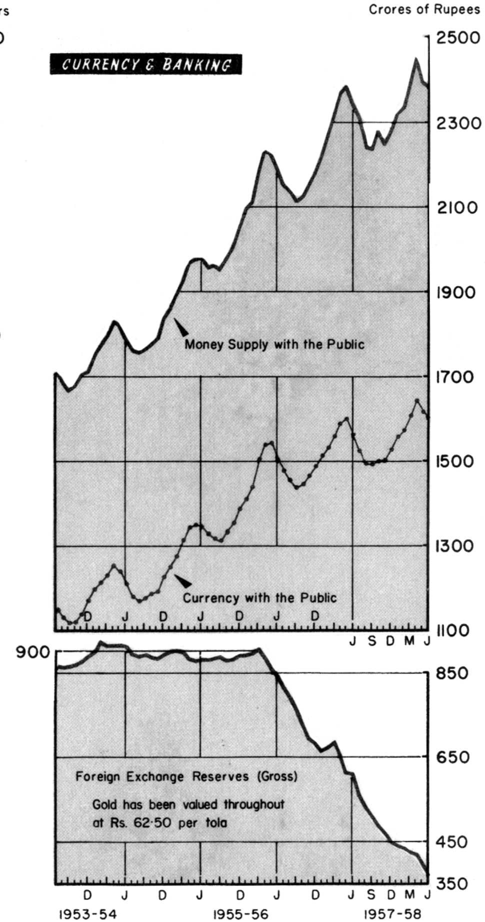
and

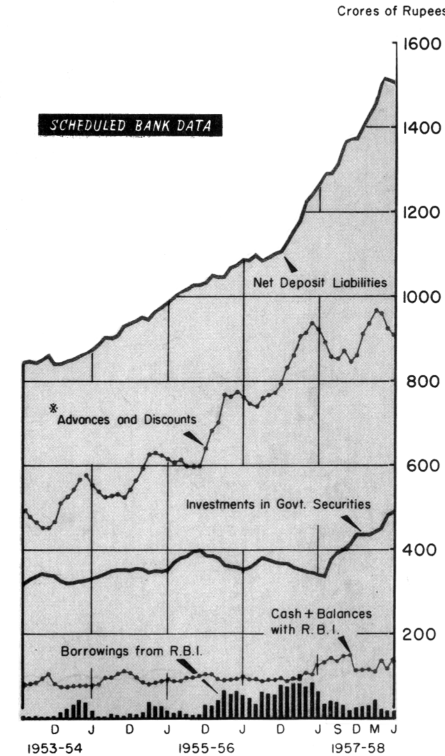
2) Two copies of the Report of the Central Board on the working of the Bank during the year ended the 30th June 1958.

Yours faithfully,
H. V. R. IENGAR
*Governor.*

# SELECTED ECONOMIC INDICATORS




* Include foreign bills purchased and discounted from May 14, 1954

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

*For the year July 1, 1957–June 30, 1958*

## Developments in the Economy

General

The economic situation in India during the year under review was characterised, on the one hand, by an accentuation of the serious stresses in the economy which have been in evidence since the launching of the Second Plan, and, on the other, by signs of a slackening of economic activity in certain sectors. Prices, which took a welcome downturn early in the year (from August), once again moved up, particularly in respect of foodgrains, as a result mainly of a reduction in output. Likewise, the drain on foreign exchange reserves, which had eased in the second and third quarters, again worsened from April, partly owing to the fall in export earnings. At the same time, the rate of growth of industrial production registered a decline. There was also an accumulation of stocks in some industries and the stock and capital markets were, on the whole, weak. In the monetary sphere there was a distinct slackening in the growth of money supply, with a sharp increase in time deposits and a marked slowing down of expansion of bank credit.' The acute monetary stringency characteristic of the year 1956-57 gave place to pronounced easy conditions practically throughout the year under review.

2. In the context of the above economic trends, the keynote of credit policy was vigilance in operation directed to maintaining the general restraint which was dictated by the basic inflationary trend of the economy and, simultaneously, selective encouragement to sectors where development was constricted by lack of credit. Selective credit controls were continually employed to help in eliminating the speculative bulge in foodgrain prices but were sought to be worked in a manner so as not to hinder genuine credit requirements and expansion of branch banking.

Trends in Production

3. Agricultural production in 1956-57 recorded an increase of six per cent over the preceding year and the production of food-grains almost touched the peak level of 68·7 million tons of 1953-54. According to the provisional estimates, agricultural production in 1957-58 shows a decline in cereals and jute, the output of rice being placed at 24·8 million tons which is lower by 3·5 million tons than in 1956-57.

4. After a phase of sustained expansion for some years, industrial production was characterised by a slowing down in the rate of increase. Thus, the general index of industrial production (base: 1951=100) advanced only by 3·5 per cent to 137·2 during 1957 as compared to over 8 per cent in each of the previous two years. The unadjusted average of the index for January-April 1958 at 141·7 was, in fact, 0·5 per cent lower than the average for the corresponding period of 1957. The recent fall in the rate of growth of industrial output is largely accounted for by the decline in production of the textile group which has a weightage of 48 out of 100 in the index. Some of the major industries like cement and coal have, however, recorded substantial increases in output. The cotton textile industry has been passing through a somewhat difficult phase, with fall in offtake, domestic as well as foreign, and accumulation of stocks. Relief has been given to this industry, mainly through progressive reduction of excise duties, the latest reduction occurring in July 1958. The slowing down of industrial production during the year under review may be largely ascribed to two reasons : the fact that spare capacity having been largely utilised, there is less of it now available for use, and smaller additions to plant and machinery and shortages of raw materials and components on account of import cuts. Industrial disputes and absenteeism do not appear to have been a perceptible factor in this process.

5. The rising trend of national income witnessed since 1949-50 was maintained in 1956-57, the latest year for which preliminary estimates are available. At constant (1948-49) prices, the national income for 1956-57 is placed at Rs. 11,010 crores as compared to the revised estimates of Rs. 10,480 crores for 1955-56, a rise of 5·1 per cent as compared to 1·9 per cent in 1955-56. At current prices, the rise is of the order of 14·2 per cent. As regards 1957-58, it would appear that the rise in national income, if any, is likely to be very small, in view of the estimated decline in agricultural output and the slowing of the rate of expansion of industrial output.

6. In contrast to the rising trend of prices *throughout* the preceding year which caused some concern, the year under review witnessed three phases, namely, a rise in prices till August 1957, a continuous fall till February 1958 and a rise again thereafter. The general index of wholesale prices (base : 1952-53 = 100), which had reached 113·1 in early August 1957, declined to 104·1 in early February 1958 ; it has since been rising, the index at the end of the year being 113·5, representing a rise of 2·3 per cent over the year. The average index for 1957-58 was higher than the average index for 1956-57 by 1·2 per cent. The declining trend in prices during August-February 1958 was largely due to the higher output of food-grains in 1956-57 as well as the corrective measures taken by Government such as food imports, conferment on State Governments of powers to requisition stocks at average prices and restrictions on movement of grains, besides the credit restriction measures of the Reserve Bank. The recent price rise is largely accounted for by the rise in food articles and to a lesser extent in industrial raw materials. Manufactures have hardly recorded any perceptible net change.

-and in prices

7. The element of vulnerability in the present price situation arises from the rise in prices of cereals, particularly rice, mainly on account of the estimated decline in output in the year under review, rather than a rise in demand. Bank credit does not appear to have played any part in the recent price rise.

8. The movements of the All-India working class consumer price index number during the year were within rather narrow limits. The index (base: 1949=100) for May 1958, the latest month for which data are available, was 112 as compared to 110 for May 1957. The annual average (11 months) for 1957-58 was 3·7 per cent higher than that for 1956-57. Nevertheless wage claims appear to have been on the increase and there have been symptoms of industrial unrest.

Monetary Situation

9. The diminished tempo of economic activity during the year reflected itself also in the sphere of money and credit. The expansion in money supply with the public was considerably smaller than in the previous year, being Rs. 34 crores or 1·5 per cent as compared to Rs. 155 crores or 7·1 per cent in 1956-57. This sharp decline in the rate of increase of money supply occurred despite the fact that the main expansionist factor, namely, budgetary

deficit was significantly larger than in 1956-57. The effect of this was substantially offset by the contraction of bank credit in 1957-58, as against its considerable expansion in 1956-57 and by the remarkable rise in time deposits of banks. As in the previous years, the balance of payments deficit continued to be the main contractionist factor. The seasonal variations in money supply were also smaller than last year. During the 1957 *slack* season (May-October) the contraction was of the order of Rs. 83 crores as compared to Rs. 105 crores in the 1956 *slack* season ; likewise, the expansion in the recent *busy* season (November 1957 to April 1958) was smaller at Rs. 168 crores as compared to Rs. 239 crores in the 1956-57 busy season.

10. The banking situation during the year under review was characterised by a marked easing of the strain to which the banking system was subjected in preceding years. There was a substantial increase in the deposit liabilities of scheduled banks, which rose by as much as Rs. 241 crores during the Bank's accounting year between the end of June 1957 and end of June 1958, an overwhelmingly large part of the increase being accounted for, as mentioned above, by time deposits. The striking growth of time deposits reflects, in part, the accrual of rupee balances of the U.S. Government with banks arising from the payments for imports of foodgrains under P.L. 480. There has also been to some extent a shift of funds from demand deposits as a result of higher rates of interest. The rise in aggregate deposits itself is primarily to be explained in terms of the considerably larger degree of deficit-financing during the year. As against this, expansion of deposits, there was a decline of Rs. 16 crores in scheduled bank credit in contrast to the expansion of Rs. 161 crores and Rs. 147 crores respectively in the Bank's accounting years 1956-57 and 1955-56. The trends in deposits and credit extension are reflected in the advances-deposits ratio which fell from 72·71 per cent at the end of June 1957 to 59·98 per cent at the end of June 1958. The decline in bank credit is due to the combined effect of import cuts, the slower rate of rise in industrial production, the price decline over the major part of the year and the measures of credit restraint adopted by the Reserve Bank.

11. The easing of strain in the banking system enabled banks to have a higher level of investment in Government securities and to liquidate borrowings from the Reserve Bank. The gilt-edged portfolio of scheduled banks rose by Rs. 154 crores as against a liquidation of Rs. 15 crores of securities in 1956-57. Scheduled bank borrowings from the Reserve Bank fell by Rs. 47 crores to

Rs. 15 crores in contrast to a rise of Rs. 9 crores in the preceding year. Cash reserves also rose by Rs. 16 crores, though the cash ratio declined slightly from 9·7 per cent to 9·2 per cent.

12. The relatively easy money conditions during the year under review were principally reflected in the decline in call money rates, the rate in Bombay being 3 per cent at the year-end as against 33 per cent a year before. However, the rates on term deposits did not conform to the above trend ; over the year, rates for three and six-months' deposits in Bombay hardened steadily from $4\frac{1}{8}$–$4\frac{1}{4}$ per cent in June 1957.to $4\frac{1}{4}$–$4\frac{3}{8}$ per cent in June 1958. After the close of the year, however, there has been a tendency for advances rates to soften, and this may exercise a corresponding pressure on term deposit rates.

**Government Finances**

13. The outstanding feature of budgets in recent years has been the rising tempo of outlay under the Plan, which is placed at Rs. 861 crores in 1957-58 (revised) as compared to the actual outlay of Rs. 635 crores in 1956-57. The whole of the estimated increase in outlay was reflected in an increase in the combined budgetary deficit of the Centre and the States, from about Rs. 250 crores in 1956-57 to about Rs. 500 crores. Increased tax receipts were offset by a fall in loan receipts. For 1958-59, Plan outlay is placed at Rs. 960 crores, while the budgetary deficit is placed at a greatly reduced figure of Rs. 220 crores, because of anticipations of improvement in loan receipts including small savings, as well as in foreign aid. Recent reappraisal of the Plan indicates a scaling down of the target of expenditure from Rs. 4,800 crores to Rs. 4,500 crores and possibly further, owing to the inadequacy of resources. The reappraisal is in keeping with the flexible character of the Plan.

14. Government borrowings from the market during 1957-58 were largely confined to the Centre, which floated in August 1957 two cash-cum-conversion loans for Rs. 100 crores, namely, the 39 per cent National Plan Bonds 1967 (Fourth Series) at an issue price of Rs. 99·50 per cent and the 4 per cent Loan 1972 issued at par. 'The maturing issues accepted for conversion were the 3 per cent Victory Loan 1957 and the 3 per cent Loan 1958. The total subscriptions to these loans including conversions amounted to Rs. 106·17 crores. In November 1957, there was a further issue of the 3) per cent Bonds 1962 (first issued in July 1956) for Rs. 30 crores. Though a number of States had budgeted for market loans during 1957-58, only the Bombay and Mysore Governments floated

loans. In view of the weakness of gilt-edged and the prevailing monetary stringency, the States were advised not to enter the market; in lieu of this they were promised a larger, namely two-thirds, share of small savings. Both the Bombay and Mysore loans carried interest at $4\frac{1}{4}$ per cent with a maturity of 12 years, the amounts offered being Rs. 6 crores and Rs. 3 crores, respectively. The total subscriptions amounted to Rs. 12·5 crores, of which Rs. 9·9 crores were accepted, comprising Rs. 8·6 crores in cash and Rs. 1·3 crores in conversion. Net borrowings of the Centre and States during the year amounted to Rs. 71 crores as compared to Rs. 141 crores in 1956-57. However, if account is taken of the substantial sales of Government securities from the Reserve Bank's portfolio (as against net purchases made by the Bank in 1956-57), absorption of Government securities by the public during 1957-58 was larger than in the preceding year.

15. For 1958-59, the Centre has made provision for market borrowings to the extent of Rs. 145 crores. Of this, the Central Government floated in May 1958 three loans for Rs. 135 crores, namely the 33 per cent Bonds, 1963, $3\frac{3}{4}$ per cent National Plan Bonds (Fifth Series) 1968 and the 4 per cent Loan, 1973. The 3 per cent Loan 1958 and the 43 per cent Loan 1958-68 were accepted for conversion. The total subscriptions amounted to Rs. 141·9 crores, of which Rs. 9·5 crores were on account of conversion. As regards the State Governments, ten of them entered the market on July 15, 1958, for an aggregate amount of Rs. 47·5 crores, five of the loans being cash-cum-conversion loans. Total subscriptions amounted to Rs. 63 crores of which Rs. 51·7 crores were accepted. Thus market borrowing in 1958-59 would be much larger than in 1957-58 or 1956-57.

16. While presenting the budget last February, the Finance Minister had referred to Government's intention of gradually funding the growing volume of Treasury bills held by the Reserve Bank into loans of appropriate maturity. Accordingly, on July 1, 1958, the Government of India created a further issue of the 4 per cent Loan 1973 for Rs. 300 crores which was wholly taken up by the Reserve Bank against cancellation of ad hoc Treasury bills of equivalent value held by it in the Issue Department. It is not intended to put this loan on the market.

17. The sale of Treasury bills by tender to the public which had remained suspended since April 6, 1956 was revived with the call of tenders for rupees one crore on July 29, 1958.

18. The collection of small savings during the year under review was below expectations, net receipts being Rs. 69 crores (provisional) as compared to the budget estimate of Rs. 80 crores for the year and actual receipts of Rs. 62 crores for 1956-57. Since the beginning of the year 1958, there has been a marked improvement and it is not unlikely that the target of Rs. 100 crores set out for the year 1958-59 will be attained. The small savings drive is being intensified by State Governments. Several organisational measures were taken during the year under review to step up small savings collections such as the amendment to the Payment of Wages Act permitting voluntary deductions at source for investment in small savings, the introduction of gift coupons and the facility to pledge savings certificates with scheduled banks and co-operative banks for purposes of obtaining accommodation. A new small savings medium, namely, the Cumulative Time Deposits, is being offered shortly. These, together with the raising of the interest rates on various items of small savings in June 1957, should help to mobilise progressively larger sums.

Capital Markets

19. The capital market was generally sluggish in the first half of the year mainly owing to the impact of such factors as the taxation measures contained in the 1957-58 budget, import cuts, likelihood of a reduction in the Plan outlay and some elements of slackness in the economy. In the second half, however, the tone recorded a distinct improvement. The behaviour of the capital market in recent months is suggestive of a generally optimistic turn in assessment of economic outlook on the part of the investing public. This is borne out by the trend and turnover in the stock exchanges as well as the quantum of new capital issues. The Reserve Bank's index of variable dividend securities (base : 1949-50 = 100), which had declined from 103·8 at the end of June 1957 to 95·4 early in January 1958, moved up to 100·9 by the end of June. Thus, there was a net decline of about 3 per cent as compared to a net fall of about 17 per cent in 1956-57. The recent recovery has been assisted by the protectionist impact of some of the import restrictions and by certain other measures taken by Government including discontinuance of the scheme of compulsory deposit of company reserves, reduction in the excise duty on cloth and tea and also in the export cess on tea as well as certain concessions in regard to development rebate and export promotion proposals. The generally optimistic reports of the outlook for foreign aid also appear to have buoyed up the market. The volume of new capital issues during the year appears to have been

smaller than in 1956-57. Total sanctions (excluding bonus and miscellaneous issues and those of Government companies) under the Capital Issues Control were Rs. 57 crores (July 1957-March 1958) as against Rs. 69 crores during the corresponding period of last year.

20. The gilt-edged market displayed a relatively firm undertone, on the whole, in contrast to the slight weakness evident last year. The market derived strength largely from the prevalence' of easy money conditions and the prevailing paucity of stocks, especially of 'shorts', which were in keen demand by banks. Since most of the State Governments did not enter the market for new loans, the strain on the market of Government borrowing was also much less this year than in the previous year. Consequently, the Reserve Bank's index for Government of India securities (base: 1952-53 = 100) rose from 98·3 at the end of June 1957 to 98·9 at the end of June 1958. During the year under review, the Reserve Bank made substantial net sales of Government securities, amounting to Rs. 70 crores as against net purchases of Rs. 31 crores in the preceding year. Institutional demand, which in the first half of the year was mainly confined to the short-dated and medium-dated issues, spread later to long-dated issues also. The Bank was able to raise its selling rates in respect of several loans progressively. Over the year, the largest rise was recorded by the 23 per cent Loan 1961 which rose by Rs. 2·05 to Rs. 95·60. The 3 per cent 1966-68 Loan rose by Rs. 2 to Rs. 93·05 and the 1970-75 Loan by Rs. 1·75 to Rs. 87·40. The 3 per cent Conversion Loan, however, recorded a decline of Rs. 1·90 at Rs. 71·10. As regards the yield pattern, while the yields on short-dated loans declined by about 0·20 per cent, those on undated loans showed a rise of about 0·10 per cent. State loans also showed signs of revival from October 1957 and maintained a firm trend since the beginning of 1958.

Balance of Payments

21. The Report for the preceding year had referred to the high and continuing deficit in the balance of payments as the most conspicuous feature of the economy for that year; the position remained substantially the same during the year 1957-58 as a whole. The fall in the foreign assets of the Reserve Bank amounted to Rs. 242 crores as compared to Rs. 230 crores in 1956-57 ; the foreign exchange reserves, including gold, stood at Rs. 372 crores at the end of June 1958. The rate of loss of foreign assets recorded

a decline in the second and third quarters, from an average weekly rate of Rs. 7·93 crores in July-September 1957, to Rs. 4·56 crores (October-December) and, Rs. 2·01 crores (January-March 1958); in the April-June 1958 quarter, the rate rose to Rs. 4·07 crores. If the extraordinary receipt of Rs. 22 crores under the U.K. Pension's Annuity Scheme in the first week of April 1958 is excluded, the weekly rate of loss works out as high as Rs. 5·8 crores. Though this is lower than the rate of loss of reserves during the corresponding period of 1957, it has to be considered against the greatly depleted level of reserves.

22. Detailed data regarding balance of payments are available so far, only for the first nine months of the Bank's accounting year 1957-58, namely, July 1957 to March 1958. During this period, there was a current account deficit of Rs. 301 crores which was an increase of Rs. 41 crores compared to the corresponding period of the previous year. Regionwise, the deficit was spread, though somewhat unevenly, over all the principal areas. The larger deficit during the period under review was due partly to lower receipts from exports and invisibles and partly to the higher level of investment in the public sector. While total imports at Rs. 852 crores were maintained more or less around the preceding year's level, there was a change,in the relative shares of the public and private sectors ; the former increased by Rs. 116 crores, while the latter, owing to the various measures of control and restriction adopted during the course of the year, recorded a more or less equal decline. Most items of private imports recorded a decline with the exception of machinery. There has also been a worsening in respect of export earnings which during the nine months fell by Rs. 28 crores (or 6 per cent) to Rs. 455 crores. This deterioration in exports may be ascribed partly to the effects of the recession in the. U.S.A. The major fall in exports was, however, under tea which was probably the result of excess stocks built up in the U.K. after the Suez episode and the high cost of carrying inventory on account of the rise in interest rates.

23. During the year under review a number of steps were taken to stimulate exports, of which the more important were the reduction or abolition of export duties on a number of commodities, continuance of the free licensing of cotton piecegoods and castor and linseed oils, release of quotas for groundnut oil which was hitherto a banned item of export and simplification of procedure relating to refund of customs and excise in respect of imported components of a number of export items. An Export Risks

Insurance Corporation was also set up. On the other hand, some measures taken in the sphere of labour welfare have exercised an upward pressure on the cost structure. On the whole, there has yet been no improvement in export earnings owing partly to the emergence of recessionary conditions in Europe and partly to the fall in the export incomes of several South East Asian countries.

Monetary and Credit Policy

24. In the course of the discussion of the Bank's policies in the Report for last year, it was stated : "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". There was little change during the year so far as the broad emphasis of the above policy was concerned. There was, however, continuous adaptation to the changing economic context, principally reflected in a shift of open market operations from net purchases to net sales of securities to the market. From the foregoing review of the Indian economy, it is obvious that the continuance of general restraint is called for, especially having regard to the resumption of the unfavourable trends of commodity prices and turn in balance of payments. Yet it should be emphasised that our monetary policy is not in general very restrictive. The selective credit controls have been mostly operative in the field of advances against foodgrains, the prices of which occupy a strategic place in the economy. The operation of these controls has been flexible enough not to hinder genuine requirements of marketing of crops, industrial requirements and branch expansion. Nor have interest rates risen to disincentive levels as in many other countries. In this matter the needs of development have continued to temper the policy of restraint.

25. The character of slackness in the economy has been such that there was not much that monetary policy, which, as already mentioned, has been by no means severe, could mitigate. Such action as was called for appeared to lie on the fiscal front and, in fact, in recent months reliefs have been provided in the form of reduction or removal of excise and export duties. The resources

of the banking system were so comfortable during the year that the banks were not under pressure to obtain Reserve Bank credit, which, in fact, was repaid substantially. However, consistently with the maintenance of general restraint in credit policy, liberal extension of credit facilities to particular sectors which have been relatively hard hit by recession, e.g., the textile industry, has been encouraged by the Bank and some banks have reduced their usual margins in many cases for lending to this industry.

26. Reference was made in the last year's Report to the raising of the Bank's lending rates and the Governor's advice to banks on June 29, 1957 enjoining them to pursue a cautious lending policy. In July and August the Governor indicated in his conferences with the representatives of banks in Bombay and Calcutta that banks as a whole should bring down outstanding credit to a level of about Rs. 800 crores by the middle of October 1957 without diminishing the flow of credit to essential sectors. Bank credit was subsequently brought down to Rs. 840 crores by the middle of November from a level of Rs. 938 crores in early June. The supervention of some developments such as the bank employees' strike in Calcutta and the increase in advances to the textile industry following the accumulation of stocks with mills prevented a further reduction.

27. To restrain a possible rise in foodgrain prices in the face of apprehensions regarding lower output in 1957-58, the Bank continued the control on advances against foodgrains during the busy season on a slightly different basis. A directive was issued on December 11, 1957 in terms of which the banks were asked to adhere to a minimum margin of 40 per cent as before and to restrict sanction of fresh limits to individual parties to, or not to raise existing limits beyond, Rs. 50,000 against paddy, rice, or wheat (excluding those to roller flour mills) and other foodgrains and pulses. Further, banks were directed to maintain in each month commencing from January 1958 an average aggregate level of credit against paddy and rice at 75 per cent and against wheat and other foodgrains at 80 per cent of the average of advances for the corresponding months in 1955, 1956 and 1957. Finally, they were also directed, subject to the average aggregate level indicated above, to maintain in each month a level of advances in the surplus States of Andhra Pradesh and Madhya Pradesh at not more than 60 per cent of the advances in the corresponding months of 1957. Advances against foodgrains given by new branches opened on or after January 1, 1957 were, however, exempted from the directive regarding the aggregate level of credit under certain conditions. Similarly, with a view to

encouraging advances against warehouse receipts, advances against the pledge of such receipts covering foodgrains issued by the licensed warehouses under the Central Warehousing Corporation were exempted from the purview of the directive, from January 16, 1958. In view of the resumption of the rising trend of prices of foodgrains since February, the Bank decided, early in June, to continue till the next busy season the restrictions on advances stipulated in terms of the directive of December 11, 1957.

28. In view of the improvement in the price situation of sugar, the provisions of the directive in respect of advances against sugar issued on June 29, 1957 were withdrawn on December 11, except for the provision regarding the maintenance of a minimum margin at 35 per cent, on advances against sugar to trade. However, on July 18, 1958 the minimum margin was raised to 45 per cent, in view of the rising trend of prices, despite the fairly comfortable supply position. These restrictions have also been made applicable to advances to sugar manufacturing concerns in respect of such stocks as have left the factory premises and on which excise duty has been paid. Thus the operation of selective credit controls was marked by flexibility and was aimed at not hindering genuine credit requirements or branch expansion programme.

The Prospect

29. Altogether, the economic situation in the country presents many complex features. Private investment and industrial production appear to have touched a plateau after the sustained and substantial increases recorded in the preceding few years ; agricultural production, too, has shown a drop in the last year. Withal, the monetary situation has turned from extreme stringency to unusual ease. Prices and costs continue to move upwards and profit margins have begun to decline in some sectors, thus accounting for the comparative stagnation in investment and production. The balance of payments remains in heavy deficit. Behind these apparently contradictory developments lies the impressive advance of Plan expenditures in the public sector with the attendant build-up of productive capacity and broadening of the substructure of development, which should in turn make possible a fresh increase in private investment and industrial activity. For the present, however, while the meagre foreign exchange reserves are being conserved for completion of the core projects of the Plan, austerity including some restraint of growth of consumer goods industries is inevitable. During the difficult phase that the development of the economy is entering, however, the claims of further expansion or investment in

new directions have to be carefully balanced with those of the maintenance of current economic activity.

30. Recent developments pose the central issue of resources for planned economic development. While the immediate stepping up of the rate of foreign assistance is imperative for preventing a serious set-back in the progress of the Second Five-Year Plan and a substantial degree of such assistance would appear necessary for some years for further development plans, the problem of resources must be considered in its fundamental aspect of increasing the rate of savings in the community to match the higher rate of investment. From such studies as have been made, it appears that the rate of domestic savings has failed to show a perceptible increase and the great challenge in the near future is to increase decisively the elasticity of domestic resources. The recent improved performance of small savings and Government borrowing indicates a possible direction of increasing the savings effort, with the requisite improvement in organisation and administrative machinery.

31. A satisfactory rate of increase in food production is a basic requirement of economic development. It is true that food production has continued to rise, though fitfully, over the last six or seven years. However, supplies of foodgrains, reinforced as they have been by imports, with a considerable share of foreign aid supplies, have proved insufficient to meet the growing demand consequent upon the increase of population and a wider diffusion of purchasing power associated with the large increase in development expenditure under the Five Year Plans. If production could be raised adequately to enable the country to dispense with imports of food, a material alleviation of the long-term foreign exchange problem could be hoped for. The maximisation of agricultural production, particularly foodgrains, through intensive application of resources, and high priority to development of agriculture in the organisational and administrative effort of the States, obviously sets the direction of planned development in the States for a long period to come.

32. During a phase when the balance of payments situation will remain a source of grave concern the tenor of monetary and credit policy would have to be absorption of the available liquid assets for urgent financing of the Plan projects and maintenance of stringent control on expansion of credit facilities in general. In the context of Indian conditions, under planned expansion, what is called for in the field of credit policy is selective expansion in spheres

where development is held up for inadequacy of credit. The institutional facilities for provision of credit are being extended, the latest development in this field being the establishment of the Refinance Corporation. The Reserve Bank's credit to the co-operative sector has also been rising significantly. The resources of the Financial Corporations are being augmented, both through Government's assistance and access to the market. In general, however, restraint in credit expansion is dictated by the necessity to maintain a downward pressure on the cost-price structure in view of the imperative need to step up exports. With relaxation of credit restraint in many foreign countries, external demand for our goods may be stimulated, and the general tone of restraint in credit policy must be maintained if this process is to run its beneficial course.

### Banking Legislation

The Reserve Bank of India **(Amendment) Act 1957**

33. In the last Report, reference was made to the Reserve Bank of India (Amendment) Act, 1956 which changed the proportional reserve system to one of a fixed minimum, namely, a minimum holding of foreign securities of Rs. 400 crores and gold coin and bullion of Rs. 115 crores or a total of Rs. 515 crores. On account of the continued large drain on the foreign securities of the Bank, further amendment of these provisions was called for. Accordingly, on October 31, 1957 the Reserve Bank of India (Amendment) Ordinance 1957 was promulgated, this being replaced later by the Reserve Bank of India (Second Amendment) Act, 1957. The amendment modified Sections 33 and 37 relating to the currency reserve requirements. Under the revised arrangements, the aggregate value of gold coin, gold bullion and foreign securities held in the Issue Department of the Bank should not at any time be less than Rs. 200 crores, of which the value of gold coin and gold bullion should at no time be less than Rs. 115 crores. The proviso to Section 37 stipulating a floor limit on the value of foreign securities to be held in the Issue Department at Rs. 300 crores was deleted. This amendment is in keeping with the general trend of central banking legislation in recent times to delink foreign reserves from the note issue.

### Banking Development

34. The development of commercial and co-operative banking and of the institutional machinery of industrial finance continued to receive close attention, and progress was made in all these directions.

35. It was stated in the last year's Report that, freed from its preoccupation with initial problems of an administrative and organisational character, the State Bank had been able to devote increasing attention to its developmental role. The results of the year under review bear out this statement. Thus, during the twelve months of 1957-58 the State Bank opened more branches (115) than during the previous two years put together (102). Since its inception in 1955, the State Bank has completed 217 out of the five year target of 400 new branches set for it in its statute. At its present rate of expansion which is almost 10 branches a month the State Bank should be able to fulfil the target in the remaining two years. Out of the 217 branches so far opened, 46 are from the 51 centres left over from the Imperial Bank's programme of branch expansion and 171 from the list of 272 centres approved by Government under Section 16(5) of the State Bank of India Act.

State Bank of India

36. During the year, the remuneration to be paid by the Reserve Bank of India to the State Bank of India for the quinquennium April 1, 1955 to March 31, 1960 for conduct of Government business was revised, as provided in paragraph 5(*a*) of the Agreement between the Reserve Bank of India and the Imperial Bank of India (as continued by section 6(3) of the State Bank of India Act, 1955). It has been agreed between the two banks that the remuneration shall be calculated on the following basis :—

| | |
|---|---|
| On the first Rs. 600 crores. . .. | Re. 0·06 of one per cent. |
| On the next Rs. 600 crores over Rs. 600 crores. | Re. 0·04 of one per cent. |
| On the next Rs. 1200 crores over Rs. 1200 crores | Re. 0·02 of one per cent. |
| On the remainder of the total of receipts and disbursements dealt with annually on account of Government by the State (Imperial) Bank on behalf of the Reserve Bank of India. | Re. 0·01 of one per cent. |

The rates referred to above will apply to the turnover at all branches of the State Bank inclusive of those opened after the 1st July 1951 and those that may be opened hereafter.

37. The proposal for integration of certain major State-associated banks with the State Bank of India as recommended by the All-India Rural Credit Survey Committee is still under the consideration of the Government of India. Meanwhile, the Government has sanctioned schemes for the voluntary merger of two of the minor State-associated banks with the State Bank of India under Section 35 of the State Bank of India Act. One of these, the Cooch Behar State Bank, was taken over by the State Bank of India with effect from April 25, 1958. As regards the other bank, namely, the Manipur State Bank, the preliminaries for taking it over are in the course of settlement. Schemes for the voluntary merger of certain other minor State-associated banks with the State Bank of India are in various stages of progress.

**State-associated** Banks

38. Two State-owned banks, namely, the State Bank of Saurashtra and the Bank of Patiala, have been included, with effect from October 4, 1957, in the Second Schedule to the Reserve Bank of India Act, following the amendment of Section 42 of the Act which enables the Central Government to notify banking institutions, which are not incorporated under the Companies Act, for the purpose of inclusion in the Second Schedule. With the inclusion of these two banks, all the major State-associated banks are now scheduled banks.

39. The Industrial Finance Corporation Act was amended as from December 21, 1957. The more important amendments relate to the inclusion of the hotel industry among industrial concerns eligible for assistance from the Corporation, raising of the overall borrowing limit of the Corporation from five to ten times its paid-up capital and reserve fund and the provision for guaranteeing deferred payments due from any industrial concern in respect of its imports of capital goods. During the year the outstanding loans and advances of the Corporation recorded a further significant rise, the amount at the end of June 1958 at Rs. 28·74 crores being Rs. 6·84 crores higher than a year earlier. The Corporation augmented its resources to the extent of about Rs. 4·56 crores through the issue of bonds.

Industrial Finance

40. The lending operations of the State Financial Corporations also showed further progress during the year; the outstandings of loans as at the end of June 1958 at Rs. 9·74 crores were Rs. 2·44 crores higher than a year earlier. During the year, four State

Financial Corporations raised additional resources of a little over Rs. 3 crores, through the issue of bonds. In terms of Section 37A of the State Financial Corporations Act, the Reserve Bank inspected some of the Corporations during the year with a view to assisting them to evolve sound and, as far as possible, uniform business practices, particularly in regard to the grant of loans.

41. In pursuance of its policy of assisting the development of State Financial Corporations on sound lines, the Reserve Bank convened in November 1957 the Fourth Conference of the representatives of State Financial Corporations and other concerned interests, to discuss issues relating to the organisation and working of these Corporations. Among the items discussed at the Conference were the raising of additional funds by the Corporations, the utilisation of the Corporations for routing Government funds for assistance to small-scale industries and the progress of the pilot scheme of the State Bank of India for provision of credit to small-scale industries. Agency arrangements for routing concessional Government finance to small-scale industries through the State Financial Corporations are at present in operation in Uttar Pradesh, Andhra Pradesh and Bombay.

42. Reference was made in the last year's Report to Government's decision to set up a Refinance Corporation to provide relending facilities against medium term loans given by selected scheduled banks to medium-sized industrial concerns for facilitating increased production, primarily in industries included in the Second Five-Year Plan. This Corporation was registered on June 5, 1958 as a private limited company under the Companies Act, 1956 under the name "Refinance Corporation for Industry Private Ltd. ". Its management has been entrusted to a Board of Directors consisting of 7 members. The Governor of the Reserve Bank is the chairman, the other directors being a Deputy Governor of the Reserve Bank, the chairman of the State Bank of India, the chairman of the Life Insurance Corporation of India and three representatives of participating banks. The paid-up capital of the Corporation for the time being is Rs. 2·50 crores.

43. The Bank's Department of Banking Development was split up in September 1957 into the Department of Banking Development and the Industrial Finance Department. This bifurcation was thought desirable because of the considerable increase that has taken place in the activities (including the co-ordination of industrial finance) of the Department of Banking Development. The new

Industrial Finance Department will, in attending to the specialised problems of financing industries, keep itself in continuous touch with the activities of the Central and State Governments and various other agencies dealing with industrial finance, ascertain the gaps in the provision of credit facilities and suggest appropriate measures to supply the deficiencies. The Department will also attend to the affairs of the Refinance Corporation for Industry ; the Chief Officer of the Department has been appointed the General Manager of the Corporation.

Co-operative credit

44. The Reserve Bank continued to pursue its programme of strengthening the organisation and increasing the volume of co-operative credit through the exercise of its supervisory and regulatory functions and through provision of financial assistance. As in the past, the Reserve Bank helped the Central and State Governments in drawing up schemes for development of co-operation during 1958-59 in the various States. These schemes are for the most part State-wise as in previous years, and provide for State participation in co-operative credit societies, revitalisation of small rural credit societies as also marketing and processing societies, and the employment of adequate trained staff in co-operative departments and institutions.

45. Loans amounting to Rs. 6·04 crores were sanctioned from the National Agricultural Credit (Long-term Operations) Fund of the Reserve Bank to 14 State Governments to enable them to contribute to the share capital of co-operative credit institutions, as at end of June 1958, of which Rs. 5·83 crores were availed of by 13 State Governments.

46. Reference was made in the previous Report to the setting up, by the Government of India, of the National Co-operative Development and Warehousing Board in terms of the Agricultural Produce (Development and Warehousing) Corporations Act, 1956. The Board continued its work in connection with the provision of loans and subsidies under the co-operative development plans, for purposes, such as, contribution to the share capital of marketing and processing societies, construction of godowns, and employment of additional staff by co-operative departments and institutions. The Central Warehousing Corporation set up during the year nine licensed warehouses at Amravati, Gondia, Sangli, Bargarh, Davangere, Gadag, Warangal, Moga

and Chandausi. Besides, many States have set up State Warehousing Corporations which are expected to commence work shortly. The Agricultural Credit Department of the Bank has advised Registrars of Co-operative Societies in all States regarding the procedure to be followed by co-operative credit institutions in making advances against licensed warehouse receipts. The attention of commercial banks has been drawn to the licensed warehouses set up by the Central Warehousing Corporation, the receipts issued by them being transferable documents and therefore an improved form of security for banks.

47. The Reserve Bank's Standing Advisory Committee on Agricultural Credit met twice during the year, in October 1957 and February 1958. It discussed several important items such as the consideration of the Report of the Technical Committee on Land Mortgage Banks, theco-operative movement and rural savings, the reorganisation of the co-operative credit structure in Bihar and West Bengal and the proposal from the Government of Orissa regarding reorganisation of grain *golas* as cash-cum-grain credit societies, the training of Registrars of Co-operative Societies and other key officers of Co-operative Departments. Suitable action is being taken on the recommendations of the Committee on these and other items.

48. In pursuance of an arrangement reached with the Government of India that field studies should be conducted of the credit and financial needs of selected cottage and small-scale industries, the Bank undertook the study of the coir industry in Kerala and of the leather industry in Agra. One of the objects of the enquiry is to consider the need and appropriateness of providing Reserve Bank finance, in the form of short-term credit, through the usual co-operative channels for these industries. The Bank also undertook studies of weavers' societies in several states with a view to understanding their credit problems. The results were communicated to the respective State Governments for necessary action.

49. The Government of India set up a working group on Industrial Co-operatives on September 11, 1957, to review their progress and recommend measures for development of such societies. The report of the Committee, which was presided over by the Chief Officer of the Agricultural Credit Department of the Bank, has been submitted to Government.

50. During the year there was a further increase in the volume of finance provided by the Reserve Bank to state co-operative banks for seasonal agricultural operations and marketing of crops. The credit limits sanctioned to co-operative banks amounted to Rs. 48·24 crores, as against the preceding year's Rs. 35·25 crores. The interest charged continued to be concessional, being as before, 2 per cent below the Bank rate. The level of borrowing (i.e. outstandings) at the end of the year stood at Rs. 40·47 crores as compared to Rs. 23·32 crores at the end of 1956-57 and Rs. 12·98 crores at the end of 1955-56. Apart from theabove, creditlimits aggregating Rs. 205·78 lakhs were sanctioned during the year ended June 30, 1958 to 8 state co-operative banks on behalf of 102 co-operative institutions under Section 17(2)(*bb*) of the Reserve Bank of India Act at 1½ per cent below Bank rate for financing the production and marketing activities of weavers' co-operatives. Moreover, a total credit limit of Rs. 300 lakhs was sanctioned at the Bank rate for meeting the working capital requirements of co-operative sugar factories.

Financial Accommoda-tion to Co-operative Banks

51. 12 state co-operative banks were sanctioned medium-term loans amounting to Rs. 7·72 crores as against Rs. 1·67 crores sanctioned to 6 state co-operative banks last year, the outstandings at the end of the year amounted to Rs. 3·42 crores as compared to Rs. 1·58 crores a year earlier.

52. The Reserve Bank continued to subscribe to the debentures of central land mortgage banks. Six banks issued debentures amounting to Rs. 3·65 crores and varying, in period of maturity, from 8 to 20 years. In two cases in which there was a shortfall in public subscription the Reserve Bank took up the balance of Rs. 14·84 lakhs. A new scheme of rural debentures was formulated by the Bank during the year as a means of mobilising rural savings. Under the scheme, central land mortgage banks are to issue six-year or seven-year loans for productive purposes against mortgages of land. Special debentures for periods of six years or seven years will be floated by them against the mortgages thus acquired. These rural debentures will be floated after the harvest season and will be open for subscription by individuals and panchayats in rural areas. As an incentive to the land mortgage banks during the initial stages of this experiment, the Reserve Bank undertook to subscribe to the shortfall in the subscriptions up to two-thirds of an issue. During the year, the Andhra and Saurashtra Central Co-operative Land Mortgage Banks secured public

subscriptions of Rs. 5·97 lakhs and Rs. 25·89 lakhs respectively for their issues of rural debentures.

## Supervision and Regulation of Banks

53. The Reserve Bank continued its efforts towards strengthening the banking system through supervision and regulation of commercial and co-operative banks. Arrangements have been made for stepping up the pace of inspections of commercial banks and it is expected in the near future that all banks would be inspected annually. In accordance with the policy of periodical inspection of banks initiated in March 1950, 46 scheduled and 122 non-scheduled banks were inspected during the year under review. Most of them have been inspected more than twice and three of them were inspected for the first time. All the banks were inspected under Section 35 of the Banking Companies Act. In accordance with the policy of obtaining periodical progress reports from banks in respect of rectification of defects brought to light in inspection reports, 230 banks were submitting or were asked to submit monthly reports and 102 banks quarterly reports as on June 30, 1958. In cases where the findings of inspection reports called for stricter control over the affairs of the banks concerned, suitable conditions were imposed ; at the end of the year, there were 37 banks (12 scheduled and 25 non-scheduled) on whom such conditions were imposed.

Inspection and Licensing of Commercial Banks

54. The total number of banks which held licences as at the end of the year under review stood at 57 as against 50 a year earlier. Licences were refused to 15 banks during the year.

55. Exemptions from certain statutory obligations were also granted during the course of the year to individual banks or groups of banks with a view to mitigating the difficulties experienced by them. These exemptions related to provisions governing minimum capital requirements (Section 11) and maintenance of a certain percentage of liquid assets (Section 24). A general exemption has also been given from Sections 10(*i*)(*c*)(*i*) and (ii) in so far as they prohibit any person managing a banking company from being a director of the Refinance Corporation and Section 19(3) which prohibits them from holding shares in the Corporation. The exemption is at present applicable to the 15 banks who have agreed to be members of the Corporation.

Exemptions

56. The inspection of co-operative banks on a voluntary basis was continued during the year under review. The inspection work was further accelerated with the opening of the four regional offices of the Department in April 1957. As many as 240 co-operative banks were inspected during 1957-58 as against 104 in 1956-57. The total number of inspections carried out so far by the Department up to June 30, 1958 stood at 439. The number of inspections were 43 in respect of state co-operative banks, 385 in respect of central co-operative banks, and 6 in respect of industrial co-operative banks. Besides, 2 sugar factories, one central co-operative land mortgage bank, one urban bank and one state handloom weavers' society were inspected.

Inspection of Co-operative Banks

57. There were no changes during the year under review in the scheme of remittance facilities. Two non-scheduled banks were included in the approved list for purposes of remittance facilities while three non-scheduled banks were excluded.

Remittance Facilities

58. During the year under review, 5 commercial banks — 2 each in Kerala and Madras and 1 in Uttar Pradesh — went into liquidation and of these 4 were ordered to be wound up by the Courts while the remaining bank went into voluntary liquidation.

59. Two banks applied for inclusion in the Second Schedule to the Reserve Bank of India Act during the year. Five banks were included in the Second Schedule, while two were excluded — one consequent on its amalgamation and the other since it was ordered to be wound up by the Court. No bank was inspected for the specific purpose of determining its eligibility for retention in the Schedule. The number of offices of scheduled banks rose during the year by 410 to 3455 ; fifty-seven of the new offices were opened during the year at places not formerly served by commercial banks.

60. The Bankers Training College, which was started in September 1954 under the auspices of the Reserve Bank for imparting practical training in banking to the supervisory staff of commercial banks in the country, has so far completed 19 courses of training. The total number of candidates who have received training in these 19 courses comes to 446.

Education and Training for Commercial Banks and Co-operatives

61. The programme of training co-operative personnel under the various schemes of the Central Committee for Co-operative Training was continued during the year. Seventy-seven senior officers, 188 intermediate officers, 693 block level co-operative officers, 240 officers for co-operative marketing, 80 officers for land mortgage banking and about 5,600 subordinate personnel were trained at the various training centres. Reference was made in the last year's Report to the efforts made by the Central Committee for effecting qualitative improvement in training programmes. These included emphasis on seminars and discussion methods at training centres and introduction of extension methods. Special courses were held during the year on extension methods in co-operation, on audio-visual education and on business management for different categories of the teaching staff. Part of this effort was made possible by the Canadian Government which, under the Colombo Plan, had kindly made available to the Central Committee for Co-operative Training, firstly, an extension expert of considerable experience and then of the audio-visual equipment of much value for distribution to the different training centres.

## Accounts and Other Matters

62. During the year under review, the Bank's income, after making statutory and other appropriations, amounted to Rs. 37·09 crores and expenditure, which included the expenses of administration and provision for sundry liabilities and contingencies to Rs. 7·09 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 — the same as in the preceding year.

63. The Bank's income during the year showed an increase mainly under the head 'Discount'. Although there was a substantial decrease in discount earned on Sterling Treasury Bills due to a shrinkage in our sterling balances this was more than made up by discount earned on Ad *Hoc* Treasury Bills created during the year for replenishment of Central Government balances. As in the previous year, 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, out of the profits, raising the balances in the above Funds to Rs. 25 crores and Rs. 3 crores, respectively.

64. Expenditure during the year rose by Rs. 89 lakhs mainly due to increases under the heads 'Establishment' and 'Agency

Charges'. The increase under 'Establishment' (Rs. 23·99 lakhs) was due, among other things, to the opening of the Regional Offices of the Agricultural Credit Department at Bombay, Calcutta, New Delhi and Madras with effect from April 1, 1957, expansion of the Department of Research and Statistics and the creation of a separate Department of Industrial Finance. The increase in expenditure under 'Agency Charges' (Rs. 71·24 lakhs) was mainly due to arrears of commission paid to the State Bank of India consequent on the quinquennial revision of the scale of remuneration applicable to the conduct of Government business by them, effective from 1955-56.

Auditors

65. The Accounts of the Bank have been audited by Messrs. S. B. Billimoria & Co. of Bombay, Messrs. P. K. Ghosh & 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 (50)-F.1/57 dated August 31, 1957 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

Composition of Central Board

66. Shri Manila1 B. Nanavati and Prof. D. R. Gadgil retired as Directors of the Central Board of the Bank on the expiry of their term of office on January 14, 1958. The vacancies were filled by the Union Government by the renomination of Prof. D. R. Gadgil and the nomination of Shri K. C. Mahindra as Directors in terms of Section 8(1)(*c*) of the Reserve Bank of India Act. Shri Bikkani Venkataratnam ceased to be a Director of the Central Board consequent on his nomination as a Member of the Legislative Council, Andhra Pradesh, by the Governor of Andhra Pradesh as from June 27, 1958.

67. The Union Government nominated, with effect from December 2, 1957, Shri B. K. Nehru, I.C.S., to be a Director of the Central Board under Section S(l)(d) of Act in place of Shri H. M. Patel, I.C.S. Shri Pate1 was again nominated from January 18, 1958 and continued as Director till February 24, 1958 when Shri A. K. Roy was nominated in his place. On May 5, 1958, the Union Government nominated Shri B. K. Nehru, I.C.S., as a Director *vice* Shri A. K. Roy.

68. Slui K. C. Mahindra resigned his membership of the Western Area Local Board in February 1958. The vacancy was filled by the nomination, by the Central Board, of Shri G. V. Puranik with effect from July 25, 1958.

Local Boards

69. Seven meetings of the Central Board were held during the year, three in Bombay and one each in Madras, Bangalore, Calcutta and New Delhi. The Committee of the Central Board held forty-nine meetings of which three were held in Calcutta, one in Madras and the rest in Bombay.

Meetings of the Central Board and its Committee

70. The construction of residential quarters at Madras and Nagpur was completed. Additional residential quarters in Bombay, the construction of which was commenced during the year, are expected to be completed towards the close of 1958.

Bank's Premises

# RESERVE BANK OF INDIA

## Balance Sheet as at June 30, 1958

### ISSUE DEPARTMENT

| LIABILITIES | RS. nP | Rs. nP | ASSETS | Rs. nP. | Rs. nP. |
|---|---|---|---|---|---|
| Notes held in the Banking Departmeni | 39,05,17,790 0 0 | | 4. Gold Coin and Bullion :- | | |
| | | | (a) Held in India . . | 117,76,02,749 9 7 | |
| | | | (b) Held outside India . . ... | *Nil* | |
| Notes in circulation | 1577,27,23,067 5 0 | | Foreign Securities . . | 199,67,56,317 0 6 | |
| | | | **Total of A** . . | | 317,43,59,067 0 3 |
| Total Notes issued | | 616,32,40,857 5 0 | 3. Rupee Coin . . | | 131,32,78,765 2 4 |
| | | | Government of India Rupee Securities . . | | 1167,56,03,025 2 3 |
| | | | Internal Bills of Exchange and otherr Commercial Paper | | *Nil* |
| Total Liabilities | | 616,32,40,857 5 0 | Total Assets . | | 1616,32,40,857 5 0 |

## BANKING DEPARTMENT

| LIABILITIES | Rs. | nP | ASSETS | Rs. | nP |
|---|---|---|---|---|---|
| Capital paid-up | 5,00,00,000 | 00 | Notes | 39,08,55,970 | 00 |
| Reserve Fund | 80,00,00,000 | 00 | Rupee Coin | | 00 |
| National Agricultural Credit (Long-term | | | Subsidiary Coin | 1,98,225 | 21 |
| Operations) Fund | 25,00,00,000 | 00 | | | |
| National Agricultural Credit (Stabilisation) | | | Bills Purchased and Discounted :- | | |
| Fund | 3,00,00,000 | 00 | (u) Internal | *Nil* | |
| **Deposits:—** | | | *(b)* External | *Nil* | |
| (a) Government | | | (c) Government Treasury Bills | 69,26,280 | 70 |
| (1) Central Government | 53,42,02,389 | 23 | | | |
| (2) Other Governments | 14,16,96,544 | 68 | Balances held abroad* | 14,33,01,774 | 50 |
| *(b)* Banks | 97,88,87,586 | 49 | Loans and Advances to Governments | 26,65,84,501 | 00 |
| *(c)* Others | 142,79,81,114 | 44 | Other Loans and Advances | 60,53,08,267 | 06 |
| Bills Payable | 13,66,57,519 | 18 | Investments** | 289,08,19,379 | 75 |
| Other Liabilities | 10,41,46,346 | 47 | Other Assets | 14,90,59,312 | 27 |
| Total Liabilities | 445,35,71,500 | 49 | Total Assets | 445,35,71,500 | 49 |

* Includes Cash and Short-term Securities.

** Contingent liability on partly paid shares Rs. 4,50,00,000·00.

C. S. DIVEKAR,
*Chief Accountant.*

H. V. R. IENGAR,
*Governor.*

K. G. AMBEGAOKAR,
*Deputy Governor.*

RAM NATH,
*Deputy Governor.*

B. VENKATAPPIAH,
*Deputy Governor.*

*Dated July* 18. 1958.

# RESERVE BANK OF INDIA

## PROFIT AND LOSS ACCOUNT

| | FOR THE YEAR ENDED | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 1958 | | June 30, 1957 | | June 30, 1956 | |
| | Rs. | nP. | Rs. | nP | Rs. | nP. |
| **INCOME** | | | | | | |
| Interest, Discount, Exchange, Commission, etc. .. .. .. | 37.08.88.054 | 01 | 36,20,53,245 | 96 | 25,44,50,866 | 41 |
| **EXPENDITURE** | | | | | | |
| Establishment .. | 3,42,60,182 | 35 | 3,18,61,124 | 20 | 2,98,18,723 | 86 |
| Directors' and Local Board Members' fees and expenses .. .. | 85,653 | 59 | 80,363 | 57 | 69,461 | 38 |
| Auditors' fees | 22,500 | 00 | 22,500 | 00 | 22,500 | 00 |
| Rent, Taxes, Insurance, Lighting, etc. .. .. .. .. | 16,71,817 | 66 | 16,62,476 | 82 | 14,06,127 | 14 |
| Law Charges .. | 18,575 | 35 | 30,372 | 36 | 67,553 | 56 |
| Postage and Telegraph charges .. .. .. .. .. .. | 3,12,871 | 31 | 2,58,915 | 54 | 2,18,853 | 23 |
| Remittance of Treasure .. .. .. .. .. .. | 29,95,379 | 26 | 26,24,466 | 34 | 19,45,007 | 50 |
| Stationery, etc. .. .. .. .. .. .. | 7,42,616 | 63 | 5,96,263 | 60 | 5,98,961 | 57 |
| Security Printing — (Cheque, Note Forms, etc.) .. .. .. | 1,24,15,100 | 72 | 1,38,52,214 | 94 | 1,10,33,945 | 01 |
| Depreciation and Repairs to Bank property .. .. .. | 23,45,978 | 74 | 25,30,176 | 28 | 1564,874 | 84 |
| Agency charges .. .. .. .. | 1,37,32,851 | 48 | 66,08,858 | 13 | 62,41,250 | 13 |
| Contributions to staff and superannuation funds .. .. .. | 29,000 | 00 | 36,000 | 00 | 45,000 | 00 |
| Miscellaneous expenses .. | 22,46,271 | 97 | 18,75,644 | 08 | 14,10,688 | 90 |
| Net available balance | 30,00,09,254 | 95 | 30,00,13,870 | 10 | 20,00,07,919 | 29 |
| Total .. | 37,08,88,054 | 01 | 36,20,53,245 | 96 | 25,44,50,866 | 41 |

## PROFIT AND LOSS ACCOUNT-Continued

| | FOR THE YEAR ENDED | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 1958 | | June 30, 1957 | | June 30, 1956 | |
| | Rs. | nP. | Rs. | nP. | Rs. | nP. |
| Surplus payable to the Central Government .. .. .. .. | 30,00,09,254 | 95 | 30,00,13,870 | 10 | 20,00,07,919 | 29 |
| Balance carried forward .. .. .. | *Nil* | | *Nil* | | *Nil* | |
| Total .. | 30,00,09,254 | 95 | 30,00,13,870 | 10 | 20,00,07,919 | 29 |

## RESERVE FUND ACCOUNT

| | Rs. | nP. |
|---|---|---|
| By balance on June 30, 1958 .. .. .. .. .. .. .. | 80,00,00,000 | 00 |
| By transfer from Profit and Loss Account .. .. .. .. .. | *Nil* | |
| Total .. | 80,00,00,000 | 00 |

C. S. DIVEKAR,
*Chief Accountant.*

H. V. R. IENGAR,
Governor.

K. G. AMBEGAOKAR,
*Deputy 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, 1958.

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

S. B. BILLIMORIA & CO.,
P. K. GHOSH & CO.,
SASTRI & SHAH.
*Auditors.*

*Dated July* 18, 1958.